

Ithaca Energy Inc.

Consolidated Balance Sheets (unaudited)

	June 30, 2009 US\$	December 31, 2008 US\$
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,434,596	\$ 26,943,802
Accounts receivable	30,489,079	12,879,389
Restricted cash	11,894,400	12,305,014
Deposits, prepaid expenses and other	5,956,976	7,329,059
Fair value of derivative	7,043,527	-
Inventory	1,289,032	1,289,032
	<hr/> 59,107,610	<hr/> 60,746,296
Long term receivable	-	400,617
Property, plant and equipment (net) (note 3)	299,085,461	296,523,448
	<hr/> \$ 358,193,071	<hr/> \$ 357,670,361
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 36,138,482	\$ 41,057,033
Loan payable (note 10)	68,105,500	61,200,000
Long term liability on Beatrice acquisition	4,639,172	4,137,413
Asset retirement obligation (note 6)	12,173,841	7,407,290
	<hr/> 121,056,995	<hr/> 113,801,736
Shareholders' equity		
Share capital (note 4)	\$ 277,029,766	\$ 277,029,766
Contributed surplus (note 5)	6,880,517	5,126,285
Deficit	(46,774,207)	(38,287,426)
	<hr/> 237,136,076	<hr/> 243,868,625
	<hr/> \$ 358,193,071	<hr/> \$ 357,670,361

Commitments (note 8)
"Approved on behalf of the Board"

"John P. Summers"

Director

"Jack C Lee"

Director

Ithaca Energy Inc.

Consolidated Statements of Net and Comprehensive Profit and Deficit (unaudited)

	3 months ended June 30,		6 months ended June 30,	
	2009 US\$	2008 US\$	2009 US\$	2008 US\$
REVENUES				
Oil sales	28,280,275	-	31,056,119	-
Other income	1,476,638	-	2,446,233	-
Interest income	146,305	126,137	238,254	505,486
	<u>29,903,218</u>	<u>126,137</u>	<u>33,740,606</u>	<u>505,486</u>
COSTS AND EXPENSES				
General and administrative Operating	1,273,583	460,116	2,808,058	1,967,409
Depletion, depreciation and accrion	12,056,509	-	24,704,897	-
(Gain) / loss on foreign exchange	17,585,049	278,838	20,053,029	485,377
Revaluation of long term liability	(890,935)	(447,527)	(1,117,481)	3,549,624
Gain on derivative (note 9)	483,818	-	483,818	-
Stock based compensation	(5,602,293)	-	(7,043,527)	-
Interest and bank charges	644,732	1,355,400	1,754,232	1,523,700
	<u>572,826</u>	<u>-</u>	<u>584,361</u>	<u>-</u>
	<u>26,123,289</u>	<u>1,646,827</u>	<u>42,227,387</u>	<u>7,526,110</u>
Net and comprehensive profit / (loss)	\$3,779,929	\$(1,520,690)	\$(8,486,781)	\$(7,020,624)
Deficit, beginning of period (note 13)	<u>\$(50,554,136)</u>	<u>\$(13,340,393)</u>	<u>\$(38,287,426)</u>	<u>\$(7,840,459)</u>
Deficit, end of period	<u><u>\$(46,774,207)</u></u>	<u><u>\$(14,861,083)</u></u>	<u><u>\$(46,774,207)</u></u>	<u><u>\$(14,861,083)</u></u>
Net profit / (loss) and comprehensive profit / (loss) per share (basic & diluted)	\$0.02	\$(0.01)	\$(0.05)	\$(0.06)

Consolidated Statements of Shareholders' Equity (unaudited - all amounts are US\$)

	Share Capital	Contributed Surplus	Deficit	2009 Total	2008 Total
Balance, Jan 1	\$277,029,766	\$5,126,285	\$(38,287,426)	\$243,868,625	\$203,476,743
Stock based compensation	-	1,754,232	-	1,754,232	1,523,700
Options exercised	-	-	-	-	759,599
Loss for the period	-	-	(8,486,781)	(8,486,781)	(7,020,624)
Balance, June 30	<u><u>\$277,029,766</u></u>	<u><u>\$6,880,517</u></u>	<u><u>\$(46,774,207)</u></u>	<u><u>\$237,136,076</u></u>	<u><u>\$198,739,418</u></u>

Ithaca Energy Inc.

