



## NEWS RELEASE

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### Second Quarter 2008 Results

**London, UK - Calgary, Canada, 19<sup>th</sup> August, 2008** – Ithaca Energy Inc (“Ithaca Energy”) (TSX Venture: IAE, LSE AIM: IAE), a Canadian independent oil and gas company with exploration and development assets in the UK North Sea, is pleased to announce its results for the second quarter ended June 30, 2008.

Barrel of oil equivalent (Boe) volumes are reported at 6:1 with 6 MCF = 1 Boe. All figures are in United States dollars unless otherwise noted.

#### Highlights

##### *Operations:*

- Agreement signed to develop the Athena Field using a Floating Production, Storage and Offloading (“FPSO”) facility - significant reduction in capital outlay of approximately US\$200 million and accelerates first oil production from Athena by up to 1 year.
- A 66.67% working interest acquired in the Stella and Harrier Shallow discoveries, which lie in United Kingdom Continental Shelf Block 30/6 Rest of Block (Chalk Layers and Younger). Completion expected August 19, 2008.
- Independent reserves report by Sproule Associates Limited effective May 31, 2008 assigned:
  - 2P reserves of 39.6 million boe, a 51% increase from 31 December 2007.
  - 3P reserves of 66.6 million boe, a 69% increase on December 2007.

##### *Financials:*

- \$60m pre-development plan credit facility signed with Royal Bank of Scotland (“RBS”) in April.
- Total fixed assets increased to \$234.6m (\$117.0m as at December 31, 2007) - representing four wells drilled (Polly, Manuel, Athena 17 and Athena 18) and ongoing capital expenditure on the Jacky platform and pipeline.
- Cash balance at quarter end of \$38.1m (\$58.6m as March 31, 2008), the decrease being largely the expenditure on the assets described above, additionally funded through a drawdown under the RBS facility and movement in working capital.

- Net loss for the quarter was \$1.7m (gain \$0.6m for 3 months to June 30, 2007), due to increases in general and administrative expenses, and increased depreciation and amortisation on a significantly greater asset base.

***Events Subsequent to June 30th, 2008:***

- 3<sup>rd</sup> successful well on Athena successfully tested at 2,330 bopd, penetrating 447 feet of gross oil-bearing sandstones in the Upper Leek formation.
- Jacky Field Development Plan has been submitted to the DBERR. DBERR provided environmental clearance for the Jacky development in August.
- Credit approval received (the "New Facility") totalling \$240 million – providing funding for Jacky, Athena, Beatrice, and, as appropriate, other development assets such as Stella.
- Successfully raised C\$75 million through the issue of 50 million common shares.

**Commenting, Lawrie H. Payne, Chief Executive Officer, said:**

“This last quarter has seen the company make significant steps forward in its operations and in its underlying value. This positive momentum is continuing in the current quarter as we move to finalise the Beatrice acquisition, secure the FPSO contract, close the Stella deal and sign up the new banking facility. Following the recent equity offering, I am confident that Ithaca Energy is well placed to meet its development schedules and deliver value to its shareholders”

## Ithaca Energy Inc.

### Consolidated Balance Sheets (unaudited - all amounts are US\$)

	June 30, 2008	December 31, 2007
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 38,125,859	\$ 96,214,707
Accounts receivable	10,635,445	3,048,284
Deposits, prepaid expenses and other	1,434,862	9,915,663
	<hr/> 50,196,166	<hr/> 109,178,654
Property, plant and equipment (net) (note 3)	234,649,207	116,963,890
	<hr/> \$ 284,845,373	<hr/> \$ 226,142,544
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 41,905,476	\$ 17,949,326
Bank loan (note 4)	33,970,268	-
Asset retirement obligation	10,230,211	4,716,475
	<hr/> \$ 86,105,955	<hr/> 22,665,801
Shareholders' equity		
Share capital (note 5)	\$ 210,479,768	\$ 209,551,869
Contributed surplus	3,120,733	1,765,333
Deficit	(14,861,083)	(7,840,459)
	<hr/> 198,739,418	<hr/> 203,476,743
	<hr/> \$ 284,845,373	<hr/> \$ 226,142,544

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

## Ithaca Energy Inc.

### Consolidated Statement of Net and Comprehensive Profit/(Loss) and Deficit (unaudited - all amounts are US\$)

	3 months ended June 30		6 months ended June 30	
	2008	2007	2008	2007
<b>INTEREST INCOME</b>	\$ 126,137	\$ 177,232	\$ 505,486	\$ 525,836
<b>COSTS &amp; EXPENSES</b>				
General and administrative	1,815,516	1,527,583	3,491,109	2,250,269
Amortization and accretion	278,838	51,156	485,377	110,054
(Gain) Loss on foreign exchange	(447,527)	(1,988,448)	3,549,624	(2,298,247)
<b>NET PROFIT/(LOSS)</b>	\$(1,520,690)	\$ 586,941	\$(7,020,624)	\$ 463,750
<b>Deficit, beginning of period</b>	13,340,393	5,635,069	7,840,459	5,511,888
<b>Deficit, end of period</b>	\$14,861,083	\$ 5,048,128	\$14,861,083	\$ 5,048,128
<b>Net and comprehensive profit/(loss) per share (basic and diluted)</b>	\$(0.01)	\$ 0.01	\$(0.06)	\$ 0.01

