

## IONA ENERGY LTD. (INA-V, \$0.52)

Recommendation: Strong Buy; Target: \$1.85

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Iona Cuts Attractive Deal to Secure West Wick Oil, Adding 9.7 mmbbls in 2P for less than \$1/bbl Undeveloped; Core 2P NAV Increases to ~\$2.90/sh; Target Moves to \$1.85

Projected Total Return		255.8%		
<b>Market Data</b>				
52-Week Trading Range		\$0.31 - \$0.50		
Median Weekly Volume		505,000		
Shares Outstanding, Basic (mm)		140.9		
Shares Outstanding, Diluted In-the-Money (mm)		141.1		
Market Capitalization (\$mm)		\$73.4		
Estimated Net Debt (Cash) Q4/11 (\$mm)		\$(20.6)		
Potential Dilutive Proceeds (\$mm)		\$0.1		
Enterprise Value (\$mm)		\$52.7		
<b>Forecasts</b>				
Fiscal Year End: Dec 31				
	2011E	2012E	2013E	
Average Gas Production (mcf/d)	3,111	10,209	26,802	
Average Oil & Liquids (bbls/d)	-	486	5,705	
Average Total Production (boe/d)	518	2,187	10,172	
Percentage Oil	0%	22%	56%	
Realized Gas Price (\$/mcf)	9.62	10.18	10.70	
Realized Oil & Liquids Price (\$/bbl)	-	107.14	107.14	
Modeled Revenues (\$mm)	14.3	57.1	327.8	
CF From Operations (\$mm)	0.8	31.3	248.2	
Year-End Net Debt (Net Cash) (\$mm)	(20.6)	160.2	(22.4)	
Capex (ex A&D) (\$mm)	45.4	212.2	65.6	
Net Debt / Cashflow (x)	n/a	5.1x	n/a	
<b>Per Share (\$)</b>				
EPS (\$, FDTSM)	\$0.06	\$0.08	\$1.09	
CF From Operations (FDTSM)	\$0.01	\$0.22	\$1.76	
DA/CF/sh (Diluted, In-The-Money)	\$0.01	\$0.27	\$1.79	
P/E (x)	8.2x	6.8x	0.5x	
EV/DA/CF (x)	65.2x	1.4x	0.2x	
EV/(Avg Boe/d)	\$101,685	\$24,102	\$5,183	
<b>Asset Values</b>				
		(mm)	/sh	
1P Proved Reserves (2010)		\$ 166.51	\$ 1.18	
Probable Reserves (2010)		\$ 223.53	\$ 1.58	
2P Proved Plus Probable Reserves (2010)		\$ 390.03	\$ 2.76	
Working Capital at 2011FYE		\$ 20.60	\$ 0.15	
Proceeds from Dilutive Securities		\$ 0.06	\$ 0.00	
Other		\$ -	\$ -	
<b>EMV of Exploration &amp; Development Projects</b>				
Gross Unrisked Recoverable Resource (mmboe)		287		
Net Unrisked Recoverable Resource (mmboe)		65		
Net Risked Recoverable Resource (mmboe)		15		
EMV (\$mm) Success		\$ 387	\$ 2.74	
EMV (\$mm) Risked		\$ 130	\$ 0.92	



Source: ThomsonOne, Company Reports, Casimir Capital Ltd.

### Option exercised on West Wick under attractive P&SA, granting INA a 58.73% W.I. in Block 13/21a

INA has completed a binding sale and purchase agreement with Centrica, for a total cost of \$8.15mm for interests in West Wick. Effective January 31 '12, INA holds a 58.73% W.I. in Block 13/21a, with Idemitsu Petroleum holding 41.27%. The West Wick field is nearly 3km by 2km in size, and contains a 228 ft oil column. Development of West Wick is forecasted to produce ~10,000 bbls/d gross and is scheduled for first oil in 2014 and is expected to be funded organically from Iona's significant cashflow ramp from Staffa, Trent & Tyne, & Orlando taking place in '12 & '13

### Incremental reserves from West Wick boosts INA 2P to ~22 mmboe, with material NPV10 additions

West Wick provides INA with proved oil reserves of 5.1 mmbbls and 2P reserves of 9.71 mmbbls, costing less than ~\$1/bbl to add to the Iona portfolio pre-development. The additions put INA's total 2P resources at 22 mmboe, nearly doubling the previous levels. The accretive value of the West Wick's 2P gives INA a **significant ~\$390mm NPV10 (as per Gaffney Clines 2P evaluation) vs. a current market cap of ~\$73 mm**. Our estimates for '11 NAV rocket to \$2.90/sh.

