

Ithaca Energy Inc.



NEWS RELEASE

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THIRD QUARTER 2009 RESULTS

London, UK - Calgary, Canada, November 23, 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 third quarter ended September 30, 2009.

Net production of 5,596 bpd over the quarter Cash flow from operations of \$24.2 million

SUMMARY OF KEY EVENTS

Operations

- Beatrice Alpha, Beatrice Bravo and Jacky production averaged 9,917 barrels of oil per day (“**bopd**”) (5,596 bopd net to Ithaca) to the tank at Nigg Terminal over the three month period to September 30, 2009. Total production amounted to 514,854 barrels net to Ithaca.
- The Jacky field continued to produce ‘dry’ oil (being zero or negligible water content) throughout the third quarter.
- Weighted average realised price for the quarter was \$68.48/barrel (plus an additional price uplift of \$1.40/barrel for 567,042 barrels net to Ithaca at the point of sale to a third party).
- The Corporation announced on July 29, 2009 that it had completed a transaction with Dyas UK Limited (“**Dyas**”), whereby Dyas purchased an interest in certain assets of the Corporation for \$101.8 million and the Corporation agreed to repay the loans of \$61.2 million and £5 million from Dyas (“**Dyas Transaction**”). Cash of \$32.2 million was paid immediately to Ithaca and a further \$8.4 million will be paid upon the outstanding transfer of an interest in Stella. As a consequence of the Dyas transaction, the Corporation is now debt free and all security held by Dyas has been released.

Financials

- The Corporation recorded its second consecutive quarter of positive cash flow from operations amounting to \$24.2 million (\$16.9 million in the prior quarter) due primarily to increased production accompanied by a continued recovery in the oil price and a reduction in operating costs to \$18/barrel.

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- Net loss for the quarter was \$1.1 million (loss of \$5.0 million for the 3 months ended September 30, 2008) driven by positive operating profits offset by high depletion charges and foreign exchange losses.
- Total cash at the quarter end stood at \$25.2 million of which \$9.3 million was restricted cash held as collateral for letters of credit issued by the Bank of Scotland.
- The Corporation entered its first commodity hedge on July 24, 2009 as it swapped 50,000 barrels of production per month over July, August and September to fix at US\$70/barrel. This resulted in a net loss of \$104,350 during the quarter.

Events Subsequent to September 30th 2009

- Gross oil sales in October averaged 10,090 bopd (4,859 bopd net to Ithaca) at a realised price of \$74.24 per barrel (before additional price uplift at the point of sale to a third party). The volumes were reduced slightly from typical rates in the previous quarter as Jacky reservoir pressure had fallen sufficiently to require production to be cut back. This situation has now been reversed as the new injection well is rebuilding the pressure.
- The recently completed water injection well is now operating and Jacky oil production rates are responding positively. The rig has subsequently moved to Beatrice Bravo platform where it is conducting work-over operations on two currently shut-in production wells.
- On October 12, 2009 the Corporation entered a foreign exchange hedge covering \$48 million equivalent of 2010 British Pounds Sterling (“£”) forecast expenditure at a rate no worse than US\$/£ 1.60/1.00.
- On October 28, 2009 the Corporation announced a series of transactions that will increase its net interest in the Stella and Harrier discoveries to 50.33% and in the Hurricane discovery to 100% and assume operatorship of the developments (the “**Stella Transactions**”).
- On November 16, 2009 the Corporation entered a further oil price swap fixing 204,000 barrels of production at \$77/barrel spread evenly over the four months of November 2009 through to February 2010.
- The letter of credit totalling £7.2 million (gross) posted to the Secretary of State for Energy and Climate Change to cover future decommissioning liabilities associated with the Jacky field was released thereby freeing up substantially all of the restricted cash.

Outlook

- The completion of the Dyas Transaction has provided the Corporation with additional funds to pursue current developments, enhance the efficiency of existing operations and to seek new opportunities to strengthen the portfolio:
 - The Jacky water injector has now been successfully completed and water injection has commenced thereby sustaining strong operating cash flows.
 - Two Beatrice Bravo work-overs are currently underway offering payback on investment within 6 months.
 - Discussions are being finalised regarding a well work over programme on at least 5 wells at Beatrice Alpha commencing in 2010.

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- The Stella Transactions are expected to complete in November, including the Stella transfer associated with the Dyas Transaction.
- The Stella appraisal well is targeted to commence prior to year end.
- Stella, Hurricane and Harrier discoveries are with Sproule International Limited (“Sproule”), the independent reserve auditors, for assessment.
- The Carna development remains on fast track despite the recent Centrica plc takeover of the operator, Venture Productions plc.
- Development of its Athena field is being actively pursued given improved oil prices and greater commercial flexibility in the oil service sector.
- Development of its Polly discovery is also under consideration.