Consolidated Statements of Cash Flows (unaudited)

	3 months ending June 30,		6 months ending June 30,	
	2009 US\$	2008 US\$	2009 US\$	2008 US\$
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net profit / (loss)	3,779,929	(1,520,690)	(8,486,781)	(7,020,624)
Items not affecting cash				
Depletion, depreciation and accretion	17,585,049	278,838	20,053,030	485,377
Gain on financial instrument	(5,602,293)	-	(7,043,527)	-
Revaluation of long term liability	483,818	-	483,818	-
Stock based compensation (note 5)	644,732	925,502	1,754,232	1,523,700
	16,891,235	(316,350)	6,760,772	(5,011,547)
Changes in non-cash working capital	(10,468,518)	(4,522,421)	(2,593,688)	(4,585,108)
	6,422,717	(4,838,771)	4,167,084	(9,596,655)
FINANCING ACTIVITIES:				
Proceeds from issuance of shares				759,599
Dyas loan	5,141	33,970,268	6,905,500	33,970,268
	5,141	33,970,268	6,905,500	34,729,867
INVESTING ACTIVITIES:				
Oil and natural gas properties	(7,863,187)	(81,557,421)	(17,833,830)	(112,145,619)
Office furniture and equipment	(12,377)	(375,973)	(14,660)	(511,340)
	(7,875,564)	(81,933,394)	(17,848,490)	(112,656,959)
Changes in non-cash working capital relating to investing activities	(9,711,534)	27,877,189	(17,965,676)	25,281,721
	(17,587,098)	(54,056,205)	(35,814,166)	(87,375,238)
Gain on foreign exchange	610,239	4,415,430	232,376	4,153,178
(DECREASE) IN CASH AND CASH EQUIVALENTS	(10,549,001)	(20,509,278)	(24,509,206)	(58,088,848)
Cash and cash equivalents, beginning of period	12,983,597	58,635,137	26,943,802	96,214,707
Cash and cash equivalents, end of period	2,434,596	38,125,859	2,434,596	38,125,859

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three and six months ended June 30, 2009

All figures are in US Dollars, except where otherwise stated.

1. NATURE OF OPERATIONS

Ithaca Energy Inc. (the "**Corporation**" or "**Ithaca Energy**"), incorporated in Alberta, Canada on April 27, 2004 and its wholly-owned subsidiary Ithaca Energy (UK) Limited, incorporated in Scotland are a publicly traded group of companies involved in the exploration, development and production of oil and gas in the North Sea. The Corporation's shares are listed on the TSX Venture Exchange in Canada and the London Stock Exchange's Alternative Investment Market in the United Kingdom under the symbol "**IAE**".

The recoverability of amounts shown for oil and natural gas properties is dependent upon the determination of economically recoverable reserves.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The unaudited interim consolidated financial statements of the Corporation include the accounts of Ithaca Energy Inc. and its wholly-owned subsidiary Ithaca Energy (UK) Limited. The interim consolidated statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended December 31, 2008, except as noted below. The notes to these unaudited interim consolidated financial statements do not conform in all respects to the note disclosure requirements of Canadian generally accepted accounting principles ("**GAAP**") for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2008.

Change in Accounting Policies

On January 1, 2009, the Corporation adopted the following Canadian Institute of Chartered Accountants ("**CICA**") Handbook Section: "Goodwill and Intangible Assets", Section 3064. The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard was applied retroactively and has had no material impact on Ithaca's consolidated financial statements.

As part of the Corporation's preparation for transition to International Financial Reporting Standards ("**IFRS**"), a new accounting software was installed. The second quarter, 2009, was the first period operating under the new system. The accounting package will allow the Corporation to individually account for cash generating units. The Corporation expects to have a transition plan in place by the end of the third quarter, 2009, to ensure that 2010 accounts will be in a position to form the basis of the 2011 IFRS compliant comparatives.

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3. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2009	December 31, 2008
Oil and natural gas properties	\$320,047,592	\$ 297,918,747
Less accumulated depletion	(21,608,227)	(2,178,728)
	<u>298,439,365</u>	<u>295,740,019</u>
Office furniture and equipment	1,185,882	1,171,222
Less accumulated depreciation and amortization	(539,786)	(387,793)
	<u>646,096</u>	<u>783,429</u>
Total property, plant and equipment	<u>\$299,085,461</u>	<u>\$ 296,523,448</u>

The Corporation acquired the producing Beatrice facilities on November 10, 2008 and has therefore recognised depletion charges since that date, the depletion charge in the quarter was \$17.2 million (June 30 2008: \$Nil). As at June 30, 2009, oil and natural gas properties included \$273.7 million (Dec 2008 - \$272.1 million) relating to proved properties and \$24.7 million (Dec 2008 \$24.6 million) unproved properties. During the three months to June 30, 2009, the Corporation capitalized \$2.1 million (Dec 2008 - \$7.6 million) of overhead directly related to exploration, appraisal and development activities. The Corporation also capitalized \$0.9m of interest in the three months to June 30, 2009. Future development costs for the proved oil and gas properties are forecast to be approximately \$247.7 million.

