



**Q2 2011
CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Statement of Income

For the three and six months ended June 30, 2011 and 2010

(unaudited)

	Note	Three months ended June 30		Six months ended June 30	
		2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Revenue	4	16,724	34,129	47,774	64,896
Cost of sales	5	(15,714)	(14,806)	(32,932)	(27,884)
Gross Profit		1,010	19,323	14,842	37,012
Exploration and evaluation expenses	8	(175)	-	344	-
Administrative expenses	6	(2,454)	(160)	(3,514)	(2,117)
Operating (Loss) / Profit		(1,619)	19,163	11,672	34,895
Foreign exchange		428	(362)	2,562	(1,938)
Loss on financial instruments	19	(263)	(4,631)	(2,550)	(6,604)
(Loss) / Profit Before Interest and Tax		(1,454)	14,170	11,684	26,353
Finance costs		(489)	(75)	(749)	(151)
Interest income		116	3	275	5
(Loss) / Profit Before Tax		(1,827)	14,098	11,210	26,207
Taxation - Deferred tax	17	4,687	-	(1,740)	-
Profit After Tax		2,860	14,098	9,470	26,207
Earnings per share					
Basic	16	0.01	0.09	0.04	0.16
Diluted	16	0.01	0.09	0.04	0.16

No separate statement of comprehensive income has been prepared as all such gains and losses have been incorporated in the consolidated statement of income above.

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

Consolidated Statement of Financial Position

(unaudited)

	Note	June 30 2011 US\$'000	December 31 2010 US\$'000	January 1 2010 US\$'000
ASSETS				
Current assets				
Cash and cash equivalents		168,970	195,581	29,886
Restricted cash	7	7,596	6,308	5,224
Accounts receivable		100,168	93,434	67,166
Deposits, prepaid expenses and other		17,270	12,341	352
Inventory		1,202	-	-
Derivative financial instruments	20	2,932	-	685
Deferred tax asset		2,006	3,745	-
		300,144	311,409	103,313
Non current assets				
Restricted cash	7	-	-	352
Exploration and evaluation assets	8	17,624	17,522	15,500
Property, plant & equipment	9	305,903	249,968	189,975
		323,527	267,490	205,827
Total assets		623,671	578,899	309,140
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables		102,959	75,564	43,613
Commodity hedge		-	349	397
		102,959	75,913	44,010
Non current liabilities				
Decommissioning liabilities	11	25,653	23,652	8,751
Other long term liabilities	12	2,726	2,872	2,718
Contingent consideration	13	10,976	12,976	6,933
Derivative financial instruments	20	3,509	4,378	-
		42,864	43,878	18,402
Net Assets		477,848	459,108	246,728
Equity attributable to equity holders				
Share capital	14	428,819	422,373	277,075
Contributed surplus	15	14,562	11,427	6,860
Warrants issued	14	-	311	-
Retained earnings / (deficit)		34,467	24,997	(37,207)
Shareholders' Equity		477,848	459,108	246,728

*"Jay Zammit"**Director**"John Summers"**Director*

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

Consolidated Statement of Changes in Equity
(unaudited)

	Share Capital	Contributed	Warrants	Retained	Total
	US\$'000	Surplus	Issued	E'ings/(Deficit)	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Balance, Jan 1 2010	277,075	6,860	-	(37,207)	246,728
Net income for the period	-	-	-	12,108	12,108
Total comprehensive income	277,075	6,860	-	(25,099)	258,836
Transactions with owners					
Stock based compensation	-	1,181	-	-	1,181
Options exercised	99	(47)	-	-	52
Balance, June 30 2010	277,174	7,994	-	(25,099)	260,069
Balance, Jan 1 2011	422,373	11,427	311	24,997	459,108
Net income for the period	-	-	-	9,470	9,470
Total comprehensive income	422,373	11,427	311	34,467	468,578
Transactions with owners					
Stock based compensation	-	3,283	-	-	3,283
Options exercised	349	(148)	-	-	201
Warrants exercised	6,097	-	(311)	-	5,786
Balance, June 30 2011	428,819	14,562	-	34,467	477,848

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

Consolidated Statement of Cash Flow
For the six months ended June 30, 2011 and 2010
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	US\$'000	US\$'000	US\$'000	US\$'000
CASH PROVIDED BY (USED IN):				
Operating activities				
(Loss) / Profit Before Tax	(1,827)	14,098	11,210	26,207
Adjustments for:				
Depletion, depreciation and amortization	4,200	5,346	11,172	9,735
Exploration and evaluation expenses	175	-	1,656	-
Stock based compensation	643	(581)	1,235	601
Loan fee amortization	78	-	154	-
Unrealized (gain) / loss on financial instruments	263	(225)	2,057	1,583
Revaluation of contingent consideration	-	4,044	(2,000)	4,044
Accretion	175	71	353	143
Cashflow from operations	3,707	22,753	25,837	42,313
Movement in working capital	1,751	15,589	7,378	729
Net cash from operating activities	5,458	38,342	33,215	43,042
Investing activities				
Capital expenditure				
Oil and gas assets	(42,169)	(13,794)	(65,950)	(28,360)
Non oil and gas assets	(90)	(46)	(472)	(145)
Movement in working capital	16,643	6,385	7,470	2,529
Net cash used in investing activities	(25,616)	(7,455)	(58,952)	(25,976)
Financing activities				
Proceeds from issuance of shares	-	69	5,986	121
(Increase) / decrease in restricted cash	(1)	-	(1,288)	5,241
Derivatives	(2,445)	-	(6,508)	-
Net cash from financing activities	(2,446)	69	(1,810)	5,362
Currency translation differences relating to cash	240	(30)	936	(1,304)
(Decrease) / increase in cash & cash equiv.	(22,364)	30,926	(26,611)	21,124
Cash and cash equivalents, beginning of period	191,334	20,084	195,581	29,886
Cash and cash equivalents, end of period	168,970	51,010	168,970	51,010

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

1. NATURE OF OPERATIONS

Ithaca Energy Inc. (the “**Corporation**” or “**Ithaca**”), incorporated and domiciled in Alberta, Canada on April 27, 2004, is a publicly traded company involved in the exploration, development and production of oil and gas in the North Sea. The Corporation's registered office is 1600, 333 - 7th Avenue S.W., Calgary, Alberta, Canada, T2P 2Z1. 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**”. Ithaca has a wholly-owned subsidiary Ithaca Energy (UK) Limited (“**Ithaca UK**”), incorporated in Scotland.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Corporation has commenced reporting on this basis in these interim consolidated financial statements. In the financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting and IFRS 1 First Time Adoption of IFRS. These interim consolidated financial statements do not include all the necessary annual disclosures in accordance with IFRS. Subject to certain transition elections disclosed in note 24, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 24 discloses the impact of the transition to IFRS on the Corporation's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 25, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Corporation's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 24 discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATION UNCERTAINTY

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

Principles of consolidation

The consolidated financial statements of the Corporation include the accounts of Ithaca Inc. and its wholly-owned subsidiary Ithaca Energy (UK) Ltd. All inter-company transactions and balances have been eliminated on consolidation.

