MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL CONDITION

The following is management's discussion and analysis ("**MD&A**") of the operating and financial results of Ithaca Energy Inc. (the "**Corporation**" or "**Ithaca**") for the three months and six months ended June 30, 2009. The information is provided as of August 18, 2009. The 2009 results have been compared to the results for the comparative period in 2008.

This discussion and analysis should be read in conjunction with the Corporation's unaudited consolidated financial statements as at June 30, 2009 and 2008 and for each of the three month and six month periods then ended, and with the Corporation's audited consolidated financial statements as at December 31, 2008, together with the accompanying notes, and the December 31, 2008 MD&A and Annual Information Form. These documents and additional information about Ithaca Energy Inc. are available on SEDAR at **www.sedar.com**.

Certain statements contained in this discussion and analysis, including estimates of reserves, estimates of future cash flows and estimates of future production as well as other statements about anticipated future events or results, are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "believe", "plan", "estimate", "expect", "targeting" and "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. The forward-looking statements that are contained in this discussion and analysis involve a number of risks and uncertainties. As a consequence, actual results might differ materially from results forecast or suggested in these forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted.

The information with respect to net present values of future net revenues from reserves presented throughout this discussion and analysis, whether calculated without discount or using a discount rate, are estimated values and do not represent fair market value. It should not be assumed that the net present values of future net revenues from reserves contained in this discussion and analysis are representative of the fair market value of the reserves. There is no assurance that the price and cost assumptions will be attained and variances could be material.

Barrel of oil equivalent (**boe**) volumes are reported at 6:1 with 6 MCF = 1 boe.

The Corporation's reporting currency is US Dollars ("**$**"); unless indicated otherwise, all amounts are presented in US Dollars.

SUMMARY OF KEY EVENTS

Operations

- Jacky production commenced on April 6, 2009.
- Beatrice Alpha, Beatrice Bravo and Jacky together produced 673,073 barrels (463,688 barrels net to Ithaca) of oil to the tank at Nigg Terminal for the period from April 1, 2009 to June 30, 2009.
- Total operational efficiency exceeded 95% for the period as production was stabilised. Work is ongoing to maximise and prolong production across the facilities, with a Jacky water injection well scheduled for the third quarter 2009. The Ensco 80 drilling rig was contracted on August 14, 2009 to complete this work.
- The Jacky field has continued to produce 'dry' oil (being zero or neglible water content) increasing management confidence in the likely ultimate production volume.

- Weighted average realised price for the quarter was $60.38/barrel (plus an additional price uplift of $0.96/barrel for 159,806 barrels net to Ithaca at the point of sale to a third party).

Financials

- Net profit for the quarter was $3.8 million (loss of $1.5 million for the 3 months ended June 30, 2008); due primarily to positive operating cash flows and a $5.6 million gain on financial instruments offset by high depletion charges of $17.6 million.

- The Corporation recorded its first quarter of positive cash flow from operations of $16.9 million as the benefit of the Jacky production took effect.

- Total cash at the quarter end stood at $14.3 million of which $11.9 million was restricted cash held as collateral for letters of credit issued by the Bank of Scotland. In addition, $2.3 million (net to Ithaca) is held on deposit with ENSCO Offshore (UK) Limited for a future rig commitment (Jacky water injector well) and is included in deposits, prepaid expenses and others.

- In the three months to June 30, 2009 total fixed assets decreased to $299.1 million ($308.5 million as at March 31, 2009) representing the lower capital spend in the period offset by high depletion as Jacky commenced production.

Events Subsequent to June 30th, 2009

- 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.

- Gross oil sales in July totalled 364,842 barrels (net to Ithaca 175,124 barrels) at a realised price of $71.22 per barrel (before additional price uplift at the point of sale to a third party).

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

Outlook

- The completion of the second Dyas transaction has given the Corporation additional cash to pursue current developments, enhance the efficiency of existing operations and to seek new opportunities to strengthen the portfolio:
    - The Jacky water injector is expected to be operational from October, 2009;
    - At least one well will also be worked over at Beatrice Bravo in November 2009 and water injection will also be restarted at Beatrice Bravo at that time;
    - Discussions are underway regarding contracting all services for an extensive work over programme at Beatrice Alpha;
    - The Stella appraisal well is planned for the second half of 2009;
    - The Carna development is scheduled to be sanctioned in the fourth quarter of 2009;
    - Development decision for the Athena field is expected in the fourth quarter given improved oil prices and greater commercial flexibility in the oil service sector; and
    - Development of the Polly discovery is under discussion with a major contractor.