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

	Share Capital	Contributed Surplus	Deficit	2008 Total	2007 Total
Balance, January 1	\$209,551,869	\$1,765,333	\$(7,840,459)	\$203,476,743	\$ 106,154,177
Stock based compensation	-	1,523,700	-	1,523,700	1,109,396
Options exercised	927,899	(168,300)	-	759,599	1,783,203
Issued for cash	-	-	-	-	101,837,192
Share issue costs	-	-	-	-	(5,078,594)
Loss for the period	-	-	(7,020,624)	(7,020,624)	(2,328,571)
<b>Balance, June 30</b>	<b>\$210,479,768</b>	<b>\$3,120,733</b>	<b>\$(14,861,083)</b>	<b>\$198,739,418</b>	<b>\$203,476,743</b>

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

## Ithaca Energy Inc.

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

	3 months ended June 30		6 months ended June 30	
	2008	2007	2008	2007
<b>OPERATING ACTIVITIES:</b>				
Net profit / (loss)	\$ (1,520,690)	\$ 586,941	\$(7,020,624)	\$ 463,760
Items not involving cash:				
Stock based compensation	925,502	318,011	1,523,700	587,597
Amortization and accretion	278,838	51,156	485,377	110,054
	(316,350)	956,108	(5,011,547)	1,161,411
Changes in non-cash working capital	(4,522,421)	(218,300)	(4,585,108)	490,162
	(4,838,771)	737,808	(9,596,655)	1,651,573
<b>INVESTING ACTIVITIES:</b>				
Oil and natural gas properties	(81,557,421)	(27,060,313)	(112,145,619)	(28,476,046)
Office furniture and equipment	(375,973)	(66,850)	(511,340)	(66,850)
	(81,933,394)	(27,127,163)	(112,656,959)	(28,542,896)
Changes in non-cash working capital	27,877,189	16,248,684	25,281,721	6,948,670
	(54,056,205)	(10,878,479)	(87,375,238)	(21,594,226)
<b>FINANCING ACTIVITIES:</b>				
Proceeds from issuance of shares	-	-	759,599	-
Bank debt	33,970,268	-	33,970,268	-
	33,970,268	-	34,729,867	-
Net effect of foreign exchange translation on cash flows	4,415,430	(1,975,771)	4,153,178	(2,187,430)
<b>Increase / (Decrease) in cash and cash equivalents</b>	\$ (20,509,278)	\$ (10,140,671)	\$ 58,088,848	\$ (22,130,083)
<b>Cash and cash equivalents, beginning of period</b>	58,635,137	41,569,625	96,214,707	51,371,607
<b>Cash and cash equivalents, end of period</b>	\$ 38,125,859	\$ 31,428,954	\$ 38,125,859	\$ 31,428,954

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

## **Ithaca Energy Inc.**

### **Notes to the Consolidated Financial Statements Three and six months ended June 30, 2008 (unaudited)**

#### **1. NATURE OF OPERATIONS**

Ithaca Energy Inc. (the "Corporation" or "Ithaca"), incorporated in Alberta on April 27, 2004 and its wholly-owned subsidiary Ithaca Energy (UK) Ltd., incorporated in Scotland are a publicly traded group of companies involved in the exploration and development 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 AIM in the United Kingdom.

Since May 2004, the Corporation has been evaluating the resource potential of certain oil and natural gas exploration properties and is considered to be in its development stage of operations. The recoverability of amounts shown for oil and natural gas properties is dependent upon the determination of economically recoverable reserves.

#### **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, 2007, 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, 2007.

##### **Change in Accounting Policies**

###### **a) Financial Instruments Disclosure and Presentation**

In December 2006, the CICA approved Handbook Section 3862 "Financial Instruments - Disclosures", and Handbook Section 3863 "Financial Instruments Presentation". The objective of Section 3863 is to require entities to provide disclosures in their financial statements that enable users to evaluate both the significance of financial instruments for the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The purpose of Section 3862 is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. These sections apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Corporation has adopted the new disclosure requirements in the first half of 2008. The two sections result in the additional disclosures set out below. There have been no significant changes from the previous year to the Corporation on its exposure to risks and management's objectives, policies and process 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 extent the Corporation is also exposed to natural gas price movements. Natural gas prices are generally influenced by oil prices, European 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. The Corporation currently has no production or derivative instruments in place.

