

Management's Report

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying financial statements of Ironhorse Oil & Gas Inc. Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide a reasonable assurance that the assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

Kenway Mack Slusarchuk Stewart LLP was appointed by the Ironhorse Oil & Gas Inc.'s shareholders to express an opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with the Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises the responsibility through the Audit Committee, with assistance from the Reserves Committee regarding the annual review of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors, their fees and, for review by the Board of Directors and approval by the shareholders, their engagement or re-appointment. The external auditors have access to the Audit Committee without the presence of management.

signed "Larry J. Parks"

Larry J. Parks
President & Chief Executive Officer

signed "Rob Solinger"

Rob Solinger
Vice President, Finance &
Chief Financial Officer

March 16, 2009

Auditors' Report

To: The Shareholders of
Ironhorse Oil & Gas Inc.

We have audited the balance sheets of **Ironhorse Oil & Gas Inc.** as at **December 31, 2008 and 2007** and the statements of net income (loss), comprehensive income (loss) and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed "Kenway Mack Slusarchuk Stewart LLP"
Chartered Accountants

February 25, 2009
Calgary, Alberta

**Ironhorse Oil & Gas Inc.
Balance Sheet**

(Thousands of dollars)	December 31 2008	December 31 2007
Assets		
Current assets		
Cash	\$ 7	\$ 44
Accounts receivable	1,821	882
	<u>1,828</u>	<u>926</u>
Petroleum and natural gas properties	(note 4) 30,371	24,917
	<u>\$ 32,199</u>	<u>\$ 25,843</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,177	\$ 2,015
Bank loan	(note 5) 6,440	6,894
	<u>8,617</u>	<u>8,909</u>
Asset retirement obligation	(note 6) 1,034	666
Future income taxes	(note 7) 1,772	1,193
	<u>11,423</u>	<u>10,768</u>
Shareholders' Equity	(note 8)	
Share capital	22,842	18,888
Contributed surplus	1,154	994
Deficit	<u>(3,220)</u>	<u>(4,807)</u>
	<u>20,776</u>	<u>15,075</u>
	<u>\$ 32,199</u>	<u>\$ 25,843</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

(Signed) "Larry J. Parks"

Director

(Signed) "Gerry C. Quinn"

Director

Ironhorse Oil & Gas Inc.
Statements of Net Income (Loss), Comprehensive Income (Loss) and Deficit

	Year Ended December 31 2008	Year Ended December 31 2007
(Thousands of dollars except per share amounts)		
Revenue		
Petroleum and natural gas sales	\$ 17,965	\$ 9,041
Royalties	(6,883)	(3,410)
	11,082	5,631
Expenses		
Operating	903	812
General and administrative	1,356	891
Stock-based compensation <i>(note 8)</i>	514	422
Interest	544	308
Depletion, depreciation and accretion	5,507	4,261
	8,824	6,694
Income (loss) before taxes	2,258	(1,063)
Future income taxes (recovery) <i>(note 7)</i>	672	(251)
Net Income (loss) and comprehensive income (loss)	1,586	(812)
Deficit, beginning of the year	(4,806)	(3,994)
Deficit, end of the year	\$ (3,220)	\$ (4,806)
Net Income (loss) per share <i>(note 8)</i>		
Basic	\$ 0.08	\$ (0.04)
Diluted	\$ 0.08	\$ (0.04)

See accompanying notes to financial statements.

Ironhorse Oil & Gas Inc. Statement of Cash Flow

	Year ended December 31	Year ended December 31
(Thousands of dollars)	2008	2007
Cash provided by (used in):		
Operating activities		
Net income (loss)	\$ 1,586	\$ (812)
Items not affecting cash		
Depletion, depreciation and accretion	5,507	4,261
Stock-based compensation	264	357
Future income taxes (recovery)	672	(251)
Expenditures made on asset retirements	(28)	(26)
Funds from operations	8,001	3,529
Changes in non-cash working capital <i>(note 12)</i>	(1,645)	(278)
	6,356	3,251
Financing activities		
Issuance of common shares, net <i>(note 8)</i>	3,818	5,772
Bank loan	(454)	5,088
Exercise of stock options	18	6
Repurchase of common shares	(77)	(547)
	3,305	10,319
Investing activities		
Petroleum and natural gas properties	(10,566)	(12,406)
Changes in non-cash working capital	868	(1,128)
	(9,698)	(13,534)
Change in cash	(37)	36
Cash, beginning of the year	44	8
Cash, end of the year	\$ 7	\$ 44
Supplemental Information		
Cash interest paid	\$ 544	\$ 308

See accompanying notes to financial statements.