BUSINESS OF THE CORPORATION

Ithaca Energy is an oil and gas exploration, development and production corporation active in the United Kingdom's Continental Shelf ("**UKCS**"). Exploration, development and production activities are focused on the Inner and Outer Moray Firth and the Central and Southern Gas Basin areas of the UKCS. The goal of Ithaca Energy, in the near term, is to maximise production and achieve early production from the development of existing discoveries on licences held by the Corporation, to originate and participate in exploration on licences held by the Corporation that has the potential of making significant contributions to future production, and to consider other opportunities for growth as they are identified by the Corporation. The Corporation commenced first oil production from its Jacky field on April 6, 2009. Production from its Carna field is expected to commence in 2011 and production from its Stella field in early 2012. Development of its Athena field is currently being considered given improved oil prices and greater commercial flexibility in the oil service sector. Development of its Polly discovery is also under consideration.

The Corporation's common shares are listed for trading on the TSX Venture Exchange and the London Stock Exchange's Alternative Investment Market under the symbol "**IAE**".

OVERALL PERFORMANCE

Production

In the three months ended June 30, 2009, Beatrice Alpha, Bravo (commenced March 31, 2009) and Jacky (commenced flowing April 6, 2009) delivered 463,688 (net) boe of oil to the tank at Nigg Terminal. This figure is net of shrinkage that occurs during export from the platforms and represents the volume of hydrocarbons for which payment is received on a monthly basis from BP International in advance of sale to third parties.

Jacky and Beatrice Fields

On the 6th April 2009, the Jacky production well started flowing without artificial lift at gross rates of approximately 8,800 barrels of oil per day (bopd) (5,920 bopd net to Ithaca). On 20th May 2009, the downhole pump was activated, immediately boosting the flow from the reservoir. Since then, optimisation of pump performance has resulted in progressive production rate improvement and now combined Beatrice and Jacky daily rates are in excess of 12,000 bopd

Average production for the month of June was approximately 9,300 bopd (6,257 bopd net to Ithaca). Combined rates from the Jacky and Beatrice fields producing to the Nigg oil terminal during June were in excess of 10,900 bopd (7,455 bopd net to Ithaca). Average production for the month of July from the two fields was approximately 11,770 bopd (5,652 bopd net to Ithaca post the Dyas transaction detailed below).

The Jacky field has continued to produce 'dry' oil (being zero or negligible water content) increasing confidence in the likely ultimate production volume. Ithaca is currently proposing to drill a water injection well in the third quarter of 2009 to support and maintain production levels through 2010 and beyond. The Ensco 80 drilling rig has been contracted for this work.

Dyas UK Limited Early Debt Conversion

Under an agreement dated October 30, 2008, Dyas had the option ("2008 Dyas Option") to convert a US$61.2 million loan provided to Ithaca by 1st November 2010 in return for an additional 15.15% of all of Ithaca's interests held at 1st November 2008 (the "Effective Date").

The Corporation announced on July 29, 2009 that it had completed a second transaction with Dyas UK Limited ("Dyas") for the early exercise of the 2008 Dyas Option, whereby it transferred additional interests in the assets held as at November 1, 2008 in exchange for the release of its $61.2 million loan and the payment of $40.6 million additional cash. The cash payment was used to repay an outstanding $8.4

million (£5 million) loan remaining with Dyas. Upon transfer of the interest in the Stella property (the only interest yet to be transferred), Dyas will pay a sum of $8.4 million as final consideration to Ithaca.

Ithaca and Dyas have revised the working interest positions in its key assets through this transaction as follows:

		Pre 1/11/08	Post 1/11/08 (excluding 2008 option)		Post Revised Transaction	
Asset	**Type**	**Ithaca %**	**Ithaca %**	**Dyas %**	**Ithaca %**	**Dyas %**
Beatrice	Production	100	74.75	25.25	50.00	50.00
Jacky	Production	90	67.28	22.73	47.50	42.50
Athena	Development	70	52.33	17.68	22.50	47.50
Carna	Development	40	29.90	10.10	16.00	24.00
Stella	Development	66.67	49.83	16.83	35.00	31.67

In addition, equity in all of Ithaca's remaining exploration assets will also be transferred, such that Dyas will acquire a final equity holding equivalent to 50% of Ithaca's equity positions immediately prior to the Effective Date.