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Consolidated Balance Sheets (unaudited)

	September 30, 2009 US\$	September 30, 2008 US\$	December 31, 2008 US\$
ASSETS			
Current assets			
Cash and cash equivalents	\$ 15,865,493	\$ 42,937,173	\$ 26,943,802
Accounts receivable	54,536,709	7,740,706	12,879,389
Restricted cash	9,298,511	-	12,305,014
Deposits, prepaid expenses and other	11,634,015	3,945,191	7,329,059
Inventory	1,289,032	-	1,289,032
	<u>92,623,760</u>	<u>54,623,070</u>	<u>60,746,296</u>
Long term receivable	-	-	400,617
Property, plant and equipment (net) (note 3)	195,774,172	301,919,236	296,523,448
	<u>\$ 288,397,932</u>	<u>\$ 356,542,306</u>	<u>\$ 357,670,361</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	\$ 41,534,518	\$ 25,075,540	\$ 41,057,033
Loan payable (note 10)	-	59,612,934	61,200,000
Long term liability on Beatrice acquisition	3,099,375	-	4,137,413
Asset retirement obligation (note 6)	7,000,002	10,426,945	7,407,290
	<u>51,633,895</u>	<u>95,115,419</u>	<u>113,801,736</u>
Shareholders' equity			
Share capital (note 4)	277,029,766	\$ 277,202,780	\$ 277,029,766
Contributed surplus (note 5)	7,653,110	4,116,624	5,126,285
Deficit	(47,918,839)	(19,892,517)	(38,287,426)
	<u>236,764,037</u>	<u>261,426,887</u>	<u>243,868,625</u>
	<u>\$ 288,397,932</u>	<u>\$ 356,542,306</u>	<u>\$ 357,670,361</u>

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

"John P. Summers"

Director

"Jack C Lee"

Director

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

	3 months ended September 30,		9 months ended September 30,	
	2009 US\$	2008 US\$	2009 US\$	2008 US\$
REVENUES				
Oil sales	36,375,077	-	67,431,196	-
Other income	923,692	-	3,369,925	-
Interest income	96,456	160,635	334,710	666,265
	<u>37,395,225</u>	<u>160,635</u>	<u>71,135,831</u>	<u>666,265</u>
COSTS AND EXPENSES				
General and administrative	1,727,821	1,954,388	4,535,878	5,316,694
Operating	9,179,698	-	33,884,596	-
Depletion, depreciation and accretion	20,378,993	249,794	40,432,022	735,171
Loss on foreign exchange	2,051,399	648,805	933,918	4,192,064
Revaluation of long term liability	(3,750)	-	480,068	-
Loan Fee Amortization	-	2,339,082	-	2,474,394
Loss / (Gain) on derivative (note 9)	4,324,781	-	(2,718,746)	-
Stock based compensation	772,592	-	2,526,824	-
Interest and bank charges	108,323	-	692,683	-
	<u>38,539,857</u>	<u>5,192,069</u>	<u>80,767,243</u>	<u>12,718,323</u>
Net and comprehensive (loss)	(1,144,632)	(5,031,434)	(9,631,412)	(12,052,058)
Deficit, beginning of period	<u>(46,774,207)</u>	<u>(14,861,083)</u>	<u>(38,287,427)</u>	<u>(7,840,459)</u>
Deficit, end of period	<u>(47,918,839)</u>	<u>(19,892,517)</u>	<u>(47,918,839)</u>	<u>(19,892,517)</u>
Net (loss) and comprehensive (loss) per share (basic & diluted) (note 7)	\$(0.01)	\$(0.04)	\$(0.06)	\$(0.10)

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

	Share Capital	Contributed Surplus	Deficit	2009 Total	2008 Total
Balance, Jan 1	\$277,029,766	\$5,126,285	\$(38,287,426)	\$243,868,625	\$203,476,743
Stock based compensation	-	2,526,824	-	2,526,824	2,519,591
Options exercised	-	-	-	-	759,599
Issued for cash	-	-	-	-	70,290,535
Share issue costs	-	-	-	-	(3,567,523)
Loss for the period	-	-	(9,631,412)	(9,631,412)	(12,052,058)
Balance, September 30	\$277,029,766	\$7,653,109	\$(47,918,839)	\$236,764,037	\$261,426,887

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Consolidated Statements of Cash Flows

(unaudited)