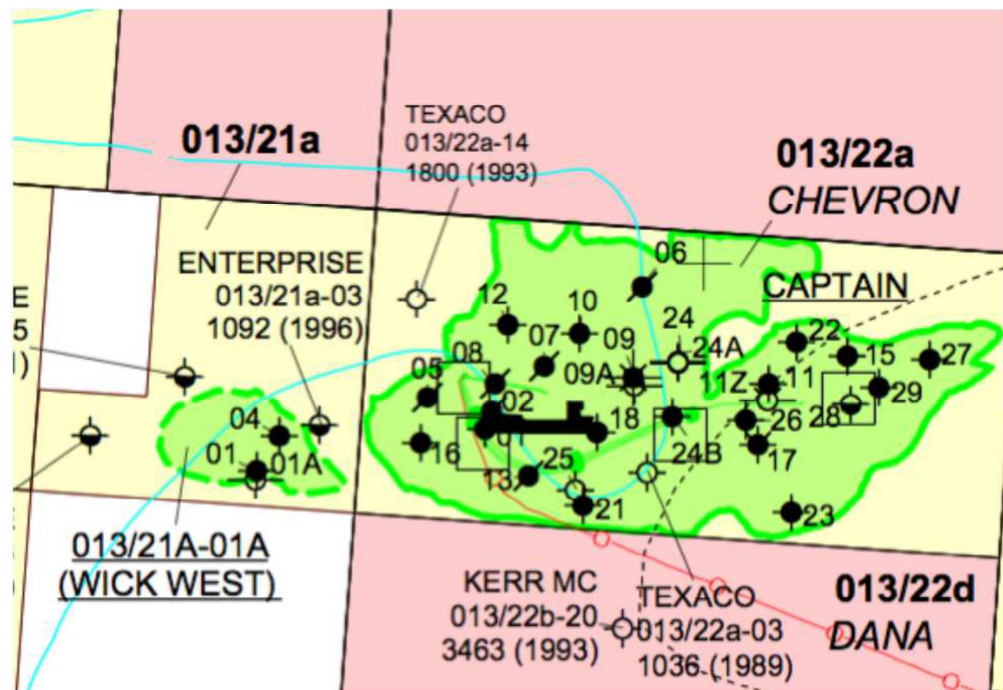
### Orlando well successfully cased just above the reservoir; Standard BOP integrity checks (following rig repairs) currently being conducted before a decision to drill ahead.

The offshore Orlando well has been cased just 50 ft above the targeted Brent reservoir. However, recent weather delays and downtime due to rig repairs have curtailed drilling activities. Drilling is currently suspended, to evaluate the BOP integrity. Provided no integrity issues arise, the resumption of drilling is expected in ~7 days. The rig company is covering about 95% of the costs associated with the current downtime while under rig repairs.

**With Inclusion of West Wick in our 2P reserves & Core 2P NAV, our target moves to \$1.85; Reiterate Strong Buy with prod'n ramping to ~8,000 boe/d Net in ~12 months**

Target derived from a blend of our partially included forecasted NAV (i.e. driven mainly by 2P reserves at Staffa, Trent & Tyne, Orlando & West Wick) and Tyne NW additions, together worth a risked \$2.04/sh. Factoring in the production ramp, we see asset cash flows ramping in 2012 to 2013 worth ~\$1.69/sh making Iona one of the most attractive Internationals in the space today.

**Figure 1: West Wick Field to Utilize a 4km Tie-Back to the Chevron's Captain Field**



Source: Company Reports

**Figure 2: Core NAV - Now Includes 2P Additions from West Wick Field**

Volumes	Oil mmbbl	Gas bcf	NGLs mmbbl	Total mmboe	% of Total
Proved Producing	0.0	4.6	0.0	0.8	3.5%
Proved Non-Producing	0.0	1.4	0.0	0.2	1.1%
Undeveloped	10.1	5.3	0.0	11.0	49.8%
<b>Total Proved (1P)</b>	<b>10.1</b>	<b>11.3</b>	<b>0.0</b>	<b>12.0</b>	<b>54.3%</b>
Total Probable	7.4	16.0	0.0	10.1	45.7%
<b>Total Proved + Probable (2P)</b>	<b>17.5</b>	<b>27.3</b>	<b>0.0</b>	<b>22.1</b>	<b>100.0%</b>

NPV (\$mm)				
Proved Producing			8.0	2.0%
Proved Non-Producing			3.4	0.9%
Undeveloped			155.2	39.8%
<b>Total Proved (1P)</b>	<b>0.0</b>	<b>0.0</b>	<b>166.5</b>	<b>42.7%</b>
Total Probable			223.5	57.3%
<b>Total Proved + Probable (2P)</b>	<b>0.0</b>	<b>0.0</b>	<b>390.0</b>	<b>100.0%</b>

Other NAV Components	
Value of Undeveloped Land	\$0.00
Proceeds from Dilutive Securities	\$0.06
Plus (Minus) Working Capital at Fiscal 2011 Year-End	\$20.60
<b>Estimated Core NAV (\$mm)</b>	<b>\$410.70</b>
<b>Estimated Core NAV (per Share)</b>	<b>\$2.91</b>

Forecast Changes to Reserves 2011	mmboe	NPV/boe	NPV (mm)
Proven Producing	0.0	\$0.00	\$0.0
Non-Producing and Undeveloped	0.0	\$0.00	\$0.0
<b>Total Reserve Additions</b>	<b>0.0</b>	<b>\$0.00</b>	<b>\$0.0</b>
Estimated Reserve Deductions from Production	0.2	\$10.40	\$2.0
<b>Net Risk-Adjusted F2010E Reserves Additions</b>	<b>-0.2</b>	<b>\$10.40</b>	<b>-\$2.0</b>

<b>Risk-Adjusted F2011E Core Asset NAV (\$mm)</b>	<b>\$408.73</b>
<b>Risk-Adjusted F2011E NAV (per Share)</b>	<b>\$2.90</b>

Source: Company Reports, Casimir Capital Ltd.

