

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 ended March 31, 2009. The information is provided as of May 28, 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 March 31, 2009 and 2008 and for each of the three 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.

Note that as joint venture budgets are denominated in British Pounds Sterling ("**£**"), in the discussion and analysis, British Pounds Sterling has been used to compare actual costs against budgeted costs.

SUMMARY OF KEY EVENTS

Operations

- Beatrice Alpha produced 77,863 barrels (58,203 barrels net to Ithaca) of oil with 50% downtime as the facilities were prepared for receiving Bravo and Jacky production.
- Average realised price for the quarter was \$43.78/barrel.
- The "Energy Enhancer" rig was contracted to complete the Jacky production well.
- Beatrice Bravo production was reinstated from March 31, 2009.
- The 43/21b-5z exploration well (the "**Carna**" well) encountered a significant gas reservoir.

- A 5 year agreement with BP Oil International Limited (“BP”) was entered in to for the sales and marketing of the entire Corporation’s qualifying oil production from the North Sea.

Financials

- In the three months to March 31, 2009 total fixed assets increased to \$311.0 million (\$296.5 million as at December 31, 2008) representing the investment in completing the Jacky development (£59.2 million net to Ithaca), the Bravo reinstatement (expected £8.7 million net to Ithaca) and the cost of the Carna exploration well (£7.8 million net to Ithaca).
- Total cash at the quarter end stood at \$23.2 million of which \$10.2 million represented restricted cash held as collateral for letters of credit issued by the Bank of Scotland (\$39.2 million as at December 31, 2008, of which \$12.3 million was restricted) with a further \$2.3 million (net to Ithaca) on deposit with ENSCO Offshore (UK) Limited for a future rig commitment.
- Net loss for the quarter was \$8.7 million (loss of \$5.5 million for the 3 months ended March 31, 2008), due principally to the Beatrice operating costs whilst production was shut down to complete the Jacky tie-in.
- UK Sterling operating expenses for 2009 of \$49 million equivalent were fixed at a rate of no worse than US\$1.40:£1.0, generating an unrealised gain for the quarter of \$1.5 million.

Events Subsequent to March 31st, 2009

- The Jacky field, which started production on April 6, 2009, commenced flowing without artificial lift at gross rates of approximately 8,800 barrels of oil per day (bopd) (5,920 bopd net to Ithaca). On May 20, 2009, the downhole pumps were switched on and the Jacky field rates have now stabilised at approximately 10,000 bopd (6,728 bopd net to Ithaca).
- Net oil sales in April totalled 98,427 barrels at a realised price of \$53.10/barrel.

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 achieve oil 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 presented to the Corporation. The Corporation commenced first oil production from its 67.3% owned Jacky field on April 6, 2009. Production from its 66.7% owned Stella field and its 29.9% owned Carna field are both expected to commence in 2011, whilst development of its 52.3% owned Athena field is currently on hold pending a re-evaluation of the project with improved oil prices and reductions in the oil service sector costs.

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

Property, plant and equipment increased to \$311.0 million at March 31, 2009, from \$296.5 million at December 31, 2008, as analyzed below:

Area \$'000	March 31 2009	December 31 2008
Inner Moray Firth	156,694	152,375
Outer Moray Firth	119,800	119,642
Central North Sea	19,079	19,079
NW Core	12,170	2,117
SE Core	2,527	2,527
Office Equipment	710	783
Total	\$ 310,980	\$ 296,523

The material increase in the Inner Moray Firth primarily relates to the Jacky development, and in the NW Core the increase relates to the Carna exploration well.

Beatrice Alpha and Bravo Production

In the three months ended March 31, 2009, Beatrice Alpha produced 58,203 (net) boe of oil. On March 31, 2009, the Beatrice Bravo production was reinstated on free flow with down-hole pumps expected to be switched on once Jacky production has stabilised. During the quarter the platform was operating 50% of the time in order to tie back the Jacky facilities. The main Nigg export line has been inspected and it has been determined that pipeline corrosion is within expected tolerance levels and that the remaining expected life is sufficient for the Corporation's current anticipated requirements. The total capital expenditure relating to the Bravo reinstatement is expected to be £11.7 million (£8.7 million net to Ithaca) versus a budget of £10.7 million.

Sproule, in its review of the Corporation's reserves effective December 31, 2008, has assigned to the Beatrice oilfield proved reserves of 1.3 million barrels of oil equivalent ("MMboe"), and probable reserves of 2.2 MMboe.

