ITHACA ENERGY INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Ithaca Energy Inc. (the "Corporation" or "Ithaca" or the "Company") for the year ended December 31, 2011. The information is provided as of March 28, 2012. The 2011 results have been compared to the results of 2010. All comparative figures for 2010 have been restated to be in accordance with IFRS. This MD&A should be read in conjunction with the Corporation's consolidated financial statements as at December 31, 2011 and 2010 together with the accompanying notes, and Annual Information Form ("AIF") for the 2011 fiscal year. These documents and additional information about Ithaca are available on SEDAR at www.sedar.com.

Certain statements contained in this MD&A, including estimates of reserves, estimates of future cash flows and estimates of future production as well as other statements about future events or anticipated results, are forward-looking statements. The forward-looking statements contained herein are based on assumptions and are subject to known and unknown risks, uncertainties and other factors. Should the underlying assumptions prove incorrect or should one or more of these risks, uncertainties or factors materialize, actual results may vary significantly from those expected. See "Forward-Looking Information", below.

All financial data contained herein is presented in accordance with International Financial Reporting Standards ("IFRS") and is expressed in United States dollars ("$"), unless otherwise stated.

BUSINESS OF THE CORPORATION

Ithaca is an oil and gas exploration, development and production company active in the United Kingdom's Continental Shelf ("UKCS").

Ithaca's strategy is to:

- Fast track appraisal and development of oil and gas fields
- Acquire producing fields or undeveloped discoveries that:
    - are not material for larger companies
    - need technical or financial investment
    - no longer fit with an existing company's strategy and business model
- Use tried and tested development and production technologies
- Employ in-house technical excellence to generate development and acquisition opportunities
- Participate in licensing rounds to gain acreage positions around its core assets
- Leverage commercial and operator capability to establish solid equity positions

- Prioritise capital investment to accretive projects with early production and significant cash flow

As of November 1, 2011 the Corporation’s common shares have traded on the Toronto Stock Exchange in Canada under the symbol “IAE” (previously traded on the TSX Venture Exchange). The Corporation's shares continue to trade on the London Stock Exchange’s Alternative Investment Market in the United Kingdom under the symbol “IAE”.

NON-IFRS MEASURES

‘Cashflow from operations’ referred to in this MD&A is not prescribed by IFRS. This non-IFRS financial measure does not have any standardized meaning and therefore is unlikely to be comparable to similar measures presented by other companies. The Corporation uses this measure to help evaluate its performance. As an indicator of the Corporation’s performance, cashflow from operations should not be considered as an alternative to, or more meaningful than, net cash from operating activities as determined in accordance with IFRS. The Corporation considers cashflow from operations to be a key measure as it demonstrates the Corporation’s ability to generate the cash necessary to fund operations and support activities related to its major assets. Cashflow from operations is determined by adding back changes in non-cash operating working capital to cash provided by operating activities.

BOE PRESENTATION

The calculation of barrels of oil equivalent ("boe") is based on a conversion rate of six thousand cubic feet of natural gas ("mcf") to one barrel of crude oil ("bbl"). The term boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

2011 HIGHLIGHTS

Financial

- Record cashflow from operating activities of $103.5 million
- Profit before tax of $37.1 million and net earnings of $35.9 million
- Average realized oil price of $111.46 / bbl
- Cash of $112 million, inclusive of $16.5 million restricted cash, with senior debt facility remaining undrawn
- UK tax allowances pool of $325 million.
- Major capital investment of over $205 million, including acquisitions

Other significant developments

- Increase in Sproule evaluated Proven plus Probable Reserves to ~50 million boe
- Successfully completed drilling and major subsea infrastructure installation work on the Athena development. Modifications to the BW Athena FPSO were completed in February 2012 and the vessel is now sailing to the North Sea with first oil expected in Q2 2012
- Sanctioned the development of the Stella and Harrier fields having secured ownership in the FPF-1 Floating Production Unit and substantially de-risked the project through a series of transactions with Petrofac and execution of a contract for use of the Ensco 100 drilling rig for the development drilling campaign
- Completed two material acquisitions:
    - 28.46% of the Cook Field
    - 100% of Challenger Minerals (North Sea) Ltd.
- Export production of 4,370 boepd for 2011 including production from the effective date of the acquisitions
- Successful appraisal drilling of the Crathes discovery unlocking the potential for a combined development of the Crathes, Scolty and Torphins discoveries
- Graduated from the TSX Venture Exchange to the Toronto Stock Exchange on November 1, 2011

KEY PROJECTS UPDATE

Athena

Drilling

The drilling campaign with the Sedco 704 Drilling Unit was successfully completed in October 2011 and all the wells are ready for first oil.

The water injection well exceeded the net reservoir requirements for water injection to support initial gross production, showed excellent average porosity across the reservoir section and tests indicated good fluid mobility in all selected sandstone units tested.

The fourth production well that followed was directionally drilled in the north west of the field and intersected the top reservoir (Top Scapa A sands). The well encountered a considerable section of oil saturated net reservoir, with good porosities.

Subsea installation

The subsea installation campaign and installation of the riser equipment at the Athena field location progressed well in 2011. Some major scheduled milestones for the project were achieved in Q4 2011 with the installation of the FPSO ("Floating Production Storage and Offload vessel") mooring system, riser base and subsea manifold. The submerged buoy mooring system and all flowlines were laid and connected. Installation of the power and control umbilicals and the connection of flexible risers to the riser base and submerged buoy was completed in after the year end. Final pressure testing of the production system is in the process of being completed.

BW Athena modifications

The FPSO arrived in Dubai Dry Docks World in January 2011 for modification works to be performed by BW Offshore.

In Q2 2011 the engineering and modifications associated with the dry dock works required to extend the FPSO by 65 feet and install a turret docking system were completed. In addition to all the modification and commissioning work carried out on the FPSO and in response to the North Sea incident in 2011 when another North Sea FPSO suffered a mooring system failure, additional redundancy was introduced to the FPSO's power and heading control systems. The additional work undertaken on the vessel was focused on ensuring that production startup is not delayed once the FPSO arrives at the Athena field.

In February 2012 the FPSO departed Dubai Dry Docks World. All FPSO production critical equipment was run and fully tested prior to the vessel's departure. The FPSO is currently en route to the North Sea.

Upon arrival in the field the FPSO will be hooked up to the pre-installed production system. Hook-up will mark completion of the development phase and the Company anticipates that the production phase will commence in Q2 2012. Production is anticipated to reach approximately 22,000 barrels of oil per day ("bopd"), approximately 5,000 bopd net to Ithaca (source: Sproule International Limited report for the Evaluation of the P&NG Reserves of Ithaca Energy UK Limited in the North Sea, with an effective date of December 31, 2011).

Greater Stella Area

Significant progress was made on the development of the Greater Stella Area ("GSA") in 2011.

In October 2011 the Corporation concluded its development concept select process for the GSA fields with the decision to create a production hub based on the deployment of a floating production unit located over the Stella field. The development concept involves the introduction of Petrofac, a global integrated energy services company listed on the FTSE 100 in London as a new strategic partner through the granting Petrofac the right to earn a 20% interest in the Stella / Harrier fields and the transfer of interests in the Hurricane and Helios discoveries. In addition Petrofac transferred ownership interests in the floating production unit to the existing co-venturers of Stella/Harrier. This created a fully integrated and aligned partnership for the GSA hub.

In October 2011, the Corporation also completed the acquisition of Challenger Minerals (North Sea) Ltd ("CMNSL"), subsequently renamed Ithaca Minerals (North Sea) Ltd. ("Ithaca Minerals"), from Transocean Drilling U.K. Limited for a consideration of $35 million; $25 million payable immediately and $10 million upon approval of the Stella / Harrier Field Development Plan by the DECC. This transaction increased the Corporation's interests in the Stella / Harrier fields, gave the Corporation a non-operated interest in the producing Broom field and access to additional undeveloped North Sea discoveries and exploration prospects, including the Crathes discovery which was successfully drilled in Q4 2011.

The Corporation also signed an agreement to divest a 25.34% interest in Block 29/10b, which contains the Hurricane field, to Dyas UK Limited ("Dyas"). The agreement has an effective date of January 1, 2011. In consideration for the interest, Dyas will pay its pro-rata share of costs incurred since the effective date.

As a result of the various transactions and subject to completion of the transfers and earn ins, the Company and its GSA co-venturers now have full field interest alignment across Stella / Harrier, Hurricane and Helios as follows:

Field	Block	Ithaca	Dyas	Petrofac
Stella / Harrier	30/6a	54.66%	25.34%	20%
Hurricane	29/10b	54.66%	25.34%	20%
Helios	29/10d	54.66%	25.34%	20%

Contract awards

As part of the Petrofac transactions executed in October 2011, a capped incentivized FPF-1 modification contract was signed.

In November 2011 the Corporation signed a contract with Ensco Offshore UK Limited to provide the jack up drilling unit 'Ensco 100' for development drilling on the Stella/Harrier fields. The campaign, which will include the drilling of 5 firm wells and up to 3 options for additional wells, is anticipated to commence on Stella in late 2012.

A contract was also signed with Awilco Drilling plc in November 2011 to provide a semi-submersible drilling unit for the drilling of the Hurricane appraisal well and performance of a well test. The drilling unit is anticipated to arrive on location in mid Q2 2012, later than originally expected due to delays in the drilling programmes currently being performed for other operators.

A contract was also placed with GE Oil & Gas to manufacture and supply subsea trees and controls systems as an integrated package for use on the Stella/Harrier fields. A competitive tendering process has also been undertaken for the procurement and installation of subsea infrastructure. Contract awards are scheduled for Q2 2012.

RESERVES RECONCILIATION

The reconciliation of movement in Sproule evaluated 2P reserves in 2011 is as follows:

		2P reserves mmboe
Opening reserves	January 1, 2011	46.0
Equity increase	Stella/Harrier	1.9
Equity decrease	Hurricane	-2.2
Purchase	Cook & Broom	5.4
Production	Producing fields	-1.6
Relinquishment	Garnet	-1.9
Purchase	SW Heather, Crathes, Scolty & Torphins	2.7
Closing reserves	**December 31, 2011**	**50.3**

HIGHLIGHTS SUBSEQUENT TO YEAR END

Corporate events

Ithaca announced on January 23, 2012, that it had received a confidential, non-binding proposal to acquire all of the outstanding shares of the Company whilst emphasizing that discussions were at a preliminary stage and there could be no certainty of an offer being made for the Company. Further to this, Ithaca also received unsolicited interest from a number of third parties. As a result, Ithaca advised that it believed that it is in the shareholders' best interests that the Company entered into discussions with all bona fide interested parties with a view to maximizing shareholder value. The process is still ongoing.

