



Third Quarterly Report
September 2006

HIGHLIGHTS				
	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Production:				
Gas (thousand cubic feet per day)	1,931	70	1,078	72
Oil and NGLs (barrels per day)	8	11	9	11
Boe (barrels oil equivalent per day)	330	22	188	23
Revenue (\$)	985,517	130,896	1,733,836	292,951
Funds flow from operations (\$)	394,680	78,614	669,554	97,081
Net income (loss) (\$)	(290,188)	4,841	(537,019)	(9,768)
Per diluted share amounts:				
Funds flow from operations (\$/share)	\$0.02	\$0.01	\$0.04	\$0.01
Net income (loss) (\$/share)	\$(0.02)	-	\$(0.03)	-
Number of shares outstanding:				
Basic weighted average	17,052,881	14,871,558	16,103,763	10,915,514
Diluted weighted average	17,922,583	15,780,621	16,996,117	11,591,133
End of period	17,054,892	14,871,558	17,054,892	14,871,558

MANAGEMENT DISCUSSION AND ANALYSIS

Management discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the Company's financial statements for the three and nine months ended September 30, 2006, the Company's financial statements for the three and six months ended June 30, 2006, the three months ended March 31, 2006 and the Company's audited financial statements and related notes for the year ended December 31, 2005. Additional information about the Company, its operations and history including the Company's Annual Information Form may be found as filed on the System for Electronic Data Analysis and Retrieval at www.sedar.com. The calculation of barrels of oil equivalent ("boe") is based on a relative energy content conversion ratio of six thousand cubic feet ("mcf") of natural gas to one barrel of oil. Production volumes reported are the Company's interest before royalties and all amounts are expressed in Canadian dollars unless otherwise stated.

Non-GAAP Measures

The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles (GAAP) except for the term "funds flow from operations". Funds flow from operations has been presented for information purposes only and should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with GAAP. The determination of the Company's funds flow from operations may not be comparable to the same reported by other companies. Funds flow from operations refers to net income before non-cash charges from the statement of operations plus non-cash expenses and excluding the change in non-cash operating working capital and abandonment costs incurred for the period. Funds flow from operations per share was calculated using the same weighted average shares outstanding used in calculating net income per share.

Disclosure Controls

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that these disclosure controls and procedures were effective as of September 30, 2006 and in respect of the period then ended.

Business Environment and Risks

In addition to being impacted by operational risks normally associated with oil and gas operations, the Company did not hedge its production and was directly affected by commodity price fluctuations in the third quarter. World and Canadian crude oil prices have strengthened significantly in the second quarter of 2006. Natural gas prices, alternatively, have shown significant decline since the fourth quarter of 2005. The Company's boe production in the second quarter was 97% natural gas weighted.