IRONHORSE OIL & GAS INC.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2008 and 2007
(Tabular amounts are expressed in thousands of dollars except share and per share numbers)

1. DESCRIPTION OF BUSINESS

Ironhorse Oil & Gas Inc. ("Ironhorse" or the "Company") is engaged in the exploration for and development and production of petroleum and natural gas reserves in western Canada.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles.

a) Petroleum and natural gas properties

Capitalized costs

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized in a single Canadian cost centre. Such amounts include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, costs of drilling productive and non-productive wells, site restoration and abandonment costs and administrative costs related to exploration and development activities.

Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized in the statement of income unless the depletion and depreciation rate would be changed by 20% or more.

Impairment test

The Company performs an impairment test whereby the carrying value of its petroleum and natural gas properties is compared at the end of each reporting period to an estimate of the undiscounted future net cash flow from the production of gross proved reserves plus the cost of unproved properties, net of impairments, excluded from depletion. Net cash flow is estimated using forecast prices, less estimated costs directly associated with the development, production and sale of reserves. Should the impairment test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the carrying value of unproved properties, major development projects, net of impairments. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess is recorded as a permanent impairment. Undeveloped and unproved properties are also assessed periodically to determine whether impairment has occurred.

Depletion and depreciation

The capitalized costs of petroleum and natural gas properties plus future development costs, if any, are depleted and depreciated using the unit-of-production method based on the Company's interest in proved reserves of petroleum and natural gas calculated before royalties. Estimated proved reserves are based on reports prepared by independent engineering consultants. Petroleum substances are converted to volumes of energy equivalent barrels of oil at a conversion rate of six thousand cubic feet ("mcf") of natural gas to one barrel of crude oil.

Costs associated with the acquisition and evaluation of significant unproved properties where there is no commercial production are excluded from amounts subject to depletion and depreciation until such time as the properties are proved or become impaired.

b) Asset retirement obligation

The Company recognizes and measures the liabilities for obligations associated with the retirement of petroleum and natural gas properties when those obligations result from the acquisition, construction, development or normal operation of the asset. The obligation is measured at fair value and the related costs recorded as part of the carrying value of the related asset. Fair value is estimated using the present value of the estimated future cash costs to reclaim and abandon wells and facilities, using the Company's credit-adjusted risk free interest rate. In subsequent periods, the liability is adjusted for the change in present value and any changes in the amount or timing of the underlying future cash flows required for settlement of the obligation with a corresponding charge to property and equipment. The asset retirement costs included in petroleum and natural gas costs are depleted or amortized into income in accordance with the Company's policies pertaining to those assets.

c) Interests in joint ventures

Substantially all of the Company's petroleum and natural gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

d) Future income taxes

The Company uses the liability method for accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted tax rates and laws expected to apply when those temporary differences reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period when the change is substantially enacted. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

e) Flow-through shares

Resource expenditure deductions funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. To recognize the foregone tax benefits to the Company, the future income tax liability and the carrying value of the shares issued are adjusted by the effect of the tax benefits renounced to subscribers in the period when the corresponding exploration and development expenditures are renounced.

f) Stock-based compensation

The Company follows the fair value method to record the compensation expense for stock options granted under its stock option plan. Under this method, the Company estimates the fair value of stock options using the Black-Scholes option pricing model on the date of granting. Based on the value of the option granted, stock-based compensation expense and an offsetting credit to contributed surplus is recorded over the vesting period. When options are exercised, the amortized portion of the value of the option is transferred from the contributed surplus account to the share capital account.

