

Ithaca Energy Inc.

Consolidated Balance Sheets (unaudited)

	March 31, 2009 US\$	December 31, 2008 US\$
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,983,597	\$ 26,943,802
Accounts receivable	8,286,533	12,879,389
Restricted cash	10,230,179	12,305,014
Deposits, prepaid expenses and other	4,328,443	7,329,059
Inventory	1,289,032	1,289,032
	<hr/> 37,117,784	<hr/> 60,746,296
Long term receivable	200,308	400,617
Property, plant and equipment (net) (note 3)	310,980,100	296,523,448
	<hr/> \$ 348,298,192	<hr/> \$ 357,670,361
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 27,869,772	\$ 41,057,033
Loan payable (note 10)	68,100,359	61,200,000
Long term liability on Beatrice acquisition	4,155,354	4,137,413
Asset retirement obligation (note 6)	11,874,541	7,407,290
	<hr/> 112,000,026	<hr/> 113,801,736
Shareholders' equity		
Share capital (note 4)	\$ 277,029,766	\$ 277,029,766
Contributed surplus (note 5)	6,235,785	5,126,285
Deficit	(46,967,385)	(38,287,426)
	<hr/> 236,298,166	<hr/> 243,868,625
	<hr/> \$ 348,298,192	<hr/> \$ 357,670,361

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

"John P. Summers"

Director

"Michael B. A. Nobbs"

Director

Ithaca Energy Inc.

Consolidated Statements of Net and Comprehensive Loss and Deficit (unaudited) 3 months ended

	March 31, 2009 US\$	March 31, 2008 US\$
REVENUES		
Oil sales	\$ 2,775,844	\$ -
Other income	969,595	-
Interest income	91,950	379,350
	<u>3,837,389</u>	<u>379,350</u>
COSTS AND EXPENSES		
General and administrative	1,534,474	1,077,395
Operating	9,061,637	-
Depletion, depreciation and accretion	2,467,981	206,540
(Gain) / loss on foreign exchange	(226,546)	3,997,151
Gain on financial instrument (note 9)	(1,441,234)	-
Stock based compensation	1,109,500	598,198
Interest and bank charges	11,536	-
	<u>12,517,348</u>	<u>5,879,284</u>
Loss before income taxes	\$ 8,679,959	\$ 5,499,934
Current income tax	-	-
Net and comprehensive loss after income taxes	\$ 8,679,959	\$ 5,499,934
Deficit, beginning of period	\$ 38,287,426	\$ 7,840,459
Deficit, end of period	\$ 46,967,385	\$ 13,340,393
Net loss and comprehensive loss per share (basic & diluted) (note 7)	\$ 0.05	\$ 0.05

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

	Share Capital	Contributed Surplus	Deficit	2009 Total	2008 Total
Balance, January 1	\$277,029,766	\$5,126,285	\$(38,287,426)	\$243,868,625	\$203,476,743
Stock based compensation	-	1,109,500	-	1,109,500	598,198
Options exercised	-	-	-	-	759,599
Loss for the period	-	-	(8,679,959)	(8,679,959)	(5,499,934)
Balance, March 31	\$277,029,766	\$6,235,785	\$(46,967,385)	\$236,298,166	\$199,334,606

Ithaca Energy Inc.

Consolidated Statements of Cash Flows (unaudited) 3 months ended

	March 31, 2009 US\$	March 31, 2008 US\$
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net loss	\$ (8,679,959)	\$ (5,499,934)
Items not affecting cash		
Depletion, depreciation and accretion	2,467,981	206,539
Unrealised gain on financial instrument	(1,441,234)	-
Stock based compensation (note 5)	1,109,500	598,198
	(6,543,712)	(4,695,197)
Changes in non-cash working capital	9,372,398	(62,687)
	2,828,686	(4,757,884)
FINANCING ACTIVITIES:		
Proceeds from issuance of shares	-	759,599
Dyas loan	6,900,359	-
	6,900,359	759,599
INVESTING ACTIVITIES:		
Oil and natural gas properties	(12,455,097)	(30,588,199)
Office furniture and equipment	(2,283)	(135,366)
	(12,457,380)	(30,723,565)
Changes in Non-Cash Working Capital relating to investing activities	(10,854,007)	(2,595,468)
	(23,311,387)	(33,319,033)
Unrealised gain on foreign exchange	(377,863)	(262,252)
(DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (13,960,205)	\$ (37,579,570)
Cash and cash equivalents, beginning of period	\$ 26,943,802	\$ 96,214,707
Cash and cash equivalents, end of period	\$ 12,983,597	\$ 58,635,137

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

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

1. NATURE OF OPERATIONS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Change in Accounting Policies

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

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are required to converge with the International Financial Reporting Standards ("**IFRS**") by 2011. The Corporation is in initial stages of assessing IFRS and its impact on the consolidated financial statements.