A subsidiary is an entity (including special purpose entities) which the Corporation controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Ithaca controls another entity. A subsidiary is fully consolidated from the date on which control is obtained by Ithaca and is de-consolidated from the date that control ceases.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Corporation and its subsidiary operate (the 'functional currency'). The consolidated financial statements are presented in United States Dollars, which is the Corporation's and Ithaca UK's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Share based payments

The Corporation has a stock based compensation plan as described in note 14 (b). The Corporation's proportionate share of expense is recorded in the statement of income or capitalized for all options granted in the year, with the gross increase recorded as contributed surplus. Compensation costs are based on the estimated fair values at the time of the grant and the expense or capitalized amount is recognized over the vesting period of the options. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire unexercised, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are forfeited or expired, previously recognized compensation expense associated with the unvested portion of such stock options is reversed.

Cash and cash equivalents

For the purpose of cash flow statements, cash and cash equivalents include investments with an original maturity of three months or less.

Restricted cash

Cash that is held for security for bank guarantees is reported in the balance sheet and cash flow statements separately. If the expected duration of the restriction is less than twelve months then it is shown in current assets.

Financial instruments

All financial instruments are initially recognized at fair value on the balance sheet. The Corporation's financial instruments consist of cash, restricted cash, accounts receivable, deposits, derivatives, loan fees, accounts payable, accrued liabilities, contingent consideration and the long term liability on the Beatrice acquisition. The Corporation classifies its financial instruments into one of the following categories: held-for-trading financial assets and financial liabilities; held-to-maturity investments; loans and receivables; and other financial liabilities. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods is dependent on the classification of the respective financial instrument.

Held-for-trading financial instruments are subsequently measured at fair value with changes in fair value recognized in net earnings. All other categories of financial instruments are measured at amortized cost using the effective interest method. Cash and cash equivalents are classified as held-for-trading and are measured at fair value. Accounts receivable are classified as loans and receivables. Accounts payable, accrued liabilities, certain other long-term liabilities, and long-term debt are classified as other financial liabilities. Although the Corporation does not intend to trade its derivative financial instruments, they are classified as held-for-trading for accounting purposes.

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability and original issue discounts on long-term debt have been included in the carrying value of the related financial asset or liability and are amortized to consolidated net earnings over the life of the financial instrument using the effective interest method.

Analysis of the fair values of financial instruments and further details as to how they are measured are provided in notes 19 to 21.

Inventory

Inventories of materials and product inventory supplies, other than oil and gas inventories, are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out method. Oil and gas inventories are stated at fair value less cost to sell.

Property, plant and equipment

Oil and gas expenditure – exploration and evaluation assets

Capitalisation

Pre-acquisition costs on oil and gas assets are recognised in the Income Statement when incurred. Costs incurred after rights to explore have been obtained, such as geological and geophysical surveys, drilling and commercial appraisal costs and other directly attributable costs of exploration and evaluation including technical and administrative costs are capitalised as intangible exploration and evaluation (“E&E”) assets.

E&E costs are not amortised prior to the conclusion of evaluation activities. At completion of evaluation activities, if technical feasibility is demonstrated and commercial reserves are discovered then, following development sanction, the carrying value of the E&E asset is reclassified as a development and production (“D&P”) asset, but only after the carrying value is assessed for impairment and where appropriate its carrying value adjusted. If after completion of evaluation activities in an area, it is not possible to determine technical feasibility and commercial viability or if the legal right to explore expires or if the Corporation decides not to continue exploration and evaluation activity, then the costs of such unsuccessful exploration and evaluation is written off to the Income Statement in the period the relevant events occur.

Impairment

The Corporation’s oil and gas assets are analysed into cash generating units (“CGU”) for impairment review purposes, with E&E asset impairment testing being performed at a grouped CGU level. The current E&E CGU consists of the Corporation’s whole E&E portfolio. E&E assets are reviewed for impairment when circumstances arise which indicate that the carrying value of an E&E asset exceeds the recoverable amount. When reviewing E&E assets for impairment, the combined carrying value of the grouped CGU is compared with the grouped CGU's recoverable amount. The recoverable amount of a grouped CGU is determined as the higher of its fair value less costs to sell and value in use. Impairment losses resulting from an impairment review are written off to the Income Statement.

Oil and gas expenditure – development and production assets

Capitalisation

Costs of bringing a field into production, including the cost of facilities, wells and sub-sea equipment together with E&E assets reclassified in accordance with the above policy, are capitalised as a D&P asset. Normally each individual field development will form an individual D&P asset but there may be cases, such as phased developments, or multiple fields around a single production facility when fields are grouped together to form a single D&P asset.

Depreciation

All costs relating to a development are accumulated and not depreciated until the commencement of production. Depreciation is calculated on a unit of production basis based on the proved and probable reserves of the asset. Any re-assessment of reserves affects the depreciation rate prospectively. Significant items of plant and equipment will normally be fully depreciated over the life of the field. However, these items are assessed to consider if their useful lives differ from the expected life of the D&P asset and should this occur a different depreciation rate would be charged.

Impairment

A review is carried out each reporting date for any indication that the carrying value of the Corporation's D&P assets may be impaired. For D&P assets where there are such indications, an impairment test is carried out on the CGU. Each CGU is identified in accordance with IAS 36. The Corporation's CGUs are those assets which generate largely independent cash flows and are normally, but not always, single developments or production areas. The impairment test involves comparing the carrying value with the recoverable value of an asset. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and value in use, where the value in use is determined from estimated future net cash flows. Any additional depreciation resulting from the impairment testing is charged to the Income Statement.

(b) Non Oil and Natural Gas Operations

Computer and office equipment is recorded at cost and depreciated over its estimated useful life on a straight-line basis over three years. Furniture and fixtures are recorded at cost and depreciated over their estimated useful lives on a straight-line basis over five years.

Decommissioning liabilities

The Corporation records the present value of legal obligations associated with the retirement of long term tangible assets, such as producing well sites and processing plants, in the period in which they are incurred with a corresponding increase in the carrying amount of the related long term asset. In subsequent periods, the asset is adjusted for any changes in the estimated amount or timing of the settlement of the obligations. The carrying amounts of the associated assets are depleted using the unit of production method, in accordance with the depreciation policy for development and production assets. Actual costs to retire tangible assets are deducted from the liability as incurred.