At the discretion of the Board of Directors, the Company's stock option plan provides that option holders may take a cash settlement payment for the in-the-money value of the option on the exercise date. Should such a cash settlement payment be made to the option holder, the amortized portion of the original value of the option is reversed from the contributed surplus account to the extent of the cash settlement payment made to the option holder.

g) Revenue recognition

Revenue from the production of petroleum and natural gas is recognized when deliveries of products are made to third parties.

h) Use of estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. The amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for the asset retirement obligation and the ceiling test are based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. The fair value of stock options and the related stock-based compensation expense is based on estimates using the Black-Scholes option pricing model. 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 significant.

i) Net income per share

Diluted per share amounts are calculated using the treasury stock method. Diluted calculations reflect the incremental common shares that would be issued upon exercise of dilutive options, warrants and equivalents assuming the proceeds would be used to repurchase shares at average market prices for the period. Anti-dilutive items are not included in the calculation.

j) Financial instruments

The Company's financial assets and liabilities are classified and measured as follows:

- Cash and cash equivalents are classified as held for trading and are measured at fair value.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value, and subsequently at amortized cost using the effective interest rate method, which approximates fair value.
- Accounts payable, accrued liabilities and bank loan payable are classified as other liabilities and are initially measured at fair value, and subsequently at amortized cost using the effective interest rate method, which approximates fair value.
- Gains and losses related to periodical revaluations are recorded in net income

The Company accounts for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements, as executory contracts on an accrual basis rather than as financial instruments.

3. CHANGES IN ACCOUNTING POLICIES

a) Capital Disclosures

On January 1, 2008, the Company adopted the new CICA standards for Capital Disclosures which require disclosures about the Company's objectives, policies, and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company's management of capital, whether the requirements have been complied with, or consequences of non-compliance and an explanation of how the Company is meeting its objectives for managing capital. These disclosures are set forth in note 10.

b) Financial Instruments – Disclosures and Presentation

On January 1, 2008, the Company adopted the new CICA standards relating to "Financial Instruments – Disclosures" and "Financial Instruments – Presentation", which replaced the previous standard "Financial Instruments – Disclosure and Presentation". The new disclosure standard outlines the disclosure requirements for financial instruments and non-financial derivatives. The guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. Specifically, it requires disclosure of the significance of financial instruments for a company's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks

arising from financial instruments. The new presentation standard requirements are relatively unchanged from the previous presentation requirements. These disclosures are set forth in note 11.

c) International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA Accounting Standards Board (“AcSB”) confirmed that the change over to IFRS from Canadian GAAP will be required for publicly accountable enterprises effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company’s reported financial position and results of operations.

The Company is developing an IFRS conversion plan, which will include project structure governance, resourcing and training, analysis of key GAAP differences and a phase plan to assess accounting policies under IFRS as well as potential IFRS 1 (“First Time Adoption of IFRS”) exemptions. The Company expects to complete its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting and business activities, such as financing and compensation arrangements, during 2009.

4. Petroleum and Natural Gas Properties

	Cost	Accumulated depletion depreciation	Net Book Value
2007	\$30,732	\$5,815	\$24,917
2008	\$41,670	\$11,299	\$30,371

During 2008, the Company capitalized \$157 thousand (2007- \$185 thousand) of general and administrative expenses. In calculating the depletion and depreciation provision for the year ended December 31, 2008, \$2.2 million (December 31, 2007 - \$2.2 million) of costs relating to the undeveloped land, seismic and other costs were excluded from costs subject to depletion and depreciation. Estimated future development costs of \$8.6 million (December 31, 2007 – \$7.6 million) were included in the calculation of depletion and depreciation for the year ended December 31, 2008.

In conducting the ceiling test as at December 31, 2008, the Company’s estimated future cash flows exceeded the carrying value of the related petroleum and natural gas properties, after using certain assumptions pertaining to future commodity prices. Assumptions for crude oil and natural gas sales prices in Canadian dollars, which were used in the ceiling test, are consistent with the Company’s December 31, 2008 reserve report as provided by GLJ Petroleum Consultants and are detailed below:

	Oil Light Oil at Edmonton (\$Cdn/barrel)	Gas AECO Spot (\$Cdn/mmbtu)
2009	\$68.61	\$7.58
2010	78.94	7.94
2011	83.54	8.34
2012	90.92	8.70
2013	95.91	8.95
Thereafter	\$97.84 – 105.99	\$9.14 – 9.95

5. BANK LOAN

At December 31, 2008, the Company had a \$14.5 million (2007 - \$8 million) revolving production credit facility with a Canadian chartered bank, of which \$6.4 million was drawn on the facility. Advances bear interest at the Bank's prime lending rate, plus 0.25% or at prevailing bankers' acceptance rate plus an applicable bank fee. The credit facility is secured by a general security agreement, demand debenture providing a first floating charge over all of the assets and a fixed charge over all the producing wells.