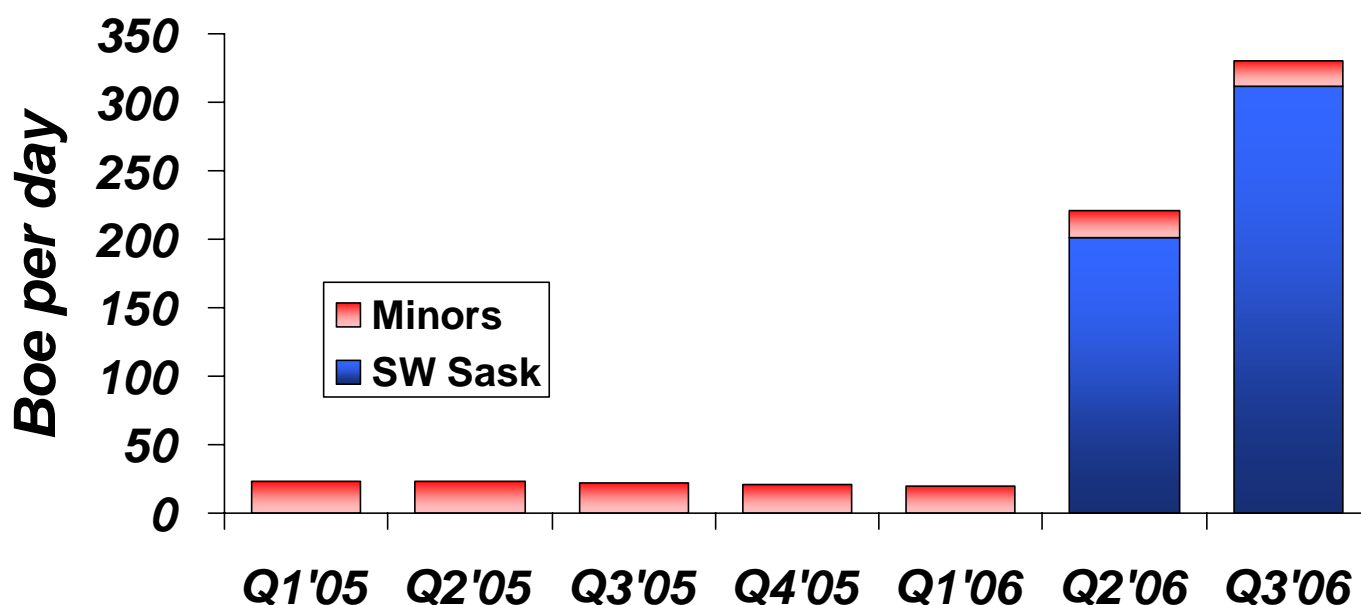
The Company has entered into a costless collar natural gas sales contract for the months of November 2006 through to March 2007. The contract contemplates a floor of \$7.95 per mcf and a ceiling of \$11.00 per mcf when market prices fall outside of this range during that period. The Company has committed 630 mcf per day from November 2006 to March 2007 to this contract.

	Q3 '06	Q2 '06	Q1 '06	Q4 '05	Q3 '05	Q2 '05	Q1 '05	Q4 '04
West Texas Intermediate for crude oil (US\$/bbl)	\$70.66	\$70.67	\$63.26	\$60.14	\$63.18	\$53.18	\$49.44	\$48.35
Edmonton posted reference for crude oil (C\$/bbl)	79.23	78.34	68.91	71.74	76.81	66.09	61.58	58.52
AECO-C for natural gas (C\$/mcf)	5.71	6.07	7.53	11.68	9.38	7.37	6.90	6.73

Operations

The Company has been an oil and gas producer since the third quarter of 2003. In the second quarter of 2006, the Company brought on production from its Southwest Saskatchewan field, where the Company has a 50% working interest in seven producing wells and the related infrastructure. This field has significantly increased the scope of production operations for the Company, lifting production by over 1,500% since the first quarter of 2006. The production in the third quarter of 330 boe per day reflects Southwest Saskatchewan production throughout the first full quarter and marks a record high for the company.

Second Quarter Production Profile (net)



Operations (continued)