Fluctuations in oil price may impact the economic recoverability of reserves. This is part of the impairment test conducted at year end and following any significant event.

#### *ii) Interest Risk*

The Corporation will 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. The Corporation's debt will be denominated in U.S. dollars ("USD"). Since December 31, 2007 US based LIBOR rates have been decreasing.

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 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 mitigated in that future revenues and interest expense and a portion of its operating and exploration costs are largely transacted in USD.

#### *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. Currently the Corporation has no production and therefore there are no customers at the moment.

The Corporation routinely has cash on deposit and only places these funds on deposit with Financial Institutions with a credit rating of A+ or better.

The Corporation assesses partners' credit worthiness before entering into farm-in or joint venture agreements. In the past, the Corporation has not experienced credit loss in the collection of accounts receivable. As the Corporation's exploration, drilling and development activities expand with existing and new joint venture partners, the Corporation will assess and continuously update its management of associated credit risk and related procedures.

The Corporation regularly monitors all customer receivable balances outstanding in excess of 90 days. As at June 30, 2008 substantially all accounts receivables are current, 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 June 30, 2008, substantially all accounts payable are current.

**b) Inventory**

Effective January 1, 2008 the Corporation prospectively adopted Section 3031, "Inventories" which stipulates that major spare parts and standby equipment that are not in use should be included in property plant and equipment, and also provides more guidance on the measurement and disclosure requirements for inventory that is at the lower of cost and net realizable value. There has been no impact on the Corporation's financial statements as a result of adopting this policy.

**c) Capital Disclosures**

Effective January 1, 2008 the Corporation has adopted Handbook Section 1535, "Capital Disclosures" which requires entities to disclose their objectives, policies and processes for managing capital, and in addition, whether the entity has complied with any externally imposed capital requirements.

The Corporation's objectives when managing capital are to:

- safeguard the Corporation's ability to continue as a going concern;
- maintain balance sheet strength and optimal capital structure, while ensuring the Corporation's strategic objectives are met; and
- 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, 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 expenditures program.

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.

<b>(in \$ millions)</b>	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Debt	\$ 36.0	\$ -
Equity	198.6	203.5
Debt – to - Equity	18%	0%

As at June 30, 2008, there are externally imposed debt covenants with respect to the Corporation's capital structure. These covenants relate to the \$60 million loan facility with the Royal Bank of Scotland. All covenants have been complied with.

There have been no significant changes from the previous year to management's objectives, policies and processes to manage capital or to the components defined as capital .

### **3. PROPERTY, PLANT AND EQUIPMENT**

	June 30, 2008	December 31, 2007
Oil and natural gas properties	\$ 233,941,720	\$ 116,675,835
Office furniture and equipment	989,161	477,822
Less accumulated depreciation and amortization	(281,674)	(189,767)
	<u>\$ 234,649,207</u>	<u>\$ 116,963,890</u>

As the Corporation had no production at either June 30, 2008 or 2007, there was no depletion charge for either period. At June 30, 2008, oil and natural gas properties included \$172.2 million (2007 - \$16.3 million) relating to proved properties and \$61.7 million (2007 \$52.3 million) unproved properties. During 2008, the Corporation capitalized \$3.8 million (2007 - \$1.8 million) of overhead directly related to exploration and appraisal activities.

At June 30, 2008 Included in the above balance is an amount of \$229,500 (2007: NIL) relating to capitalised interest.

### **4 BANK INDEBTEDNESS**

The company had the following bank facility in place with the Royal Bank of Scotland

	<b>Balance Available</b>	<b>Outstanding as at June 30, 2008</b>	<b>Interest Rate per annum</b>	<b>Maturity Date</b>
Pre-development Facility	\$60,000,000	\$36,000,000	LIBOR+3.0%	December 31, 2009

Arrangement fees for the Pre-development Facility at June 30, 2008 were \$2,029,732

Outstanding as at June 30, 2008	\$ 36,000,000
Less:	
Arrangement fees	(2,029,732)
Balance sheet disclosure	\$ 33,902,268

The Pre-development Facility is secured by a bond and floating charge over the assets of Ithaca Energy (UK) Limited ("the Borrower") and a share pledge by Ithaca Energy Inc over its share in the Borrower.

The Financial covenants relating to the Pre-development Facility are

1. The ratio of the Net Present Value of the Jacky and Athena fields to the amount outstanding is not less than 1.2 : 1
2. The Net Assets of Ithaca Energy Inc are not less than \$100,000,000 at any time,

There were no violations of the covenants in the period.