Swap options

In February 2012, the Corporation entered into two swap options to sell 768,800 barrels of oil of the Corporation's March 2012 – June 2013 forecast production at an average price of $116.07 per barrel.

Operatorship of Carna

In March 2012, the Company agreed to take over operatorship and increase its working interest in the Carna discovery, located in the Southern Gas Basin of the UK North Sea. The transaction with Centrica North Sea Gas Limited increases the Company's working interest in the Carna discovery from 16% to 32%.

Change to Small Field Allowance

In March 2012, the UK Government increased the Small Field Allowance ("SFA") tax shelter availability from the 32% Supplemental tax charge for small developments. The size of fields that qualify for full SFA was increased to include all fields with reserves of under 45 mmboe and the tax allowance available to each field has been doubled from approximately US$120million to US$240 million.

RESULTS OF OPERATIONS

Note that all comparatives for 2010 are restated in accordance with the transition to IFRS from January 1, 2010.

Revenue

Sales revenue decreased in 2011 to $129.1 million (2010 $135.1 million). This movement comprises a decrease in oil sales volumes, partially offset by an increase in average realized oil prices. The statement of income for the year reflects average production of 3,206 boepd including sales from the Cook and Broom acquisitions from their respective completion dates of August 25, 2011 and October 20, 2011. The additional revenue from the balance of the production post-effective but pre-completion dates is effectively offset against the capital cost of the acquisition. Sales from oil inventory add an additional average of 398 boepd to sales volumes for the year.

Oil sales volumes decreased primarily due to the combination of the expected natural decline in year on year production from the Jacky field and the operational issues experienced on the J01 well from Q2 2011 through to the beginning of Q3 2011. This was partially offset by the introduction of Cook and Broom revenue in Q4 2011 (Cook and Broom oil production is recorded as a credit to movement in oil inventory through cost of sales until oil has been lifted). The Corporation benefited from an increase in average realized oil prices from $80.37 / bbl in 2010 to $111.46 / bbl in 2011 as the Brent oil price continued to strengthen during the year.

The addition of gas production also contributed to revenue in 2011 (gas production commenced 17 December 2010). The combined gas sales from the Anglia, Topaz and Cook fields contributed over $12 million to revenue in 2011.

Cost of Sales

Cost of sales increased in 2011 to $95.1 million (2010 $61.1 million) due to increases in both operating costs and depletion, depreciation and amortization (“DD&A”) as well as movement in oil and gas inventory.

Operating costs increased in the period to $48.3 million (2010 $37.8 million) primarily due to the addition of Anglia, Topaz, Cook and Broom operating costs in 2011.

DD&A expense for the year ended December 31 increased to $31.4 million (2010 $23.3 million). This was due to the addition of the Anglia, Topaz, Cook and Broom assets as well as significant capital expenditure in the period. The DD&A expense was also impacted by the treatment of the Anglia, Topaz, Cook and CMNSL acquisitions as business combinations under IFRS 3 (refer to Changes in Accounting Policy note below for more details), resulting in higher rates for these fields. This gives a blended DD&A rate of $33.78/boe at December 31, 2011 compared to $20.52/boe in 2010.

An oil and gas inventory movement of $15.4 million was charged to cost of sales in 2011 (2010 $nil) primarily arising from differences between barrels produced and sold from the Cook field since August 25, 2011.

Administrative expenses and Exploration & Evaluation expenses

Administrative expenses increased in the period to $6.0 million (2010 $5.9 million). The continued growth of the corporation has resulted in a modest increase in general and administrative overheads with the majority of the growth in personnel numbers being focused on strengthening the production and development project teams.

Exploration and evaluation expenses of $0.8 million (2010 $1.1 million) were recorded due to the expensing of previously capitalized costs relating to areas where exploration and evaluation activities have ceased, partially offset by the release of $2.0 million of associated contingent consideration relating to those licenses and prospects. The main write offs relate to the relinquishment of the Garnet and Opal licences reported in Q1 2011.

Foreign exchange and Financial Instruments

A foreign exchange loss of $0.8 million was recorded in 2011 (2010 $0.8 million gain). The majority of the Corporation's revenue is US dollar driven whilst costs are primarily British pounds based. As such, general volatility in the USD:GBP exchange rate was the driver behind the foreign exchange loss in 2011 (USD:GBP at January 1 2011: 1.5500. USD:GBP at December 31, 2011: 1.5453 with fluctuations between 1.5270 and 1.6744 during the year). Greater volatility was mitigated by active currency management as described in the Risks and Uncertainties note below.

The Corporation recorded a $3.4 million loss on financial instruments for the year (2010 $9.3 million loss). The loss was predominantly due to a combination of a $6.5 million loss recorded from the revaluation of oil 'put options' held, partially offset by a $3.1 million gain on the revaluation of the Anglia gas sales contract embedded derivative.

Goodwill

Negative goodwill of $15.2 million was recorded in 2011 (2010 $Nil). $6.5 million related to the acquisition of the Cook asset while $8.7 million resulted from the Challenger Minerals (North Sea) Limited purchase. Negative goodwill arises when the cost of an acquisition is less than the Corporation's share of the fair value of the net assets acquired. This difference is recognized directly in the consolidated statement of income.

Taxation

A deferred tax charge of $1.2 million was recognized in the year ended December 31, 2011 (2010: $3.9 million credit) representing an effective tax rate of 3%. This rate is a product of adjustments to taxable income relating to negative goodwill, the UK Ring Fence Expenditure Supplement, share based payments, and the changes in UK Corporation Tax rates for upstream and non-upstream oil and gas activities.

No tax is expected to be paid in the mid-term future relating to upstream oil and gas activities.

As a result of the above factors, Profit after tax decreased to $35.9 million (2010 $61.9 million).

SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of quarterly results of the Corporation for its eight most recently completed quarters:

	Restated							
	31/12/2011 $'000	30/09/2011 $'000	30/06/2011 $'000	31/03/2011 $'000	31/12/2010 $'000	30/09/2010 $'000	30/06/2010 $'000	31/03/2010 $'000
Revenue	54,870	26,415	16,724	31,050	34,260	35,965	34,129	30,767
Profit after tax	13,378	15,957	2,743	3,789	17,650	18,073	14,098	12,108
Earnings per share								
Basic	0.05	0.06	0.01	0.01	0.07	0.08	0.09	0.07
Diluted	0.05	0.06	0.01	0.01	0.07	0.08	0.09	0.07

The most significant factors to have affected the Corporation's results during the above quarters are fluctuation in underlying commodity prices and movement in production volumes. Commodity prices have generally risen through the periods. The Corporation has utilized forward sales contracts and foreign exchange contracts to take advantage of higher commodity prices while reducing the exposure to price volatility. These contracts can cause volatility in profit after tax as a result of unrealized gains and losses due to movements in the oil price and USD : GBP exchange rate.

Each of the quarters from Q4 2010 to Q3 2011 has been restated following the Corporation’s election to present all acquisitions since the IFRS transition date as business combinations in accordance with IFRS 3(R). Refer to the Changes in Accounting Policies note below for more details.

FOURTH QUARTER

Oil and gas sales revenue increased from $33.7 million in Q4 2010 to $54.5 million in Q4 2011. The increase was predominantly due to the addition of Cook and Broom in 2011, contributing $35.8 million to Q4 oil sales, partially offset by an expected decline in Beatrice and Jacky revenues. Moreover, there was an increase in average realized oil prices from $90.25 in Q4 2010 to $110.33 / bbl in Q4 2011 and the addition of a full quarter of gas production from the gas producing assets Anglia, Topaz and Cook (gas production from Anglia and Topaz commenced December 17, 2010).

Cost of sales increased to $48.8 million (Q4 2010: $17.4 million). The main driver behind the increase in costs of sales in Q4 2011 was the movement in inventory of $22.6 million, which is primarily due to barrels produced and sold from the Cook field (acquired August 25, 2011). In addition, DD&A was increased due to the treatment of all acquisitions as business combinations under IFRS 3, inflating the DD&A rates for Anglia, Topaz, Cook and Broom.

SELECTED ANNUAL INFORMATION

The consolidated financial statements of the Corporation and the financial data contained in the MD&A are prepared in accordance with IFRS. The consolidated financial statements include the accounts of Ithaca and its wholly-owned subsidiaries Ithaca Energy (UK) Limited ("Ithaca UK") and Ithaca Minerals and its associate FPU Services. All inter-company transactions and balances have been eliminated on consolidation. A significant portion of the Corporation's North Sea oil and gas activities are carried out jointly with others. The consolidated financial statements reflect only the Corporation's proportionate interest in such activities.

The following table sets forth selected consolidated financial information of the Corporation for its three most recently completed fiscal years.

Year ended December 31, *($'000)*	2011	2010	2009
Total revenues	129,059	135,121	110,812
Net Earnings	35,867	61,931	7,938
Total assets	804,674	589,186	309,140
Total long-term liabilities	195,129	54,437	10,674

Net gain per share ($)	0.14	0.31	0.05
Net gain per share diluted basis ($)	0.14	0.30	0.05

2010 figures have been restated following the Corporation's election to present all acquisitions since the IFRS transition date as business combinations in accordance with IFRS 3(R). Refer to the Changes in Accounting Policies note below for more details. Comparative figures for 2009 have been reported under Canadian GAAP.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2011, Ithaca had working capital of $108.5 million including a free cash balance of $95.5 million. Available cash has been, and is currently, invested in money market deposit accounts with Lloyds Banking Group ("Lloyds"). Management has received confirmation from the financial institution that these funds are available on demand. The restricted cash of $16.5 million comprises $16.2 million currently held by Lloyds as decommissioning security provided as part of the acquisitions of the Anglia and Cook fields (with release dates of: February 29, 2012 ($1 million), March 30, 2012 ($6 million) and December 31, 2012 ($9.2 million)) and $0.3 million also held by Lloyds as cash security for a bank guarantee provided to the Crown Estate as part of the Field Development Plan approval for the Jacky Field (release date of December 23, 2012).

At December 31, 2011, Ithaca has unused credit facilities currently totalling $140 million.

During the year ended December 31, 2011 there was a cash outflow from operating, investing and financing activities of $100.0 million (2010 inflow of $165.7 million). The net outflow was due to a cash inflow from operating activities of $103.5 million offset by a cash outflow from investing activities of $192.0 million, and a cash outflow from financing activities of $10.4 million. The remainder of the movement was due to foreign exchange on non US Dollar denominated cash deposits. This overall free cash outflow is the product of the acquisition of the Cook field, the acquisition of CMNSL, significant development capital expenditure on the Athena field, J03 well drilling costs and J01 well ESP replacement operations on Jacky, and the purchase of long lead items for the Greater Stella Area, offset by cash generated from Beatrice, Jacky, Anglia, Topaz, Cook and Broom operations.