Selected Quarterly Operating Data								
	Q3 '06	Q2 '06	Q1 '06	Q4 '05	Q3 '05	Q2 '05	Q1 '05	Q4 '04
Crude oil and natural gas liquids production (barrels)	717	787	817	922	969	1,024	1,006	992
Natural gas production (mcf)	177,677	110,880	5,870	6,272	6,460	6,630	6,545	6,097
Barrels oil equivalent (boe)	30,330	19,267	1,795	1,967	2,046	2,129	2,097	2,008
Per day (boe per day)	330	212	20	21	22	23	23	22
Price per barrel (\$/barrel)	\$73.52	\$73.38	\$59.23	\$62.14	\$69.36	\$62.25	\$57.32	\$54.00
Price per mcf (\$/mcf)	5.25	5.31	9.03	12.79	9.86	8.23	7.53	7.05
Price per boe (\$/boe)	32.49	33.58	56.48	69.89	63.98	55.56	51.00	48.09
Royalty rate	43.4%	43.5%	23.2%	23.3%	23.3%	26.3%	27.0%	22.9%
Operating costs per boe	\$4.06	\$3.94	\$14.21	\$12.39	\$13.98	\$9.43	\$7.54	\$7.79
G & A per boe	1.65	4.97	10.61	35.27	9.14	15.70	8.25	13.57
Revenue	\$985,517	\$646,935	\$101,384	\$137,480	\$130,896	\$118,293	\$106,947	\$96,573
Operating netback	435,223	289,586	52,337	81,112	71,757	67,133	62,250	58,852
Funds flow from operations	394,680	219,193	55,681	38,535	78,614	36,403	46,767	33,200
Net income (loss)	(277,688)	(150,176)	(96,655)	291,045	4,841	14,325	25,265	13,452
Basic and diluted net income (loss) per share	(0.02)	(0.01)	(0.01)	0.02	-	-	-	-
Weighted avg. shares								
Basic (000s)	17,053	16,350	14,885	14,872	14,872	8,937	8,872	8,872
Diluted (000s)	17,923	17,290	15,742	15,723	15,709	9,430	9,017	8,984
Assets, period end (000s)	14,664	15,804	14,906	7,524	7,339	7,181	835	769

Due to the full quarter of production from the Company's operations in Southwest Saskatchewan, the Company has recorded record revenue in the third quarter of just under \$1 million. This field, currently with seven wells producing, is to be significantly expanded with a drilling program this coming winter. The Company's minor properties experienced a temporary decline in oil and gas production during the quarter as the Boundary Lake property underwent workover operations. The affected wells have re-commenced production.

In addition to a 50% working interest in 6,560 acres currently held in Southwest Saskatchewan, the Company has a contractual right to acquire a 50% working interest in up to 11,000 additional acres adjacent to its current lands, subject to certain conditions being met. The Company expects to modify its drilling to include a combination of existing and new lands. It would also extend the drilling program from a single winter to a two year program due to the up to 65 additional locations that would become available. The Company has substantially completed a pipeline in advance of the development drilling program so that production from the new locations can commence as soon as possible following drilling.

The Company's royalty rate increased in the second quarter of 2006, reflecting the higher royalty rates from the Southwest Saskatchewan property. As the Company owns its own infrastructure in the area, the Company's operating expense rate has dropped significantly in the second quarter of 2006 and continues to be low in the current quarter. Costs of a workover on a minor property temporarily increased the Company's operating costs by \$0.13 per boe.

Overhead

General and administration costs over the past two years have remained very low. The Company operates under a management and technical services agreement with Grizzly Resources Ltd., a related company by virtue of common management. The Company is charged fees for services on the basis of capital expenditures incurred and production rates realized. In 2006, the portion of the fees related to capital activity incurred has been recorded as a capital expenditure. The Company's general and administration costs per boe have also dropped significantly due to production expanding faster than overhead costs for the period. The current quarter general and administration rate of \$1.65 per boe represents the lowest overhead rate the Company has experienced since it began oil and gas operations.

Other general and administration costs incurred in the second quarter of 2006 reflected professional fees are related to the Company's activities and the establishment of its credit facility and are not considered to be recurring.

	Q3 '06	Q2 '06	Q1 '06	Q4 '05	Q3 '05	Q2 '05	Q1 '05	Q4 '04
Administrative services fee	\$51,637	\$54,024	\$114,897	\$24,734	\$9,746	\$4,272	\$2,158	\$4,000
Amounts capitalized	(9,026)	(24,187)	(111,756)	-	-	-	-	-
Other general and administration	7,283	65,899	15,901	44,669	8,945	29,152	15,147	23,244
General and admin. expense	\$49,894	\$95,736	\$19,042	\$69,403	\$18,691	\$33,424	\$17,305	\$27,244

Stock-based compensation charges in the current quarter amounted to \$137,850 in 2006 as compared to \$61,173 in the third quarter of 2005. This charge has increased over the year due to a significantly higher number of unvested stock options outstanding than existed in the same period of 2005.