## 5. SHARE CAPITAL

### a) Issued

The issued share capital is as follows:

Issued	Number	Amount
<b>Balance December 31, 2007</b>	111,931,975	\$ 209,551,869
Issued for cash – options exercised	330,000	759,599
Transfer from Contributed Surplus on options exercised		168,300
<b>Balance June 30, 2008</b>	112,261,975	\$ 210,479,768

### b) Stock Options

In the three month period to June 30, 2008 the Corporation's Board of Directors granted 550,000 options at an exercise price of C\$3.65 to employees. At June 30, 2008 6,750,000 stock options to purchase common shares were outstanding, having an exercise price range of \$0.90 (C\$1.06) and \$2.07 to \$3.70 (C\$2.32 to C\$3.65) per share.

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

	2008	
	Number of Options	Wt. Avg. Exercise Price *
Balance, March 31, 2008	6,670,000	\$ 2.37
Granted	550,000	3.70
Forfeited	(470,000)	2.07
Exercised	-	-
<b>Balance, June 30, 2008</b>	<b>6,750,000</b>	<b>\$ 2.50</b>
Exercisable, June 30, 2008	2,275,000	\$ 1.79

\*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.

### c) Stock-Based Compensation

Options granted are accounted for using the fair value method. The compensation cost charged against earnings for stock options granted in 2008 was \$1,299,667 (2007 \$587,597) The fair value of each stock option grant was estimated at the date of grant, using the Black-Scholes option pricing model with the following assumptions:

	<b>2008</b>
Risk free interest rate	3.12
Expected dividend yield	0%
Expected stock volatility	77%
Expected life of options	4 years

### 6. PER SHARE AMOUNTS

The weighted average number of shares outstanding during 2008 was basic 112,207,279 and diluted 118,580,925. For 2007 the weighted average shares outstanding were basic 82,904,475 and diluted: 87,670,566. The difference relates to outstanding stock options.

### 7. COMMITMENTS

The Corporation has the following financial commitments:

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Office sublease	\$ 160,000	\$ 320,000	\$ 320,000
Exploration license fees	\$ 192,350	\$ 245,400	\$ 245,400
Jacket Fabrication	\$ 8,300,000	\$ -	\$ -
Subsea Installation	\$ 33,200,000	\$ -	\$ -
Athena Xmas Trees	\$ 22,000,000	\$ 18,000,000	\$ -
Rig Commitment	\$ 16,800,000	\$ -	\$ -
FPSO Fee	\$ 6,000,000	\$ -	\$ -

### 8. RELATED PARTY TRANSACTIONS

A Director of the Corporation is a partner in Burstall Winger LLP who acts as legal counsel for the Corporation. The amount of fees, measured at the exchange amount, paid to Burstall Winger LLP in the three month period to June 30, 2008 were \$58,247 (2007 - \$62,581) and in the six month period to June 30, 2008 were \$83,618 (2007 - \$177,614)

## **9. SUBSEQUENT EVENTS**

### **Equity Offer**

On August 11, the Corporation successfully closed an equity offering ("Offering") via a fully marketed deal. Gross proceeds were C\$75,000,000 through the issue of 50,000,000 common shares at a price of C\$1.50 per common share. Ithaca intends to use the net proceeds of the Offering to fund ongoing Jacky and Athena project development, the completion of the Beatrice and Stella acquisitions and for general working capital purposes.

### **Stella Acquisition**

On May 1, 2008 the Corporation announced that it had acquired a 66.67% working interest in the Stella and Harrier Shallow discoveries which lie in UKCS Block 30/6 Rest of Block (Chalk Layers and Younger) for an initial consideration of \$15 million. All the required consents have been received and the acquisition is expected to complete on August 19, 2008

## **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 and six months ended June 30, 2008. The information is provided as of August 18, 2008. The 2008 results have been compared to the results for the comparative period in 2007.

This discussion and analysis should be read in conjunction with the Corporation's unaudited consolidated financial statements as at June 30, 2008 and 2007 and for each of the three month period then ended, together with the accompanying notes. These documents and additional information about Ithaca Energy Inc. are available on SEDAR at [www.sedar.com](http://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. All figures are in United States dollars unless otherwise noted.

## **SUMMARY OF KEY EVENTS**

### ***Operations***

- Ithaca Energy (UK) Limited ("Ithaca UK") entered into an exclusivity agreement with Bluewater Energy Services BV ("Bluewater") on May 22, 2008 to develop the Athena Field using the Uisge Gorm Floating Production, Storage and Offloading ("FPSO") facility.
- Ithaca UK acquired a 66.67% working interest in the Stella and Harrier Shallow discoveries which lie in United Kingdom Continental Shelf Block 30/6 Rest of Block (Chalk Layers and Younger).
- Sproule Associates Limited ("Sproule") in its review of the Corporation's reserves effective May 31, 2008 assigned to the Corporation 39.6 million boe ("MMboe") Proved plus Probable reserves amounting to a 51% increase from 31 December, 2007 and 66.6MMboe of Proved plus Probable plus Possible reserves being a 69% increase from 31 December, 2007.