A significant proportion of Ithaca's accounts receivable balance is with customers in the oil and gas industry and is subject to normal industry credit risks. The Corporation assesses partners' credit worthiness before entering into farm-in or joint venture agreements. The Corporation regularly monitors all customer receivable balances outstanding in excess of 90 days. As at December 31, 2011 99% of the accounts receivable is current, being defined as less than 90 days. In the past, the Corporation has not experienced credit loss in the collection of accounts receivable.

The Corporation continues to be fully funded, with more than sufficient financial resources to cover the anticipated level of development capital expenditure commitments and to continue the pursuit of both additional asset acquisition opportunities and licencing round participation through its existing cash balance, forecast cashflow from operations and its undrawn debt facility. No unusual trends or fluctuations are expected outside the ordinary course of business.

COMMITMENTS

The Corporation has the following financial commitments:

	1 year	2-5 years	More than 5 years
	US$'000	US$'000	US$'000
Office lease	247	989	309
Exploration license fees	591	-	-
Engineering	46,965	33,419	-
Total	47,804	34,408	309

The engineering financial commitments relate to pre-development committed capital expenditure on the Stella and Hurricane fields as well as ongoing capital and operating expenditure on the Athena, Beatrice and Jacky fields. As stated above, these commitments are expected to be funded through the Corporation's existing cash balance, forecast cashflow from operations and its undrawn debt facility.

OUTSTANDING SHARE INFORMATION

As at December 31, 2011 Ithaca had 259,164,461 common shares outstanding along with 17,506,839 options outstanding to employees and directors to acquire common shares.

As at March 28, 2012, the number of common shares outstanding has not changed. Options outstanding to employees and directors to acquire common shares have increased to 17,906,839.

CRITICAL ACCOUNTING ESTIMATES

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These accounting policies are discussed below and are included to aid the reader in assessing the critical accounting policies and practices of the Corporation and the likelihood of materially different results being reported. Ithaca's management reviews these estimates regularly. The emergence of new information and changed circumstances may result in actual results or changes to estimated amounts that differ materially from current estimates.

The following assessment of significant accounting policies and associated estimates is not meant to be exhaustive. The Corporation might realize different results from the application of new accounting standards promulgated, from time to time, by various rule-making bodies.

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

A review is carried out each reporting date for any indication that the carrying value of the Corporation's Development & Production ("D&P") assets may be impaired. For D&P assets where there are such indications, an impairment test is carried out on the Cash Generating Unit ("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 Statement of Income.

Goodwill is tested annually for impairment and also when circumstances indicate that the carrying value may be at risk of being impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the Statement of Income. Impairment losses relating to goodwill cannot be reversed in future periods.

Recognition of decommissioning liabilities associated with oil and gas wells are determined using estimated costs discounted based on the estimated life of the asset. In periods following recognition, the liability and associated asset are adjusted for any changes in the estimated amount or timing of the settlement of the obligations. The liability is accreted up to the actual expected cash outlay to perform the abandonment and reclamation. 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.

All financial instruments (including derivatives, financial assets and liabilities) are initially recognized at fair value on the balance sheet. The Corporation's financial instruments consist of cash, restricted cash, accounts receivable, deposits, derivatives, accounts payable, accrued liabilities and the long term liability on the Beatrice acquisition. Measurement in subsequent periods is dependent on the classification of the respective financial instrument.

In order to recognize share based payment expense, the Corporation estimates the fair value of stock options granted using assumptions related to interest rates, expected life of the option, volatility of the underlying security and expected dividend yields. These assumptions may vary over time.

The determination of the Corporation's income and other tax liabilities / assets requires interpretation of complex laws and regulations. Tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded on the financial statements.

The accrual method of accounting will require management to incorporate certain estimates of revenues, production costs and other costs as at a specific reporting date. In addition, the Corporation must estimate capital expenditures on capital projects that are in progress or recently completed where actual costs have not been received as of the reporting date.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has certain lease agreements and rig commitments which were entered into in the normal course of operations, all of which are disclosed under the heading "Commitments", above. Leases are treated as either operating leases or finance leases based on the extent to which risks and rewards incidental to ownership lie with the lessor or the lessee under IAS 17. No asset or liability value has been assigned to any leases on the balance sheet as at December 31, 2011.

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 2011 was $0.2 million (2010 - $0.6 million). All related party transactions are in the normal course of business and are conducted on normal commercial terms with consideration comparable to those charged by third parties.

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 Corporation is dependent upon the production rates and oil price to fund the current development program. In order to mitigate the Corporation's risk to fluctuations in oil price, the Corporation has taken out a number of commodity derivatives. In March 2011, a put option to sell 804,500 bbls of the Corporation's 2011 forecast production at $105 / bbl was entered into. In April 2011 a further put option to sell an additional 300,000 bbls of the Corporation's forecast 2011 production at $115 / bbl was entered into. These options guaranteed a minimum price on the specified volumes of oil and left the Corporation to benefit from any oil price upside above $105 and $115 per barrel respectively. Due to movements in oil prices during the year, the $105 per barrel option expired with no gain or loss realized in excess of the put premium and the $115 per barrel option expired with a net cost of $1.9 million including the put option premium.

In February 2012, the Corporation entered into two swap options: to sell 268,800 bbls of the Corporation's March 2012 – December 2012 forecast production at a fixed price of $121.32/bbl; and to sell 500,000 bbls of the Corporation's forecast July 2012 – June 2013 production at $113.25 per barrel.

The Corporation is exposed to financial risks including financial market volatility, fluctuation in interest rates and various foreign exchange rates. Given the increasing development expenditure and operating costs in currencies other than the United States dollar, the Board of Directors of the Corporation has a hedging policy to mitigate foreign exchange rate risk on committed expenditure. In 2011 in order to protect against movements in USD:GBP exchange rates, the Corporation held GBP denominated cash on deposit in order to match the forecast 2011 GBP denominated expenditure. In November 2011, the Corporation entered into a forward extra plus contract with Lloyds to hedge its forecast GBP 2012 operating costs, including general and administrative expenses. The hedge amounts to $4 million per month (total $48 million) at a USD:GBP rate of no worse than $1.60/£1.0 while benefiting in any improvement of the rate down to a trigger rate of $1.40/£1.00. If the trigger rate is reached in any month the conversion rate realized for that month is $1.58/£1.00.

A further risk relates to the Corporation's ability to meet the conditions precedent for a full drawdown on the Corporation's credit facility with the Bank of Scotland (the "Credit Facility"). Ability to drawdown the Credit Facility is based on the Corporation meeting certain covenants including coverage ratio tests, liquidity tests and development funding tests which are determined by a detailed economic model of the Corporation.

There can be no assurance that the Corporation will satisfy such tests in order to have access to the full amount of the Credit Facility, however at present the Corporation believes that there are no circumstances present that result in failure to meet those tests and can therefore draw down upon its Credit Facility.

In addition, the Credit Facility contains the aforementioned covenants that require the Corporation to meet certain financial tests and that restrict, among other things, the ability of Ithaca to incur additional debt or dispose of assets. To the extent the cash flow from operations is ever deemed not adequate to fund Ithaca's cash requirements, external financing may be required. Lack of timely access to such additional financing, or which may not be on favorable terms, could limit the future growth of the business of Ithaca. To the extent that external sources of capital, including public and private markets, become limited or unavailable, Ithaca's ability to make the necessary capital investments to maintain or expand its current business and to make necessary principal payments under the Credit Facility may be impaired. At present the Corporation believes that there are no circumstances present that result in failure to meet those certain financial tests. Access to the full Credit Facility will probably require syndication of the debt, the success of which at the current Credit Facility pricing levels will be influenced by the volatility in European bank liquidity.

A failure to access adequate capital to continue its expenditure program may require that the Corporation meet any liquidity shortfalls through the selected divestment of its portfolio or delays to existing development programs. As is standard to a credit facility, the Corporation's and Ithaca UK assets have been pledged as collateral and are subject to foreclosure in the event the Corporation or Ithaca UK defaults. At present the Corporation believes that there are no circumstances present that would lead to selected divestment, delays to existing programs or a default relating to the Credit Facility.

The Corporation is and may in the future be exposed to third-party credit risk through its contractual arrangements with its current and future joint venture partners, marketers of its petroleum production and other parties. The Corporation extends unsecured credit to these parties, and therefore, the collection of any receivables may be affected by changes in the economic environment or other conditions. Management believes the risk is mitigated by the financial position of the parties. All of the Corporation's oil production from the Beatrice, Jacky, and forthcoming Athena fields is sold to BP Oil International Limited. Oil production from Cook and Broom is sold to Shell Trading International Ltd. Anglia and Topaz gas production is currently sold through three contracts to RWE NPower PLC and Hess Energy Gas Power (UK) Ltd. Cook gas is sold to Shell UK Ltd. and Esso Exploration & Production UK Ltd. The Corporation has not experienced any material credit loss in the collection of accounts receivable to date.

The Corporation's properties will be generally held in the form of licenses, concessions, permits and regulatory consents ("Authorizations"). The Corporation's activities are dependent upon the grant and maintenance of appropriate Authorizations, which may not be granted; may be made subject to limitations which, if not met, will result in the termination or withdrawal of the Authorization; or may be otherwise withdrawn. Also, in the majority of its licenses, the Corporation is often a joint interest-holder with another third party over which it has no control. An Authorization may be revoked by the relevant regulatory authority if the other interest-holder is no longer deemed to be financially credible. There can be no assurance that any of the obligations required to maintain each Authorization will be met. Although the Corporation believes that the Authorizations will be renewed following expiry or granted (as the case may be), there can be no assurance that such Authorizations will be renewed or granted or as to the terms of such renewals or grants. The termination or expiration of the Corporation's Authorizations may have a material adverse effect on the Corporation's results of operations and business.

In addition, the areas covered by the Authorizations are or may be subject to agreements with the proprietors of the land. If such agreements are terminated, found void or otherwise challenged, the Corporation may suffer significant damage through the loss of opportunity to identify and extract oil or gas.

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. All of the Corporation's operations are conducted offshore in the UKCS; as such Ithaca is exposed to operational risk associated with weather delays that can result in a material delay in project execution. Third parties operate some of the assets in which the Corporation has interests. As a result, the Corporation may have limited ability to exercise influence over the operations of these assets and their associated costs. The success and timing of these activities may be outside the Corporation's control.