The Company has a \$3 million borrowing facility with a financial institution of which none had been drawn at September 30, 2006. The Company plans to utilize its debt facility to fund a portion of its capital program. As a result, the Company will be incurring interest charges in the fourth quarter related to the borrowings. The Company's credit facility requires the payment of interest at the financial institution's prime business rate.

Depletion, Depreciation and Amortization

	Q3 '06	Q2 '06	Q1 '06	Q4 '05	Q3 '05	Q2 '05	Q1 '05	Q4 '04
Depletion and depreciation	683,264	221,724	7,597	8,240	10,836	11,410	11,237	10,790
Asset retirement expense	2,854	2,906	3,081	1,759	1,764	(707)	2,224	1,534
Depletion and depreciation per boe	22.53	11.51	4.23	4.19	5.30	5.36	5.36	5.37
Actual abandonment costs incurred	-	8,240	-	2	1,613	22	4,929	839

Depletion and depreciation for the Company has increased since the second quarter of 2006 due to the drilling and facilities costs incurred that are related to the reserves added in the Company's Southwest Saskatchewan field. The Company has also burdened the depletion expense since the second quarter of 2006 for unsuccessful drilling costs incurred during the Company's first phase activities at Pembina. The Company views the Pembina area as prospective, but has not yet added reserves in that area. Increases in anticipated new proven reserves are expected to cause a decrease in the depletion rate per boe.

Reserves

The Company recorded reserve additions on its acreage in Southwest Saskatchewan of approximately 5.7 bcf (950,000 boe) of proven and 7.5 bcf (1.25 million boe) of proven plus probable reserves in the second quarter of 2006.

Capital Expenditures

Since the first quarter of 2006, the Company has been primarily focused on the completion of its gas plant and the commencement of production in Southwest Saskatchewan. The plant was completed and began accepting natural gas in the second quarter. The Company has a 50% working interest in the gas plant.

(\$000s)	Q3 '06	Q2 '06	Q1 '06	Q4 '05	Q3 '05	Q2 '05	Q1 '05	Q4 '04
Southwest Saskatchewan								
Land	45	39	2,165	–	–	–	–	–
Drilling	120	88	2,198	–	–	–	–	–
Facilities	36	896	4,207	–	–	–	–	–
Pembina								
Land	–	–	82	–	104	2,527	–	–
Seismic	–	–	91	–	–	–	–	–
Drilling	38	124	385	701	102	–	–	–
Minor Areas								
Facilities	–	–	–	–	–	1	–	–
Total	239	1,147	9,128	701	206	2,528	–	–

The Company's capital activity in the third quarter was dominated by surveying of the new drilling locations in anticipation of the drilling program planned to commence late in the fourth quarter. At September 30, 2006, the Company had also accumulated approximately \$435,000 of pipe inventory that will be used in the pipeline construction. This construction commenced in October and is expected to be completed in mid-December. This pipeline is designed to accommodate production from the Company's drilling program. That program is expected to add a minimum of 30 wells on existing and expanded acreage in the Southwest Saskatchewan field adding to the seven wells that are currently producing. The Company has a 50% working interest throughout the area.

Due to lengthy time periods required in obtaining drilling licenses at Pembina, the Company has focused its current resources in Southwest Saskatchewan. Over the next 18 months, however, the Company plans to continue further development of its Pembina acreage. The Company has identified several drilling locations that it is planning to pursue, targeting light, sour oil in the prolific Nisku fairway. Successful wells in this fairway have produced in excess of 1,000 boe per day. The Company has working interests from 7% to 25% in the area.