Contingent consideration

Contingent consideration is accounted for as a financial liability and measured at fair value at the date of acquisition with any subsequent remeasurements recognised either in profit or loss or in other comprehensive income in accordance with IAS 39.

Taxation

Deferred tax is recognized for all deductible temporary differences and the carry-forward of unused tax losses. Deferred tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in rates is included in earnings in the period of the enactment date. Deferred tax assets are recorded in the consolidated financial statements if realization is considered more likely than not.

Recent accounting pronouncements

In May 2011, the IASB issued the following standards: IFRS 10, Consolidated Financial Statements ("IFRS 10"), IFRS 11, Joint Arrangements ("IFRS 11"), IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), IAS 27, Separate Financial Statements ("IAS 27"), IFRS 13, Fair Value Measurement ("IFRS 13") and amended IAS 28, Investments in Associates and Joint Ventures ("IAS 28"). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation has not yet assessed the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

Significant accounting judgements and estimation uncertainties

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions regarding certain assets, liabilities, revenues and expenses. Such estimates must often be made based on unsettled transactions and other events and a precise determination of many assets and liabilities is dependent upon future events. Actual results may differ from estimated amounts.

The amounts recorded for depletion, depreciation of property and equipment, long-term liability, stock-based compensation, contingent consideration, decommissioning liabilities, derivatives, warrants, and deferred taxes are based on estimates. The depreciation charge and any impairment tests are based on estimates of proved and probable reserves, production rates, prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

4. REVENUE

	Three months ended June 30		Six months ended June 30	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Oil sales	13,246	33,094	38,379	63,196
Gas sales	2,841	-	6,763	-
Condensate sales	255	-	576	-
Other income	382	1,035	2,056	1,700
Total	16,724	34,129	47,774	64,896

5. COST OF SALES

	Three months ended June 30		Six months ended June 30	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Operating costs	(11,514)	(9,460)	(21,760)	(18,149)
Depletion, depreciation and amortisation	(4,200)	(5,346)	(11,172)	(9,735)
	(15,714)	(14,806)	(32,932)	(27,884)

6. ADMINISTRATIVE EXPENSES

	Three months ended June 30		Six months ended June 30	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
General & administrative	(1,811)	(741)	(2,279)	(1,516)
Stock based compensation	(643)	581	(1,235)	(601)
	(2,454)	(160)	(3,514)	(2,117)

7. RESTRICTED CASH

	June 30	Dec 31	Jan 1
	2011	2010	2010
	US\$'000	US\$'000	US\$'000
Decommissioning security	7,240	5,956	-
Cash security - Crown estate	356	352	352
Cash security - Foreign exchange contract	-	-	5,224
	7,596	6,308	5,576

Restricted cash of \$7.2 million is held by the Bank of Scotland as decommissioning security in respect of the Corporation's interests in the Anglia field.

Further restricted cash of \$0.4 million is held by the Bank of Scotland as cash security for a Bank Guarantee that Ithaca Energy (UK) Limited provided to the Crown Estate when it was granted Field Development Plan approval for the Jacky Field.

\$5.2 million of restricted cash held by the Bank of Scotland in 2009 as cash security for the 2010 foreign exchange forward contract was released in January 2010.

8. EXPLORATION AND EVALUATION ASSETS

	US\$'000
At January 1, 2010	15,500
Additions	3,141
Write offs/relinquishments	(1,119)
At December 31, 2010	17,522
Additions	1,758
Write offs/relinquishments	(1,656)
At June 30, 2011	17,624

Following completion of geotechnical evaluation activity, certain licences were declared unsuccessful and certain prospects were declared non-commercial and therefore the related expenditures of \$0.2 million and \$1.7 million were expensed in the three and six months to June 30, 2011 respectively. \$2 million of associated contingent consideration relating to those licences and prospects was also released to the consolidated statement of income in Q1 to give a total credit of \$0.3 million for the six months ended June 30, 2011. See note 13 for details.

9. PROPERTY, PLANT AND EQUIPMENT

	Development & Production Oil and Gas assets US\$'000	Other fixed assets US\$'000	Total US\$'000
Cost			
At January 1, 2010	189,458	1,274	190,732
Additions	82,879	313	83,192
At December 31, 2010	272,337	1,587	273,924
Additions	66,634	473	67,107
At June 30, 2011	338,971	2,060	341,031
DD&A			
At January 1, 2010	-	(757)	(757)
Charge for the period	(22,852)	(347)	(23,199)
At December 31, 2010	(22,852)	(1,104)	(23,956)
Charge for the period	(10,978)	(194)	(11,172)
At June 30, 2011	(33,830)	(1,298)	(35,128)
NBV at January 1, 2010	189,458	517	189,975
NBV at January 1, 2011	249,485	483	249,968
NBV at June 30, 2011	305,141	762	305,903

10. LOAN FACILITY

On July 12, 2010, the Corporation signed and completed a Senior Secured Borrowing Base Facility agreement (the "Facility") for up to US\$140 million with the Bank of Scotland Plc. The loan term is up to five years and will attract interest at LIBOR plus 3-4.5%. Loan issue costs of \$0.9 million were incurred in the year ended December 31, 2010 and are being amortized over the period of the loan (approx \$0.2 million amortized in the six months ended June 30, 2011).

The Corporation is subject to financial and operating covenants related to the Facility. Failure to meet the terms of one or more of these covenants may constitute an event of default as defined in the Facility agreement, potentially resulting in accelerated repayment of the debt obligations.

The Corporation is in compliance with its financial and operating covenants.

No funds are currently drawn down under the Facility.

11. DECOMMISSIONING LIABILITIES

	June 30	Dec 31
	2011	2010
	US\$'000	US\$'000
Balance, beginning of period	23,652	8,751
Additions	1,921	12,772
Accretion	353	283
Revision to estimates	(273)	1,846
Balance, end of period	25,653	23,652

The total future decommissioning liability was calculated 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 uses a risk free rate of 3 percent and an inflation rate of 2 percent over the varying lives of the assets to calculate the present value of the decommissioning liabilities. These costs are expected to be incurred at various intervals over the next 9 years. The economic life and the timing of the obligations are dependent on Government legislation, commodity price and the future production profiles of the respective production and development facilities. Note that upon the acquisition of the Beatrice Field in November 2008, the Corporation did not assume the decommissioning liabilities.