For additional detail regarding the Corporation’s risks and uncertainties, refer to the Corporation’s most recent AIF filed on SEDAR at www.sedar.com.

CONTROL ENVIRONMENT

As of December 31, 2011, there were no changes in our internal control over financial reporting that occurred during 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Based on their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements and even those options determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2011, the Corporation adopted IFRS using a transition date of January 1, 2010. The financial statements for the year ended December 31, 2011, including required comparative information, have been prepared in accordance with International Financial Reporting Standards 1, *First-time Adoption of International Financial Reporting Standard,* as issued by the International Accounting Standards Board ("IASB"). Previously, the Corporation prepared its Interim and Annual Consolidated Financial Statements in accordance with Canadian GAAP. Refer to Note 27 of the Consolidated Financial Statements for the Corporation’s assessment of impacts of the transition to IFRS.

Following the introduction of IFRS the Corporation initially accounted for the acquisitions of the non-operated interests in the Cook field and of CMNSL as asset acquisitions. In Q4 2011 the Company subsequently elected to present all acquisitions since the IFRS transition date as business combinations in accordance with IFRS 3(R). This has resulted in a restatement of the original accounting for the Cook acquisition (in 3Q 2011) and the acquisition of gas assets from GDF (in 4Q 2010) as shown in previous interim statements during 2011.

One impact of accounting for acquisitions as business combinations is the recognition of asset values, upon which the DD&A rate is calculated as pre-tax fair values and the recognition of a deferred tax liability on estimated future cash flows. With current tax rates at 62% this increases the DD&A charge for such assets. An offsetting reduction of approximately the same value is recognized in the deferred tax charged through the consolidated statement of income.

IMPACT OF FUTURE ACCOUNTING CHANGES

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.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

All financial instruments are initially measured in the balance sheet at fair value. Subsequent measurement of the financial instruments is based on their classification. The Corporation has classified each financial instrument into one of these categories: held-for-trading, held-to-maturity investments, loans and receivables, or other financial liabilities. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest rate method. For all financial assets and financial liabilities that are not classified as held-for-trading, the transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are adjusted to the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest rate method and are recorded within interest expense. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income.

All derivative instruments are recorded in the balance sheet at fair value unless they qualify for the expected purchase, sale and usage exemption. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Corporation has classified its cash and cash equivalents, restricted cash, derivatives, commodity hedge and long term liability as held-for-trading, which are measured at fair value with changes being recognized in net income. Accounts receivable are classified as loans and receivables; operating bank loans, accounts payable and accrued liabilities are classified as other liabilities, all of which are measured at amortized cost. The classification of all financial instruments is the same at inception and at December 31, 2011.

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

	Year ended 31 Dec	
	2011	2010
	US$'000	US$'000
Unrealized (loss) on forex forward contracts	**(510)**	(686)
Realized (loss) on forex forward contracts	**-**	(4,442)
Revaluation of gas contract	**3,099**	-
Revaluation of other long term liability	**87**	(154)
Contingent consideration	**2,000**	(4,044)
Unrealized (loss) on commodity hedges	**(6,159)**	(48)
Realized (loss) on commodity hedges	**70**	62
Total (loss) on financial instruments	**(1,413)**	(9,312)

The contingent consideration of $2 million relating to the relinquinshment of Opal and Garnet prospects in Q1 2011 was released to the statement of income through E&E expense.

FORWARD-LOOKING INFORMATION

This MD&A and any documents incorporated by reference herein contain certain forward-looking statements and forward-looking information which are based on the Corporation's internal expectations, estimates, projections, assumptions and beliefs as at the date of such statements or information, including, among other things, assumptions with respect to production, future capital expenditures and cash flow. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "plan", "should", "believe", "could", “scheduled”, “targeted” and similar expressions are intended to identify forward-looking statements and forward-looking information. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements or information. The Corporation believes that the expectations reflected in those forward-looking statements and information are reasonable but no assurance can be given that these expectations, or the assumptions underlying these expectations, will prove to be correct and such forward-looking statements and information included in this MD&A and any documents incorporated by reference herein should not be unduly relied upon. Such forward-looking statements and information speak only as of the date of this MD&A and any documents incorporated by reference herein and the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, except as required by applicable laws.

In particular, this MD&A and any documents incorporated by reference herein, contains specific forward-looking statements and information pertaining to the following:

- the quality of and future net revenues from the Corporation’s reserves;

- oil, natural gas liquids ("NGLs") and natural gas production levels;
- commodity prices, foreign currency exchange rates and interest rates;
- capital expenditure programs and other expenditures;
- the sale, farming in, farming out or development of certain exploration properties using third party resources;
- supply and demand for oil, NGLs and natural gas;
- the Corporation's ability to raise capital;
- the Corporation's acquisition strategy, the criteria to be considered in connection therewith and the benefits to be derived therefrom;
- the Corporation's ability to continually add to reserves;
- schedules and timing of certain projects and the Corporation's strategy for growth;
- the Corporation's future operating and financial results;
- the ability of the Corporation to optimize operations and reduce operational expenditures;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws;
- production rates;
- targeted production levels;
- timing and cost of the development of the Corporation's reserves; and
- estimates of production volumes and reserves in connection with the acquisitions of the Cook field and CMNSL.

With respect to forward-looking statements contained in this MD&A and any documents incorporated by reference herein, the Corporation has made assumptions regarding, among other things:

- Ithaca's ability to obtain additional drilling rigs and other equipment in a timely manner, as required;
- Access to third party hosts and associated pipelines can be negotiated and accessed within the expected timeframe;
- Field development plan approval and operational construction and development is obtained within expected timeframes;
- The Corporation's development plan for the Stella and Harrier discoveries will be implemented as planned;
- Reserves volumes assigned to Ithaca's properties;
- Ability to recover reserves volumes assigned to Ithaca's properties;
- Revenues do not decrease below anticipated levels and operating costs do not increase significantly above anticipated levels;
- future oil, NGLs and natural gas production levels from Ithaca's properties and the prices obtained from the sales of such production;
- the level of future capital expenditure required to exploit and develop reserves;
- Ithaca's ability to obtain financing on acceptable terms, in particular, the Corporation's ability to access the Credit Facility;
- Ithaca's reliance on partners and their ability to meet commitments under relevant agreements; and

- the state of the debt and equity markets in the current economic environment.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements and information as a result of assumptions proving inaccurate and of both known and unknown risks, including the risk factors set forth in this MD&A and under the heading "Risk Factors" in the AIF and the documents incorporated by reference herein, and those set forth below:

- risks associated with the exploration for and development of oil and natural gas reserves in the North Sea;
- risks associated with offshore development and production including transport facilities;
- operational risks and liabilities that are not covered by insurance;
- volatility in market prices for oil, NGLs and natural gas;
- the ability of the Corporation to fund its substantial capital requirements and operations;
- risks associated with ensuring title to the Corporation's properties;
- changes in environmental, health and safety or other legislation applicable to the Corporation's operations, and the Corporation's ability to comply with current and future environmental, health and safety and other laws;
- the accuracy of oil and gas reserve estimates and estimated production levels as they are affected by the Corporation's exploration and development drilling and estimated decline rates;
- the Corporation's success at acquisition, exploration, exploitation and development of reserves;
- the Corporation's reliance on key operational and management personnel;
- the ability of the Corporation to obtain and maintain all of its required permits and licenses;
- competition for, among other things, capital, drilling equipment, acquisitions of reserves, undeveloped lands and skilled personnel;
- changes in general economic, market and business conditions in Canada, North America, the United Kingdom, Europe and worldwide, specifically being the unavailability of the debt and equity markets to the Corporation during the current economic crisis;
- actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws, royalty rates and incentive programs relating to the oil and gas industry including the recent increase in UK taxes;
- adverse regulatory rulings, orders and decisions;
- risks associated with the nature of the common shares; and
- the impact of adoption of IFRS as opposed to GAAP from January 1, 2011.

Statements relating to reserves are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves described can be profitably produced in the future. Many of these risk factors, other specific risks, uncertainties and material assumptions are discussed in further detail throughout the AIF and in the MD&A. Readers are specifically referred to the risk factors described in the AIF under "Risk Factors" and in other documents the Corporation files from time to time with securities regulatory authorities. Copies of these documents are available without charge from Ithaca or electronically on the internet on Ithaca's SEDAR profile at www.sedar.com.

The estimates of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties, due to the effects of aggregation.

2011
CONSOLIDATED FINANCIAL STATEMENTS

General Information

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John Patrick Summers
Jack C. Lee
Frank Wormsbecker
Jay Zammit
Ron Brennerman
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Independent Auditors' Report

To the Shareholders of Ithaca Energy Inc.

We have audited the accompanying consolidated financial statements of Ithaca Energy Inc and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2011, 31 December 2010 and 1 January 2010 and the consolidated statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the years ended 31 December 2011 and 31 December 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information .

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Ithaca Energy Inc and its subsidiaries as at 31 December 2011, 31 December 2010 and 1 January and their financial performance and their cash flows for the years ended 31 December 2011 and 31 December 2010 in accordance with International Financial Reporting Standards.

"PricewaterhouseCoopers LLP"

PricewaterhouseCoopers LLP
Chartered Accountants
Aberdeen, United Kingdom
28 March 2012

Consolidated Statement of Income

For the year ended 31 December 2011

	Note	Year ended 31 December **2011** **US$'000**	2010 US$'000
Revenue	*4*	**129,059**	135,121
Cost of sales	*5*	**(95,127)**	(61,132)
Gross Profit		**33,932**	73,989
Exploration and evaluation expenses	*10*	**(791)**	(1,119)
Administrative expenses	*6*	**(5,982)**	(5,930)
Foreign exchange		**(755)**	818
Operating Profit		**26,404**	67,758
(Loss) on financial instruments	*23*	**(3,413)**	(9,312)
Negative goodwill	*12*	**15,210**	-
Profit Before Interest and Tax		**38,201**	58,447
Finance costs	7	**(1,521)**	(564)
Interest income		**434**	112
Profit Before Tax		**37,114**	57,994
Taxation - Deferred tax	*21*	**(1,246)**	3,936
Profit After Tax		**35,868**	61,930
Earnings per share (US$ per share)			
Basic	*20*	**0.14**	0.34
Diluted	*20*	**0.14**	0.33

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 results above are entirely derived from continuing operations.