As a consequence of the transaction, the Corporation is now debt free, all security held by Dyas has been released.

Investment in Fixed Assets

Property, plant and equipment decreased to $297.4 million at June 30, 2009, from $308.5 million at March 31, 2009, as analyzed below:

Area $'000	June 30 2009	March 31 2009 Restated
Inner Moray Firth	135,164	154,210
Outer Moray Firth	119,940	119,800
Central North Sea	19,806	19,079
NW Core	20,947	12,170
SE Core	2,582	2,527
Office Equipment	646	710
Total	$ 299,085	$ 308,496

The decrease in fixed assets is as a result of completing the Jacky development at the beginning of the quarter, such that new capital expenditure for the period was minimal, against a substantial depletion charge as the Jacky field commenced production.

SUMMARY OF QUARTERLY RESULTS

The consolidated financial statements of the Corporation and the financial data contained in MD&A are prepared in accordance with Canadian Generally Accepted Accounting Principles (“**GAAP**”). The consolidated financial statements include the accounts of Ithaca and its wholly-owned subsidiary Ithaca UK. All inter-company transactions and balances have been eliminated on consolidation. Part of the Corporation’s North Sea oil and gas activities are carried out jointly with others, and the consolidated financial statements reflect only the Corporation’s proportionate interest in such activities.

Ithaca Energy							
Quarterly Results							
	30-Jun-09	**31-Mar-09**	**31-Dec-08**	**30-Sep-08**	**30-Jun-08**	**31-Mar-08**	**31-Dec-07**
		(Restated)					
REVENUE	$	$	$	$	$	$	$ -
Oil Sales	28,280,275	2,775,844	2,472,106	-	-	-	-
Other inconme	1,476,638	969,595	-	-	-	-	-
Interest income	146,305	91,950	143,441	160,635	126,137	379,350	455,865
	29,903,218	3,837,389	2,615,547	160,635	126,137	379,350	455,865
COSTS AND EXPENSES							
General and administrative	2,491,141	2,655,510	3,287,190	1,954,388	1,680,204	1,675,593	2,795,777
Loan Fee Amortization	-	-	1,194,497	2,339,082	135,312	-	-
(Gain) / Loss on Financial Instrument	(5,602,293)	(1,441,234)	1,777,181	-	-	-	-
Revaluation of Nigg Heel of Tank	483,818	-	-	-	-	-	-
Operating	12,056,509	12,648,388	4,587,834	-	-	-	-
Depreciation and accretion	17,585,049	2,467,981	2,076,311	249,794	278,838	206,540	261,560
(Gain) / Loss on foreign exchange	(890,935)	(226,546)	7,739,985	648,805	(447,527)	3,997,151	(230,551)
	26,123,289	16,104,099	20,662,998	5,192,069	1,646,827	5,879,284	2,826,786
NET PROFIT / (LOSS) BEFORE TAX	3,779,929	(12,266,710)	(18,047,451)	(5,031,434)	(1,520,690)	(5,499,934)	(2,370,921)
TAXES	-	-	347,458	-	-	-	-
NET PROFIT / (LOSS) AFTER TAX	3,779,929	(12,266,710)	(18,394,909)	(5,031,434)	(1,520,690)	(5,499,934)	(2,370,921)
NET PROFIT / (LOSS) PER SHARE	0.02	(0.08)	(0.14)	(0.04)	(0.01)	(0.05)	(0.02)
Deficit, beginning of period	(50,554,136)	(38,287,426)	(19,892,517)	(14,861,083)	(13,340,393)	(7,840,459)	(5,469,538)
Deficit, end of period	(46,774,207)	(50,554,136)	(38,287,426)	(19,892,517)	(14,861,083)	(13,340,393)	(7,840,459)

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.