	3 months ending September		9 months ending September	
	2009 US\$	2008 US\$	2009 US\$	2008 US\$
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net profit /	(1,144,631)	(5,031,434)	(9,631,412)	(12,052,058)
Items not affecting cash				
Depletion, depreciation and accretion	20,378,993	249,794	40,432,022	735,171
Unrealised Loss / (Gain) on financial instrument	4,220,431	-	(2,823,096)	-
Revaluation of long term liability	(3,750)	-	480,068	-
Loan Fee Amortization	-	2,339,082	-	2,474,394
Stock based compensation (note 5)	772,592	995,892	2,526,824	2,519,591
	24,223,635	(1,446,666)	30,984,406	(6,322,902)
Changes in non-cash working capital relating to operating activities	(30,173,782)	54,734	(32,767,470)	(4,530,375)
	(5,950,147)	(1,391,932)	(1,783,064)	(10,853,277)
FINANCING ACTIVITIES:				
Proceeds from issuance of shares	-	70,290,535	-	71,050,134
Share Issue Costs	-	(3,567,523)	-	(3,567,523)
Loan proceeds / (repayment)	(68,105,000)	24,000,000	(61,200,000)	60,000,000
Loan Issue Costs	-	(696,415)	-	(2,861,458)
	(68,105,000)	90,026,597	(61,200,000)	124,621,153
Changes in non-cash working capital relating to investing activities	-	465,729	-	465,729
	(68,105,000)	90,492,326	(61,200,000)	125,086,882
INVESTING ACTIVITIES:				
Proceeds on disposal	93,400,000	-	93,400,000	-
Oil and natural gas properties	(12,470,660)	(67,167,653)	(30,304,491)	(179,313,271)
Office furniture and equipment	(8,306)	(155,437)	(22,966)	(666,777)
	80,921,034	(67,323,090)	63,072,543	(179,980,048)
Changes in non-cash working capital relating to investing activities	8,177,487	(17,004,876)	(9,787,686)	8,276,845
	89,098,521	(84,327,966)	53,284,857	(171,703,203)
Gain on foreign exchange	(1,612,477)	38,886	(1,380,101)	4,192,064
Increase / (Decrease) in Cash and Cash Equivalents	13,430,897	4,811,314	(11,078,309)	(53,277,534)
Cash and cash equivalents, beginning of period	2,434,596	38,125,859	26,943,802	96,214,707
Cash and cash equivalents, end of period	15,865,493	42,937,173	15,865,493	42,937,173

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

1. NATURE OF OPERATIONS

Ithaca Energy Inc. (the "**Corporation**" or "**Ithaca**"), 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 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.

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. The Corporation has a transition plan in place and expects to have performed an initial assessment of the impact of such conversion on key 2010 opening comparatives by completion of the 2009 year end accounts.

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3. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2009	December 31, 2008
Oil and natural gas properties	\$234,754,998	\$ 297,918,747
Less accumulated depletion	(39,503,036)	(2,178,728)
	<u>195,251,962</u>	<u>295,740,019</u>
Office furniture and equipment	1,194,188	1,171,222
Less accumulated depreciation and amortization	(671,978)	(387,793)
	<u>522,210</u>	<u>783,429</u>
Total property, plant and equipment	<u>\$195,774,172</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 \$20.1 million (September 30 2008: \$Nil). As at September 30, 2009, oil and natural gas properties included \$179.2 million (Dec 2008 - \$272.1 million) relating to proved properties and \$16.1 million (Dec 2008 \$24.6 million) unproved properties. During the nine months to September 30, 2009, the Corporation capitalized \$3.2 million (Dec 2008 - \$7.6 million) of overhead directly related to exploration, appraisal and development activities. The Corporation also capitalized \$2.5 million of interest in the nine months to September 30, 2009. Future development costs for the proved oil and gas properties are forecast to be approximately \$160.6 million.

Disposals

The Corporation announced on July 29, 2009 that it had completed a transaction with Dyas UK Limited (“Dyas”), whereby Dyas purchased an interest in certain assets of the Corporation for \$101.8 million and the Corporation agreed to repay the loans of \$61.2 million and £5 million from Dyas (“Dyas Transaction”). Cash of \$32.2 million was paid immediately to Ithaca and a further \$8.4 million will be paid upon the outstanding transfer of an interest in Stella. As a consequence of the Dyas transaction, the Corporation is now debt free and all security held by Dyas has been released.

The majority of the proceeds were credited to Property, Plant and Equipment, with no gain or loss on disposal.