12. OTHER LONG TERM LIABILITIES

	June 30	Dec 31
	2011	2010
	US\$'000	US\$'000
Balance, beginning of period	2,872	2,718
Revaluation in the period	(146)	154
Balance, end of period	2,726	2,872

On completion of the acquisition of the Beatrice Facilities on November 10, 2008 there were 75,000 barrels of oil in an oil storage tank at the Nigg Terminal. This volume of oil is required to be in the storage tank when the Beatrice Facilities are re-transferred. This volume of oil is valued at the price on the forward oil price curve at the expected date of re-transfer and discounted. The liability is subject to revaluation at each financial period end. The expected date of re-transfer is likely to be more than three years in the future.

13. CONTINGENT CONSIDERATION

	June 30	Dec 31
	2011	2010
	US\$'000	US\$'000
Balance, beginning of period	12,976	6,933
Additions	-	2,000
Revision to estimates	(2,000)	4,043
Balance, end of period	10,976	12,976

The contingent consideration at the end of the period relates to the acquisition of the Stella field and is payable once Field Development Plan approval is received.

The revision in the period relates to the reassessment of the Opal and Garnet prospects which have been determined uncommercial, resulting in a release of the associated contingent consideration.

14. SHARE CAPITAL**(a) Issued**

The issued share capital is as follows:

Issued	Number of common shares	Amount US\$'000
Balance January 1, 2010	162,361,975	277,075
Issued for cash - options exercised	765,205	305
Transfer from Contributed Surplus on options exercised		273
Issued for cash - prospectus	92,662,284	153,248
Share issue costs		(8,528)
Balance December 31, 2010	255,789,464	422,373
Issued for cash - options exercised	245,831	201
Issued for cash - warrants exercised	2,500,000	5,786
Transfer from Contributed Surplus on options exercised		148
Transfer from Warrants issued on warrants exercised		311
Balance June 30, 2011	258,535,295	428,819

On July 28 2010, the Corporation successfully closed a Canadian bought deal and UK private placement. Gross proceeds were \$78.3 million (C\$80.9 million) through the issue of 47.6 million shares at a price of C\$1.70 per share and \$74.9 million (£48.2 million) through the issue of 45.1 million shares at £1.07 per common share.

(b) Stock options

In the quarter ended March 31, 2011, the Corporation's Board of Directors granted 260,000 options at a weighted average exercise price of \$1.99 (C\$2.01). 200,000 of these options were reserved for issue in Q3 2010 in contemplation of hiring.

The Corporation's stock options and exercise prices are denominated in Canadian Dollars when granted. As at June 30, 2011, 19,398,505 stock options to purchase common shares were outstanding, having an exercise price range of \$0.20 to \$3.65 (C\$0.25 to C\$3.65) per share and a vesting period of up to 3 years in the future.

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

	June 30, 2011		December 31, 2010	
	No. of Options	Wt. Avg Exercise Price *	No. of Options	Wt. Avg Exercise Price *
Balance, beginning of period	20,146,003	\$1.61	11,042,875	\$1.48
Granted	260,000	\$1.99	10,100,000	\$1.88
Forfeited / expired	(761,667)	\$2.15	(231,667)	\$1.28
Exercised	(245,831)	\$0.77	(765,205)	\$0.33
Options	19,398,505	\$1.65	20,146,003	\$1.61

* 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 as at June 30, 2011

Options Outstanding				Options Exercisable			
Range of Exercise Price	No. of Options	Wt. Avg.	Wt. Avg.	Range of Exercise Price	No. of Options	Wt. Avg.	Wt. Avg.
		Life	Exercise			Life	Exercise
		(Years)	Price *			(Years)	Price *
\$3.65 (C\$3.65)	2,365,000	0.6	\$3.65	\$3.65 (C\$3.65)	2,365,000	0.6	\$3.65
\$2.22-\$2.86 (C\$2.25-C\$3.00)	5,935,000	3.0	\$2.24	\$2.22-\$2.86 (C\$2.25- C\$3.00)	818,333	0.2	\$2.35
\$1.49-\$1.76 (C\$1.54-C\$1.85)	5,411,667	2.5	\$1.55	\$1.49-\$1.68 (C\$1.54- C\$1.80)	1,711,664	2.3	\$1.53
\$0.20-\$0.81 (C\$0.25-C\$0.87)	5,686,838	2.3	\$0.55	\$0.20-\$0.81 (C\$0.25- C\$0.87)	2,622,753	2.3	\$0.45
	19,398,505	2.4	\$1.73		7,517,750	1.6	\$1.91

The following is a summary of stock options as at December 31, 2010

Options Outstanding				Options Exercisable			
Range of Exercise Price	No. of Options	Wt. Avg.	Wt. Avg.	Range of Exercise Price	No. of Options	Wt. Avg.	Wt. Avg.
		Life	Exercise			Life	Exercise
		(Years)	Price *			(Years)	Price *
\$3.65 (C\$3.65)	2,435,000	1.14	\$3.65	\$3.65 (C\$3.65)	1,623,334	1.1	\$3.65
\$2.22-\$2.86 (C\$2.25-C\$3.00)	6,375,000	2.40	\$2.25	\$2.29-\$2.86 (C\$2.51- C\$3.00)	1,285,000	0.3	\$2.38
\$1.49-\$1.76 (C\$1.54-C\$1.85)	5,345,000	3.01	\$1.54	\$1.49-\$1.68 (C\$1.54- C\$1.80)	300,000	1.7	\$1.68
\$0.20-\$0.81 (C\$0.25-C\$0.87)	5,991,003	2.77	\$0.55	\$0.20-\$0.81 (C\$0.25- C\$0.87)	2,591,084	2.8	\$0.45
	20,146,003	2.50	\$1.61		5,799,418	1.3	\$1.44

(c) Stock based compensation

Options granted are accounted for using the fair value method. The compensation cost during the three months and six months ended June 30, 2011 for total stock options granted was \$1.7 million and \$3.3 million respectively (Q2 2010: \$1.2 million, Q2 YTD: \$2.3 million). \$0.6 million and \$1.2 million were charged through the income statement for stock based compensation for the three and six months ended June 31, 2011 respectively, being the Corporation's share of stock based compensation chargeable through the income statement. The remainder of the Corporation's share of stock based compensation has been capitalized. 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:

	For the six months ended June 30, 2011	For the year ended December 31, 2010
Risk free interest rate	1.20%	1.20%
Expected stock volatility	97%	104%
Expected life of options	3 years	3 years
Weighted Average Fair Value	\$1.64	\$1.14

(d) Gemini Agreement

In September 2006 Gemini Oil & Gas Fund 11 L.P. ("Gemini") provided non-recourse funding of \$6 million. Further to a supplemental agreement entered into in August 2008, the loan was fully repaid. Under the supplemental agreement Gemini retained rights, under certain circumstances relating to the Athena Field, to elect to receive warrants to acquire up to 3,000,000 common shares at \$3.00 per share and to receive payments connected to asset sales of interests in Athena.

