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### **Ithaca Energy Announces Third Quarter 2006 Results**

LONDON, U.K. - CALGARY, ALBERTA, November 14, 2006 -- Ithaca Energy Inc. (LSE-AIM: IAE, TSX-V: IAE), a Canadian independent oil and gas company with exploration and development assets in the UK North Sea, announces its results for the third quarter ended September 30, 2006.

#### **Highlights**

##### **Operations:**

- Commencement of the Company's first well in the North Sea on the Athena prospect.
  - Offshore drilling operations utilizing the semi-submersible drilling rig, the Bredford Dolphin, commenced on September 5<sup>th</sup>.
  - The 14/18-15b well was drilled directionally at a 60° angle to vertical to a total depth of 11,051 feet encountering 632 feet of oil-bearing sand in the Cretaceous Upper Leek formation and tested 1,330 barrels of oil per day from 143 feet of perforations. The well was suspended for future production.
  - Ithaca is now planning subsequent drilling and filing a field development plan.
- Preparation of drilling plans for two locations with a contracted jack-up rig commencing in March 2007.
- Processing of a newly shot 300 km<sup>2</sup> 3-D seismic program over 90% owned licenses in the Outer Moray Firth area.
- Completion of a 360 km<sup>2</sup> 3-D seismic program over the Morpheus prospect in the Southern Gas Basin.

##### **Financial:**

- Strong working capital position of US\$42.7 million
- 64.4 million common shares outstanding (fully diluted)
- A loss of US\$1,317,399 (\$0.02 per share) for the third quarter ended September 30, 2006, which includes a stock based compensation charge of US\$669,805 resulting from stock options issued to directors, officers and employees of the Company

Commenting on the results, Lawrie Payne, Chief Executive Officer, said "Following on the heels of the Company's IPO which raised US\$55.6 million and achieved listings on AIM and the TSX Venture exchanges, Ithaca successfully drilled and tested oil from the Athena discovery, the Company's first well in the North Sea. It is confirmation of the Company's strategy to concentrate on appraisal and development drilling in the early stages of its development. We believe that further development of the Company's existing discoveries and future high impact exploration will provide further added value to our shareholders."

##### **Enquiries:**

##### **Ithaca Energy Inc:**

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**Ithaca Energy Inc.**
**Consolidated Balance Sheets**  
 (unaudited - all amounts are US\$)

|   | September 30<br>2006 | December 31<br>2005 |
|---|----------------------|---------------------|
| <b>ASSETS</b>                                 |                      |                     |
| Current assets                                |                      |                     |
| Cash  | \$ 26,888,999        | \$ 3,812,327        |
| Accounts receivable                           | -                    | 5,635,308           |
| Deposits, prepaid expenses and other (note 3) | 19,285,262           | 511,370             |
|   | <hr/> 46,174,260     | <hr/> 9,959,005     |
| Property, plant and equipment (note 4)        | 23,550,921           | 8,084,201           |
|   | <hr/> \$ 69,725,181  | <hr/> \$ 18,043,206 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                      |                     |
| Current liabilities                           |                      |                     |
| Accounts payable and accrued liabilities      | \$ 3,444,197         | \$ 1,122,827        |
| Shareholders' Equity                          |                      |                     |
| Share capital (note 5)                        | 69,741,878           | 18,009,561          |
| Contributed surplus                           | 828,576              | 116,371             |
| Deficit                                       | (4,289,470)          | (1,205,553)         |
|   | <hr/> 66,280,984     | <hr/> 16,920,379    |
|   | <hr/> \$ 69,725,181  | <hr/> \$ 18,043,206 |

Nature of operations (note 1)

*The accompanying notes to the consolidated financial statements are an integral part of these statements.*