In November of 2006, the Company also expanded into Northeast British Columbia, acquiring an 18% working interest in 2,650 acres. The Company plans to drill one exploratory well on the acreage in the first quarter of 2007. This location and three follow-up locations have been defined by 3D seismic. The first location will drill to a depth of approximately 2,800 metres, targeting Jean Marie natural gas and would also test for natural gas in the shallower Debolt formation. The cost to the Company for the drilling operation is expected to approximate \$1 million and offers the potential of multiple billion cubic feet of natural gas reserves net to the Company if successful.

Taxation

In the second quarter of 2006, the Company raised additional equity, including a \$1,925,000 flow-through component. The Company has partially incurred the qualifying expenditures required and has committed to fully incurring these costs prior to December 31, 2007.

The Company has over \$500,000 of unused non-capital losses and approximately \$10 million of unused resource tax pools, above renunciation commitment levels.

Liquidity and Capital Resources

The Company has established a \$3 million credit facility with a financial institution, of which no funds have been drawn as of September 30, 2006. In addition, seven wells in Southwest Saskatchewan that commenced production in the second quarter have significantly improved the Company's cash flow.

The Company, to assist with its capital program in Southwest Saskatchewan and to develop its interest in Northeast British Columbia in the first quarter of 2007, is currently in discussions with its financial institution to increase its debt capacity. The Company anticipates the favourable completion of this negotiation.

Outlook

In Southwest Saskatchewan, the Company has a contractual right to acquire a 50% working interest in up to 11,000 additional acres adjacent to the 6,560 acres currently held, subject to certain conditions being met. If these conditions are met prior to the completion of this winter's drilling program, the Company expects to modify its drilling plans to include a combination of existing and new lands. It would also extend the drilling program from a single winter to a two year program due to the up to 65 additional locations that would become available. This program is expected to add significant production to the existing seven wells that are currently producing. This would also add reserves in the field where the Company has existing infrastructure. The Company currently holds a 50% working interest in the area including a 50% interest in a gas plant and gathering system.

The Company has substantially completed its pipeline installation that commenced in October. The pipeline is designed to accommodate wells from existing lands as well as from the anticipated expansion of acreage should it be completed prior to the end of the drilling program.

The Company has expanded into Northeast British Columbia with an 18% net working interest in 2,650 acres that is prospective for natural gas from the Debolt and Jean Marie formations. The area has four locations defined by 3D seismic, the first of which is planned to be drilled in the first quarter of 2007. The well, if successful, may add natural gas reserves of multiple billion cubic feet, net to the Company.

In Pembina, due to the extended period required to obtain licenses in the area, the Company has focused its resources on the development and expansion in Southwest Saskatchewan and the expansion in Northeast British Columbia. Over the next 18 months, the Company plans to continue its development of the area where it holds working interests of between 7% and 25%. This program is targeting light, sour oil and associated natural gas along the prolific Pembina Nisku fairway. Successful wells in this area have produced in excess of 1,000 boes per day of oil and natural gas.

The Company plans to build on the record production, revenue and cash flow earned in this quarter. Higher prices currently seen in the fourth quarter of 2006 is expected to improve the Company's price per unit of production and multiples in production growth anticipated by the end of the first quarter of 2007 would significantly and positively impact the Company's revenue and cash flow. The Company expects its profits also to significantly improve by the second quarter of 2007.

The Company's management continues to pursue additional expansion opportunities to create shareholder value.

Dated: November 23, 2006

IRONHORSE OIL & GAS INC.