On September 20, 2010, a further agreement was entered into with Gemini whereby in exchange for and in consideration of Gemini's waiver of any right to proceeds from the disposal of equity interest in the Athena discovery and in substitution for any previously awarded or agreed warrants, Ithaca Energy Inc. granted Gemini warrants to acquire up to 2,500,000 common shares in Ithaca Energy Inc. The warrants were exercised at C\$2.25 per share on March 3, 2011. The agreement terminates all rights that Gemini has in respect of the Corporation's interests. The total fair value attributed to warrants issued in 2010 was \$0.3 million.

15. CONTRIBUTED SURPLUS

	June 30 2011 US\$'000	Dec 31 2010 US\$'000
Balance, beginning of period	11,427	6,860
Stock based compensation cost	3,283	4,840
Transfer to share capital on exercise of options	(148)	(273)
Balance, end of period	14,562	11,427

16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit after tax and the weighted average number of common shares in issue during the period. The calculation of diluted earnings per share is based on the profit after tax and the weighted average number of potential common shares in issue during the period.

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Wtd av. number of common shares (basic)	258,535,295	162,555,640	257,691,879	162,555,640
Wtd av. number of common shares (diluted)	263,211,406	165,518,118	262,979,178	165,518,118

17. TAXATION

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
	US\$000	US\$000	US\$000	US\$000
Deferred tax	4,687	-	(1,740)	-

Current corporation tax payable of \$23k is related to tax on interest income from cash held on deposit. No corporation tax is payable in relation to upstream oil and gas activities.

18. COMMITMENTS

Year ended	2011	2012	2013	Subsequent to	
	US\$'000	US\$'000	US\$'000	2014	2014
				US\$'000	US\$'000
Office lease	128	256	256	256	833
Exploration	875	1,248	1,602	-	-
Engineering	14,362	20,079	11,679	11,679	-
Total	15,365	21,583	13,537	11,935	833

19. FINANCIAL INSTRUMENTS

To estimate fair value of financial instruments, the Corporation uses quoted market prices when available, or industry accepted third-party models and valuation methodologies that utilize observable market data. In addition to market information, the Corporation incorporates transaction specific details that market participants would utilize in a fair value measurement, including the impact of non-performance risk. The Corporation characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. However, these fair value estimates may not necessarily be indicative of the amounts that could be realized or settled in a current market transaction. The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs represent quoted prices in active markets for identical assets or liabilities (for example, exchange-traded commodity derivatives). Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly, as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, market interest rates, and volatility factors, which can be observed or corroborated in the marketplace. The Corporation obtains information from sources such as the New York Mercantile Exchange and independent price publications.
- Level 3 – inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value.

In forming estimates, the Corporation utilizes the most observable inputs available for valuation purposes. If a fair value measurement reflects inputs of different levels within the hierarchy, the measurement is categorized based upon the lowest level of input that is significant to the fair value measurement. The valuation of over-the-counter financial swaps and collars is based on similar transactions observable in active markets or industry standard models that primarily rely on market observable inputs. Substantially all of the assumptions for industry standard models are observable in active markets throughout the full term of the instrument. These are categorized as Level 2.

The following table presents the Corporation's material financial instruments measured at fair value for each hierarchy level as of June 30, 2011:

	Level 1	Level 2	Level 3	Total Fair
	US\$'000	US\$'000	US\$'000	Value
				US\$'000
Derivative financial instrument assets	-	2,932	-	2,932
Long term liability on Beatrice acquisition	-	-	(2,726)	(2,726)
Contingent consideration	-	(10,976)	-	(10,976)
Derivative financial instrument liability	-	(3,509)	-	(3,509)

The table below presents the total gain / (loss) on financial instruments that has been disclosed through the statement of net and comprehensive income / (loss):

	Three months ended June 30		Six months ended June 30	
	2011 US\$'000	2010 US\$'000	2011 US\$'000	2010 US\$'000
Unrealized gain/(loss) on forex forward contracts	-	229	-	(2,159)
Realized (loss)/gain on forex forward contracts	-	(811)	-	(1,062)
Revaluation of gas contract	1,221	-	1,024	-
Revaluation of other long term liability	32	(5)	146	179
Contingent consideration	-	(4,044)	-	(4,044)
Unrealized (loss)/gain on commodity hedges	(1,516)	-	(3,227)	86
Realized (loss)/gain on commodity hedges	-	-	(493)	396
Total (loss) on financial instruments	(263)	(4,631)	(2,550)	(6,604)

The Corporation has identified that it is exposed principally to these areas of market risk.

i) Commodity Risk

Commodity price risk related to crude oil prices is the Corporation's most significant market risk exposure. Crude oil prices and quality differentials are influenced by worldwide factors such as OPEC actions, political events and supply and demand fundamentals. The Corporation is also exposed to natural gas price movements on uncontracted gas sales. Natural gas prices, in addition to the worldwide factors noted above, can also be influenced by local market conditions. The Corporation's expenditures are subject to the effects of inflation, and prices received for the product sold are not readily adjustable to cover any increase in expenses from inflation. The Corporation may periodically use different types of derivative instruments to manage its exposure to price volatility, thus mitigating fluctuations in commodity-related cash flows.

In Q4 2009 the Corporation entered into a forward swap for 51,000 barrels per month over November, December, January and February 2010 production fixing the price at \$77/barrel. In Q4 2010, the Corporation entered into another forward swap for 108,668 and 80,600 barrels per month over December and January respectively to hedge a proportion of November and December production. The combination of these forward swaps resulted in a realized loss of \$0.5 million and an unrealized gain of \$0.3 million in the 6 months ended June 30, 2011.

In Q1 2011 the Corporation purchased a put option with a floor price of \$105 / barrel for 804,500 barrels of oil for the period March to December 2011. The option delivers a minimum price on the specified volume of oil and allows the Corporation to benefit from any upside above \$105 / barrel. Due to movements in forecast oil prices the revaluation of this instrument in the three months ended June 30, 2011 resulted in an unrealized loss of \$1.4 million.

In Q2 2011 the Corporation purchased a put option with a floor price of \$115 / barrel for 300,000 barrels of 2011 production. The option delivers a minimum price on the specified volume of oil and allows the Corporation to benefit from any upside above \$115 / barrel. Due to movements in forecast oil prices the revaluation of this instrument in the three months ended June 30, 2011 resulted in an unrealized loss of \$0.1 million.

ii) Interest Risk

Calculation of interest payments for the Senior Secured Borrowing Base Facility agreement with the Bank of Scotland that was signed on July 12, 2010 incorporates LIBOR. The Corporation will therefore be exposed to interest rate risk to the extent that LIBOR may fluctuate. The Corporation will evaluate its annual forward cash flow requirements on a rolling monthly basis. No funds are currently drawn down under the facility.