4. SHARE CAPITAL

(a) Issued

The issued share capital is as follows:

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

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(b) Stock Options

In the three month period to September 30, 2009 the Corporation's Board of Directors granted 3,766,875 options at an exercise price of C\$0.87 to employees and directors. As at September 30, 2009, 11,802,875 stock options to purchase common shares were outstanding, having an exercise price range \$0.23 to \$3.36 (C\$0.25 to C\$3.65) per share.

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

	September 30, 2009		December 31, 2008	
	Number of Options	Wt. Avg. Exercise Price *	Number of Options	Wt. Avg. Exercise Price *
Balance, January 1, 2009	9,754,500	\$ 2.71	4,330,000	\$ 2.01
Granted	3,766,875	\$0.79	7,224,500	\$ 1.82
Forfeited	(1,718,500)	\$ 2.13	(530,000)	\$ 1.97
Exercised	-	-	(330,000)	\$ 2.07
Options outstanding, end of period	11,802,875	\$ 1.73	10,694,500	\$ 1.89
Options exercisable, end of period	1,858,333	\$ 3.04	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 September 30, 2009.

Options Outstanding			
Range of Exercise Price	Number of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
\$0.23 (C\$0.25)	3,196,000	4.19	\$ 0.20
\$0.80 (C\$0.87)	3,766,875	3.89	\$ 0.79
\$1.66 (C\$1.80)	600,000	2.93	\$ 1.42
\$2.14 - \$3.36 (C\$2.32 - C\$3.65)*	4,240,000	2.67	\$ 2.16
	11,802,875	3.30	\$ 1.73

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

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

Options Exercisable			
Range of Exercise Price	Number of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
\$2.34 - \$3.36 (C\$2.51 – C\$3.65)*	1,858,333	0.70	3.04
	1,858,333	0.70	\$ 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 September 30, 2009 for stock options granted was \$772,592 (2008; \$2,519,591) 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:

3,766,875 options were granted in the three months ended September, 2009.

	For the 9 months September 30, 2009
Risk free interest rate	2.29
Expected dividend yield	0%
Expected stock volatility	146%
Expected life of options	4 years
Weighted Average Fair Value	\$0.75

5. CONTRIBUTED SURPLUS

	September 30, 2009	December 31, 2008
Balance, January 1, 2009	\$ 5,126,285	\$ 1,765,333
Stock based compensation expense	2,526,824	3,529,252
Transfer to share capital on exercise of options	-	(168,300)
Balance, end of period	\$ 7,653,109	\$ 5,126,285

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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 \$9,394,947 as at September 30, 2009. The Corporation uses a credit adjusted risk free rate of 8.0 percent based upon the Corporation's most recent 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 liabilities disposed of relates to the Dyas transaction.

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

	September 30, 2009	December 31, 2008
Balance, January 1, 2009	\$ 7,407,290	\$ 4,716,475
Liabilities incurred	4,295,014	4,493,350
Accretion	644,801	434,730
Liabilities disposed of	(5,347,103)	(2,237,265)
Balance, end of period	\$ 7,000,002	\$ 7,407,290

7. PER SHARE AMOUNTS

The weighted average number of basic and diluted shares outstanding for the nine months ended September 30, 2009 were 162,261,975 (Dec 2008: Basic 131,633,833).

8. COMMITMENTS

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

Year ended	2009	2010	2011	2012	2013
Office sublease	\$ 80,000	\$ 320,000	\$ 320,000	\$320,000	\$320,000
Exploration license fees	\$ 506,859	\$ 1,290,431	-	-	-
Exploration Well		\$14,000,000	-	-	-

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

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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 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 into a forward swap for 50,000 barrels per month over July, August and September production fixing the price at \$70/barrel. This forward swap resulted in a realised loss of \$104,350.

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 may be exposed to interest rate risk to the extent that LIBOR may fluctuate.

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. 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 \$2,823,096 for the nine months ended September 30, 2009. As at September 30, 2009, \$29m of the contract had been exercised.

On October 12, 2009, the Corporation entered in to a further Window Forward Plus contract with the Bank of Scotland to hedge its forecast British Pounds Sterling 2010 operating costs, including general and administrative expenses. The hedge amounts to \$4 million per month (total \$48 million) at a US\$/£ rate of no worse than 1.60/1.0 and a Trigger rate of 1.4975/1.00.

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

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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 September 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 Corporation 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 September 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)	September 30, 2009	December 31, 2008
Debt	-	\$61.2
Equity	236.8	243.9
Debt as a % of Equity	NA	25%

On July 29, 2009 all debt was repaid and the Corporation is debt free with all security released.

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.