**Ithaca Energy Inc.**
**Consolidated Statements of Operations and Deficit**  
 (unaudited - all amounts are US\$)

|   | 3 months ended<br>September 30 |            | 9 months ended<br>September 30 |            |
|---|--------------------------------|------------|--------------------------------|------------|
|   | 2006                           | 2005       | 2006                           | 2005       |
| <b>REVENUE</b>                            | \$ -                           | \$ -       | \$ -                           | \$ -       |
| <b>COSTS AND EXPENSES</b>                 |                                |            |                                |            |
| General and administrative                | 1,339,445                      | 242,254    | 3,070,576                      | 592,991    |
| Amortization                              | 14,000                         | 1,125      | 42,000                         | 3,375      |
| Interest income                           | (374,925)                      | (1,822)    | (446,964)                      | (3,753)    |
| Loss (gain) on foreign exchange           | 338,879                        | (20,562)   | 418,305                        | (45,598)   |
| <b>NET LOSS</b>                           | \$ 1,317,399                   | \$ 220,995 | \$ 3,083,917                   | \$ 547,015 |
| <b>Deficit, beginning of period</b>       | 2,972,071                      | 514,269    | 1,205,553                      | 188,249    |
| <b>Deficit, end of period</b>             | \$ 4,289,470                   | \$ 735,264 | \$ 4,289,470                   | \$ 735,264 |
| <b>Loss per share (basic and diluted)</b> | \$ (0.02)                      | \$ (0.02)  | \$ (0.07)                      | \$ (0.06)  |

*The accompanying notes to the consolidated financial statements are an integral part of these statements.*

## Ithaca Energy Inc.

**Consolidated Statements of Cash Flow**  
(unaudited - all amounts are US\$)

|  | 3 months ended<br>September 30 |                     | 9 months ended<br>September 30 |                     |
|--|--------------------------------|---------------------|--------------------------------|---------------------|
|  | 2006                           | 2005                | 2006                           | 2005                |
| <b>OPERATING ACTIVITIES:</b>   |                                |                     |                                |                     |
| Net Loss   | \$ (1,317,399)                 | \$ (220,995)        | \$ (3,083,917)                 | \$ (547,015)        |
| Items not involving cash:  |                                |                     |                                |                     |
| Stock based compensation   | 669,805                        | -                   | 712,205                        | -                   |
| Amortization   | 14,000                         | 1,125               | 42,000                         | 3,375               |
|  | (633,594)                      | (219,870)           | (2,329,712)                    | (543,640)           |
| Changes in non-cash working capital<br>relating to operating activities: | (591,361)                      | (144,576)           | (19,406,573)                   | (118,907)           |
|  | (1,224,955)                    | (364,446)           | (21,736,285)                   | (662,547)           |
| <b>INVESTING ACTIVITIES:</b>   |                                |                     |                                |                     |
| Oil and gas properties   | (8,863,787)                    | (868,422)           | (12,392,666)                   | (1,089,842)         |
| Office furniture and equipment   | -                              | -                   | (82,611)                       | -                   |
|  | (8,863,787)                    | (868,422)           | (12,475,277)                   | (1,089,842)         |
| <b>FINANCING ACTIVITIES:</b>   |                                |                     |                                |                     |
| Proceeds from issuance of shares<br>(share issue costs)                  | (338,552)                      | 8,350,805           | 51,732,317                     | 8,854,130           |
| Changes in non-cash working capital<br>relating to financing activities: | 332,703                        | -                   | 5,555,917                      | (48,332)            |
|  | (5,849)                        | 8,350,805           | 57,288,234                     | 8,805,798           |
| <b>Increase (decrease) in cash</b>                                       | <b>\$(10,094,591)</b>          | <b>\$ 7,117,937</b> | <b>\$ 23,076,672</b>           | <b>\$ 7,053,409</b> |
| <b>Cash, beginning of period</b>   | <b>\$ 36,983,590</b>           | <b>187,474</b>      | <b>3,812,327</b>               | <b>252,002</b>      |
| <b>Cash, end of period</b>   | <b>\$ 26,888,999</b>           | <b>\$ 7,305,411</b> | <b>\$ 26,888,999</b>           | <b>\$ 7,305,411</b> |

*The accompanying notes to the consolidated financial statements are an integral part of these statements.*

## Ithaca Energy Inc.

### Notes to the Consolidated Financial Statements (unaudited - all amounts are US\$)

#### 1. Nature of Operations

Ithaca Energy Inc., incorporated in Alberta on April 27, 2004 together with its wholly-owned subsidiary Ithaca Energy (UK) Ltd., incorporated in Scotland are involved in the exploration and development of oil and gas in the North Sea.

Since May 2004, the Company has been evaluating the resource potential of certain oil and natural gas exploration properties and is considered to be in its development stage of operations. The recoverability of amounts shown for oil and natural gas properties is dependent upon the determination of economically recoverable reserves. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon the continued support of its shareholders, obtaining additional financing and generating revenues sufficient to cover the operating costs.