### ***Financials***

- The \$ 60m pre-development plan credit facility was signed with Royal Bank of Scotland on 4 April, 2008.
- In the six months to June 30, 2008 total fixed assets increased to \$ 234.6m (\$ 117.0m as at December 31, 2007) representing the four wells drilled (Polly, Manuel, Athena 17 and Athena) and ongoing capital expenditure on the Jacky platform and pipeline;
- Cash balance at quarter end stood at \$ 38.1m (\$ 58.6m as March 31, 2008), the decrease being largely the expenditure on the assets described above, additionally funded through a drawdown under the RBS facility and a movement in working capital; and
- Net loss for the quarter was \$ 1.7m (gain \$ 0.6m for 3 months to June 30, 2007), due to increases in general and administrative expenses, and increased depreciation and amortisation on a significantly greater asset base.

### ***Events Subsequent to June 30th, 2008***

- Athena 14/18b-18 well successfully tested 28 degree API sweet oil at a stable rate of 2,330 bopd.
- The Jacky Field Development Plan has been submitted to the DBERR. On August 1, 2008, the DBERR provided its environmental clearance for the Jacky development.
- Ithaca Energy received credit approval (the "New Facility") totalling \$240 million to provide funding for the Jacky, Athena, Beatrice, and, as appropriate, other development assets such as Stella.
- On August 11, the Ithaca Energy successfully raised C\$75 million through the issue of 50 million common shares.

## **BUSINESS OF THE CORPORATION**

Ithaca is a Canadian oil and gas exploration and development company focused on the exploration and development of oil and gas reserves in the North Sea on the United Kingdom's Continental Shelf. The Corporation was formed in April 2004.

The primary business objectives of Ithaca are to develop existing discoveries, explore for new discoveries and acquire assets. Ithaca's strategy is to acquire existing production or discoveries by purchase, farm-in or acquiring new licences; use modern seismic, drilling and production technologies, which management expects will increase reserves and provide income; use management's technical knowledge to generate and acquire exploration prospects; and use management's commercial skills to finance the exploitation of its exploration and development prospects through farm-outs, joint ventures and the issue of debt and equity.

Ithaca has built a diversified portfolio of exploration and development assets within the North Sea through participation by its wholly-owned subsidiary, Ithaca Energy (UK) Limited ("Ithaca UK"), in the United Kingdom's Seaward Licensing Rounds and through acquisitions. This diversity is evidenced by properties in different geographic areas, encompassing multiple play types (both oil and gas), while maintaining a close proximity to producing fields in proven petroleum systems. Exploration and development activities are focused on the Inner and Outer Moray Firth, the Central and Southern Gas Basin areas of the UKCS. Ithaca UK's interests range from 20% to 100% in 27 blocks or partial blocks under 16 licences, which post completion of the Beatrice and Stella acquisitions will rise to an interest in 32 blocks or partial blocks under 20 licences.

The Corporation is targeting first oil production from its 90% owned Jacky field (located in the Inner Moray Firth) to commence in late 2008 and oil production from its 70% owned Athena field (located in the Outer Moray Firth) to commence in the first half of 2010, and first gas from its 20% (6.7% expected unitization) interest in the Barbara gas field to commence in 2010.

The Corporation's common shares are listed for trading on the TSX Venture Exchange and the London Alternative Investment Market under the symbol "IAE".

The Corporation's reporting currency is US dollars ("\$"); unless indicated otherwise, all amounts are presented in US dollars. The accounting records of the Corporation's foreign subsidiary are maintained in US dollars.

## **OVERALL PERFORMANCE**

The Corporation has continued with the evaluation of its portfolio of UK oil and gas properties and as such has seen continued drilling activity and capital commitments in support of development projects.

### ***Athena***

Ithaca UK entered into an exclusivity agreement with Bluewater Energy Services BV ("Bluewater") on May 22, 2008 to develop the Athena Field using the Uisge Gorm Floating Production, Storage and Offloading ("FPSO") facility. Ithaca anticipates that initial production should be realized at the end of 2009 at an approximate rate of 21,000 barrels of oil per day ("bopd") gross, or 14,700 bopd net to the Corporation's 70% interest.

The agreement with Bluewater provides for an exclusivity period, expiring August 20, 2008, during which the parties will work to finalize engineering studies and the negotiation of a detailed contract under key commercial terms already agreed. Pursuant to the agreement, Bluewater will modify the FPSO, and then install it at the Athena Field during late 2009 or early 2010.