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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 September 30, 2009 were \$31,255 (2008 - \$87,363). In the nine months to September 30, 2009 the fees paid to Burstall Winger LLP amounted to \$191,242 (2008 - \$170,982)

12. SUBSEQUENT EVENTS

Foreign Exchange Hedge

On October 12, 2009, the Corporation entered in to a contract with the Bank of Scotland to hedge its British Pounds Sterling 2010 operating costs, including general and administrative expenses. The hedge amounts to \$4 million per month (total \$48 million) at a US\$/£ rate of no worse than 1.60:1.00.

Oil Price Hedge

On November 16, 2009, the Corporation entered into a forward swap for 51,000 barrels per month over November, December, January and February production fixing the price at \$77/barrel.

Stella Transaction

On October 28, 2009, the Corporation announced that it had signed an agreement for the acquisition from Maersk Oil North Sea UK Limited and Maersk Oil Exploration UK Limited of additional interest in the Stella and Harrier discoveries and the Hurricane discovery. Ithaca will pay \$10 million in consideration for this purchase and is committed to pay a further US\$3 million at Field Development approval and US\$5 million at first oil. In addition, the Corporation announced a further transaction whereby it will farm out 18% of its interest to Challenger Minerals (North Sea) Limited in exchange for a 9% carry on its scheduled Stella appraisal well and a further carry on a second well.

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 nine months ended September 30, 2009. The information is provided as of November 21, 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 September 30, 2009 and 2008 and for each of the three month and nine 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

- Beatrice Alpha, Beatrice Bravo and Jacky production averaged 9,917 barrels of oil per day ("**bopd**") (5,596 bopd net to Ithaca) to the tank at Nigg Terminal over the three month period to September 30, 2009. This compares to 7,396 bopd produced to tank over the quarter ended June 30, 2009 (5,093 bopd net to Ithaca). Total production amounted net to Ithaca amounted to 514,854 barrels.
- Cumulative production since start up on 6th April, 2009 from Jacky now exceeds 1.5 million barrels ("**mmbbls**") gross (0.713 mmbbls net to Ithaca) as at the date of this report. During September, Jacky oil production was shut in, as planned, for 12 days to allow drilling rig operations. Nevertheless, oil production over the month from Jacky and Beatrice, as measured in tank at the Nigg oil terminal, averaged 6,296 bopd (3,044 bopd net).

Ithaca Energy Inc.

- The Jacky field continued to produce 'dry' oil (being zero or negligible water content) throughout the third quarter.
- Weighted average realised price for the quarter was \$68.48/barrel (plus an additional price uplift of \$1.40/barrel for 567,042 barrels net to Ithaca at the point of sale to a third party). This compares to a weighted average price (before price uplift) of \$60.38/barrel for the prior quarter.
- The Corporation announced on July 29, 2009 that it had completed a transaction with Dyas UK Limited ("**Dyas**"), whereby Dyas purchased an interest in certain assets of the Corporation for \$101.8 million and the Corporation agreed to repay the loans of \$61.2 million and £5 million from Dyas ("**Dyas Transaction**"). Cash of \$32.2 million was paid immediately to Ithaca and a further \$8.4 million will be paid upon the outstanding transfer of an interest in Stella. As a consequence of the Dyas transaction, the Corporation is now debt free and all security held by Dyas has been released.

Financials

- The Corporation recorded its second consecutive quarter of positive cash flow from operations amounting to \$24.2 million (\$16.9 million in the prior quarter) due primarily to increased production accompanied by a continued recovery in the oil price and a reduction in operating costs to \$18/barrel.
- Net loss for the quarter was \$1.1 million (loss of \$5.0 million for the 3 months ended September 30, 2008) driven by positive operating profits offset by high depletion charges and foreign exchange losses.
- Total cash at the quarter end stood at \$25.2 million of which \$9.3 million was restricted cash held as collateral for letters of credit issued by the Bank of Scotland.
- In the three months to September 30, 2009 total fixed assets decreased to \$195.8 million (\$299.1 million as at June 30, 2009) representing the impact of the Dyas Transaction and lower capital spend further reduced by high depletion charges over the period.
- The Corporation entered its first commodity hedge on July 24, 2009 as it swapped 50,000 barrels of production per month over July, August and September to fix at US\$70/barrel. This resulted in a net loss of \$104,350 during the quarter.

Events Subsequent to September 30th 2009

- Gross oil sales in October averaged 10,090 bopd (4,859 bopd net to Ithaca) at a realised price of \$74.24 per barrel (before additional price uplift at the point of sale to a third party). The volumes were reduced slightly from typical rates in the previous quarter as Jacky reservoir pressure had fallen sufficiently to require production to be cut back. This situation has now been reversed as the new injection well is rebuilding the pressure.
- The recently completed water injection well is now operating and Jacky oil production rates are responding positively. The rig has subsequently moved to Beatrice Bravo platform where it is conducting work-over operations on two currently shut-in production wells.
- On October 28, 2009 the Corporation announced a series of transactions that will increase its net interest in the Stella and Harrier discoveries to 50.33% and in the Hurricane discovery to 100% and assume operatorship of the developments (the "**Stella Transactions**").