Balance Sheets

	September 30 2006	December 31 2005
	<i>(unaudited)</i>	
ASSETS		
Current Assets:		
Cash	\$ 519,095	\$ 3,719,903
Accounts receivable	265,871	47,323
Prepaid expenses	25,818	26,048
	810,784	3,793,274
Tangible equipment inventory (note 1)	434,600	–
Property, plant and equipment (note 1)	13,418,797	3,730,982
	\$ 14,664,181	\$ 7,524,256
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,575,508	\$ 317,957
Asset retirement obligation (note 2)	200,371	113,140
Future income taxes (note 3)	280,629	413,929
	3,056,508	845,026
Shareholders' equity:		
Share capital (note 4)	14,686,417	9,620,765
Contributed surplus (note 4)	719,854	320,044
Deficit	(3,798,598)	(3,261,579)
	11,607,673	6,679,230
	\$ 14,664,181	\$ 7,524,256

See accompanying notes to the financial statements.

IRONHORSE OIL & GAS INC.
Statements of Operations and Deficit
For the Period Ended September 30, 2006
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenue	\$ 985,517	\$ 130,896	\$ 1,733,836	\$ 356,136
Royalties	(427,259)	(30,540)	(732,252)	(90,496)
	558,258	100,356	1,001,584	265,640
Other income	9,341	25,548	57,070	30,064
	567,599	125,904	1,058,654	295,704
Expenses				
Operations	123,025	28,599	224,428	64,500
General and administration	49,894	18,691	164,672	69,420
Stock-based compensation	137,850	61,173	418,447	80,589
Depletion, depreciation and amortization	686,118	12,600	921,426	36,764
	996,887	121,063	1,728,973	251,273
Income (loss) before income taxes	(429,288)	4,841	(670,319)	44,431
Future income tax recovery (expense)	139,100	–	133,300	–
Net income (loss)	(290,188)	4,841	(537,019)	44,431
Deficit, beginning of the period	(3,508,410)	(3,557,465)	(3,261,579)	(3,597,055)
Deficit, end of the period	\$ (3,798,598)	\$ (3,552,624)	\$ (3,798,598)	\$ (3,552,624)
Net income (loss) per share				
Basic	(0.02) \$	– \$	(0.03) \$	–
Diluted	(0.02) \$	– \$	(0.03) \$	–

See accompanying notes to the financial statements.

IRONHORSE OIL & GAS INC.
Statements of Cash Flows
For the Period Ended September 30, 2006
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Cash flows from operations				
Net income (loss)	\$ (290,188)	\$ 4,841	\$ (537,019)	\$ 44,431
Add (deduct) items not affecting cash				
Depletion, depreciation and amortization	686,118	12,600	921,426	36,764
Future income tax expense	(139,100)	–	(133,300)	–
Stock-based compensation	137,850	61,173	418,447	80,589
Funds flow from operations	394,680	78,614	669,554	161,784
Abandonment costs incurred	–	(1,613)	(8,240)	(6,564)
Changes in non-cash working capital	160,002	(9,976)	(107,391)	(10,819)
	554,682	67,025	553,923	144,401
Cash flows from financing activities				
Issuance of common shares, net of costs	–	–	5,018,061	6,325,410
Exercise of stock options	950	–	28,954	–
	950	–	5,047,015	6,325,410
Cash flows from investing activities				
Property, plant and equipment expenditures	(238,628)	(205,579)	(10,513,770)	(2,733,862)
Tangible equipment inventory	(434,600)	–	(434,600)	–
Changes in non-cash working capital	(737,207)	101,916	2,146,624	101,916
	(1,410,435)	(103,663)	(8,801,746)	(2,631,946)
Increase (decrease) in cash during the period	(854,803)	(36,638)	(3,200,808)	3,837,865
Cash, beginning of the period	1,373,898	4,271,374	3,719,903	396,871
Cash, end of the period	\$ 519,095	\$ 4,234,736	\$ 519,095	\$ 4,234,736

See accompanying notes to the financial statements.

IRONHORSE OIL & GAS INC.
Notes to the Financial Statements
For the Period Ended September 30, 2006
(unaudited)

These financial statements have been prepared by management and have not been audited or otherwise reviewed by an external auditor and should be read in conjunction with the Company's financial statements for the quarter ended September 30, 2006, the quarter ended June 30, 2006, the quarter ended March 31, 2006 and the Company's audited financial statements for the year ended December 31, 2005.

