

Ithaca Energy Inc.



NEWS RELEASE

Not for Distribution to U.S. Newswire Services or for Dissemination in the United States

SECOND QUARTER 2009 RESULTS

London, UK - Calgary, Canada, August 17, 2009 – Ithaca Energy Inc (“Ithaca” or the “Corporation”) (TSX Venture: IAE, LSE AIM: IAE), a Canadian independent oil and gas company with exploration, development and production assets in the UK North Sea, is pleased to announce its results for the second quarter ended June 30, 2009.

Net profit for the quarter was \$3.8 million with positive cash flow from operations of \$16.9 million.

SUMMARY OF KEY EVENTS

Operations

- Jacky production commenced on April 6, 2009 as planned.
- 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 negligible 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

Ithaca Energy Inc.

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.

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 |
| | 59,107,610 | 60,746,296 |
| Long term receivable | - | 400,617 |
| Property, plant and equipment (net) (note 3) | 299,085,461 | 296,523,448 |
| | \$ 358,193,071 | \$ 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 |
| | 121,056,995 | 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) |
| | 237,136,076 | 243,868,625 |
| | \$ 358,193,071 | \$ 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 2009 | \$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.

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.

Ithaca Energy Inc.

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.

(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.

| Options Outstanding | | | |
|---|-------------------|-----------------------|---------------------------|
| Range of Exercise Price | 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.

Ithaca Energy Inc.

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 |

Ithaca Energy Inc.

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 | - | - | - |

Ithaca Energy Inc.

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 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.

Ithaca Energy Inc.

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.

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% |

Ithaca Energy Inc.

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 of July, August and September production at US\$70/barrel.

Ithaca Energy Inc.

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.

Ithaca Energy Inc.

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 negligible water content) increasing management confidence in the likely ultimate production volume.

Ithaca Energy Inc.

- 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 fixed.

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.

Ithaca Energy Inc.

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

Ithaca Energy Inc.

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:

| Asset | Type | Pre 1/11/08 | Post 1/11/08 (excluding 2008 option) | | Post Revised Transaction | |
|----------|-------------|----------------|---|-----------|-----------------------------|-----------|
| | | 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.

Ithaca Energy Inc.

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 income | 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.

Ithaca Energy Inc.

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.

Ithaca Energy Inc.

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.

Ithaca Energy Inc.

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

Ithaca Energy Inc.

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.

READER ADVISORY

This news release contains certain forward-looking statements, including all statements which address activities, events or developments that Ithaca Energy expects, believes or anticipates will or may occur in the future. Such forward looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Ithaca Energy's control and which are based on various assumptions (including assumptions with respect to (i) availability of funds; and (ii) future capital expenditures) which may prove incorrect. Such risks and uncertainties include, without limitation the impact of general economic conditions in the areas in which Ithaca Energy operates, civil unrest, industry conditions, changes in 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. **Please refer to the Company's Annual Information Form for the year ended December 31st, 2008 and dated March 26, 2009 and available for viewing at www.sedar.com, for a list of additional risk factors.** Ithaca Energy's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Ithaca Energy will derive therefrom. Readers are cautioned that the foregoing list of factors is not exhaustive. All subsequent forward-looking statements, whether written or oral, attributable to Ithaca Energy or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this news release are

Ithaca Energy Inc.

made as at the date of this news release and Ithaca Energy does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

In accordance with AIM Guidelines, Lawrie Payne, MA Marine Geology (Alberta & Columbia) and Chairman of Ithaca Energy is the qualified person that has reviewed the technical information contained in this press release.

ENQUIRIES:

Ithaca Energy

Iain McKendrick, Chief Executive Officer imckendrick@ithacaenergy.com +44 (0) 1224 650 261

Steven Turner, Chief Financial Officer sturner@ithacaenergy.com +44 (0) 1224 638 582

Pelham Public Relations

Charles Vivian charles.vivian@pelhampr.com +44 (0) 207 743 6672

Phillip Dennis philip.dennis@pelhampr.com +44 (0) 207 743 6363

Ambrian Partners Limited

Richard Swindells richard.swindells@ambrian.com +44 (0) 20 7634 4856