Ithaca Energy Inc.

- On October 12, 2009 the Corporation entered a foreign exchange hedge covering \$48 million equivalent of 2010 British Pounds Sterling (“£”) forecast expenditure at a rate no worse than US\$/£ 1.60/1.00.
- On November 16, 2009 the Corporation entered a further oil price swap fixing 204,000 barrels of production at \$77/barrel spread evenly over the four months of November 2009 through to February 2010.
- The letter of credit totalling £7.2 million (gross) posted to the Secretary of State for Energy and Climate Change to cover future decommissioning liabilities associated with the Jacky field was released thereby freeing up substantially all of the restricted cash.

Outlook

- The completion of the Dyas Transaction has provided the Corporation with additional funds to pursue current developments, enhance the efficiency of existing operations and to seek new opportunities to strengthen the portfolio:
 - The Jacky water injector has now been successfully completed and water injection has commenced thereby sustaining strong operating cash flows.
 - Two Beatrice Bravo work-overs are currently underway offering payback on investment within 6 months.
 - Discussions are being finalised regarding a well work over programme on at least 5 wells at Beatrice Alpha commencing in 2010.
 - The Stella Transactions are expected to complete in November, including the Stella transfer associated with the Dyas Transaction.
 - The Stella appraisal well is targeted to commence prior to year end.
 - Stella, Hurricane and Harrier discoveries are with Sproule International Limited (“Sproule”), the independent reserve auditors, for assessment.
 - The Carna development remains on fast track despite the recent Centrica plc takeover of the operator, Venture Productions plc.
 - Development of its Athena field is currently being actively pursued given improved oil prices and greater commercial flexibility in the oil service sector.
 - Development of its Polly discovery is also under consideration.

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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, when capital permits and to consider other opportunities for growth as they are identified by the Corporation. The Corporation took over the operation of the producing Beatrice field on November 10, 2008 and the Jacky field commenced its first oil production on April 6, 2009. Production from its Stella field, depending on the results of the scheduled appraisal well, and its Carna discovery are targeted for early 2012. Development of its Athena field is currently being considered given improved oil prices and greater commercial flexibility in the oil service sector. Evaluation of its Polly discovery is underway.

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 September 30, 2009, Beatrice Alpha, Bravo and Jacky delivered 514,854 (net) boe of oil to the tank at Nigg Terminal. This figure is the stabilised sales volume after removal of gas and water 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. The production represents an increase over the prior quarter (463,688 net to Ithaca), even after accounting for the reduced equity interests in Beatrice and Jacky post the Dyas Transaction. In addition strengthening oil prices led to an \$8.10 increase in the weighted average price achieved on oil sales over the quarter (before the impact of a price uplift at the point of sale by BP to third parties).

Jacky and Beatrice Fields

The recently completed Jacky water injection well is now operating with injection rates exceeding 18,000 barrels of water per day and is supporting increasing production levels. Revised Jacky oil production rates will be reported once injection rates have been stabilised.

During October the downhole pump in the Jacky production well was slowed down to prevent reservoir pressure falling below acceptable operating levels. This combined with a further 2 days of planned downtime due to drilling operations held Jacky production slightly below that seen in previous months and combined production from Jacky and Beatrice averaged 10,090 bopd gross (4,859 bopd net to Ithaca). The pump rate is being increased during November as the reservoir responds to the pressure support provided by the new water injection well.

The drilling rig Ensco 80 has now moved to the Beatrice Bravo platform where it is conducting workover operations on two currently shut-in production wells. These interventions are being undertaken to boost production from the field and work will last approximately one month. In one well an existing standby downhole pump will be activated and in the other a failed pump will be replaced.

Dyas UK Limited Early Debt Conversion

Under an agreement dated October 30, 2008, Dyas had the option ("**2008 Dyas Option**") to acquire an additional 15.15% of all of Ithaca's interests held at 1st November 2008 (the "**Effective Date**") for \$61.2 million.

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The Corporation announced on July 29, 2009 that it had completed a second transaction with Dyas UK Limited for the early exercise of the 2008 Dyas Option, whereby it transferred additional interests in the assets held as at the Effective Date in exchange for \$101.8 million consideration against which \$61.2 million and £5 million of loans to Dyas were repaid and US\$32.2 million cash was paid to Ithaca immediately, with a further \$8.4 million to be paid to Ithaca upon the outstanding transfer of an interest in Stella. As a result of the Dyas Transaction, all debt was repaid in full and all security held by Dyas was released.