RESULTS OF OPERATIONS

During the three month period to June 30, 2009, total production amounted to 463,688 boe (2008 – NIL) with an average realised price of $60.38 per barrel and a further $0.3 million of income arising from price uplifts and other adjustments. Other income relates to the rental of the second oil storage tank at Nigg to BP and ship to ship transfers at the Nigg deep water terminal. The last three quarters have seen an increase in revenues and operating costs as the Corporation first took over the Beatrice facilities in November, 2008, followed by the start-up of production at the Jacky field in early April, 2009. Operating costs on a per barrel basis have been reduced substantially with the start-up of Jacky production, as the operating costs are shared between the two fields.

For the three month period ended June 30, 2009, the Corporation had a net profit of $3.8 million compared to a net loss of $1.5 million for the three month period ended June 30, 2008. This profit is due primarily to the positive operating cash flow generated from Beatrice and Jacky offset by a depletion charge of $17.6 million and a $0.5m revaluation of a future liability to repay 75,000 barrels of oil at Nigg upon the hand back of the Beatrice facilities to Talisman Energy (UK) Limited due to higher oil prices and a positive gain on foreign exchange instruments of $5.6 million, all being non cash items. For the six month period ended June 30, 2009 the Corporation made a net loss of $8.5 million compared to a net loss of $7.0 million for the six months ended June 30, 2008.

General and administrative expenses for the three month period ended June 30, 2009, before stock compensation charges and interest charges, were $1.3 million compared to $0.5 million for the three month period ended June 30, 2008. The increase over the comparative period is due to the significant amount of general and administrative expense that was capitalised in the three months to June 30, 2008 relative to the three months to June 30, 2009 as development activities were underway at that time on a number of operated assets. General and administrative expenses for the six months ended June 30, 2009, before stock compensation charges and interest charges, were $2.8 million compared to $2.0 million for the six months ended June 30, 2008. Over the last eight quarters, general and administrative expenses have remained reasonably constant with variances being attributed to levels of activity on operated assets and hence recharges to joint venture partners.

No options were exercised during the three month period to June 30, 2009 (2008 – NIL). In the three months to June 30, 2009, no new options were granted. The stock based compensation charge for the three month period ended June 30, 2009 was $0.6 million compared to a charge for the three month period ended June 30, 2008 of $1.4 million. The stock based compensation charge for the six month period ended June 30, 2009 was $1.8 million and the charge for the six month period ended June 30, 2008 was $1.5 million. This charge relates to options granted in previous quarters with the cost being amortised over the three year vesting period.

Depreciation, depletion and accretion for the three month period ended June 30, 2009 has increased to $17.6 million (2008 - $0.3 million) and depreciation, depletion and accretion for the six month period June 30, 2009 was $20.1 million (2008 - $0.5 million) primarily as a result of depletion charges against the Beatrice and Jacky fields in line with production levels. Prior to the fourth quarter, 2008, the Corporation had no production and therefore booked no depletion charge, only recognising accretion charges associated with increased asset retirement obligations on wells drilled. The Corporation has a water injector well and an appraisal well planned for the second half of 2009 and therefore the asset retirement obligation is expected to increase in the year, whilst the depletion charge is expected to remain high during the first year of Jacky production. Note that the early conversion of the 2008 Dyas Option in July, 2009, will result in a reassessment of the depletion charge as significant equity relating to high capital expenditure projects was transferred to Dyas relative to the levels of proved reserves transferred.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended June 30, 2009 there was a cash outflow from operating, investing and financing activities of $10.5 million compared to a cash outflow from operating, investing and financing activities of $20.5 million for the corresponding period in 2008. The net outflow was largely a result of positive operating cash flows of $16.9 million, offset by a $20.2 million decrease in working capital and an investment in oil and gas properties of $7.9 million during the period.

Significant capital will be required to further the Corporation's anticipated development activities in 2009 and 2010 and these are expected to be met through a combination of existing cash resources and cash flow from production. Given the fact that the Corporation is now debt free, discussions have commenced with a select group of banks to assess the availability of debt to help fund future activities. Notwithstanding the ability of the Corporation to fund 2009 and 2010 forecast activities from cash resources and production, Ithaca will be opportunistic in accessing further equity.

RISKS AND UNCERTAINTIES

The business of exploring for, developing and producing oil and natural gas reserves is inherently risky. There is substantial risk that the manpower and capital employed will not result in the finding of new reserves in economic quantities. There is a risk that the sale of reserves may be delayed due to processing constraints, lack of pipeline capacity or lack of markets. The price the Corporation will receive for its oil and natural gas production may fluctuate continuously and, for the most part, is beyond the Corporation's control.