The notes on pages 8 to 32 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position
as at 31 December 2011

	Note	**31 Dec 2011 US$'000**	31 Dec 2010 US$'000	1 Jan 2010 US$'000
ASSETS				
Current assets				
Cash and cash equivalents		**95,545**	195,581	29,886
Restricted cash	*8*	**16,510**	352	5,224
Accounts receivable		**80,960**	93,434	67,166
Deposits, prepaid expenses and other		**8,793**	12,341	352
Inventory	*9*	**8,836**	-	-
Derivative financial instruments	*24*	**-**	-	685
		210,644	301,708	103,313
Non-current assets				
Restricted cash	*8*	**-**	5,956	352
Exploration and evaluation assets	*10*	**22,689**	17,832	15,500
Property, plant & equipment	*11*	**570,356**	258,960	189,975
Goodwill	*13*	**985**	985	-
		594,030	283,733	205,827
Total assets		**804,674**	585,441	309,140
LIABILITIES AND EQUITY				
Current Liabilities				
Trade and other payables		**102,136**	75,566	43,613
Derivative financial instrument		**-**	349	397
		102,136	75,915	44,010
Non-current liabilities				
Decommissioning liabilities	*15*	**39,382**	23,652	8,751
Other long term liabilities	*16*	**2,785**	2,872	2,718
Deferred tax liability	*21*	**126,534**	6,814	-
Contingent consideration	*17*	**24,580**	12,976	6,933
Derivative financial instruments	*24*	**1,846**	4,378	-
		195,127	50,692	18,402
Net Assets		**507,411**	458,834	246,728
Shareholders' Equity				
Share capital	*18*	**429,502**	422,372	277,075
Share based payment reserve	*19*	**17,318**	11,427	6,860
Warrants issued	*18*	**-**	311	-
Retained earnings / (deficit)		**60,591**	24,723	(37,207)
Shareholders' Equity		**507,411**	458,834	246,728

The financial statements were approved by the Board of Directors on 28 March 2012 and signed on its behalf by:

"John Summers"
Director

"Jay Zammit"
Director

The notes on pages 8 to 32 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share Capital	Share based payment reserve	Warrants Issued	Retained E'ings/(Deficit)	Total
	US$'000	US$'000	US$'000	US$'000	US$'000
Balance, 1 Jan 2010	277,075	6,860	-	(37,207)	246,728
Net income for the period	-	-	-	61,930	61,930
Total comprehensive income	277,075	6,860	-	24,723	308,658
Transactions with owners					
Share based payment	-	4,840	-	-	4,840
Options exercised	578	(273)	-	-	305
Issued for cash	153,248	-	-	-	153,248
Share issue costs	(8,528)	-	-	-	(8,528)
Warrants issued	-	-	311	-	311
Balance, 31 Dec 2010	**422,373**	**11,427**	**311**	**24,723**	**458,834**
Balance, 1 Jan 2011	422,373	11,427	311	24,723	458,834
Net income for the period	-	-	-	35,868	35,868
Total comprehensive income	422,373	11,427	311	60,591	494,702
Transactions with owners					
Share based payment	-	6,351	-	-	6,351
Options exercised	1,032	(460)	-	-	572
Warrants exercised	6,097	-	(311)	-	5,786
Balance, 31 Dec 2011	**429,502**	**17,318**	**-**	**60,591**	**507,411**

The notes on pages 8 to 32 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow
For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
CASH PROVIDED BY (USED IN):		
Operating activities		
Profit Before Tax	**37,114**	57,994
Adjustments for:		
Depletion, depreciation and amortisation	**31,447**	23,281
Exploration and evaluation write off	**2,791**	1,119
Share based compensation	**1,399**	2,097
Loan fee amortisation	**311**	155
Unrealised (gain) / loss on financial instruments	**3,483**	713
Revaluation of contingent consideration	**(2,000)**	4,044
Movement in goodwill	**(15,210)**	-
Accretion	**858**	283
Cashflow from operations	**60,193**	89,686
Changes in inventory, debtors and creditors relating to operating activities	**43,276**	(836)
Net cash from operating activities	**103,469**	88,850
Investing activities		
Capital expenditure		
Oil and gas assets	**(128,477)**	(63,055)
Business acquisitions	**(77,342)**	-
Non oil and gas assets	**(705)**	(313)
Decommissioning	**(358)**	-
Changes in debtors and creditors relating to investing activities	**14,877**	(2,765)
Net cash used in investing activities	**(192,005)**	(66,132)
Financing activities		
Proceeds from issuance of shares	**6,356**	153,554
Share issue costs	-	(8,529)
(Increase) / decrease in restricted cash	**(10,202)**	(732)
Loan issue costs	-	(962)
Derivatives	**(6,508)**	-
Net cash used in/from financing activities	**(10,354)**	143,330
Currency translation differences relating to cash	**(1,146)**	(353)
(Decrease) / increase in cash & cash equivalents	**(100,036)**	165,695
Cash and cash equivalents, beginning of period	**195,581**	29,886
Cash and cash equivalents, end of period	**95,545**	195,581

The notes on pages 8 to 32 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. NATURE OF OPERATIONS

Ithaca Energy Inc. (the "**Corporation**" or "**Ithaca**"), incorporated and domiciled in Alberta, Canada on 27 April 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. As of November 1, 2011 the Corporation's shares have traded on the Toronto Stock Exchange in Canada (previously the TSX Venture Exchange). The Corporation's shares continue to trade on the London Stock Exchange's Alternative Investment Market in the United Kingdom under the symbol "**IAE**". Ithaca has two wholly-owned subsidiaries, Ithaca Energy (UK) Limited ("**Ithaca UK**") and Ithaca Minerals (North Sea) Ltd ("**Ithaca Minerals**"), which was acquired on 19 October 2011, both incorporated in Scotland. See note 12 for further details of the acquisition. Ithaca also has one associate, FPU Services Limited ("**FPU Services**"), incorporated in Jersey.

The consolidated financial statements of Ithaca Energy Inc. for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the directors on March 28 2012.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

The Corporation prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), including IFRS 1 First Time Adoption of IFRS. Subject to certain transition elections disclosed in note 27, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at 1 January 2010 and throughout all periods presented, as if these policies had always been in effect. Note 27 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 31 December 2010.

The consolidated financial statements should be read in conjunction with the Corporation's Canadian GAAP annual financial statements for the year ended 31 December 2010. Note 27 discloses IFRS information for the year ended 31 December 2010 not provided in the 2010 annual financial statements.

The consolidated financial statements are presented in US dollars and all values are rounded to the nearest thousand (US$ 000), except when otherwise indicated.

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.

Basis of consolidation

The consolidated financial statements of the Corporation include the accounts of Ithaca Energy Inc. and the wholly-owned subsidiaries Ithaca Energy (UK) Ltd and Ithaca Minerals (North Sea) Ltd (from 19 October 2011, the acquisition date). 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.

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of completion of the acquisition. Acquisition costs incurred are expensed and included in administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the Corporation's share of the net assets required, the difference is recognised directly in the statement of income.

Goodwill

Capitalisation

Goodwill acquired through business combinations is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised as the fair value of the Corporation's share of the identifiable net assets acquired and liabilities assumed. If this consideration is lower than the fair value of the identifiable assets acquired, the difference is recognised in the statement of income.

Impairment

Goodwill is tested annually for impairment and also when circumstances indicate that the carrying value may be at risk of being impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash generating unit ("CGU") to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

Joint Ventures

The Corporation is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The Corporation accounts for its share of the results and net assets of these joint ventures as jointly controlled assets.

Revenue

Oil, gas and condensate revenues associated with the sale of the Corporation’s crude oil and natural gas are recognised when title passes to the customer. This generally occurs when the product is physically transferred into a vessel, pipe or other delivery mechanism. Revenues from the production of oil and natural gas properties in which the Corporation has an interest with joint venture partners are recognised on the basis of the Corporation’s working interest in those properties (the entitlement method). Differences between the production sold and the Corporation’s share of production are recognised within cost of sales at market value.

Interest income is recognised on an accruals basis and is separately recorded on the face of the statement of income.

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 subsidiaries operate (the ‘functional currency’). The consolidated financial statements are presented in United States Dollars, which is the Corporation’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 recognised in the statement of income.

Share based payments

The Corporation has a share based payment plan as described in note 18 (c). The Corporation's proportionate share of expense is recorded in the statement of income or capitalised for all options granted in the year, with the gross increase recorded in the share based payment reserve. Compensation costs are based on the estimated fair values at the time of the grant and the expense or capitalised amount is recognised over the vesting period of the options. Upon the exercise of the stock options, consideration paid together with the amount previously recognised in share based compensation reserve is recorded as an increase in share capital. In the event that vested options expire unexercised, previously recognised compensation expense associated with such stock options is not reversed. In the event that unvested options are forfeited or expired, previously recognised 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 statement of financial position 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 recognised at fair value on the statement of financial position. The Corporation's financial instruments consist of cash, restricted cash, accounts receivable, deposits, derivatives, accounts payable, accrued liabilities, contingent consideration and the long term liability acquired as part of the Beatrice field 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 recognised in net earnings. All other categories of financial instruments are measured at amortised 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 amortised to consolidated net earnings over the life of the financial instrument using the effective interest method.

Analyses of the fair values of financial instruments and further details as to how they are measured are provided in notes 23 to 25.

Inventory

Inventories of materials and product inventory supplies, other than oil and gas inventories, are stated at the lower of cost and net realisable 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 statement of income 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 are written off to the statement of income in the period the relevant events occur.

Impairment

The Corporation's oil and gas assets are analysed into 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 statement of income.

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 statement of income.

(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. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the field location. 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

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred tax is recognised 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 realisation is considered more likely than not.

Operating leases

Rentals under operating leases are charged to the statement of income on a straight line basis over the period of the lease.

Maintenance expenditure

Expenditure on major maintenance refits or repairs is capitalised where it enhances the life or performance of an asset above its originally assessed standard of performance; replaces an asset or part of an asset which was separately depreciated and which is then written off, or restores the economic benefits of an asset which has been fully depreciated. All other maintenance expenditure is charged to the statement of income as incurred.

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 1 January 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. The Corporation has not decided 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, 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. Further information on each of these estimates is included within the notes to the financial statements.