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

3. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2009	December 31, 2008
Oil and natural gas properties	\$ 314,608,262	\$ 297,918,747
Less accumulated depletion	(4,338,258)	(2,178,728)
	<u>310,270,004</u>	<u>295,740,019</u>
Office furniture and equipment	1,173,505	1,171,222
Less accumulated depreciation and amortization	(463,409)	(387,793)
	<u>710,096</u>	<u>783,429</u>
Total property, plant and equipment	<u>\$ 310,980,100</u>	<u>\$ 296,523,448</u>

The Corporation acquired the Beatrice facilities on November 10, 2008 and has therefore recognised depletion charges since that date, the depletion charge in the quarter was \$2,159,530 (2008: \$Nil). As at March 31, 2009, oil and natural gas properties included \$275.6 million (2008 - \$101.7million) relating to proved properties and \$34.6 million (2008 \$48.9 million) unproved properties. During the three months to March 31, 2009, the Corporation capitalized \$1.2 million (2008 - \$1.3 million) of overhead directly related to exploration, appraisal and development activities. Future development costs for the proved oil and gas properties are forecast to be approximately \$263.7 million.

4. SHARE CAPITAL

(a) Issued

The issued share capital is as follows:

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

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

(b) Stock Options

As at March 31, 2009, 10,244,500 stock options to purchase common shares were outstanding, having an exercise price range \$0.20 to \$3.70 (C\$0.25 to C\$3.65) per share.

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

	March 31, 2009		December 31, 2008	
	Number of Options	Wt. Avg. Exercise Price *	Number of Options	Wt. Avg. Exercise Price *
Balance, Beginning of Period	10,694,500	\$ 1.89	4,330,000	\$ 2.01
Granted	-	-	7,224,500	\$ 1.82
Cancelled / lapsed	(450,000)	\$ 0.90	(530,000)	\$ 1.97
Exercised	-	-	(330,000)	\$ 2.07
Balance, End of Period	10,244,500	\$ 1.93	10,694,500	\$ 1.89
Exercisable, End of Period	3,210,000	\$ 1.76	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 March 31, 2009.

Range of Exercise Price	Options Outstanding		
	Number of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
\$0.20 (C\$0.25)	3,444,500	4.67	\$ 0.20
\$1.69 (C\$1.80)	600,000	4.42	\$ 1.69
\$2.07 - \$2.99 (C\$2.-2 - C\$3.65)*	6,200,000	2.23	\$ 2.85
	10,244,500	3.18	\$ 1.93

* 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

The following is a summary of stock options exercisable as at March 31, 2009.

Options Exercisable			
Range of Exercise Price	Number of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
\$2.07 - \$2.99 (C\$2.-2 – C\$3.65)*	3,210,000	4.24	\$ 1.76
	3,210,000	4.24	\$ 1.76

* 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 March 31, 2009 against earnings for stock options granted was \$1,109,500 (2008 \$598,198) 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 three months ended March 31, 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

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 5,126,285	\$ 1,765,333
Issue of Stock Options	1,109,500	3,529,252
Transfer to Share Capital on exercise of options	-	(168,300)
Balance, end of period	\$ 6,235,785	\$ 5,126,285

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 \$15,797,158 as at March 31,

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

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 (1 to 3 years) 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:

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 7,407,290	\$ 4,716,475
Liabilities incurred	4,234,417	4,493,350
Accretion	232,834	434,730
Liabilities disposed of	-	(2,237,265)
Balance, end of period	\$ 11,874,541	\$ 7,407,290

7. PER SHARE AMOUNTS

The weighted average number of shares outstanding during 2009 was 162,261,975 (2008: 112,153,184). As the earnings were negative for the quarter, the weighted average number of fully diluted shares is not separately utilised in the per share values.

8. COMMITMENTS

As at March 31, 2009, the Corporation had the following financial commitments:

Year ended	2009	2010	2011
Office sublease	\$ 240,000	\$ 320,000	\$ 320,000
Exploration license fees	\$ 183,750	\$ 245,000	-
Inner Moray Firth	\$ 27,078,000	-	-
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 one of 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

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

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.

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.

The Corporation believes that its foreign exchange risk is partially mitigated in that revenues and interest expense and a portion of its operating and exploration costs are largely transacted in USD. In addition, additions to plant property and equipment are recorded and translated at historical cost.

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 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:£1.0 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:£1.0 (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 \$1.5 million for the period ended March 31, 2009.

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.

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

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 March 31, 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 March 31, 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 management 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)	March 31, 2009	December 31, 2008
Debt	\$ 68.1	\$ 61.2
Equity	236.3	243.9
Debt as a % of Equity	29%	25%

Ithaca Energy Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Unaudited three months ended March 31, 2009

As at March 31, 2009, there are externally imposed debt covenants with respect to the Corporation's capital structure. 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 March 31, 2009 were \$113,116 (2008 - \$23,786).