On July 21, 2008, Ithaca announced that it had successfully tested 28 degree API sweet oil at a stable rate of 2,330 bopd from its third well (14/18b-18). The well has being completed for future production. Based on this and the success of the earlier 14/18b-15 and 14/18b-16 wells, Ithaca intends to continue its Field Development Plan ("FDP") application with the United Kingdom's

Department for Business, Enterprise and Regulatory Reform ("DBERR"), with final approval expected early in 2009.

### ***Beatrice Acquisition and Jacky Development***

Effective January 1, 2008, Ithaca UK entered into a heads of agreement to acquire a 100% interest in the Beatrice oilfield on the United Kingdom's continental shelf for cash consideration of £10 million from Talisman Energy (UK) Limited ("Talisman"). The Beatrice oilfield produces approximately 1,800 bopd. Sproule Associates Limited ("Sproule") in its review of the Corporation's reserves effective May 31, 2008, has assigned to the Beatrice oilfield proved reserves of 2.12 million barrels of oil equivalent ("MMboe"), and probable reserves of 1.30 MMboe. Included in the transaction are the offshore facilities of three platforms and operatorship of an onshore storage and transshipment terminal with a pipeline to one of the platforms. Ithaca's intention is to connect its interest in Jacky to that platform and thereby secure an export route for the Jacky field.

Closing of the Beatrice acquisition was delayed from the originally anticipated date of first half 2008 as the parties renegotiated certain commercial terms. These renegotiations are now materially complete and both parties are moving towards signing the suite of revised commercial agreements in mid August with closing by October 2008. Procedures to complete the transition of operatorship from Talisman to Ithaca UK are underway.

The Jacky Field Development Plan has been submitted to the DBERR. On August 1, 2008, the DBERR provided its environmental clearance for the Jacky development. Ithaca anticipates that FDP approval will be obtained in August 2008.

### ***Stella and Harrier Shallow Acquisition***

Ithaca announced on May 1, 2008, the acquisition from joint owners Shell U.K. Limited ("Shell") and Esso Exploration and Production UK Limited ("Esso") of a 66.67% working interest in the Stella and Harrier Shallow discoveries which lie in United Kingdom Continental Shelf Block 30/6 Rest of Block (Chalk Layers and Younger) ("Stella") for an initial consideration of \$15 million. A further payment of \$15 million will become payable to Shell and Esso at the time of FDP approval and proceeds from production will be subject to a 5% over-riding royalty. In its review of the Corporation's reserves effective May 31, 2008, Sproule has assigned proved reserves of 4.60 MMboe, probable reserves of 5.19 MMboe and possible reserves of 13.87 MMboe to the Stella field. The acquisition is expected to close on August 19, 2008.

### ***Debt Facility***

The Corporation currently has a \$60 million pre-development credit facility with the Royal Bank of Scotland ("RBS Facility") to provide funding for the development expenditures of the Athena and Jacky projects ahead of FDP approval. As at the quarter end, \$36 million had been drawn to fund Jacky and Athena expenditures and RBS Facility fees. Subsequent to the end of the quarter, the full balance of \$60 million has been fully drawn.

The Corporation has received credit approval (the "New Facility") from Société Générale Corporate & Investment Banking, Bank of Scotland Corporate, BNP Paribas, Lloyds TSB Capital Markets and Natixis (collectively the "Banking Group") to provide funding for the Jacky, Athena, Beatrice, and, as appropriate, other borrowing base assets, broadly defined as those that have received FDP approval.

The New Facility totalling \$240 million, which will replace the RBS facility, comprises the following debt tranches: (i) a borrowing base tranche of \$160 million, (ii) a cost overrun tranche of \$30 million, and (iii) a pre-development tranche of \$50 million to support Athena development costs which will be added to the borrowing base tranche once FDP approval is achieved, expected in first quarter 2009, thereby increasing the borrowing base tranche to \$210 million. The facility has

been structured to allow the inclusion of future development projects, such as Stella, once FDP approval has been obtained.

The New Facility remains subject to final documentation; however, key terms, including pricing, have been agreed to. Ithaca expects the New Facility will be signed in August 2008.

### **Equity Offer**

On August 11, the Corporation successfully closed an equity offering ("Offering") via a fully marketed deal. Gross proceeds were C\$75 million through the issue of 50 million common shares at a price of C\$1.50 per common share. Ithaca intends to use the net proceeds of the Offering to fund ongoing Jacky and Athena project development, the completion of the Beatrice and Stella acquisitions and for general working capital purposes.