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 US Dollars. Since time passes between the recording of a receivable or payable transaction and its collection or payment, the Corporation is exposed to gains or losses on non USD amounts and on balance sheet translation of monetary accounts denominated in non USD amounts upon spot rate fluctuations from quarter to quarter.

On July 7, 2010, in order to protect against the strengthening of the US Dollar and secure the net proceeds from the equity raise of \$150 million the Corporation entered into a foreign exchange forward contract to swap the Canadian Dollars and Pounds Sterling proceeds of the Canadian bought deal and UK Private placement in exchange for US Dollars when the proceeds were estimated to be received at contracted rates of \$1.00 / C\$1.0489 and \$1.00 / £0.6592. During the period the US Dollar weakened with the result that the forex instruments prevented an exchange gain being realized. Forex losses of \$3.1 million were recorded which offset the natural gain reflected in equity.

On October 12, 2009, the Corporation entered in to a Window Forward Plus contract with the Bank of Scotland to hedge its forecast British Pounds Sterling 2010 operating costs, including general and administrative expenses. The hedge amounts to \$4 million per month (total \$48 million) at a US\$/£ rate of no worse than USD1.60/1.0 and a Trigger rate of USD1.4975/£1.00. A realized loss of \$1.3 million has been recognized on the contract for the year ended December 31, 2010. This contract expired in December 2010, and the resulting unwinding of unrealized gains and losses on the contracts resulted in an unrealized loss of \$0.7 million for the year ended December 31, 2010.

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. All gas production, acquired through the purchase of the Anglia and Topaz fields from GDF SUEZ E&P UK Ltd, is currently sold through three contracts on a monthly basis to RWE NPower PLC and Hess Energy Gas Power (UK) Ltd.

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, 2011 all of accounts receivables are current, being defined as less than 90 days. The Corporation has no allowance for doubtful accounts as at June 30, 2011 (December 31, 2010 \$Nil).

The Corporation may be exposed to certain losses in the event that counterparties to derivative financial instruments are unable to meet the terms of the contracts. The Corporation's exposure is limited to those counterparties holding derivative contracts with positive fair values at the reporting date. As at June 30, 2011, exposure is \$2.9 million (December 31, 2010: \$Nil).

The Corporation also has credit risk arising from cash and cash equivalents held with banks and financial institutions. The maximum credit exposure associated with financial assets is the carrying values.

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, 2011, substantially all accounts payable are current.

The following table shows the timing of cash outflows relating to trade and other payables.

	Within 1 year US\$'000	1 to 5 years US\$'000
Accounts payable and accrued liabilities	102,959	-
Other long term liabilities	-	2,726
	102,959	2,726

20. DERIVATIVE FINANCIAL INSTRUMENTS

	June 30 2011 US\$'000	December 31 2010 US\$'000	January 1 2010 US\$'000
Oil put premiums	2,932	-	-
Embedded derivative	(3,509)	(4,378)	-
Foreign exchange forward contract	-	-	685
	(577)	(4,378)	685

In Q1 2011 the Corporation entered into a 'put' option to sell 804,500 barrels of the Corporation's 2011 forecast production at \$105 / bbl. This is recognized at its fair value in the financial statements. Fair value represents the market price for the instrument, measured as at June 30, 2011.

In Q2 2011 the Corporation entered into a further 'put' option to sell 300,000 barrels of the Corporation's 2011 forecast production at \$115 / bbl. This is recognized at its fair value in the financial statements. Fair value represents the market price for the instrument, measured as at June 30, 2011.

In Q4 2010, the Corporation acquired an embedded derivative within an Anglia gas sales contract. This is recognized at its fair value in the financial statements. Fair value represents the difference between the contract price and the period end market price for the contracted volumes.

21. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Financial instruments of the Corporation consist mainly of cash and cash equivalents, receivables, payables, loans and financial derivative contracts, all of which are included in these financial statements. At June 30, 2010, the classification of financial instruments and the carrying amounts reported on the balance sheet and their estimated fair values are as follows:

Classification	June 30, 2011 US\$'000		December 31, 2010 US\$'000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (Held for trading)	168,970	168,970	195,581	195,581
Restricted cash	7,596	7,596	6,308	6,308
Derivative financial instruments (Held for trading)	2,932	2,932	-	-
Accounts receivable (Loans and Receivables)	100,168	100,168	93,434	93,434
Deposits	256	256	248	248
Loan fees - current	261	261	286	286
Loan fees - non-current	391	391	521	521
Commodity hedge (Held for trading)	-	-	349	349
Contingent consideration	10,976	10,976	12,976	12,976
Derivative financial instruments (Held for trading)	3,509	3,509	4,378	4,378
Other long term liabilities	2,726	2,726	2,872	2,872
Accounts payable (Other financial liabilities)	102,959	102,959	75,564	75,564

22. RELATED PARTY TRANSACTIONS

A Director of the Corporation is a partner of Burstall Winger LLP who acts as counsel for the Corporation. The amount of fees paid to Burstall Winger LLP in the three and six months ended June 30, 2011 was \$0.1 million (June 30, 2010 - \$0.1 million June 30, 2010 YTD - \$0.1 million). The balance outstanding at June 30, 2011 was \$Nil (June 30, 2010 - \$Nil).

23. SEASONALITY

The effect of seasonality on the the Corporation's financial results for any individual quarter is not material.

24. TRANSITION TO IFRS

These are the Corporation's second condensed interim consolidated financial statements to be prepared in accordance with IFRS.

The accounting policies in Note 3 have been applied in preparing the condensed interim consolidated financial statements for the three and six months ended June 30, 2011, the comparative information for the three and six months ended June 30, 2010, the balance sheet for the year ended December 31, 2010 and the preparation of an opening IFRS balance sheet on the transition date, January 1, 2010.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out below.

IFRS 1 Exemptions

IFRS 1 First-Time Adoption of International Financial Reporting Standards allows first-time adopters certain exemptions from retrospective application of certain IFRS.

The Corporation has applied the following exemptions:

Oil and gas assets in property, plant and equipment were recognized and measured on a full cost basis in accordance with Canadian GAAP. The Corporation has elected to measure its properties at the amount determined under Canadian GAAP as at January 1, 2010. Costs included in the full cost pool on January 1, 2010 were allocated on a pro-rata basis to the underlying assets on the basis of pre-tax net present values using proved and probable reserves as at January 1, 2010.

Associated decommissioning assets were also measured at their carrying value under Canadian GAAP while all decommissioning liabilities were measured using a risk free rate, with a corresponding adjustment recorded to opening retained earnings.