4. REVENUE

	Year ended 31 Dec	
	2011	2010
	US$'000	US$'000
Oil sales	**112,806**	131,560
Gas sales	**12,429**	739
Condensate sales	**995**	52
Other income	**2,830**	2,770
Total	**129,059**	135,120

5. COST OF SALES

	Year ended 31 Dec	
	2011	2010
	US$'000	US$'000
Operating costs	**(48,295)**	(37,836)
Movement in oil and gas inventory	**(15,385)**	(15)
Depletion, depreciation and amortisation	**(31,447)**	(23,281)
	(95,127)	(61,132)

6. ADMINISTRATIVE EXPENSES

	Year ended 31 Dec	
	2011	2010
	US$'000	US$'000
General & administrative	**(4,584)**	(3,833)
Share based payment	**(1,398)**	(2,097)
	(5,982)	(5,930)

7. FINANCE COSTS

	Year ended 31 Dec	
	2011	2010
	US$'000	US$'000
Accretion	**(858)**	(283)
Bank charges	**(352)**	(126)
Loan amortisation	**(311)**	(155)
	(1,521)	(564)

8. RESTRICTED CASH

	31 Dec	31 Dec	1 Jan
	2011	2010	2010
	US$'000	US$'000	US$'000
Decommissioning security	**16,167**	5,956	-
Other security	**343**	352	5,576
	16,510	6,308	5,576

Restricted cash of $16.2 million is held by Lloyds as decommissioning security in respect of the Corporation's interests in the Anglia and Cook fields with maturity dates of: 29 February 2012 ($1 million), 30 March 2012 ($6 million) and 31 December 2012 ($9.2 million).

Further restricted cash of $0.3 million (maturity date of 23 December 2012) is held by Lloyds as cash security for lease payments to the Crown Estate on 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.

9. INVENTORY

	31 Dec	31 Dec	1 Jan
	2011	2010	2010
	US$'000	US$'000	US$'000
Crude oil inventory	**8,823**	-	-
Materials inventory	**13**	-	-
	8,836	-	-

Approximately 190,000 barrels of crude oil inventory was obtained on August 25, 2011 on completion of the Cook field acquisition. The value attributed was $21 million. This was sold in December 2011 and the balance at year end primarily reflects oil produced into tanks not yet sold.

10. EXPLORATION AND EVALUATION ASSETS

	US$'000
At 1 January 2010	15,500
Additions	3,451
Write offs/relinquishments	(1,119)
At 31 December 2010	17,832
Additions	7,752
Write offs/relinquishments	(2,791)
Disposals	(104)
At 31 December 2011	**22,689**

Following completion of geotechnical evaluation activity, certain licences were declared unsuccessful and certain prospects were declared non-commercial and therefore the related expenditures of $2.8 million were written off in the year to 31 December 2011.

$2 million of associated contingent consideration relating to the licences and prospects relinquished was also released to the consolidated statement of income in Q1 2011 to give a total debit of $0.8 million for the year ended 31 December 2011. See note 17 for details.

11. PROPERTY, PLANT AND EQUIPMENT

	Development & Production Oil and Gas assets US$'000	Other fixed assets US$'000	Total US$'000
Cost			
At 1 January 2010	189,458	1,274	190,732
Additions	91,953	313	92,266
At 31 December 2010	281,411	1,587	282,998
Additions	342,138	705	342,843
At 31 December 2011	623,549	2,292	625,841
DD&A			
At 1 January 2010	-	(757)	(757)
Charge for the period	(22,934)	(347)	(23,281)
At 31 December 2010	(22,934)	(1,104)	(24,038)
Charge for the period	(31,054)	(393)	(31,447)
At 31 December 2011	(53,988)	(1,497)	(55,485)
NBV at 1 January 2010	189,458	517	189,975
NBV at 1 January 2011	258,477	483	258,960
NBV at 31 December 2011	569,561	795	**570,356**

12. BUSINESS COMBINATIONS

Acquisitions in 2011

On 19 October 2011 the Company completed the acquisition of Challenger Minerals (North Sea) Limited, ("CMNSL") subsequently renamed Ithaca Minerals (North Sea) Ltd from Transocean Drilling U.K. Limited for a consideration of US$35 million; US$25 million payable immediately and US$10 million upon approval of the Stella / Harrier Field Development Plan by the Department of Energy and Climate Change, thereby increasing its interests in the Stella / Harrier fields, obtaining a non-operated interest in the producing Broom field and gaining access to additional undeveloped North Sea discoveries.

The fair values of the identifiable assets and liabilities of CMNSL as at the acquisition date, before securing an export route through the FPF-1 floating production unit, were:

	Fair value US$'000
Oil and gas properties	97,853
Inventories	2,117
Other current assets	2,147
Cash and cash equivalents	517
Trade and other payables	(8,194)
Deferred tax liabilities	(48,313)
Provisions	(3,294)
Contingent consideration	(4,104)
Total identifiable net assets at fair value	38,729
Negative goodwill arising on acquisition	(8,743)
Total consideration	29,986
The cash outflow on acquisition is as follows:	
Cash paid	(20,484)
Net cash acquired	517
Net consolidated cashflow	(19,967)

From the date of acquisition, Ithaca Minerals has contributed $3.1million to revenue and $0.1million to profit. Given the date of the acquisition and the fact that full year financial statements are not yet available for the subsidiary, it is impractical to disclose the contribution the company would have made to the consolidated results had it been acquired on the first day of the financial year.

On 25 August 2011, the Company completed the acquisition of a 28.46% non-operated interest in the Cook oil field from Hess Limited (“Hess”) for a cash consideration of $56.9 million.

The provisional fair values of the identifiable assets and liabilities of Cook as at the acquisition date were:

	Fair value US$'000
Oil and gas properties	123,200
Inventories	21,011
Trade and other payables	(584)
Deferred tax liabilities	(70,161)
Provisions	(10,037)
Total identifiable net assets at fair value	63,429
Negative goodwill arising on acquisition	(6,467)
Total consideration	56,962
The cash outflow on acquisition is as follows:	
Cash paid	(56,858)
Net consolidated cashflow	(56,858)

From the completion date of the acquisition, Cook has contributed $33.6million to revenue, $14.1million to profit and $28.9 million to cashflow. It is impractical to disclose the contribution the company would have made to the consolidated results had it been acquired on the first day of the financial year given the lack of access to pre-acquisition information.

Goodwill on the above transactions arises principally because of the requirement to recognise deferred income tax assets and liabilities for the difference between the assigned values and the tax bases of the assets acquired and liabilities assumed in these business combinations at amounts that do not reflect fair value.

13. GOODWILL

	US$'000
Cost	
At 1 January 2010	-
Additions	985
At 31 December 2010	985
Additions	-
At 31 December 2011	**985**

This represents goodwill on the GDF acquisition in December 2010.

14. LOAN FACILITY

On 12 July 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. The main facility attracts interest of LIBOR plus 2-3.5% and a cost over run facility will attract interest at LIBOR plus 4.5%. Loan issue costs of $0.9 million were incurred in the year ended 31 December 2010 and are being amortised over the period of the loan (approx $0.2 million amortised in the year ended 31 December 2011).

The Corporation is subject to industry standard 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.

Security provided against the loan

Security provided against the loan is in the form of a floating charge over all assets.

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

No funds are currently drawn down under the Facility.

15. DECOMMISSIONING LIABILITIES

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Balance, beginning of period	**23,652**	8,751
Additions	**15,250**	12,772
Accretion	**858**	283
Revision to estimates	**(20)**	1,846
Utilisation	**(358)**	-
Balance, end of period	**39,382**	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 decommissioning liability is re-measured each period using a pre-tax, risk-free discount rate of 3.9 percent (3 percent from Jan 2011 to Sept 2011) 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 16 years.

$0.4 million of the decommissionng provision was utilised during the year to plug and abandon the Opal well prior to relinquishment.

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. $15.3 million of additional liability was recorded in the year ended 31 December 2011 due to decommissioning liabilities assumed on the acquisition of the Cook field, the acquisition of the Broom field and liabilities from the drilling of development wells in 2011. Note that upon the acquisition of the Beatrice Field in November 2008, the Corporation did not assume the decommissioning liabilities.

16. OTHER LONG-TERM LIABILITIES

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Balance, beginning of period	**2,872**	2,718
Revaluation in the period	**(87)**	154
Balance, end of period	**2,785**	2,872

On completion of the acquisition of the Beatrice Facilities on 10 November 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.

17. CONTINGENT CONSIDERATION

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Balance, beginning of period	**12,976**	6,933
Additions	**13,604**	2,000
Revision to estimates	**(2,000)**	4,043
Balance, end of period	**24,580**	12,976

Additions in the year to 31 December 2011 relate to the acquisition of CMNSL; $9.5 million on the acquisition of the entity and $4.1 million as a result of increased interest in the Stella field.

Of the total consideration, $19.8 million is payable upon approval of the Greater Stella Area Field Development Plan (FDP) and $4.7 million is payable upon first oil. Key considerations for Stella FDP approval are centred around economic viability, partner alignment and available development options including export route.

Probability of FDP approval and of petroleum being produced have both been assessed as 95% at the year end, therefore, the above contingency reflects 95% of total potential costs.

The revision in the year to 31 December 2011 relates to the reassessment of the Opal and Garnet prospects which were determined uncommercial in the second quarter of the year, resulting in a release of the associated contingent consideration.

18. SHARE CAPITAL

Authorised share capital	No. of ordinary 000	Amount US$'000
At 1 January 2011 and 31 December 2011	Unlimited	-

(a) Issued

The issued share capital is as follows:

Issued	Number of common shares	Amount US$'000
Balance 1 January 2010	**162,361,975**	**277,075**
Issued for cash - options exercised	765,205	305
Transfer from Share based payment reserve on options exercised		273
Issued for cash - prospectus	92,662,284	153,248
Share issue costs		(8,528)
Balance 31 December 2010	**255,789,464**	**422,373**
Issued for cash - options exercised	874,997	572
Issued for cash - warrants exercised	2,500,000	5,786
Transfer from Share based payment reserve on options exercised	-	460
Transfer from Warrants issued on warrants exercised	-	311
Balance 31 December 2011	**259,164,461**	**429,502**

On 28 July 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.

Capital Management

The Corporation's objectives when managing capital are:
- to safeguard the Corporation's ability to continue as a going concern;
- to maintain balance sheet strength and optimal capital structure, while ensuring the Corporation's strategic objectives are met; and
- to provide an appropriate return to shareholders relative to the risk of the Corporation's underlying assets.

Capital is defined as shareholders' equity. Shareholders' equity includes share capital, share based payment reserve, warrants issued, retained earnings or deficit and other comprehensive income.

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Share capital	**429,502**	422,373
Share based payment reserve	**17,318**	11,427
Warrants issued	**-**	311
Retained earnings / (deficit)	**60,591**	24,723
Shareholders' Equity	**507,411**	458,834

The Corporation maintains and adjusts its capital structure based on changes in economic conditions and the Corporation's planned requirements. The Board of Directors reviews the Corporation's capital structure and monitors requirements. The Corporation may adjust its capital structure by issuing new equity and/or debt, selling and/or acquiring assets, and controlling capital expenditure programs.