Jacky Development

The Jacky field came on stream on the April 6, 2009 at initial rates of approximately 8,800 bopd (gross). Downhole pressures and deliverability were above expectations and as a result the activation of the downhole pump was delayed in order to protect it.

Average production in April and May (to date) from Jacky and Beatrice (Bravo and Alpha facilities) was lower than the initial rates experienced due to the fall in downhole pressure from Jacky; constraints from ongoing commissioning and well maintenance work at Beatrice; and a portion of initial Jacky production contributing to fill the infield and export pipelines. As such in April the average Jacky and Beatrice volumes arriving at the Nigg Oil Terminal were 4,740 bopd (3,294 net to Ithaca) and in May, prior to switching on the downhole pump at Jacky, production from Jacky and Beatrice was approximately 5,390 bopd (3,710 bopd net to Ithaca). These numbers compare with expectations, prior to Jacky field startup, of 7,500 bopd gross (5,054 bopd net to Ithaca).

Now that the reservoir pressure has fallen, the downhole pump has been turned on and the field is producing at approximately 10,000 bopd (6,728 bopd net to Ithaca). This is significantly above the levels expected from the field.

The final cost of the Jacky construction project was £79.3 million (£59.2 million net to Ithaca). This compares to an original budget of £59.7 million. Additional costs were primarily due to weather downtime

leading to the use of the 'Hermod' Heavy Lift Vessel as announced on January 6, 2009, and activity re-scheduling.

Sproule, in its review of the Corporation's reserves effective December 31, 2008, has assigned to the Jacky oilfield proved reserves of 1.0 MMboe, and probable reserves of 2.4 MMboe.

Commissioning and maintenance work is now drawing to a close and the Beatrice and Jacky facilities are currently producing at combined rates of approximately 11,500 bopd (7,850 bopd net to Ithaca) and will quickly make up the production deficit from April and May.

Carna Exploration Well

As reported by the Operator, Venture North Sea Gas Limited, the Carna well (43/21b-5/5z) commenced drilling from the Ensco 92 drilling rig on December 26, 2008 and reached a total measured depth of 11,500 feet on March 4, 2009. The well was designed to test a Carboniferous fault block and a significant gas reservoir was discovered following a mechanical sidetrack carried out in January. Well log data indicates a gas column in excess of 1490 feet TVD (true vertical depth) and net pay of 127 feet TVD. The well tested gas at stabilised rates in line with expectations with a gross rate of 9 million cubic feet per day ("MMcfd") on a 48/64th choke from a vertical well penetrating the Carboniferous. No formation water was produced during the test. The well has been suspended pending further sidetrack to become a future production well and a field development decision will be made later in 2009 following a full evaluation of the reservoir properties, development and export options.

Costs for the Carna exploration well were £7.8 million (Ithaca net) following a mechanical sidetrack and welltest as compared to an original budget, including testing, of £5.6 million (Ithaca net).

Ithaca holds 29.9% of the Carna discovery and 44.9% in the surrounding area.

BP Sales and Marketing Agreement

The Corporation signed a 5 year agreement with BP Oil International Limited ("BP") for sales and marketing of all of its qualifying oil production from the North Sea. The arrangement covers all of Ithaca's UK oil production up to the end of 2014 (except where such production is already covered by an existing sales agreement). Oil produced by Joint Venture partners in fields in which Ithaca holds an interest can be included.

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

	31-Mar-09	31-Dec-08	30-Sep-08	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07
REVENUE	\$	\$	\$	\$	\$	\$	\$	\$
Oil Sales	2,775,844	2,472,106						
Other income	969,595							
Interest income	91,950	143,441	160,635	126,137	379,350	455,865	355,920	177,232
COSTS AND EXPENSES								
General and administrative	2,655,510	3,287,190	1,954,388	1,680,204	1,675,593	2,795,777	989,702	1,527,583
Loan Fee Amortization	-	1,194,497	2,339,082	135,312	-	-	-	-
(Gain) / Loss on Financial Instrument	(1,441,234)	1,777,181						
Operating	9,061,637	4,587,834	-	-	-	-	-	-
Depreciation and accretion	2,467,981	2,076,311	249,794	278,838	206,540	261,560	84,211	51,156
(Gain) / Loss on foreign exchange	(226,546)	7,739,985	648,805	(447,527)	3,997,151	(230,551)	(296,583)	(1,988,448)
NET PROFIT / (LOSS)	(8,679,959)	(18,047,451)	(5,031,434)	(1,520,690)	(5,499,934)	(2,370,921)	(421,410)	586,941
TAXES	-	347,458	-	-	-	-	-	-
NET PROFIT / (LOSS) AFTER TAX	(8,679,959)	(18,394,909)	(5,031,434)	(1,520,690)	(5,499,934)	(2,370,921)	(421,410)	586,941
NET PROFIT / (LOSS) PER SHARE	(0.05)	(0.14)	(0.04)	(0.01)	(0.05)	(0.02)	(0.00)	0.01
Deficit, beginning of period	(38,287,426)	(19,892,517)	(14,861,083)	(13,340,393)	(7,840,459)	(5,469,538)	(5,048,128)	(5,635,069)
Deficit, end of period	(46,967,385)	(38,287,426)	(19,892,517)	(14,861,083)	(13,340,393)	(7,840,459)	(5,469,538)	(5,048,128)