### **Updated Reserves Evaluation**

Sproule prepared an updated independent evaluation of Corporation's oil and gas reserves, effective May 31, 2008 (the "Sproule Report"). The oil and gas reserves and income projections provided were estimated by Sproule in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) and NI 51-101 and are summarised below:

	<b>Remaining Reserves Net to Ithaca as at 31 May 2008</b>			<b>Remaining Reserves Net to Ithaca as at 31 December 2007</b>	
<b>Category</b>	<b>Net Reserves (Mboe)</b>	<b>Net Present Value (US\$ 000) Before Tax discounted at 10%</b>	<b>Net Present Value (US\$ 000) After Tax discounted at 10%</b>	<b>Net Reserves (Mboe)</b>	<b>% change from 2006 to 2007</b>
Proved	19,438.9	420,158	260,344	12,600.0	54%
Probable	20,159.0	634,249	306,726	13,664.7	48%
Proved plus Probable	39,597.9	1,054,406	567,070	26,264.7	51%
Possible	26,968.2	918,601	461,158	13,094.8	106%
Proved plus Probable plus Possible	66,566.1	1,973,007	1,028,228	39,359.5	69%

Net Proved and Probable reserves of 20.8 MMboe with a Net Present Value before tax (calculated at a 10% discount) of \$347.4 million are ascribed to the Athena accumulation. Net Proved and Probable reserves of 9.9 MMboe with a Net Present Value before tax (calculated at a 10% discount) of \$353.6 million are ascribed to Stella. Net Proved and Probable reserves of 3.4MMboe with a Net Present Value before tax (calculated at a 10% discount) of \$116.6million is ascribed to Beatrice, for which Ithaca has entered into a binding agreement to acquire.

## 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 Energy Inc. and its wholly-owned subsidiary Ithaca Energy (UK) Limited. 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.

	30-Jun-08	31-Mar-08	31-Dec-07	30-Sep-07	30-Jun-07	31-Mar-07	31-Dec-06	30-Sep-06
<b>REVENUE</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>COSTS AND EXPENSES</b>								
General and administrative	1,815,516	1,675,593	2,795,777	989,702	1,527,583	722,685	1,270,355	1,339,445
Depreciation and accretion	278,838	206,540	261,560	84,211	51,156	58,898	27,769	14,000
Interest income	(126,137)	(379,350)	(455,865)	(355,920)	(177,232)	(348,604)	(729,228)	(374,925)
(Gain) Loss on foreign exchange	(447,527)	3,997,151	(230,551)	(296,583)	(1,988,448)	(309,798)	653,522	338,879
<b>NET PROFIT / (LOSS)</b>	(1,520,690)	(5,499,934)	(2,370,921)	(421,410)	586,941	(123,181)	(1,222,418)	(1,317,399)
<b>NET PROFIT / (LOSS) PER SHARE</b>	(0.01)	(0.05)	(0.02)	(0.00)	0.01	0.00	(0.03)	(0.02)
<b>Deficit, beginning of period</b>	(13,340,393)	(7,840,459)	(5,469,538)	(5,048,128)	(5,635,069)	(5,511,888)	4,289,470	2,972,071
<b>Deficit, end of period</b>	(14,861,083)	(13,340,393)	(7,840,459)	(5,469,538)	(5,048,128)	(5,635,069)	(5,511,888)	4,289,470

## RESULTS OF OPERATIONS

The Corporation has not had any revenue from operations to date. For the three month period ended June 30, 2008, the Corporation had a net loss of \$1,520,690 compared to a net profit of \$586,941 for the three month period ended June 30, 2007. For the six month period ended June 30, 2008, the Corporation had a net loss of \$7,020,624 compared to a net profit of \$463,750 for the six months ended June 30, 2007. This loss is due to general and administrative costs partially offset by interest earned and a foreign exchange gain.

General and administrative expenses for the three month period ended June 30, 2008 were \$1,815,516 compared to \$1,527,583 for the three month period ended March 31, 2007. General and administrative expenses for the six months ended June 30, 2008 were \$3,491,109 compared to \$2,250,269 for the six months ended June 30, 2007. The results include the Corporation's increased evaluation, acquisition and exploration activity in the UK North Sea, which is offset by the capitalization of certain costs related to exploration, appraisal and development activities. General and administrative costs capitalized in the six months ended June 30, 2008 amounted to \$3,800,775 (2007 - \$1,824,879). The Corporation has been steadily increasing operations, and this has resulted in an increase in payroll and other administration costs.

The interest income reflected a positive cash balance from the equity raised at the end of 2007. The interest income has reduced in line with the movement in the cash balance.

The Corporation made a loss on foreign exchange of \$3,549,624 to 30 June 2008 against a gain in the six months ended 30 June, 2007 of \$2,298,247. The loss relates to the C\$84 million dollar deposits held at the year end and the subsequent 4% strengthening of the US Dollar versus the

Canadian dollar during the period to 30 June 2008. The Canadian dollar deposits were converted to US Dollars in the first quarter of 2008. In late March the Board adopted a hedging policy to mitigate against such future exposures, As part of this policy, the Corporation actively manages its balance sheet such that the currency of its funding base aligns with the currency of its anticipated expenditure program and revenue stream. As such the foreign exchange movement in the second quarter was a gain of \$447,527 reflecting movements in relatively small non US dollar accounts and timing differences between the booking and settling of invoices.