The Corporation monitors its capital structure using the debt-to-equity ratio and other benchmark measures at the consolidated group level.

	31 Dec 2011 US$'000	31 Dec 2010 US$'000
Debt	**-**	-
Equity	**507,411**	458,834
Debt as a % of equity	N/A	N/A

(b) Stock options

In the quarter ended 31 March 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.

In the quarter ended 30 September 2011, 400,000 options were reserved for issue for a future employee. These options were granted in January 2012, therefore they have not been included in the table below and no expense has been incurred in relation to the options during 2011.

The Corporation's stock options and exercise prices are denominated in Canadian Dollars when granted. As at 31 December 2011, 17,506,839 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 summarised as follows:

	31 December 2011		31 December 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	(2,024,167)	$2.29	(231,667)	$1.28
Exercised	(874,997)	$0.61	(765,205)	$0.33
Options	17,506,839	$1.66	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 31 December 2011

Options Outstanding

Range of Exercise Price	No. of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
$3.65 (C$3.65)	2,165,000	0.1	$3.65
$2.22-$2.70 (C$2.25-C$2.69)	5,050,000	3.0	$2.23
$1.49-$1.79 (C$1.54-C$1.85)	5,311,667	2.0	$1.55
$0.20-$0.81 (C$0.25-C$0.87)	4,980,172	1.8	$0.56
	17,506,839	0.5	$1.72

Options Exercisable

Range of Exercise Price	No. of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
$3.65 (C$3.65)	2,165,000	0.1	$3.65
$2.22-$2.86 (C$2.25-C$2.70)	1,663,330	3.0	$2.22
$1.49-$1.79 (C$1.54-C$1.85)	2,048,329	1.8	$1.57
$0.20-$0.81 (C$0.25-C$0.87)	3,904,548	1.8	$0.49
	9,781,207	1.6	$1.71

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

Options Outstanding			
Range of Exercise Price	No. of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
$3.65 (C$3.65)	2,435,000	1.14	$3.65
$2.22-$2.86 (C$2.25-C$3.00)	6,375,000	2.40	$2.25
$1.49-$1.76 (C$1.54-C$1.85)	5,345,000	3.01	$1.54
$0.20-$0.81 (C$0.25-C$0.87)	5,991,003	2.77	$0.55
	20,146,003	2.50	$1.61

Options Exercisable			
Range of Exercise Price	No. of Options	Wt. Avg. Life (Years)	Wt. Avg. Exercise Price *
$3.65 (C$3.65)	1,623,334	1.1	$3.65
$2.29-$2.86 (C$2.51-C$3.00)	1,285,000	0.3	$2.38
$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)	2,591,084	2.8	$0.45
	5,799,418	1.3	$1.44

(c) Share based payment

Options granted are accounted for using the fair value method. The compensation cost during the year ended 31 December 2011 for total stock options granted was $6.4 million (2010: $4.8 million). $1.4 million was charged through the statement of income for share based payment for the year ended 31 December 2011, being the Corporation’s share of share based payment chargeable through the statement of income. The remainder of the Corporation’s share of share based payment has been capitalised. 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:

	2011	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	**$1.68**	$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 20 September 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.

19. SHARE BASED PAYMENT RESERVE

	31 Dec 2011 US$’000	31 Dec 2010 US$’000
Balance, beginning of period	**11,427**	6,860
Share based payment cost	**6,351**	4,840
Transfer to share capital on exercise of options	**(460)**	(273)
Balance, end of period	**17,318**	11,427

20. 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.

	Year ended 31 Dec	
	2011	2010
Wtd av. number of common shares (basic)	258,350,813	184,811,251
Wtd av. number of common shares (diluted)	262,997,935	188,385,443

21. TAX

	Year ended 31 Dec	
	2011	2010
	US$000	US$000
Current tax		
Current tax on profits for the year	**-**	80
Deferred tax		
Relating to the origination and reversal of temporary differences	**1,414**	(4,016)
Relating to changes in tax rates	**1,095**	-
Adjustment in respect of prior periods	**(1,263)**	-
Total tax expense	**1,246**	(3,936)

The tax on the group's profit before tax differs from the theoretical amount that would arise using the effective rate of tax applicable for UK ring fence oil and gas activities as follows:

	Year ended 31 Dec	
	2011	2010
	US$000	US$000
Accounting profit before tax	**37,112**	57,994
At tax rate of 59.3% (2010 50%)	**22,008**	28,997
Non-deductible income	**(23,258)**	(3,041)
Difference in foreign tax rates	**1,420**	517
Under/(over) provided in prior years	**(724)**	1,495
Recognition of deferred tax assets	**-**	(30,506)
Unrecognised tax losses	**261**	124
Change in tax rates	**1,909**	(231)
Other	**(370)**	(1,291)
Total tax recorded in the consolidated statement of income	**1,246**	(3,936)

The effective rate of tax applicable for UK ring fence oil and gas activities in 2011 was 59.3% (2010:50%). This weighted average rate was due to the increase in supplementary charge on oil and gas activities from 20% to 32% announced on 23 March 2011 by the UK government resulting in a 62% marginal tax rate.

Deferred income tax at 31 December relates to the following:

	Year ended 31 Dec	
	2011	2010
	US$000	US$000
Deferred tax liability	**336,682**	117,061
Deferred tax asset	**(210,148)**	(110,248)
Net deferred tax liability	**126,534**	6,814

The gross movement on the deferred income tax account is as follows:	**2011**	2010
	US$000	US$000
At 1 January	**6,814**	-
Acquisitions	**118,475**	10,750
Income statement charge	**1,246**	(3,936)
At 31 December	**126,534**	6,814

Deferred tax liability	Accelerated tax depr'n US$000	Deferred tax on business combinations US$000	Total US$000
At 1 January 2011	106,503	10,559	**117,061**
Charged/(credited) to income statement	95,715	(5,301)	**90,414**
Acquisitions	**-**	129,207	**129,207**
At 31 December 2011	**202,218**	**134,465**	**336,682**

Deferred tax assets	Tax Losses US$000	Abandonment provision US$000	Other US$000	Total US$000
At 1 January 2011	(107,800)	(2,448)	-	**(110,248)**
Charged/(credited) to income statement	(81,188)	(3,653)	(4,328)	**(89,168)**
Acquisitions	(10,732)	**-**	**-**	**(10,732)**
At 31 December 2011	**(199,719)**	**(6,101)**	**(4,328)**	**(210,148)**

Deferred income tax assets are recognised for the carry-forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilised.

The UK related non-capital losses of $325 million do not expire under UK tax legislation and may be carried forward indefinitely.

On 23 March 2011, the UK government announced that the rate of supplementary tax applicable to North Sea oil companies would rise from 20% to 32% from 24 March 2011, resulting in an effective combined base and supplementary tax rate of no less than 62%. Based on current production and price assumptions and a continuing business model whereby the Corporation reinvests capital, incurs general, administrative and interest costs, together with the non-capital losses available to the Corporation, Ithaca does not expect to pay trade related cash income taxes in the short or medium term.

22. COMMITMENTS

	Year ended 31 Dec **2011** **US$'000**	2010 US$'000
Operating lease commitments		
Within one year	247	248
Two to five years	989	988
More than five years	309	557

Capital commitments

Capital commitments related to joint ventures	Year ended 31 Dec **2011** **US$'000**	2010 US$'000
Capital commitments incurred jointly with other venturers (Ithaca's share)	82,521	27,147

23. 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 utilise observable market data. In addition to market information, the Corporation incorporates transaction specific details that market participants would utilise in a fair value measurement, including the impact of non-performance risk. The Corporation characterises inputs used in determining fair value using a hierarchy that prioritises 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 realised 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 utilises the most observable inputs available for valuation purposes. If a fair value measurement reflects inputs of different levels within the hierarchy, the measurement is categorised 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 categorised as Level 2.

The following table presents the Corporation's material financial instruments measured at fair value for each hierarchy level as of 31 December 2011:

	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total Fair Value US$'000**
Long term liability on Beatrice acquisition	-	-	(2,785)	(2,785)
Contingent consideration	-	(24,580)	-	(24,580)
Derivative financial instrument liability	-	(1,846)	-	(1,846)

Assets measured at fair value in the statement of financial position are minimal. Measurement was based on oil price at the time of acquisition.

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

	Year ended 31 Dec	
	2011	2010
	US$'000	US$'000
Unrealised gain/(loss) on forex forward contracts	**(510)**	(686)
Unrealised (loss)/gain on commodity hedges	**(6,159)**	(48)
Revaluation of gas contract	**3,099**	-
Revaluation of other long term liability	**87**	(154)
	(3,483)	(888)
Realised (loss)/gain on forex forward contracts	**-**	(4,442)
Realised (loss)/gain on commodity hedges	**70**	62
	70	(4,380)
Total realised/unrealised	**(3,413)**	(5,268)
Contingent consideration	**2,000**	(4,044)
Total gain / (loss) on financial instruments	**(1,413)**	(9,312)

The contingent consideration of $2 million relating to the relinquinshment of Opal and Garnet prospects was released to the statement of income through E&E expense. See note 10.

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

i) Commodity Risk

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

	2011	2010
	US$'000	US$'000
Unrealised (loss)/gain on commodity hedges	**(6,159)**	(48)
Realised (loss)/gain on commodity hedges	**70**	62
Total (loss) / gain on commodity hedges	**(6,089)**	14

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 realised loss of $0.5 million in the year ended 31 December 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 delivered a minimum price on the specified volume of oil and allowed the Corporation to benefit from any upside above $105 / barrel. Due to movements in oil prices during the period the instrument expired with no gain or loss realised in excess of the put premium.

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 oil prices the instrument expired in the year ended 31 December 2011 and resulted in a net cost of $1.9 million including the put premium.

ii) Interest Risk

Calculation of interest payments for the Senior Secured Borrowing Base Facility agreement with the Bank of Scotland that was signed on 12 July 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 table below presents the total (loss) on foreign exchange financial instruments that has been disclosed through the statement of net and comprehensive income / (loss):

	2011	2010
	US$'000	US$'000
Unrealised (loss) on forex forward contracts	**(510)**	(686)
Realised (loss) on forex forward contracts	**-**	(4,442)
Total (loss) on forex forward contracts	**(510)**	(5,128)

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 statement of financial position translation of monetary accounts denominated in non-USD amounts upon spot rate fluctuations from quarter to quarter.

On 29 November 2011, the Corporation entered into a forward extra plus contract with Lloyds to hedge its forecast British Pounds Sterling 2012 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 USD1.40/£1.00. The contract expires in December 2012.