Stella Transactions

On October 28, 2009, the Corporation announced that it has entered into an agreement to acquire from Maersk Oil North Sea UK Limited and Maersk Oil Exploration UK Limited (collectively "**Maersk Oil**") of additional interest in the Stella and Harrier discoveries and the Hurricane discovery. Ithaca will pay \$10 million in consideration for this purchase at completion and is committed to pay a further US\$3 million at Field Development approval and US\$5 million at first oil. There is no royalty agreement associated with this transaction.

At the same time, Ithaca also entered in to an earn-in agreement with Challenger Minerals (North Sea) Limited ("**CMI**") and agreed terms with Applied Drilling Technology International (a subsidiary of Transocean Inc.) to drill the Stella discovery. CMI will pay 27% of gross Stella appraisal well costs in exchange for an 18% equity interest in the Stella and Harrier discoveries, thereby carrying a part of Ithaca's share of drilling costs. Upon successful appraisal, CMI will also carry Ithaca on a further Stella or Harrier development well for up to \$2 million or 9%, whichever is lower. Following the earn-in and the outstanding transfer of an interest to Dyas, the Corporation's final interest in the Stella and Harrier discoveries will be 50.33% and will remain at 100% in the Hurricane discovery. The net increase in proved and probable reserves as pro rated to the Sproule reserves report dated 31 December 2008 is 2.21 million barrels of oil equivalent.

Ithaca has also signed a Letter of Intent providing Maersk Oil with a stand-alone option to access the prolific High pressure/High Temperature play in the Corporation's Blocks 29/4b and 29/5e awarded in the 25th Licensing Round to Ithaca. If exercised, Ithaca will be carried on 5% of all costs up to the end of the first well and in return Maersk Oil will be granted a 95% equity interest in the drilled block(s) in the deep horizons below the Base Chalk horizon.

Ithaca Energy Inc.

SUMMARY AND DISCUSSION 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-Sep-09	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	36,375,077	28,280,275	2,775,844	2,472,106	-	-	-	-
Other income	923,692	1,476,638	969,595	-	-	-	-	-
Interest income	96,456	146,305	91,950	143,441	160,635	126,137	379,350	455,865
	37,395,225	29,903,218	3,837,389	2,615,547	160,635	126,137	379,350	455,865
COSTS AND EXPENSES								
General and administrative	2,608,736	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	-	-
Loss / (Gain) on Financial Instrument	4,324,781	(5,602,293)	(1,441,234)	1,777,181	-	-	-	-
Revaluation of Nigg Heel of Tank	(3,750)	483,818	-	-	-	-	-	-
Operating	9,179,698	12,056,509	12,648,388	4,587,834	-	-	-	-
Depreciation and accretion	20,378,993	17,585,049	2,467,981	2,076,311	249,794	278,838	206,540	261,560
Loss / (Gain) on foreign exchange	2,051,399	(890,935)	(226,546)	7,739,985	648,805	(447,527)	3,997,151	(230,551)
	38,539,857	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	(1,144,632)	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	(1,144,632)	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	(0.01)	0.02	(0.08)	(0.14)	(0.04)	(0.01)	(0.05)	(0.02)
Deficit, beginning of period	(46,774,207)	(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	(47,918,839)	(46,774,207)	(50,554,136)	(38,287,426)	(19,892,517)	(14,861,083)	(13,340,393)	(7,840,459)

DISCUSSION OF QUARTERLY RESULTS

During the three month period to September 30, 2009, total net production amounted to 514,854 boe (2008 – NIL) with an average realised price of \$68.48 per barrel and a further \$1.1 million of income arising from price uplifts and other adjustments. Other income of \$0.9 million 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 four 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 were just below \$18 for the quarter, before adjusting for the impact of foreign exchange hedging entered into specifically to protect operating costs. This compares to \$26 per barrel for the prior quarter on a like-for-like basis. Note that the second and third quarters of 2009 are the two

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quarters where the operating costs across the Beatrice facility have been shared with Jacky on a unit of production basis.

