

ITHACA ENERGY INC.

| Year end Dec 31, | | 2007a | 2008a | 2009e | 2010e |
|----------------------|-------------------|----------|----------|--------|--------|
| Production | | | | | |
| Oil & Liquids | Bbl/d | 0 | 160 | 3,706 | 3,161 |
| Gas | Mmcfd | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | Boe/d | 0 | 160 | 3,706 | 3,161 |
| Production per Share | Boe/Share (000's) | 0.0 | 0.4 | 8.2 | 7.1 |
| | % | N/A | N/A | N/A | -13.4% |
| Debt Adjusted PPS | Boe/Share (000's) | 0.0 | 0.4 | 7.2 | 10.5 |
| | % | N/A | N/A | N/A | 45.1% |
| Cash Flow | | | | | |
| CFPS | \$Mm | (0.8) | (18.8) | 37.8 | 47.4 |
| | Basic | (\$0.01) | (\$0.14) | \$0.23 | \$0.29 |
| | Diluted | (\$0.01) | (\$0.14) | \$0.23 | \$0.29 |
| P/CF | Basic | N/A | N/A | 2.9 | 2.4 |
| | Diluted | N/A | N/A | 3.0 | 2.4 |
| Earnings | | | | | |
| EPS | \$Mm | (2.3) | (30.4) | 11.3 | 30.8 |
| | Basic | (\$0.03) | (\$0.23) | \$0.07 | \$0.19 |
| | Diluted | (\$0.03) | (\$0.22) | \$0.07 | \$0.19 |
| P/E | Basic | N/A | N/A | 9.7 | 3.8 |
| | Diluted | N/A | N/A | 9.9 | 3.8 |
| Capital Data | | | | | |
| Capex | \$Mm | 72.9 | 247.3 | 44.3 | 54.2 |
| Capex vs. Cash Flow | % | N/A | N/A | 117.2% | 114.5% |
| Exit Net Debt | \$Mm | (91.2) | 45.6 | -49.4 | -28.4 |
| Entry Debt/CF | Years | N/A | N/A | 1.2 | -1.0 |
| Market Cap. | \$Mm | 343.4 | 47.5 | 110.0 | 115.7 |
| Share Data | | | | | |
| Basic shares | Mm | 116.0 | 162.3 | 162.3 | 162.3 |
| Options | Mm | 0.4 | 0.0 | 0.0 | 0.0 |
| Warrants | Mm | 0.0 | 0.0 | 0.0 | 0.0 |
| Diluted shares | Mm | 116.5 | 162.3 | 162.3 | 162.3 |
| Fully diluted shares | Mm | 120.4 | 173.0 | 172.0 | 172.0 |
| Pricing | | | | | |
| Brent | US\$ | 72.32 | 98.37 | 58.20 | 74.53 |
| Oil | US\$ wellhead | N/A | 42.10 | 56.24 | 70.80 |
| Gas | US\$ wellhead | N/A | N/A | N/A | N/A |
| Exchange Rate | US\$ / CDNS\$ | 0.94 | 0.94 | 0.85 | 0.89 |

| Year end Dec 31, | | 2007a | 2008a | 2009e | 2010e |
|-----------------------|----------|--------|-----------|--------|--------|
| Share Price Y/E | \$/Share | \$3.15 | \$0.31 | \$0.80 | |
| Net Asset Value | \$/Share | \$2.08 | \$1.42 | \$0.58 | |
| P/NAV | x | 1.5 | 0.2 | 1.4 | |
| Valuation Data | | | | | |
| DACFM | x | N/A | N/A | 1.6 | 1.8 |
| Target DACFM | x | N/A | N/A | 3.0 | 3.1 |
| EV/BOED | \$/Boed | N/A | 580,324 | 16,343 | 27,605 |
| Target EV/BOED | \$/Boed | N/A | 1,336,354 | 31,181 | 45,907 |
| EBITDA | \$Mm | N/A | N/A | 34.5 | 44.7 |
| EV/EBITDA | x | N/A | N/A | 1.8 | 2.0 |
| Cash Flow Netback | \$/Boed | N/A | N/A | 27.95 | 41.07 |

Note: Net asset value is 12% after-tax on P+P reserves.

Note: Financial information reported in US\$, with the exception of stock price, target price and NAV

Source: FirstEnergy Capital Corp. and Company Reports

Opinion: **OUTPERFORM**
 12 MONTH TARGET PRICE \$1.20
 Analysts: *Martin P. Molyneaux, CMA, CFA*
Darren B. Engels, CA, CFA

IAE - \$0.80

(as of September 18, 2009)