No options were exercised during the three month period to 30 June, 2008. This compares with no options being exercised in the three months to June 30, 2007. In the three months to June 30, 2008, 550,000 new options were granted at an exercise price of C\$3.65. The stock based compensation charge arising from options issued in January 2007, May 2007, September 2007, February 2008, March 2008 and May 2008 for the three month period ended June 30, 2008 was \$925,502 compared to a charge for the three month period ended June 30, 2007 of 318,011. The stock based compensation charge for the six month period ended June 30, 2008 was \$1,523,700 and the charge for the six month period ended June 30, 2007 was \$587,597.

Amortization and accretion for the three month period ended June 30, 2008 has increased to \$278,838 (2007 - \$51,156) and amortization and accretion for the six month period ended June 30, 2008 has increased to \$485,377 (2007 - \$110,054) primarily as a result of accretion charges relating to the asset retirement obligations recognized for wells drilled. The Corporation has an ongoing drilling plan for 2008 and therefore the accretion expense is expected to increase in the next year.

## LIQUIDITY AND CAPITAL RESOURCES

New funds of \$36 million (before bank and legal fees) were raised in the three months to June 30, 2008 as a result of the first utilization under Royal Bank of Scotland \$60million facility signed on April 4, 2008 (2007 - \$ NIL). A further C\$75 million (before fees) was raised in August through the Offering.

During the three months ended June 30, 2008 there was a cash outflow from operating, investing and financing activities of \$ 20,509,278 compared to a cash outflow from operating, investing and financing activities of \$10,140,671 for the corresponding period in 2007.

The Corporation is actively reviewing its portfolio of assets, both in terms of managing its forward risks and as a means of realising value to fund expenditures beyond the current development program. The Corporation has an established track record in the equity markets and will be opportunistic in accessing further equity as appropriate; thereby ensuring that the balance sheet remains prudently capitalized with sufficient funds available to meet the Corporation's planned forward expenditures.

The Corporation expects to continue to develop the existing licences held and to acquire new licences through participation in future licensing rounds and farm-ins from third parties.

Additions (net of recharges to partners) to oil and gas properties in the period are summarized as follows:

\$'000	Three months ended June 30, 2008	Six months ended June 30, 2008
Outer Moray Firth	\$ 45,797	\$ 53,669
Inner Moray Firth	37,254	61,737
Central North Sea	144	694

Southern North Sea	176	1,165
<b>Total</b>	<b>\$ 83,371</b>	<b>\$ 117,265</b>

## **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. The Corporation is dependent upon the equity and debt markets to fund the current development program. In the event that the markets are closed to development finance or have reduced capacity to meet the Corporation's needs the business will look to meet any liquidity shortfalls through the selected divestment of its portfolio.

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](http://www.sedar.com).

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

There have been no changes to the Corporation's internal control over financial reporting during the three months ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## **COMMITMENT UPDATE**

### *Jacky Development*

The subsea construction contract was placed with Subsea7 as part of a long lead item in order to meet the schedule for Jacky first oil by the end of 2008. The contract was placed on an Engineering, Procurement, Installation & Commissioning basis.

### *Athena Development*

A contract was placed with Vetco Gray for subsea trees (~ £20m with a lead time of 12-15 months) in order to maintain the schedule for first oil by the end of 2009.

There have been no other new material commitments.

## **OUTSTANDING SHARE INFORMATION**

As of August 18, 2008, there are 162,261,975 common shares of the Corporation outstanding and 169,011,975 common shares diluted. There are 6,750,000 options to purchase common shares outstanding.

## **READER ADVISORY**

This news release contains certain forward-looking statements, including all statements which address activities, events or developments that Ithaca Energy expects, believes or anticipates will or may occur in the future. Such forward looking statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Ithaca Energy's control and which are based on various assumptions (including assumptions with respect to (i) availability of funds; and (ii) future capital expenditures) which may prove incorrect. Such risks and uncertainties include, without limitation the impact of general economic conditions in the areas in which Ithaca Energy operates, civil unrest, industry conditions, changes in laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in commodity prices, foreign exchange or interest rates, stock market volatility and obtaining required approvals of regulatory authorities. **Please refer to the Company's Annual Information Form for the year ended December 31<sup>st</sup>, 2007 and dated April 30th, 2008 and available for viewing at [www.sedar.com](http://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 CEO of Ithaca Energy is the qualified person that has reviewed the technical information contained in this press release.

## **ENQUIRIES:**

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