For the three month period ended September 30, 2009, the Corporation had a net loss of \$1.1 million compared to a net loss of \$5.0 million for the three month period ended September 30, 2008. This loss is due primarily to the positive operating cash flow generated from Beatrice and Jacky offset by: (i) a depletion charge of \$20.4 million; (ii) a \$2.1m loss on foreign exchange resulting from a strengthening of the US Dollar since the previous quarter and a loss on the repayment of the £5 million loan, booked at a time when the US Dollar peaked and; (iii) a \$4.3 million loss on the revaluation of the foreign exchange derivative also due to movements in the US Dollar relative to the British Pound Sterling, reversing some of the gain recognised in the second quarter. For the nine month period ended September 30, 2009 the Corporation made a net loss of \$9.6 million compared to a net loss of \$12.1 million for the nine months ended September 30, 2008.

General and administrative expenses for the three month period ended September 30, 2009, before stock compensation charges and interest charges, were \$1.7 million compared to \$4.3 million for the three month period ended September 30, 2008. The decrease over the comparative period is due to the expensing of \$2.3 million of loan fees in the comparative quarter. Stripping out this effect, general and administrative expenses were lower than the comparative period. The General and administrative expenses were marginally higher than the prior quarter due to the holiday period and hence a reduction in rechargeable time to joint venture partners. General and administrative expenses before stock compensation charges and interest charges for the nine months ended September 30, 2009 were \$4.5 million compared to \$7.8 million for the nine months ended September 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 September 30, 2009 (2008 – NIL). In the three months to September 30, 2009, 3,766,875 new options were granted to employees and directors. The stock based compensation charge for the three month period ended September 30, 2009 was \$0.8 million compared to a charge for the three month period ended September 30, 2008 of \$1.0 million. The stock based compensation charge for the nine month period ended September 30, 2009 was \$2.5 million and the charge for the nine month period ended September 30, 2008 was \$2.5 million. This charge relates to options granted in the current and previous quarters with the cost being amortised over the three year vesting period.

Depreciation, depletion and accretion for the three month period ended September 30, 2009 has increased to \$20.4 million (2008 - \$0.2 million) and depreciation, depletion and accretion for the nine month period September 30, 2009 was \$40.4 million (2008 - \$0.7 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 increase over the prior quarter (\$17.6 million) is reflective of the high production versus the relatively low proved reserves, thereby increasing the per barrel charge for the third quarter.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended September 30, 2009 there was a cash inflow from operating, investing and financing activities of \$13.4 million compared to a cash inflow from operating, investing and financing activities of \$4.8 million for the corresponding period in 2008. The net inflow was largely a result of positive operating cash flows of \$24.2 million and proceeds from the Dyas Transaction of \$93.4 million, offset by a \$38.4 million decrease in working capital, \$12.5 million investment in fixed assets and the repayment of outstanding loans amounting to \$68.1 million.

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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. Discussions continue with a select group of banks to assess the availability of debt to help fund future development activities beyond 2010. Notwithstanding these discussions Ithaca will be opportunistic in accessing further equity should the markets be favourable.

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 to 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. On October 12, 2009, the Corporation entered in to a further contract with the Bank of Scotland to hedge its British Pounds Sterling 2010 forecast operating costs, including general and administrative expenses. The hedge amounts to \$4 million per month (total \$48 million) at a US\$/£ rate of no worse than 1.60/1.00.

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 derivative whereby it fixed the price of 50,000 barrels of production for the months of July, August and September at \$70/barrel. A further oil price hedge was entered in to on November 16, 2009 for 204,000 barrels of production over four months fixed at \$77/barrel. The forecast production budgeted to meet future expenditures is heavily reliant upon the performance of the Jacky well that came on stream on April 6, 2009.

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

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

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

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

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

Ithaca Energy Inc.

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

CURRENT AND FUTURE ACCOUNTING PRONOUNCEMENTS

On January 1, 2009, the Corporation adopted the 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. The Corporation has a transition plan in place and expects to have performed an initial assessment of the impact of such conversion on key 2010 opening comparatives by completion of the 2009 year end accounts.

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 September 30, 2009 were \$31,256 (2008 - \$87,363). In the nine months to September 30, 2009 the fees paid to Burstall Winger LLP amounted to \$191,242 (2008 - \$170,982)

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INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation continues to enhance its internal control over financial reporting following the identification of certain errors during the second quarter. This work is ongoing and it is expected that the internal controls will have been significantly strengthened ahead of the year end reporting.

COMMITMENT UPDATE

In September, Ithaca entered in to a rig commitment with Ensco International Limited for a total minimum gross sum of \$9.1 million (\$4.4 million net to Ithaca) of which \$6.8 million (\$3.3 million net to Ithaca) was still outstanding at quarter end.

OUTSTANDING SHARE INFORMATION

As of September 30 2009, there are 162,261,975 common shares of the Corporation outstanding and 174,064,850 common shares diluted. There are 11,802,875 options to purchase common shares outstanding.

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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 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:

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