IFRS 3 Business Combinations has not been applied to acquisitions of subsidiaries or interests in joint ventures that occurred before January 1, 2010.

IFRS 2 Share-Based Payments has not been applied to equity awards that were granted prior to November 7, 2002, nor those that were granted after November 7, 2002 and vested prior to January 1, 2010.

The Corporation has elected to apply IAS 23 Borrowing Costs with an effective date of January 1, 2010 which requires mandatory capitalization of borrowing costs directly attributable to the acquisition, construction or production of qualifying assets. No borrowing costs previously capitalized in accordance with Canadian GAAP have been derecognized.

Reconciliations from Canadian GAAP to IFRS

In preparing the interim condensed Consolidated Financial Statements, the Corporation has adjusted amounts reported previously in its Consolidated Financial Statements prepared under Canadian GAAP. The following reconciliations present the adjustments made to the Corporation's financial position, financial performance and cashflow (as required by IFRS 1), along with explanatory notes.

Reconciliation of equity as at January 1, 2010 (date of transition to IFRS)

	CGAAP US\$'000	IFRS Adj US\$'000	IFRS US\$'000
ASSETS			
Current assets			
Cash and cash equivalents	29,886	-	29,886
Restricted cash	5,224	-	5,224
Accounts receivable	67,166	-	67,166
Deposits, prepaid expenses and other	352	-	352
Foreign exchange forward contract	685	-	685
	103,313	-	103,313
Non current assets			
Restricted cash	352	-	352
Exploration and evaluation assets (note a)	-	15,500	15,500
Property, plant & equipment (notes a, b, c)	205,475	(15,500)	189,975
	205,827	-	205,827
Total assets	309,140	-	309,140
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	43,613	-	43,613
Commodity hedge	397	-	397
	44,010	-	44,010
Non current liabilities			
Long term liability	2,718	-	2,718
Decommissioning liabilities (note d)	7,956	795	8,751
Contingent consideration (note e)	-	6,933	6,933
	10,674	7,728	18,402
Net Assets	254,456	(7,728)	246,728
Equity attributable to equity holders			
Share capital	277,075	-	277,075
Contributed surplus (note f)	7,812	(952)	6,860
Retained earnings / (deficit) (notes d and e)	(30,431)	(6,776)	(37,207)
Shareholders' Equity	254,456	(7,728)	246,728

Reconciliation of equity as at June 30, 2010

	CGAAP US\$'000	IFRS Adj US\$'000	IFRS US\$'000
ASSETS			
Current assets			
Cash and cash equivalents	51,010	-	51,010
Accounts receivable	79,560	-	79,560
Deposits, prepaid expenses and other	506	-	506
	131,076	-	131,076
Non current assets			
Restricted cash	335	-	335
Exploration and evaluation assets (note a)	-	17,624	17,624
Property, plant & equipment (notes a, b, c)	208,570	(1,564)	207,006
	208,905	16,060	224,965
Total assets	339,981	16,060	356,041
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	58,589	-	58,589
	58,589	-	58,589
Non current liabilities			
Long term liability	2,539	-	2,539
Decommissioning liabilities (note d)	6,098	2,380	8,478
Contingent consideration (note e)	-	10,976	10,976
Derivative financial instruments	-	-	-
	8,637	13,356	21,993
Net Assets	272,755	2,704	275,459
Equity attributable to equity holders			
Share capital	277,307	-	277,307
Contributed surplus (note f)	10,012	(862)	9,150
Retained earnings / (deficit) (notes b, d, e and f)	(14,564)	3,566	(10,998)
Shareholders' Equity	272,755	2,704	275,459

Reconciliation of equity as at December 31, 2010

	CGAAP US\$'000	IFRS Adj US\$'000	IFRS US\$'000
ASSETS			
Current assets			
Cash and cash equivalents	195,581	-	195,581
Restricted cash	6,308	-	6,308
Accounts receivable	93,434	-	93,434
Deposits, prepaid expenses and other	12,341	-	12,341
Deferred tax asset (note g)	16,074	(12,329)	3,745
	323,738	(12,329)	311,409
Non current assets			
Exploration and evaluation assets (note a)	-	17,522	17,522
Property, plant & equipment (notes a, b, c)	238,113	11,855	249,968
	238,113	29,377	267,490
	-	-	-
Total assets	561,851	17,048	578,899
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	75,564	-	75,564
Commodity hedge	349	-	349
	75,913	-	75,913
Non current liabilities			
Long term liability	2,872	-	2,872
Decommissioning liabilities (note d)	20,868	2,784	23,652
Contingent consideration (e)	-	12,976	12,976
Derivative financial instruments	4,378	-	4,378
	28,118	15,760	43,878
Net Assets	457,820	1,288	459,108
Equity attributable to equity holders			
Share capital	422,373	-	422,373
Contributed surplus (note f)	11,530	(103)	11,427
Warrants issued	311	-	311
Retained earnings (notes b, d, e and f)	23,606	1,391	24,997
Shareholders' Equity	457,820	1,288	459,108

Reconciliation of total comprehensive income for the six months ended June 30, 2010

	CGAAP US\$'000	IFRS Adj US\$'000	IFRS US\$'000
Revenue	64,896	-	64,896
Cost of sales (note b)	(42,236)	14,352	(27,884)
Gross Profit	22,660	14,352	37,012
Admin expenses (note f)	(2,028)	(89)	(2,117)
Operating Profit	20,632	14,263	34,895
Foreign exchange	(1,938)	-	(1,938)
Gain / (loss) on financial instruments (note e)	(2,560)	(4,044)	(6,604)
Profit on ordinary activities Before Interest and Tax	16,134	10,219	26,353
Finance costs (note d)	(272)	121	(152)
Interest income	5	-	5
Profit Before Tax	15,867	10,340	26,206
Taxation	-	-	-
Profit After Tax	15,867	10,340	26,206

Reconciliation of total comprehensive income for the three months ended June 30, 2010

	CGAAP US\$'000	IFRS Adj US\$'000	IFRS US\$'000
Revenue	34,129	-	34,129
Cost of sales (note b)	(22,453)	7,647	(14,806)
Gross Profit	11,676	7,647	19,323
Admin expenses (note f)	(100)	(60)	(160)
Operating Profit	11,576	7,587	19,163
Foreign exchange	(362)	-	(362)
Gain / (loss) on financial instruments (note e)	(587)	(4,044)	(4,631)
Profit on ordinary activities Before Interest and Tax	10,627	3,543	14,170
Finance costs (note d)	(114)	39	(75)
Interest income	3	-	3
Profit Before Tax	10,516	3,582	14,098
Taxation	-	-	-
Profit After Tax	10,516	3,582	14,098