The Company will require additional financing in order to fund its ongoing exploration and development programs. Management intends to raise any funds required through a combination of equity issues, bank financing, farm-outs or by other means.

#### 2. Significant Accounting Policies

The interim consolidated financial statements of Ithaca Energy Inc. ("Ithaca" or "the Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial 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, 2005. These interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements, they should be read in conjunction with the consolidated financial statements and the notes thereto in the Company's annual report for the year ended December 31, 2005.

#### 3. Deposits, prepaid expenses and other

|                       | 2006                 | 2005              |
|-----------------------|----------------------|-------------------|
| Rig deposit           | \$ 18,000,022        | \$ -              |
| Sales tax recoverable | 1,271,130            | 245,961           |
| Other                 | 14,097               | 265,409           |
|                       | <u>\$ 19,285,249</u> | <u>\$ 511,370</u> |

The rig deposit comprises an advance payment held in escrow to secure the hire of a drilling rig during the first half of 2007.

#### 4. Property, plant and equipment

|                                | September 30, 2006 | December 31, 2005 |
|--------------------------------|--------------------|-------------------|
| Oil and natural gas properties | \$ 23,396,578      | \$ 7,980,351      |
| Office furniture and equipment | 202,864            | 110,371           |
| Less accumulated amortization  | <u>(48,521)</u>    | <u>(6,521)</u>    |

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 \$ 23,550,921
 

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 \$ 8,084,201
 

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All oil and gas properties are in the development phase and are not currently subject to depletion or amortization.

## 5. Share Capital

### Common Shares

Changes to issued common shares were as follows:

|                                     | 2006             |               | 2005             |              |
|-------------------------------------|------------------|---------------|------------------|--------------|
|                                     | Number of Shares | Amount        | Number of Shares | Amount       |
| Balance at January 1                | 26,798,556       | \$ 18,009,562 | 6,991,669        | \$ 660,012   |
| Issued in private placement         | -                | -             | 344,276          | 168,345      |
| Issued on exercise of special units | 5,555,555        | -             | -                | -            |
| Balance at March 31                 | 32,354,111       | \$ 18,009,562 | 7,335,945        | \$ 828,357   |
| Issued for cash                     | 29,571,929       | 55,665,988    | 710,000          | 334,980      |
| Share issue costs                   | -                | (3,595,120)   | -                | -            |
| Balance at June 30                  | 61,926,040       | \$ 70,080,430 | 8,045,945        | \$ 1,163,337 |
| Issued for cash                     | -                | -             | 10,711,612       | 8,890,805    |
| Share issue costs                   | -                | (338,552)     | -                | (540,000)    |
|                                     | 61,926,040       | \$ 69,741,878 | 18,757,557       | 9,514,142    |

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

The following discussion analyses the consolidated operating results of the Corporation for the three and nine month periods ended September 30, 2006 compared with the three and nine month periods ended September 30, 2005 and the consolidated financial condition of the Corporation as at September 30, 2006 compared with that at December 31, 2005. This management's discussion and analysis ("MD&A") is given as of November 1, 2006. This MD&A should be read in conjunction with the Corporation's interim consolidated financial statements for the period ended September 30, 2006.

It contains certain forward-looking statements that involve substantial known and unknown risks and uncertainties, certain of which are beyond the Corporation's control, including the impact of general economic conditions in the areas in which the Corporation operates, civil unrest, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities. In addition there are risks and uncertainties associated with gas operations. Therefore, the Corporation's actual results, performance or achievement could differ materially from those expressed, or implied by, these forward-looking estimates and, accordingly, no assurances can be given that any of the events anticipated by the forward looking estimates will transpire or occur, or if any of them do so, what benefits, including the amounts of proceeds, that Corporation will derive therefrom.

### Overall Performance

The Corporation commenced operations in April 2004. Since commencing operations, the Corporation has been focused on acquiring and developing oil and gas licences in the North Sea. In 2004, the Corporation operated with few personnel and was focused on the acquisition of licences. In 2005, the Corporation expanded operations in order to acquire and evaluate additional licences and to secure sufficient financing to initiate the appraisal and development of the acquired licences. During 2005, the Corporation focused efforts on evaluating its exploration prospects and acquiring undeveloped discoveries and new exploration prospects.