RESULTS OF OPERATIONS

During the three month period to March 31, 2009 total production amounted to 58,203 boe (2008 – NIL) with an average realised price of \$43.78 per barrel, with the additional oil sales revenue being \$0.23 million of price adjustment relating to 2008 sales. 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.

For the three month period ended March 31, 2009, the Corporation had a net loss of \$8.7 million compared to a net loss of \$5.5 million for the three month period ended March 31, 2008. This loss is due primarily to the Beatrice operating costs for the period amounting to \$9.1 million (2008 – NIL) ahead of switching on the Jacky production, depletion, depreciation and accretion charges for the period and the stock based compensation charge offset by a gain on financial instruments.

General and administrative expenses for the three month period ended March 31, 2009 before stock compensation charges and interest charges were \$1.5 million compared to \$1.7 million for the three month period ended March 31, 2008.

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 US\$1.40:£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 US\$1.29:£1.00 (the “Trigger” rate). Any strengthening of the US\$/£ rate beyond the Trigger rate during any of the periods or “windows” between the transaction dates will lead to a rate of US\$1.40:£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.

No options were exercised during the three month period to March 31, 2009. This compares with 330,000 options being exercised in the three months to March 31, 2008. In the three months to March 31, 2009, no new options were granted. The stock based compensation charge for the three month period ended March 31, 2009 was \$1.1 million compared to a charge for the three month period ended March 31, 2008 of \$0.6 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 March 31, 2009 has increased to \$2.5 million (2008 - \$0.2 million) primarily as a result of accretion charges relating to the asset retirement obligations recognized for an exploration well drilled and the depletion charge against the fixed assets in line with production levels. The Corporation has an appraisal well planned for the second half of 2009 and therefore the accretion expense is expected to increase in the year.

LIQUIDITY AND CAPITAL RESOURCES

During the three months ended March 31, 2009 there was a cash outflow from operating, investing and financing activities of \$14.0 million compared to a cash outflow from operating, investing and financing activities of \$37.6 million for the corresponding period in 2008. The decrease is due to the significantly greater capital expenditure incurred on three wells drilled over the first quarter on 2008 and the drawdown on a portion of the Dyas loan in the first quarter of 2009 offset by Jacky and Carna expenditure and the operating loss at Beatrice. This trend is expected to be reversed now that Jacky production has commenced.

The production from Jacky and Beatrice was lower in the first quarter than anticipated with current production now exceeding forecasts. As a consequence a short term liquidity shortfall may occur prior to receipt of the proceeds from the improved production. Discussions are ongoing with a number of parties and management are confident that this short term deficit will be covered. Current production now exceeds forecasts.

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, cash flows from production and selective farm-outs. The Corporation has an established track record in the equity markets and will be opportunistic in accessing further equity as and when such markets are once again open, however the Corporation is confident that it will be able to manage its portfolio in the absence of such funding for the foreseeable future.

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 dependent upon the production rates and oil price to fund the current development program. The business will look to meet any liquidity shortfalls through securing working capital facilities,

deferring of payments or the selected divestment of its portfolio. 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.

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

CRITICAL ACCOUNTING ESTIMATES AND CHANGES IN ACCOUNTING POLICIES

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

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

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.

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. The impact of IFRS on the Corporation's Financial Statements is not reasonably determinable at this time.

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 March 31, 2009 were \$113,116 (2008 - \$23,786).

INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes to the Corporation's internal control over financial reporting during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

COMMITMENT UPDATE

There have been no other new material commitments during the quarter ended March 31, 2009.

OUTSTANDING SHARE INFORMATION

As of May 28, 2009, there are 162,261,975 common shares of the Corporation outstanding and 172,506,475 common shares diluted. There are 10,244,500 options to purchase common shares outstanding.