The Corporation is exposed to financial risks including financial market volatility, fluctuation in interest rates and various foreign exchange rates. Given the increasing development expenditure and operating costs in currencies other than US Dollars, the Board of the Corporation has agreed a hedging policy to mitigate foreign exchange rate risk on committed expenditure. On March 11, 2009 a series of foreign exchange contracts totalling $49 million was entered in to in accordance with the agreed hedging policy.

The Corporation is heavily dependent upon the production rates and oil price to fund the current development program. On July 24, 2009, the Corporation entered in to a hedge whereby it fixed the price of 50,000 barrels of production for the months of July, August and September at $70/barrel. The forecast production budgeted to meet future expenditures is heavily reliant upon the performance of the Jacky well that came on stream on April 6, 2009.

The Corporation is also subject to the risks associated with owning oil and natural gas properties, including environmental risks associated with air, land and water. The Corporation takes out market insurance to mitigate many of these operational, construction and environmental risks. In all areas of the Corporation's business there is competition with entities that may have greater technical and financial resources. There are numerous uncertainties in estimating the Corporation's reserve base due to the complexities in estimating the magnitude and timing of future production, revenue, expenses and capital.

It should be noted that the Corporation is not required to certify the design and evaluation of the Corporation's disclosure controls and procedures and internal control over financial reporting and it has not completed such an evaluation. Furthermore, given the size of the Corporation there are inherent limitations on the certifying officers to design and implement on a cost effective basis disclosure controls and procedures and internal control over financial reporting that may result in additional risks to the quality, reliability, transparency, and timeliness of annual filings.

For additional detail regarding the Corporation's risks and uncertainties, refer to the Corporation's most recent Annual Information Form filed on SEDAR at **www.sedar.com**.

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Corporation.

Capitalized costs relating to the exploration and development of oil and gas reserves, along with estimated future capital expenditures required in order to develop proved reserves, are depleted and depreciated on a unit-of-production basis using estimated proved reserves as adjusted for production.

The carrying value of property, plant and equipment is reviewed annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The cost recovery ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Liability recognition for asset retirement obligations associated with oil and gas wells are determined using estimated costs discounted based on the estimated life of the asset. These capitalized costs are amortized on a unit-of-production basis, consistent with depletion and depreciation. Over time, the liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation.

Financial assets or liabilities are only recognised when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities are, with certain exceptions, initially measured at fair value.

In order to recognize stock based compensation expense, the Corporation estimates the fair value of stock options granted using assumptions related to interest rates, expected life of the option, volatility of the underlying security and expected dividend yields. These assumptions may vary over time.

The determination of the Corporation’s income and other tax liabilities requires interpretation of complex laws and regulations. Tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded on the financial statements

FUTURE ACCOUNTING PRONOUNCEMENTS

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 the Corporation’s financial statements.

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards ("**IFRS**") will replace Canadian GAAP in 2011. The Corporation is continuing to review this change in terms of its operational, reporting and accounting impact, including the preparation of required comparative information. As part of the Corporation’s preparation for transition to IFRS, 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.

RELATED PARTY TRANSACTIONS

A Director of the Corporation is a partner in Burstall Winger LLP who acts as legal counsel for the Corporation. The amount of fees, measured at the exchange amount, paid to Burstall Winger LLP in the three month period to June 30, 2009 were $46,871 (2008 - $58,247).

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes to the Corporation's internal control over financial reporting during the three months ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

A new accounting system was installed during the first quarter of 2009 and went live in the second quarter of 2009. Notwithstanding the restatement in the first quarter, 2009 accounts, the new system is expected to assist in addressing certain control weaknesses and provide more timely and accurate reporting as the business continues to expand its operated activities. In addition, further controls have now been implemented, including quarterly reviews, to ensure that the cause of the restatement for quarter one, 2009 results is not repeated.

COMMITMENT UPDATE

There have been no other new material commitments during the quarter ended June 30, 2009.

OUTSTANDING SHARE INFORMATION

As of June 30 2009, there are 162,261,975 common shares of the Corporation outstanding and 172,404,320 common shares diluted. There are 9,754,500 options to purchase common shares outstanding.