6. ASSET RETIREMENT OBLIGATIONS

	2008	2007
Balance, beginning of the year	\$ 666	\$ 323
Incurred in the year	367	315
Expenditures made on asset retirements	(28)	(26)
Accretion expense	29	54
	\$ 1,034	\$ 666

The Company's asset retirement obligations are based on the net ownership interests in wells and facilities. Management estimates the costs to abandon and reclaim the wells and facilities and the estimated time period during which these costs will be incurred in the future. These costs are expected to be incurred over the next 21 years with the majority of the costs being incurred between 2023 and 2026. The undiscounted amount of the estimated costs at December 31, 2008 was \$3.1 million (2007 - \$1.9 million) using an inflation rate of 1.5% (2007 - 1.5%). The estimated costs have been discounted at a credit adjusted risk free rate 7.75% (2007 - 7.75%)

7. FUTURE INCOME TAXES

Future income taxes differs from the amount that would be computed by applying the basic combined federal and provincial statutory income tax rate of 30.3% (2007 - 33.9%) to income before taxes. The reasons for the differences are as follows:

	2008	2007
Statutory tax rate	30.3%	33.9%
Anticipated tax expense (recovery)	\$ 683	\$ (360)
Add (deduct)		
Non-deductible stock-based compensation	61	122
Tax rate changes in future	(72)	(13)
Future income taxes (recovery)	\$ 672	\$ (251)

The components of future income tax liability (asset) are as follows:

	2008	2007
Future Tax liabilities		
Petroleum and natural gas properties	\$ 2,193	\$ 1,483
Future Tax assets		
Share issue costs	(83)	(20)
Non-capital losses	(48)	(67)
Asset retirement obligations	(290)	(203)
Net future income tax liability	\$ 1,772	\$ 1,193

8. SHARE CAPITAL

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

a) Common shares

	Number of Shares	Amount
Balance, December 31, 2006	17,067,392	\$ 14,094
Issue of common shares for cash	1,812,500	3,625
Issue of flow-through common shares for cash	906,250	2,175
Options exercised	31,667	21
Shares repurchased under normal course issuer bid	(341,000)	(344)
Tax effect of flow-through share renouncements	-	(663)
Share issue costs, net of future income taxes of \$9	-	(20)
Balance, December 31, 2007	19,476,809	18,888
Issue of common shares for cash	200,000	300
Issue of flow-through common shares for cash	1,883,000	3,820
Options exercised	293,334	80
Shares repurchased under normal course issuer bid	(73,400)	(83)
Transfer from contributed surplus	-	47
Share issue costs, net of future income taxes of \$92	-	(210)
Balance, December 31, 2008	21,779,743	\$ 22,842

On January 31, 2007, the Company completed a non-brokered private placement of 906,250 common shares issued on a "flow-through" basis at a price of \$2.40 per share and 1,812,500 common shares at a price of \$2.00 per share for gross proceeds of \$5.8 million. The Company has fulfilled its obligation to incur \$4.35 million of qualifying Canadian exploration expenditures.

On May 12, 2008 the Company completed a non-brokered private placement financing, to certain officers of the Company, for aggregate gross proceeds of \$0.6 million comprised of 200,000 common shares at a price of \$1.50 per share and 200,000 common shares issued on a "flow-through" basis at a

price of \$1.60 per share. The tax effect will be recorded in 2009 when the expenditures are renounced to the subscribers.

On October 23, 2008, the Company completed a brokered private placement of 1,683,000 common shares issued on a "flow-through" basis at a price of \$2.08 per share for gross proceeds of \$3.5 million. The Company is obligated to incur \$3.5 million of qualifying Canadian exploration expenditures prior to December 31, 2009. The tax effect will be recorded in 2009 when the expenditures are renounced to the subscribers.

b) Normal Course Issuer Bid

On December 31, 2008, the Company reactivated its normal course issuer bid whereby it could acquire up to 1,493,459 common shares for cancellation. During the year, the Company acquired 73,400 common shares at an average carrying value of \$1.13 per share. To date in 2009, the Company has acquired 92,700 common shares at an average price of \$1.31 per share.

c) Options and Stock Based Compensation

The Company has a stock option plan under terms of which it will grant options to acquire common shares to certain officers, directors, employees and consultants. Under terms of the plan, options totaling up to 10% of the common shares outstanding from time to time are issuable, and no more than 5% of the outstanding options may be issued to any one person as defined by the plan.