4. SHARE CAPITAL

(a) Issued

The issued share capital is as follows:

Issued	Number	Amount
Balance December 31, 2008 and June 30, 2009	162,261,975	\$ 277,029,766

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three and six months ended June 30, 2009

(b) Stock Options

As at June 30, 2009, 9,754,500 stock options to purchase common shares were outstanding, having an exercise price range \$0.22 to \$3.16 (C\$0.25 to C\$3.65) per share.

Changes to the Corporation's stock options are summarized as follows:

	June 30, 2009		December 31, 2008	
	Number of Options	Wt. Avg. Exercise Price *	Number of Options	Wt. Avg. Exercise Price *
Balance, January 1, 2009	10,694,500	\$ 1.93	4,330,000	\$ 2.01
Granted	-	-	7,224,500	\$ 1.82
Forfeited	(940,000)	\$ 2.13	(530,000)	\$ 1.97
Exercised	-	-	(330,000)	\$ 2.07
Options outstanding, end of period	9,754,500	\$ 1.92	10,694,500	\$ 1.89
Options exercisable, end of period	2,926,667	\$ 2.71	2,613,333	\$ 1.91

* The weighted average exercise price has been converted into U.S. dollars based on the foreign exchange rate in effect at the date of issuance.

The following is a summary of stock options outstanding as at June 30, 2009.

Range of Exercise Price	Options Outstanding		
	Number of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
\$0.22 (C\$0.25)	3,334,500	4.92	\$ 0.20
\$1.56 (C\$1.80)	600,000	4.67	\$ 1.69
\$1.90 - \$3.16 (C\$2.20 - C\$3.65)*	5,820,000	2.67	\$ 3.04
	9,754,500	3.56	\$ 1.92

* The exercise price and the weighted average exercise price have been converted into U.S. dollars based on the foreign exchange rate in effect at the date of issuance.

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Unaudited three and six months ended June 30, 2009

The following is a summary of stock options exercisable as at June 30, 2009.

Options Exercisable			
Range of Exercise Price	Number of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
\$1.90 - \$3.16 (C\$2.20 – C\$3.65)*	2,926,667	2.67	3.04
	2,926,667	2.67	\$ 3.04

* The exercise price and the weighted average exercise price have been converted into U.S. dollars based on the foreign exchange rate in effect at the date of issuance

(c) Stock-Based Compensation

Options granted are accounted for using the fair value method. The compensation cost charged during the quarter ended June 30, 2009 against earnings for stock options granted was \$644,732 (2008; \$925,502) The fair value of each stock option granted was estimated at the date of grant, using the Black-Scholes option pricing model with the following assumptions:

No options have been granted in the six months ended June, 2009.

	For the year ended 2008
Risk free interest rate	3.12
Expected dividend yield	0%
Expected stock volatility	154%
Expected life of options	5 years
Weighted Average Fair Value	\$0.92

5. CONTRIBUTED SURPLUS

	June 30, 2009	December 31, 2008
Balance, January 1, 2009	\$ 5,126,285	\$ 1,765,333
Stock based compensation expense	1,754,232	3,529,252
Transfer to share capital on exercise of options	-	(168,300)
Balance, end of period	\$ 6,880,517	\$ 5,126,285

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three and six months ended June 30, 2009

6. ASSET RETIREMENT OBLIGATIONS

The total future asset retirement obligation was estimated by management based on its net ownership interest in all wells and facilities, estimated costs to reclaim and abandon wells and facilities and the estimated timing of the costs to be incurred in future periods. The Corporation estimates its total undiscounted asset retirement obligations to be \$15,867,839 as at June 30, 2009. The Corporation uses a credit adjusted risk free rate of 8.0 percent based upon the Corporation's current cost of borrowing and an inflation rate of 2.5 percent over the varying lives of the assets to calculate the present value of the asset retirement obligation. Note that upon the acquisition of the Beatrice Field in November 2008, the Corporation did not assume the decommissioning liabilities.