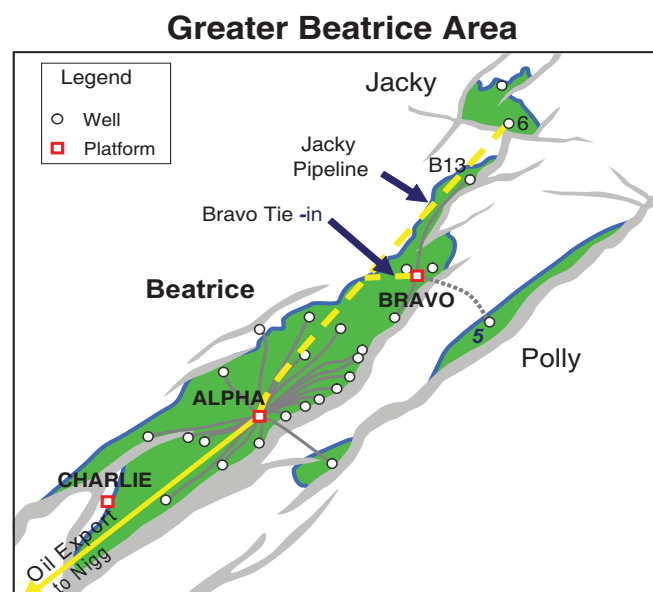
- Ithaca Energy is a UK North Sea oil and gas exploration and production company; the Company has five development projects, including the Beatrice and the Jacky Fields which are presently onstream and producing at better than expected levels.

Jacky Field (50.0% WI)

- On September 9th, 2009, Ithaca commenced drilling a water injector well on the Jacky Field with the Ensco 80 drilling rig. The well is expected to take approximately 55 days to drill and complete at a cost of approximately £17.0 Mm (£8.5 Mm net).
- Production from Jacky has steadily increased since coming onstream in April 2009; to date only dry oil has been produced from the Field. Management hopes to keep August 2009 production of 11,578 Bbl/d (gross) from the Beatrice Facility (includes Jacky and Beatrice production) stable going into 2010e with the addition of the Jacky water injector well. Reservoir pressure from the Jacky producing well has continued to decline, and the water injector should help mitigate the declines.

Beatrice Bravo and Beatrice Alpha (47.5% WI)

- A workover program for the Beatrice Bravo location has been scheduled for November 2009e, after drilling operations are completed on the Jacky Field.



Source: Ithaca Energy Inc.

Management hopes to increase production from the facility by restarting an existing water injector well at the Beatrice Bravo location.

- Presently, discussions are being held with regards to a possible workover program for the Beatrice Alpha location. Negotiations with contractors are underway and the current expectation is for the workover program to commence in late Q1 2010e.

Polly Development (40.0% WI)

- The Polly discovery is located very near and southeast to the Jacky and Beatrice development
- Presently, discussions are underway with a major contractor for the development of the Polly discovery. A location for an appraisal / development well is currently under review, with drilling targeted for the first half of 2010e. If all goes according to plan, a field development plan could be submitted in Q4 2010e and first oil could happen as early as the first half of 2011e. Production can be tied-back to the Jacky and Beatrice facilities.

Carna Discovery (16.0% WI)

- Sanctioning of the Carna development is anticipated in the fourth quarter of 2009e. If sanctioned in late 2009e, it is expected that a field development plan would be approved by the Government in the second half of 2010e.
- While still in preliminary stages, the field development plan will contemplate a one well development of the appraisal well that was previously drilled in Q1 2009 and tested at 9.0 Mmcf/d.
- We are currently forecasting first production of 50 Mmcf/d (8.0 Mmcf/d net) from two wells in Q1 2012e, which is a bit more conservative than the Company's current guidance in the second half of 2011e.

Stella Gas and Condensate Discovery (35.0% WI)

- Ithaca is about to resume operations at the Stella discovery, with the drilling of an appraisal well in Q4 2009e. If appraisal drilling is successful, we expect that a field development plan will commence and be approved by the Government by Q4 2010e.
- We are forecasting first production of 40 Mmcf/d (11.2 Mmcf/d net and risked at 80%) of natural gas and 6,500 Bbl/d of liquids (1,820 of liquids net and risked at 80%) in Q1 2012e.
- Undeveloped discoveries in the neighbourhood of Stella include Hurricane (50% WI) and Harrier (35% WI), both of which could be provided via Stella with a 10 kilometre tie-back.

Athena Development (22.5% WI)

- Management will make a development decision for the Athena project by the fourth quarter of 2009e. Project review work should be completed in September 2009e and a revised field development plan could be ready in Q4 2009e. Preliminary work suggests that FPSO costs and relevant infrastructure costs have decreased enough to make an investment in the project worthwhile.
- According to Management, the Athena development project is economic at US\$70.00/Bbl oil, with the break-even oil price being substantially below that in the US\$50.00/Bbl range.

Investment Recommendation

- To date, the Jacky producing well has performed better than expected; however, we remain somewhat cautious due to declining reservoir pressure and the potential for the commencement of water production. The addition of a water injector well to help stabilize production could potentially result in production beating our estimates.
- Our target price of \$1.20 per share implies a 2010e target DACF multiple of 3.1x. If our production forecast continues to be on conservative side, there is an opportunity for the multiple to decrease. However, at this time we will remain cautious and wait for the drilling of the Jacky water injector well and greater production history from the Field.
- We maintain our Outperform ranking on Ithaca Energy.