**Figure 3: Risk Adjusted EMV of Incremental Upside – Includes both Additional Development & Exploration Potential, Including 2C at Staffa – Zero Inclusion in Target Price**

Region / Project	Initial Capital/Exploration Cost (\$mm)	COS (%)	Working Interest (%)	Participating Interest (%)	Gross Unrisked Recoverable Resource (mmboe)	Success Case NPV/boe	NPV Time Value Adjustment	Success EMV (\$mm)	Risked EMV (\$mm)	EMV/sh (\$) Success	EMV/sh (\$) Risked
<b>Tyne and Trent Field Upside</b>											
Tyne NW Successful Well	\$0.00	75%	37.5%	37.5%	8.7	\$12.00	0.91	\$35.6	\$26.7	\$0.25	\$0.19
Tyne East in 2013 - Development Well	\$0.00	75%	37.5%	37.5%	3.3	\$12.00	0.83	\$12.4	\$9.3	\$0.09	\$0.07
<b>Staffa Contingent Resource Upside</b>											
Potential on Single Water Injection Well	\$0.00	50%	100.0%	100.0%	3.3	\$25.30	0.91	\$75.1	\$37.6	\$0.53	\$0.27
<b>Orlando Area Upside</b>											
Recovery Factor Increase from 35%-40% Upside	\$0.00	50%	35.0%	35.0%	5.2	\$34.12	0.62	\$38.6	\$19.3	\$0.27	\$0.14
3/3b Celia - Stratford Formation	\$0.50	14%	35.0%	35.0%	3.0	\$8.00	0.91	\$7.6	\$0.9	\$0.05	\$0.01
3/3b Corin - Brent Formation	\$0.00	29%	17.5%	17.5%	3.0	\$8.00	0.51	\$2.2	\$0.6	\$0.02	\$0.00
3/3b Rosalind - Brent Formation	\$0.00	11%	17.5%	17.5%	10.4	\$8.00	0.51	\$7.5	\$0.8	\$0.05	\$0.01
3/3b Phoebe - Lower Cretaceous	\$0.00	16%	17.5%	17.5%	128.0	\$8.00	0.51	\$92.0	\$14.7	\$0.65	\$0.10
3/3b Silvius - Upper Jurassic	\$0.00	16%	17.5%	17.5%	97.0	\$8.00	0.51	\$69.7	\$11.1	\$0.49	\$0.08
<b>Irish Sea Upside</b>											
112/13 and 112/14 Blocks in Irish Sea	\$0.00	20%	50.0%	50.0%	25.0	\$6.00	0.62	\$46.6	\$9.3	\$0.33	\$0.07
<b>Total</b>	<b>\$0.50</b>				<b>286.9</b>			<b>\$387.2</b>	<b>\$130.4</b>	<b>\$2.74</b>	<b>\$0.92</b>

Source: Company Reports, Casimir Capital Ltd.

**Figure 4: Target Derivation**

**Valuation Method: Net Asset Value and Risk-Adjusted EMV**

	Value	Inclusion	Valuation Build-Up
Forecast Risk-Adjusted F2011E Core Asset NAV	\$2.90	65%	\$1.88
Short Term NAV Additions Over Next 12-15 Months (Tyne NW WI Uplift Only)	\$0.16	100%	\$0.16
EMV of Risk-Adjusted Incremental Upside Valuation	\$0.92	0%	\$0.00
			\$2.04

**Valuation Method: Price to Cash Flow Multiple on Individual Assets**

**All About the Production Ramp**

	Incremental DACF	Target Multiple	Target Price	Inclusion	Valuation Build-up
Existing Base Prod'n plus Trent & Tyne on Platform Drills 2012:	\$0.35	3.0x	\$1.05	100%	\$1.05
Staffa oil field start-up (late '12 start-up) adds an incremental:	\$1.06	3.0x	\$3.18	20%	\$0.64
Orlando oil field start-up post Staffa (mid '13 start-up) adds an incremental:	\$0.38	3.0x	\$1.14	0%	\$0.00
Valuation				120%	\$1.69

**Target Derivation**

Method	Value	Weight	Impact
Estimated Risked NAV and EMV of Incremental Upside	\$2.04	50%	\$1.02
Cash Flow Multiple	\$1.69	50%	\$0.84
Target Price		100%	\$1.86

Source: Company Reports, Casimir Capital Ltd.

Company Name	Disclosures
Iona Energy Ltd.	3

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