Reconciliation of total comprehensive income for the year ended December 31, 2010

	CGAAP US\$'000	IFRS Adj US\$'000	IFRS US\$'000
Revenue	135,121	-	135,121
Cost of sales (note b)	(87,307)	26,257	(61,050)
Gross Profit	47,814	26,257	74,071
Exploration and evaluation (note a)	-	(1,119)	(1,119)
Admin expenses (note f)	(4,620)	(848)	(5,468)
Operating Profit	43,194	24,290	67,484
Foreign exchange	818	-	818
Revaluation of financial instruments (note e)	(5,268)	(4,044)	(9,312)
Profit on ordinary activities Before Interest and Tax	38,744	20,246	58,990
Finance costs (note d)	(814)	249	(565)
Interest income	113		113
Profit Before Tax	38,043	20,495	58,538
Taxation (note g)	15,994	(12,329)	3,665
Profit After Tax	54,037	8,166	62,203

Adjustments to the statement of cash flows

All IFRS transition adjustments were non-cash items therefore the transition from Canadian GAAP to IFRS had no impact on cash flows generated by the Corporation, nor on the categorisation cash flows between operating activities, investing activities or financing activities.

Notes to the reconciliations of equity and total comprehensive income from Canadian GAAP to IFRS

(a) Exploration and evaluation assets

Under IFRS 6, as at January 1, 2010, management has deemed exploration and evaluation assets to be \$15.5 million, representing the unproved properties balance under previous GAAP. This resulted in reclassification of \$15.5 million from property, plant and equipment to exploration and evaluation assets.

(b) Depletion, depreciation and amortization

Under Canadian GAAP, development costs were depleted on a unit of production basis based on the proved reserves of the cost pool. Under IFRS, the Corporation depletes development costs at a field level on a unit of production basis, and has elected to deplete these over the proved and probable reserves of the assets. For the six months ended June 30, 2010, the Corporation has recognized depletion, depreciation and amortization expense of \$9.7 million under IFRS when compared to \$24.1 million under Canadian GAAP. For the three months ended June 30, 2010, the Corporation has recognized depletion, depreciation and amortization expense of \$5.3 million under IFRS when compared to \$13.0 million under Canadian GAAP. For the year ended December 31, 2010, the Corporation has recognized depletion, depreciation and amortization expense of \$23.2 million under IFRS when compared to \$49.5 million under Canadian GAAP.

(c) Deemed cost allocation

The most significant changes to the Corporation's accounting policies relate to the accounting for upstream costs. Under Canadian GAAP, the Corporation followed the full cost method of accounting for oil and gas assets whereby all costs of acquisition, exploration for and development of oil and gas reserves were capitalized and accumulated within one cost centre (UK North Sea). Costs accumulated were depleted using the unit-of-production method based on proved reserves determined using estimated future prices and costs.

The Corporation has elected to apply the IFRS 1 exemption for its Canadian oil and gas assets whereby development costs as at January 1, 2010 were deemed to be \$189.5 million, being the full cost proved PP&E net book value. As stated above exploration and evaluation costs as at January 1, 2010 were deemed to be \$15.5m, being the unproved properties balance under Canadian GAAP.

(d) Decommissioning liabilities

Under Canadian GAAP, similar to IFRS, decommissioning liabilities were calculated based on the Corporation's best estimate of the expenditure required to settle the present obligation at the end of the reporting period or to transfer it to a third party at that time. The liability is however required to be remeasured at the end of each period including changes in discount rates. As stated above, the Corporation utilized an exemption under IFRS for measurement of oil and gas assets. This exemption has a consequential impact to the measurement of the oil and gas assets' decommissioning liabilities upon transition to IFRS, whereby the differences arising from the remeasurement of the decommissioning liabilities are taken directly to retained earnings rather than adjusting the carrying amount of the underlying oil and gas assets. This resulted in an increase in decommissioning liabilities and a decrease to retained earnings of \$0.8 million as at January 1, 2010.

Subsequent remeasurements and differences in accretion were recorded in property, plant and equipment and finance costs respectively. For the six months ended June 30, 2010, the Corporation recorded accretion of \$0.4 million compared to \$0.5 million under CGAAP. For the three months ended June 30, 2010, the Corporation recorded accretion of \$0.2 million compared to \$0.3 million under CGAAP. As at December 31, 2010, the Corporation remeasured the decommissioning liabilities resulting in an increase to decommissioning liabilities of \$2.7 million. For the 12 months ended December 31, 2010, the Corporation reduced recorded accretion by \$0.2 million.

Associated decommissioning assets were measured at their carrying value under Canadian GAAP while all decommissioning liabilities were measured using a risk free rate, with a corresponding adjustment recorded to opening retained earnings.

(e) Contingent consideration

Under IFRS, contingent consideration is required to be accounted for as a financial liability and measured at fair value at the date of acquisition with any subsequent remeasurements recognised either in profit or loss or in other comprehensive income in accordance with IAS 39.

On transition, as at January 1, 2010, the Corporation recognized a liability of \$6.9 million and a decrease in retained earnings relating to a contingent consideration on the Stella acquisition.

For the six months ended June 30, 2010, the Corporation recognized a further \$4 million of contingent consideration, being \$4m adjustment to the Stella acquisition (opposite side recognised in the income statement).

For the year ended December 31, 2010, the Corporation recognized a further \$2 million of liability relating to the GDF assets acquisition (opposite side recognised in PP&E).

(f) Share based payments

Under Canadian GAAP, similar to IFRS, the expense relating to the Corporation's equity-settled stock based compensation plans was recorded at fair value using the Black-Scholes option pricing model.

Some of the required valuation inputs however differ according to each GAAP. As stated above, on transition, as at January 1, 2010, the Corporation recognized a decrease in contributed surplus with an offsetting increase in retained earnings of \$1 million.

(g) Deferred tax

Deferred tax has been adjusted to reflect the tax effect arising from the differences between IFRS and Canadian GAAP. Upon transition to IFRS, similar to Canadian GAAP, no deferred tax asset was recognized as realization of the asset was not considered to be more likely than not. For the twelve months ended December 31, 2010, the application of the IFRS adjustments as discussed in a) to f) above resulted in the recognition of a reduced deferred tax asset of \$3.7 million and a \$12.3 million decrease to the Company's deferred tax credit.

25. SUBSEQUENT EVENTS

On August 25, 2011, the Company completed the acquisition of a 28.46% non-operated interest in the Cook oil field from Hess Limited ("Hess") for an adjusted consideration of \$57 million and the transfer from Ithaca to Hess of a 10% interest in each of exploration blocks 42/25b, 43/16a and 43/21c in the Southern North Sea.