On 7 July 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 realised. Forex losses of $3.1 million were recorded which offset the natural gain reflected in equity.

On 12 October 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 realised loss of $1.3 million has been recognised on the contract for the year ended 31 December 2010. This contract expired in December 2010, and the resulting unwinding of unrealised gains and losses on the contracts resulted in an unrealised loss of $0.7 million for the year ended 31 December 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. All of its oil production from the Beatrice, Jacky, and forthcoming Athena field is/will be sold to BP Oil International Limited. Oil production from Cook and Broom is sold to Shell Trading International Ltd. Anglia and Topaz gas production is currently sold through three contracts to RWE NPower PLC and Hess Energy Gas Power (UK) Ltd. Cook gas is sold to Shell UK Ltd and Esso Exploration & Production 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 31 December 2011 99% of accounts receivables are current, being defined as less than 90 days. The Corporation has no allowance for doubtful accounts as at 31 December 2011 (31 December 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 31 December 2011, exposure is $Nil (31 December 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 31 December 2011, substantially all accounts payable are current.

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

	Within 1 year US$'000	**1 to 5 years US$'000**
Accounts payable and accrued liabilities	102,134	-
Other long term liabilities	-	2,785
	102,134	2,785

24. DERIVATIVE FINANCIAL INSTRUMENTS

	31 Dec 2011 US$'000	31 Dec 2010 US$'000	1 Jan 2010 US$'000
Embedded derivative	**(1,336)**	(4,378)	-
Foreign exchange forward contract	**(510)**	-	685
	(1,846)	(4,378)	685

In Q4 2010, the Corporation acquired an embedded derivative within an Anglia gas sales contract. This is recognised 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.

25. 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 31 December 2011, the classification of financial instruments and the carrying amounts reported on the statement of financial position and their estimated fair values are as follows:

	31 Dec 2011 US$'000		31 Dec 2010 US$'000	
Classification	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents (Held for trading)	**95,545**	**95,545**	195,581	195,581
Restricted cash	**16,510**	**16,510**	352	352
Accounts receivable (Loans and Receivables)	**80,960**	**80,960**	93,434	93,434
Deposits	**247**	**247**	248	248
Commodity hedge (Held for trading)	**-**	**-**	(349)	(349)
Contingent consideration	**(24,580)**	**(24,580)**	(12,976)	(12,976)
Derivative financial instruments (Held for trading)	**(1,846)**	**(1,846)**	(4,378)	(4,378)
Other long term liabilities	**(2,785)**	**(2,785)**	(2,872)	(2,872)
Accounts payable (Other financial liabilities)	**(102,134)**	**(102,134)**	(75,564)	(75,564)

26. 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 year ended 31 December 2011 was $0.2 million (31 December 2010 - $0.6 million). The balance outstanding at 31 December 2011 was $Nil (31 December 2010 - $Nil).

27. TRANSITION TO IFRS

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

The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the year ended 31 December 2011, the comparative information for the year ended 31 December 2010, and the preparation of an opening IFRS balance sheet on the transition date, 1 January 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 recognised 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 1 January 2010. Costs included in the full cost pool on 1 January 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 1 January 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 1 January 2010.

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

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

Reconciliations from Canadian GAAP to IFRS

In preparing the 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 1 January 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**
Share based payment reserve (note f)	7,812	*(952)*	**6,860**
Retained (deficit) (notes d and e)	(30,431)	*(6,776)*	**(37,207)**
Shareholders' Equity	254,456	*(7,728)*	**246,728**

Reconciliation of equity as at 31 December 2010	CGAAP US$'000	*Restated* IFRS Adj US$'000	*Restated* **IFRS US$'000**
ASSETS			
Current assets			
Cash and cash equivalents	195,581	-	**195,581**
Restricted cash	352	-	**352**
Accounts receivable	93,434	-	**93,434**
Deposits, prepaid expenses and other	12,341	-	**12,341**
Deferred tax asset (note g)	16,074	*(16,074)*	**-**
	317,782	*(16,074)*	**301,708**
Non-current assets			
Restricted cash	5,956	-	**5,956**
Exploration and evaluation assets (note a)	-	*17,522*	**17,522**
Property, plant & equipment (notes a, b, c)	238,113	*21,157*	**259,270**
Goodwill		*985*	**985**
	244,069	*39,664*	**283,733**
	-		
Total assets	561,851	*23,590*	**585,441**
LIABILITIES AND EQUITY			
Current Liabilities			
Trade and other payables	75,566	-	**75,566**
Commodity hedge	349		**349**
	75,915	-	**75,915**
Non-current liabilities			
Long term liability	2,872	-	**2,872**
Decommissioning liabilities (note d)	20,868	*2,784*	**23,652**
Deferred tax liability (note g)	-	*6,814*	**6,814**
Contingent consideration (note e)	-	*12,976*	**12,976**
Derivative financial instruments	4,378	-	**4,378**
	28,118	*22,574*	**50,692**
Net Assets	457,818	*1,016*	**458,834**
Equity attributable to equity holders			
Share capital	422,373	-	**422,373**
Share based payment reserve (note f)	11,530	*(103)*	**11,427**
Warrants issued	311	-	**311**
Retained earnings (notes b, d, e and f)	23,606	*1,117*	**24,723**
Shareholders' Equity	457,820	*1,014*	**458,834**

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

	CGAAP US$'000	*Restated* IFRS Adj US$'000	*Restated* **IFRS** **US$'000**
Revenue	135,121	-	**135,121**
Cost of sales (note b)	(87,307)	*26,175*	**(61,132)**
Gross Profit	47,814	*26,175*	**73,989**
Exploration and evaluation (note a)	-	*(1,119)*	**(1,119)**
Admin expenses (note f)	(4,620)	*(1,310)*	**(5,930)**
Operating Profit	43,194	*23,746*	**66,940**
Foreign exchange	818	-	**818**
(Loss) on financial instruments (note e)	(5,268)	*(4,044)*	**(9,312)**
Profit on ordinary activities Before Interest and Tax	38,744	*19,702*	**58,446**
Finance costs (note d)	(814)	*249*	**(565)**
Interest income	113	-	**113**
Profit Before Tax	38,043	*19,951*	**57,994**
Taxation (note g)	15,994	*(12,058)*	**3,936**
Profit After Tax	54,037	*7,893*	**61,930**

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

The Company has elected to present all acquisitions since the IFRS transition date as business combinations in accordance with IFRS 3(R). This has resulted in a restatement of the acquisition of gas assets from GDF (in 4Q 2010) as shown in previous interim statements during 2011.

(a) Exploration and evaluation assets

Under IFRS 6, as at 1 January 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 amortisation

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 year ended 31 December 2010, the Corporation has recognised depletion, depreciation and amortisation expense of $23.3 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 capitalised 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 oil and gas assets whereby development costs as at 1 January 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 1 January 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. Under Canadian GAAP, a discount rate of 6-8 percent was used whilst on transition, a risk-free rate of 4.5 percent was used, calculated based on UK Government bonds (which is broadly equivalent to the 6-8 percent less 2.5 percent inflation previously used).

As stated above, the Corporation utilised 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 1 January 2010.

Subsequent remeasurements and differences in accretion were recorded in property, plant and equipment and finance costs respectively. As at 31 December 2010, the Corporation remeasured the decommissioning liabilities resulting in an increase to decommissioning liabilities of $2.7 million. For the 12 months ended 31 December 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.

A contingent liability was not recognised under Canadian GAAP as at the date of acquisition, the payment of the contingent consideration was not considered "likely" ("likely" being defined as "the chance of occurrence of future events is high"). However, under IFRS payment of the contingent consideration was considered "more likely than not" (i.e. a greater than 50% likelihood of payment), therefore, provisions were made.

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

For the year ended 31 December 2010, the Corporation recognised a further $6 million of contingent liability: $2 million liability relating to the GDF assets acquisition (opposite side recognised in PP&E) and $4 million being the adjustment to the Stella acquisition (opposite side recorded in the statement of income).

(f) Share based payments

Under Canadian GAAP, similar to IFRS, the expense relating to the Corporation's equity-settled share based payment 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 1 January 2010, the Corporation recognised a decrease in the share based payment reserve with an offsetting increase in retained earnings of $1 million. This was due to changes in the input of estimated forfeiture rates and the conversion of all grants with unvested awards to tranche level valuations from single level valuations for all unvested awards as at the date of transition. As at 31 December 2010, the Corporation recognised an increase in the share based payment reserve of $0.8 million with a corresponding increase in share based payment expense due to the changes in the estimated forfeiture rates used.

(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 recognised as realisation of the asset was not considered to be more likely than not. For the twelve months ended 31 December 2010, the application of the IFRS adjustments as discussed in a) to f) above resulted in the recognition of a deferred tax liability of $6.8 million from an asset position of $3.7 million due to the GDF transaction being treated as a business combination, and a $12.1 million decrease to the Company's deferred tax credit due to the impact of other IFRS adjustments.

28. INTERESTS IN JOINT VENTURES

Block	Licence	Field/Discovery Name	Operator	Ithaca Net % Interest
2/4a	P902	Broom	Enquest	8.00
2/5	P242	Broom/SW Heather	Enquest	8.00
11/25a	P1031	Beatrice	Ithaca	50.00
11/29a	P1392	-	Ithaca	45.84
11/30a	P187	Beatrice	Ithaca	50.00
12/21c	P1392	Jacky	Ithaca	47.50
12/21a	P1031	Beatrice	Ithaca	50.00
12/26a	P982	Beatrice	Ithaca	50.00
12/26c	P1392	Polly	Ithaca	40.00
14/18b	P1293	Athena	Ithaca	22.50
17/4a	P1392	-	Ithaca	50.00
21/8a	P1107	Scolty/Torphins	Enquest	10.00
21/12c	P1617	-	Enquest	10.00
21/13a	P1617	Crathes	Enquest	10.00
21/13c	P1618	-	Enquest	10.00
21/20a	P185	Cook	Shell	28.46
29/10b	P1665	Hurricane	Ithaca	68.33
29/10a (upper)	P011	Stella/Harrier	Ithaca	68.33
30/6a (Upper)	P011	Stella/Harrier	Ithaca	68.33
29/10d	P1814	Helios	Ithaca	68.33
43/21b	P1233	Carna Unit Area	Centrica	16.00
43/22c	P1338	Carna Unit Area	Centrica	16.00
48/18b	P128	Anglia	Ithaca	30.00
48/19b	P128	Anglia	Ithaca	30.00
48/19e	P1011	Anglia	Ithaca	30.00
49/2a	P1013	Topaz	RWE	35.00