The following tables summarize information about the Company's stock options outstanding:

	Number of options	Weighted average exercise price
Balance, December 31, 2006	1,651,666	\$ 1.24
Granted	210,500	1.47
Exercised	(31,667)	(0.33)
Forfeited	(222,999)	(1.08)
Balance, December 31, 2007	1,607,500	1.26
Granted	1,266,500	1.26
Exercised	(293,334)	(0.27)
Exercised for cash	(230,000)	(0.48)
Forfeited	(194,499)	(1.94)
Balance, December 31, 2008	2,156,167	\$ 1.41

Exercise Price	December 31, 2008			December 31, 2007		
	Options Outstanding	Amounts Vested	Remaining Contractual Life (Years)	Options Outstanding	Amounts Vested	Remaining Contractual Life (Years)
\$0.23	-	-	-	300,000	300,000	1.0
0.37	100,000	100,000	0.1	200,000	200,000	1.1
0.38	83,000	83,000	1.1	178,334	118,888	2.1
1.01	541,500	-	4.9			
1.28	64,167	22,503	3.9	105,500	-	4.9
1.30	235,000	16,667	4.1	50,000	-	5.0
1.40	170,000	-	4.2	-	-	-
1.50	170,000	-	4.3	-	-	-
1.60	180,000	-	4.4	-	-	-
1.68	410,000	410,000	1.5	515,000	343,334	2.5
2.00	15,000	5,000	3.4	15,000	-	4.4
2.07	5,000	5,000	1.9	5,000	3,333	2.9
2.86	12,500	8,334	2.4	12,500	4,167	3.4
2.95	170,000	115,004	2.4	226,166	75,390	3.4
	2,156,167	765,508	3.4	1,607,500	1,045,112	1.7

The stock-based compensation expense is calculated based on the fair value of the stock options on the date of grant using the Black-Scholes option pricing model. The following assumptions were applied by the Company in this calculation for options granted in the period.

	2008	2007
Weighted average fair value per option	\$ 0.51	\$ 0.52
Dividend yield	nil	nil
Volatility	43%	29%
Risk-free rates	3.5%	4.0%
Expected life – years	5	5

d) Per share amounts

The following table summarizes the shares used in calculating earnings per share:

	2008	2007
Weighted average number of shares - basic	20,225,000	19,411,000
Effect of dilutive stock options	127,000	0
Weighted average number of shares - diluted	20,352,000	19,411,000

Options to purchase 2,029,167 (2007 - 1,607,500) common shares were not included in the calculation because they were anti-dilutive.

e) Contributed Surplus

	2008		2007	
Opening balance, January 1	\$	994	\$	854
Stock-based compensation expense		264		357
Reversal of amortized portion of the option value on the exercise of options for a cash payment		(62)		(4)
Normal course issuer bid purchase price excess over carrying value		(2)		(202)
Transfer to share capital on exercise of options		(40)		(11)
Closing balance, December 31	\$	1,154	\$	994

9. RELATED PARTY TRANSACTIONS

The Company is party to a management services contract with Grizzly Resources Ltd. ("Grizzly"), a company related by virtue of common management. Grizzly is also a significant joint operations partner in the Company's operating areas. 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.

The inter-company balances between the Company & Grizzly were as follows:

	2008		2007	
Accounts receivable	\$	639	\$	0
Accounts payable	\$	140	\$	525

The amounts outstanding at December 31, 2008 were settled in February 2009.

Management fees were paid as follows:

	2008		2007	
Production based fees expensed to G&A	\$	729	\$	354
Capital based fees capitalized to property and equipment		156		185
Total Management fees	\$	885	\$	539

10. MANAGEMENT OF CAPITAL STRUCTURE

The Company actively manages its capital structure with the objective of maximizing shareholder returns by minimizing the cost of capital while at the same time maintaining its ability to execute the Company's future exploration and development program.