The following table provides a reconciliation of the Company's total discounted asset retirement obligations:

	June 30, 2009	December 31, 2008
Balance, January 1, 2009	\$ 7,407,290	\$ 4,716,475
Liabilities incurred	4,295,014	4,493,350
Accretion	471,537	434,730
Liabilities disposed of	-	(2,237,265)
Balance, end of period	\$ 12,173,841	\$ 7,407,290

7. PER SHARE AMOUNTS

The weighted average number of basis and diluted shares outstanding during 2009 was 162,261,975 and 172,404,320 respectively (Dec 2008: Basis 131,633,833 : Diluted 138,513,009).

8. COMMITMENTS

As at June 30, 2009, the Corporation had the following financial commitments:

Year ended	2009	2010	2011	2012	2013
Office sublease	\$160,000	\$ 320,000	\$ 320,000	\$320,000	\$320,000
Exploration license fees	\$245,000	\$ 245,000	-	-	-
Exploration Well		\$14,000,000	-	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. FINANCIAL INSTRUMENTS

There have been no significant changes from the previous quarter to the Corporation on its exposure to risks and management's objectives, policies and processes to manage the market risks outlined below.

The Corporation has identified that it is exposed principally to these areas of market risk.

i) Commodity Risk

Commodity price risk related to crude oil prices is the Corporation's most significant market risk exposures. Crude oil prices and quality differentials are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. To a lesser extent the Corporation is also exposed to natural gas price movements as it holds undeveloped gas discoveries in its portfolio. Natural gas prices are generally influenced by oil prices, North American supply and demand and local market conditions. The Corporation's expenditures are subject to the effects of inflation, and prices received for the product sold are not readily adjustable to cover any increase in expenses from inflation. The Corporation may periodically use different types of derivative instruments to manage its exposure to price volatility, thus mitigating fluctuations in commodity-related cash flows.

In July, 2009, the Corporation entered in to a forward swap for 50,000 barrels per month over July, August and September production fixing the price at \$70/barrel.

ii) Interest Risk

The Corporation expects to use floating rate debt to finance its developments and operations, fixed as required by the banking facility terms. The Corporation is exposed to interest rate risk to the extent that LIBOR may fluctuate. As the Corporation's debt is largely denominated in U.S. dollars ("**USD**") the interest rate is principally set against USD LIBOR.

The Corporation will evaluate its annual forward cash flow requirements on a rolling monthly basis. Accordingly, individual facility amounts utilized and related interest terms will vary.

iii) Foreign Exchange Rate Risk

The Corporation is exposed to foreign exchange risks to the extent it transacts in various currencies, while measuring and reporting its results in USD. The exposure to foreign exchange risk is partly mitigated since debt financing is mostly in USD. Since time passes between the recording of a receivable or payable transaction and its collection or payment, the Corporation is exposed to gains or losses on non USD amounts and on balance sheet translation of monetary accounts denominated in non USD amounts upon spot rate fluctuations from quarter to quarter.

On March 11, 2009, the Corporation entered in to a "Window Forward Plus" contract with the Bank of Scotland to hedge circa 90% of the Corporation's known, at that time, future US Dollar to British Pound Sterling exchange rate exposure. The contract ensures that the Corporation, which incurs a substantial amount of its operating expenditure in British Pounds Sterling ("**£**"), is able to lock in a rate of no worse than USD1.40:£1.00 for a series of foreign exchange transactions throughout the year and yet continues to benefit from any additional strengthening of the US Dollar down to USD1.29:£1.00 (the "**Trigger**" rate). Any strengthening of the USD/£ rate beyond the Trigger rate during any of the periods or "windows" between the transaction dates will lead to a rate of USD1.40:£1.00 being applied to that individual transaction. The contract covers \$49 million equivalent of British Pounds Sterling expenditure. The subsequent weakening of the US

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Unaudited three and six months ended June 30, 2009

Dollar has resulted in an unrealised gain on the contract of \$7m for the 6 months ended June 30, 2009. As at June 30, 2009, \$9m of the contract had been exercised.

iv) Credit Risk

The Corporation's accounts receivable with customers in the oil and gas industry are subject to normal industry credit risks and are unsecured. It should be noted that the Corporation has entered in to a five year marketing agreement with BP Oil International Limited to sell all of its North Sea oil production.

The Corporation assesses partners' credit worthiness before entering into farm-in or joint venture agreements. In the past, the Corporation has not experienced credit loss in the collection of accounts receivable. As the Corporation's exploration, drilling and development activities expand with existing and new joint venture partners, the Corporation will assess and continuously update its management of associated credit risk and related procedures.