1. PROPERTY, PLANT AND EQUIPMENT

	September 30, 2006			December 31, 2005	
	Cost	Accumulated Depletion, Depreciation and Amortization	Net	Net	
Petroleum and natural gas properties	\$ 14,489,184	\$(1,070,387)	\$13,418,797	\$	3,730,982

The Company has capitalized \$144,969 of general and administrative costs in the nine months ended September 30, 2006 (December 31, 2005 – nil). The cost of unproved properties excluded from depletion at June 30, 2006 was \$4,184,391 (December 31, 2005 – \$3,438,958).

The Company has incurred \$434,600 in the acquisition of tangible equipment inventory in anticipation of a pipeline project to be initiated subsequent to September 30, 2006.

2. ASSET RETIREMENT OBLIGATION

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Asset retirement obligation, beginning of the period	\$ 197,517	\$ 105,717	\$ 113,140	\$ 109,151
Incurred in the period	–	–	86,630	–
Expenditures made	–	(1,613)	(8,240)	(6,564)
Revisions	–	381	(258)	(1,409)
Change in present value	2,854	1,383	9,099	4,690
Asset retirement obligation, end of the period	\$ 200,371	\$ 105,868	\$ 200,371	\$ 105,868

The total undiscounted amount of cash flows required to settle the obligations as measured at September 30, 2006 is estimated to be \$453,227 (December 31, 2005 - \$163,921). These obligations are expected to be settled at various times over the 18 years subsequent to September 30, 2006. The credit-adjusted risk free rate at which the estimated cash flows were discounted was 8% during the period ended September 30, 2006 (December 31, 2005 – 8%) and the estimated inflation rate used to project future costs was 1.5% (December 31, 2005 – 1.5%).

IRONHORSE OIL & GAS INC.
Notes to the Financial Statements
For the Period Ended September 30, 2006
(unaudited)

3. INCOME TAXES

The Company has non-capital losses of approximately \$500,000 and unused resource tax pools of approximately \$10 million available for deduction in calculating taxable income in future periods in excess of commitments to renounce certain qualifying expenditures pertaining to flow-through components of equity issues that the Company has undertaken.

Pursuant to the Company's share issue in the year ended December 31, 2005, the Company has committed to renounce to investors qualifying expenditures incurred prior to December 31, 2006 of \$2,400,000. As at September 30, 2006, the Company has incurred all of the qualifying expenditures relating to this commitment.

In addition and pursuant to the Company's share issue that closed on April 29, 2006, the Company has committed to renounce to investors qualifying expenditures incurred prior to December 31, 2007 of \$1,925,000.

4. SHARE CAPITAL

The Company has authorized unlimited common shares and unlimited first preferred shares. The outstanding share capital is as follows:

(a) Common Shares

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Number	Amount	Number	Amount
Balance, beginning of period	17,052,392	\$ 14,684,871	14,871,558	\$ 9,620,765
New issues	–	–	2,100,000	5,018,061
Stock options exercised	2,500	1,546	83,334	47,591
Balance, end of period	17,054,892	\$ 14,686,417	17,054,892	\$14,686,417

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number	Amount	Number	Amount
Balance, beginning of period	14,871,558	\$ 10,495,584	8,871,558	\$ 4,170,174
New issues	–	–	6,000,000	6,325,410
Balance, end of period	14,871,558	\$ 10,495,584	14,871,558	\$ 10,495,584

IRONHORSE OIL & GAS INC.
Notes to the Financial Statements
For the Period Ended September 30, 2006
(unaudited)

4. SHARE CAPITAL (continued)

(a) Common Shares (continued)

On April 29, 2006, the Company issued 2.1 million shares in a non-brokered private placement for aggregate proceeds of \$5,075,000. The private placement included 700,000 shares issued on a flow through basis. The total cost incurred on the placement was \$56,940, or 1.1% of the entire issue.