The Corporation closed an Initial Public Offering of stock on June 5, 2006, with the issuance of 29,571,929 common shares, resulting in gross proceeds of \$55,665,988. Subsequent to the Offering, the Corporation has started to execute the immediate business plan.

General and administrative expenses increased by 453% in the three month period ended September 30, 2006 compared with the period ended September 30, 2005. In part, this is due to the Corporation's increased evaluation, acquisition and exploration activity in the UK North Sea, which necessitated greater consulting, staffing and overhead requirements in both the London and Aberdeen offices. In addition, a focus of the Corporation during the period was the completion of the Corporation's initial public offering. This resulted in an increase in the administrative consulting fees and staff costs that were expensed rather than being capitalized as part of the Corporation's oil and gas properties. Overhead expenses are expected to continue to increase into 2006 and 2007 as the Corporation continues to invest in the evaluation of its properties, drilling planning, project development and engineering.

The Corporation expects to continue to incur losses until gas production from the Corporation's Barbara property and oil production from the Athena property commence.

### Summary of Quarterly Results

|                                     | 30-Sep-06 | 30-Jun-06 | 31-Mar-06 | 31-Dec-05 | 30-Sep-05 | 30-Jun-05 | 30-Mar-05 |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>REVENUE</b>                      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      | \$ -      |
| <b>COSTS AND EXPENSES</b>           |           |           |           |           |           |           |           |
| General and administrative          | 1,339,445 | 967,250   | 763,876   | 494,692   | 242,254   | 274,169   | 76,569    |
| Amortization                        | 14,000    | 14,371    | 13,629    | 2,914     | 1,125     | 1,125     | 1,125     |
| Interest income                     | (374,925) | (59,964)  | (12,075)  | (23,656)  | (1,822)   | (885)     | (1,047)   |
| Loss on foreign exchange            | 338,879   | 52,369    | 27,062    | (3,661)   | (20,562)  | (25,567)  | 531       |
| <b>NET LOSS</b>                     | 1,317,299 | 974,026   | 792,492   | 470,289   | 220,995   | 248,842   | 77,178    |
| <b>Deficit, beginning of period</b> | 2,972,071 | 1,998,045 | 1,205,553 | 735,264   | 514,269   | 265,427   | 188,249   |
| <b>Deficit, end of period</b>       | 4,289,470 | 2,972,071 | 1,998,045 | 1,205,553 | 735,264   | 514,269   | 265,427   |

### Results of Operations

The Corporation has had no revenue from operations to date. For the 3 month period ended September 30, 2006, the Corporation had a net loss of US\$1,317,299 (US\$0.02 per share) compared to a net loss of US\$220,995 (US\$0.02 per share) for the period ended September 30, 2005. For the 9 month period ended September 30, 2006, the Corporation had a net loss of US\$3,083,917 (US\$0.07 per share) compared to a net loss of US\$547,015 (US\$0.06 per share) for the period ended September 30, 2005. The results reflect the Corporation's increased evaluation, acquisition and exploration

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activity in the UK North Sea. The Corporation has been steadily increasing operations since the start of the year, and this has resulted in an increase in payroll and other administration costs.

Interest income in the periods under review resulted from interest on bank accounts and short-term deposits, as the Corporation had cash balances due to funds raised. The income is significantly higher in the third quarter than in the previous period as the Company was able to invest a portion of the funds raised in the initial public offering. The Corporation holds the majority of its cash reserves in foreign currencies, and is therefore exposed to losses arising from exchange rate fluctuations. In addition, the Corporation issued stock options to Directors and employees in August 2006, which resulted in a stock based compensation charge of US\$669,805, for which there was no corresponding amount in the comparative period.

The Corporation has incurred expenditures on oil and gas properties and operating expenses. The significant expenditures are as follows:

|                                     | <u>September 30, 2006</u><br>(US\$000's) | <u>December 31, 2005</u><br>(US\$000's) |
|-------------------------------------|--|---|
| <b><u>Capitalized costs</u></b>     |  |   |
| Licence applications and evaluation | 21,197.1                                 | 6,799.5                                 |
| Consulting costs                    | 2,202.3                                  | 1,557.6                                 |
| Less recharges to partners          | (2.8)                                    | (376.7)                                 |
| Total                               | <u>23,396.6</u>                          | <u>7,980.4</u>                          |

A major focus for the Corporation during the quarter was the commencement of drilling on the Athena property. This, together with continued development, in particular seismic acquisition on the other properties, resulted in a significant cash outflow for investing activities during the quarter.