The Corporation regularly monitors all customer receivable balances outstanding in excess of 90 days. As at June 30, 2009 substantially all accounts receivables are current, being defined as less than 90 days. Accordingly, there is no allowance for doubtful accounts on accounts receivable.

v) Liquidity Risk

Liquidity risk includes the risk that as a result of its operational liquidity requirements the Company will not have sufficient funds to settle a transaction on the due date. The Corporation manages liquidity risk by maintaining adequate cash reserves, banking facilities, and by considering medium and future requirements by continuously monitoring forecast and actual cash flows. The Corporation considers the maturity profiles of its financial assets and liabilities. As at June 30, 2009, substantially all accounts payable are current.

10. CAPITAL DISCLOSURE

The Corporation's objectives when managing capital are:

- to safeguard the Corporation's ability to continue as a going concern;
- to maintain balance sheet strength and optimal capital structure, while ensuring the Corporation's strategic objectives are met; and
- to provide an appropriate return to shareholders relative to the risk of the Corporation's underlying assets.

In the definition of capital, the Corporation includes shareholders' equity, working capital and interest bearing debt. Shareholders' equity includes share capital, contributed surplus, retained earnings or deficit and other comprehensive income.

The Corporation maintains and adjusts its capital structure based on changes in economic conditions and the Corporation's planned requirements. The Board of Directors reviews the Corporation's capital structure and monitors requirements. The Corporation may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling capital expenditure programs.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The Board sets guidelines for the management of the Corporation's capital. The Corporation monitors its capital structure using the debt-to-equity ratio and other benchmark measures at the consolidated group level.

(in \$ millions)	June 30, 2009	December 31, 2008
Debt	\$ 68.1	\$ 61.2
Equity	237.1	243.9
Debt as a % of Equity	29%	25%

As at June 30, 2009, there are limited debt covenants with respect to the Corporation's capital structure, primarily a net asset test being no less than \$100m. These covenants relate to the loan facility with Dyas (UK) Limited. All covenants have been complied with.

There have been no significant changes from the previous quarter to management's objectives, policies and processes to manage capital or to the components defined as capital.

11. RELATED PARTY TRANSACTIONS

A Director of the Corporation is a partner in Burstall Winger LLP who acts as counsel for the Corporation. The amount of fees, on an arms length basis, paid to Burstall Winger LLP in the three months ended June 30, 2009 were \$46,871 (2008 - \$58,247). In the 6 months ended June 30, 2009 were, \$159,987 (2008 - \$83,618).

12. SUBSEQUENT EVENTS

The Corporation announced on July 29, 2009 that it had completed a transaction with Dyas UK Limited ("Dyas"), whereby Dyas agreed to convert a loan of \$61.2 million into an interest in certain assets of the Corporation. The transaction also provided for a \$40.6 million cash payment to the Corporation. As a consequence of the transaction, the Corporation is now debt free and all security held by Dyas has been released.

The Corporation entered its first commodity hedge on July 24, 2009 whereby it fixed 50,000 barrels per month over July, August and September production at US\$70/barrel.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. RESTATEMENT OF QUARTER ONE RESULTS

As a result of a misallocation between operating expenses for quarter one, 2009 and quarter two, 2009 it has been determined that an adjustment is necessary to the first quarter financials. There was also a misallocation between operating expenses and fixed assets in the first quarter which has also been adjusted for in the restated financials.

The effect of the restatement of quarter one results is as illustrated below

	Effect on 3 months ended March 31, 2009	Effect on 6 months ended June 30, 2009
Increase in operating expense	\$(3,586,751)	\$ -
	\$(3,586,751)	
Increase in accruals	(2,103,155)	
Increase in debtors	1,000,858	
Decrease in fixed assets	(2,484,454)	\$ -
Total	\$(3,586,751)	\$ -

	Effect on opening retained earnings at April 1, 2009
Opening retained earnings prior to restatement	\$(46,967,385)
Effect of restatement	(3,586,751)
Opening retained earnings following restatement	\$(50,554,136)

The results for the quarter ended 31 March, 2009 have been restated as a result of: (i) a misallocation between operating expenses for first quarter of 2009 and the second quarter of 2009, and (ii) a misallocation between operating expenses and fixed assets in the first quarter of 2009. The impact of this restatement on quarter one, 2009 results has been to increase operating expenses by \$3.6 million, increase accruals by \$2.1 million, increase debtors by \$1.0 million and to decrease fixed assets by \$2.5 million. The net impact on the closing retained earnings position for quarter one, 2009, has been a decrease of \$3.6 million.