In addition, as at September 30, 2006, the Company is holding 7,049 common shares in escrow (December 31, 2005 – 679,049 shares). The escrow agreement provides for the escrow of 7,049 shares subject to release upon approval by regulatory authorities.

(b) Stock Options

Under the Company's stock option plan, common share purchase options may be granted to directors, officers, staff and consultants. The Company may grant options to purchase common shares up to a maximum of 10% of the number of issued and outstanding common shares. The granted common share purchase options are subject to vesting requirements as determined upon granting and are subject to expiry five years following the date granted.

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Number	Avg Price Per Share	Number	Avg Price Per Share
Balance, beginning of period	1,666,666	\$ 1.47	1,483,500	\$ 0.88
Granted during the period	–	–	264,000	2.95
Exercised during the period	(2,500)	0.38	(83,334)	0.35
Balance, end of period	1,664,166	\$ 1.47	1,664,166	\$ 1.47
Exercisable, end of period	604,499	\$ 0.76	604,499	\$ 0.76

IRONHORSE OIL & GAS INC.
Notes to the Financial Statements
For the Period Ended September 30, 2006
(unaudited)

4. SHARE CAPITAL (continued)

(b) Stock Options (continued)

	Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005	
	Number	Avg Price Per Share	Number	Avg Price Per Share
Balance, beginning of period	863,500	\$ 0.31	580,000	\$ 0.28
Granted during the period	615,000	1.68	898,500	1.27
Balance, end of period	1,478,500	\$ 0.88	1,478,500	\$ 0.88
Exercisable, end of period	193,333	\$ 0.24	193,333	\$ 0.24

(c) Contributed Surplus

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2005	
		2005		2005
Balance, beginning of the period	\$ 582,600	\$ 60,490	\$ 320,044	\$ 41,074
Charged during the period	137,850	61,173	418,447	80,589
Reclassified to share capital	(596)	–	(18,637)	–
Balance, end of the period	\$ 719,854	\$ 121,663	\$ 719,854	\$ 121,663

5. RELATED PARTY TRANSACTIONS

The Company is subject to an administrative services contract with Grizzly Resources Ltd., a company related by virtue of common management. Grizzly Resources Ltd. is also a significant partner in the Company's operating areas of Southwest Saskatchewan and Pembina. These transactions are in the normal course of business and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2005	
		2005		2005
Administrative services contract	\$ 51,637	\$ 9,746	\$ 220,558	\$ 16,176
Amounts capitalized	(9,026)	–	(144,969)	–
Administrative services expensed	\$ 42,611	\$ 9,746	\$ 75,589	\$ 16,176

IRONHORSE OIL & GAS INC.
Notes to the Financial Statements
For the Period Ended September 30, 2006
(unaudited)

6. DEBT FACILITY

The Company has a production loan facility of \$400,000 plus a development loan facility of \$2,600,000 for a total of \$3,000,000 with a financial institution of which no amounts have been drawn as at September 30, 2006 (December 31, 2005 – nil). Amounts outstanding on the production loan facility bear interest at the financial institution's prime rate and amounts outstanding on the development loan facility bear interest at the financial institution's prime rate plus 0.75%. The facilities are secured by a floating charge debenture providing coverage over all present and after acquired property of the Company.

Subsequent to September 30, 2006, the Company has increased its production loan facility to \$3,000,000 and cancelled its development loan facility.

BOARD AND MANAGEMENT

Directors

Larry J. Parks, Chairman
Blaine C. Favel
Jeff Lawson
Gerry C. Quinn
James K. Wilson

Officers

Larry J. Parks, President & Chief Executive Officer
Alan G. Withey, VP Finance & CFO
D. Craig Boland, VP Exploration
William G. Manley, VP Engineering & Operations
James K. Wilson, Vice President & Corporate Secretary

HEAD OFFICE

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