|                              | <u>3 months ended</u>                    |  | <u>9 months ended</u>                    |  |
|------------------------------|--|--|--|--|
|                              | <u>September 30, 2006</u><br>(US\$000's) | <u>September 30, 2005</u><br>(US\$000's) | <u>September 30, 2006</u><br>(US\$000's) | <u>September 30, 2005</u><br>(US\$000's) |
| <b><u>Expensed costs</u></b> |  |  |  |  |
| Consulting and staff costs   | 868.3                                    | 103.7                                    | 1,629.9                                  | 299.7                                    |
| Travel                       | 80.9                                     | 25.3                                     | 345.3                                    | 118.4                                    |
| Office expenses              | 307.5                                    | 37.3                                     | 512.9                                    | 81.3                                     |
| Legal and professional       | 55.3                                     | 73.0                                     | 503.4                                    | 82.2                                     |
| Other                        | 27.4                                     | 3.1                                      | 79.1                                     | 11.5                                     |
| Total                        | <u>1,339.4</u>                           | <u>242.3</u>                             | <u>3,070.6</u>                           | <u>593.0</u>                             |

The increases in expenses reflect the expansion of operations in 2006 compared to 2005. In particular, the increase in the number of personnel has resulted in an increase in consulting and staff costs. In addition, during the 9 month period ended September 30, 2006 there was a focus on completing the Corporation's initial public offering, which resulted in more consulting and staff costs being expensed, rather than capitalized as part of the Corporation's oil and gas properties.

### **Liquidity and Capital Resources**

Total cash inflow from financing activities in the 9 month period ended September 30, 2006 amounted to US\$57.3 million, primarily as a result of the initial public offering. During the three month period ended September 30, 2006 there was no financing activity.

During the 9 month period ended September 30, 2006 there was a cash outflow from operating activities of US\$21.7 million compared to a cash outflow from operating activities of US\$0.7 for the corresponding period in 2005. This significant increase is due to the payment of an US\$18.0 million deposit to secure the services of a drilling rig during the first half of 2007. This amount will be capitalized as part of oil and gas properties when the drilling work is completed. The Corporation expects to have a cash outflow from operating activities for at least the next two years. During the 3 month period ended September 30, 2006 there was a cash outflow from operating activities of US\$1.2 million compared to a cash outflow from operating activities of US\$0.4 for the corresponding period in 2005. This amount represents spending on the Corporation's general and administrative activities.

The Corporation's prospects are dependent upon the investment of significant capital sums into its development and exploration projects. With the capital raised pursuant to the Offering and the UK Placing, management believes that the Corporation will be able to exploit opportunities in its existing portfolio, and also to pursue new ventures that are consistent with its business plan. The Corporation expects to continue to develop the existing licences held and to acquire new licences through participation in future licensing rounds.

### **Critical Accounting Estimates**

The significant accounting policies used by the Corporation are disclosed in Note 2 to the consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discusses such accounting policies and is included in Management's Discussion and Analysis to aid the reader in assessing the critical accounting policies and practices of the Corporation and the likelihood of materially different results being reported. The Corporation's management reviews its estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates. The following assessment of significant accounting policies is not meant to be exhaustive. The Corporation might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

#### **Full Cost Accounting Ceiling Test**

The carrying value of oil and gas properties is reviewed at least 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 rate, future petroleum and natural 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. Any impairment would be charged as additional depletion and depreciation expense.

### **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 indefinitely 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 fluctuation in interest rates and various foreign exchange rates. 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. In all areas of our business, we compete against entities that may have greater technical and financial resources. The Corporation's growth will be dependent upon external sources of financing which may not be available on acceptable terms. 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.

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*Forward-looking statements*

Some of the statements in this announcement are forward-looking. Forward-looking statements include statements regarding the intent, belief and current expectations of Ithaca Energy Inc. or its officers with respect to various matters. When used in this announcement, the words "expects," "believes," "anticipates," "plans," "may," "will," "should" and similar expressions, and the negatives thereof, are intended to identify forward-looking statements. Such statements are not promises or guarantees, and are subject to risks and uncertainties that could cause actual outcome to differ materially from those suggested by any such statements. These forward-looking statements speak only as of the date of this announcement. Ithaca Energy Inc. expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any forward-looking statement is based.

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