Ironhorse's capital structure includes shareholders' equity, bank debt and working capital. In managing its capital structure, the Company considers the following: future investment and acquisition opportunities; the current level of credit available from the Company's lender; the amount of credit that may be obtainable from the Company's lender as a result of changes in reserve values; the availability of other sources of debt; the sale of assets; adjustments to the current capital expenditures program; and issuance of new share equity. The Company's objective is to maintain a flexible capital structure that will allow it to execute its capital expenditures program, including exploration and development of its oil and gas properties and acquisition and disposition transactions which all carry varying amounts of risk. Ironhorse continually strives to balance the proportion of debt and equity in its capital structure to take into account the level of risk being incurred in its capital expenditures program. Ironhorse may from time to time, issue shares and adjust its spending to manage current and projected debt levels.

The methods used by the Company to monitor capital is based on the ratio of net debt to annualized funds from operations and also the ratio of net debt to the maximum amount of the Company's credit facility. The first net debt ratio is calculated as net debt, defined as outstanding debt plus or minus working capital, divided by annualized funds from operations which is calculated as the current quarter ended funds from operations times four. The second net debt ratio is calculated as net debt, defined as outstanding revolving bank loan plus or minus working capital, divided by the credit facility availability. Ironhorse's current strategy is to maintain a ratio of net debt to annualized funds from operations of no more than 2.0 to 1.0 and its ratio of net debt to credit facility availability at less than 90%. The ratios may temporarily increase at certain times as a result of capital expenditures, which are necessary to bring new reserves on production, and commodity prices being significantly lower than those used in the budget. The annual and updated budgets are based on current commodity prices. As at December 31, 2008, Ironhorse's ratio of net debt to annualized funds from operations was 1.11 to 1.0 (2007 – 2.70 to 1.0) which is well within the Company's optimal ratio despite lower commodity prices in the second half of 2008. The Company's ratio of net debt to credit facility availability was 47% (2007 – 99%), which was within the range established by the Company.

The Company's share capital is not subject to external restrictions but the Company does have financial covenants in regards to its credit facility. The credit facility requires the Company to maintain a ratio of "Funded Debt to Cash Flow", calculated on a historical rolling four quarter basis, equal to or less than 3:1 for purposes of this calculation cash flow is calculated as earnings before interest, taxes, and depletion. Funded Debt is defined as all short term and long-term interest bearing debt, capital leases and other obligations.

		2008		2007
Current assets	\$	1,828	\$	926
Current liabilities		8,617		8,909
Net debt		6,789		7,983
Annualized cash flow		6,100		2,952
Net debt to annualized cash flow ratio		1.11		2.70
Credit facility availability	\$	14,500	\$	8,000
Net debt to credit facility availability ratio		0.47		0.99

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has identified the following risks which are significant to its operations:

a) Commodity price risk management

The Company produces petroleum and natural gas which have historically been subject to large fluctuations in price. Ironhorse has entered into several commodity price contracts to manage its exposure to price fluctuations. In 2008 these were comprised of a fixed price physical natural gas contract for the period April 1, 2008 to October 31, 2008 for 2000 GJ per day at \$7.05 per GJ, as well as two costless collars physical natural gas contracts from November 1, 2008 to March 31, 2009. One contract is for 1,000 GJ per day based on a floor price of \$7.75 per GJ and a ceiling price of \$9.45 per GJ and the other contract is for 500 GJ per day based on a floor price of \$8.00 per GJ and a ceiling price of \$10.00 per GJ. As these are physical contracts they have not been accounted for at their underlying fair value. If the Company had closed these contracts on December 31, 2008 it would have resulted in a gain of \$240,000. Assuming production averages 1,100 boe per day and is 90 percent gas weighted a \$0.25 per mcf change in the gas price will result in approximately a \$0.6 million change in revenue.

b) Credit risk

Credit risk is the potential financial loss to the Company if a customer or joint venture partner is unable to meet its contractual obligations and arises principally from the Company's accounts receivable with respect to the sale of petroleum and natural gas. The Company's petroleum and natural gas is marketed on behalf of the company by Grizzly under standard industry terms. In order to mitigate credit risk, Grizzly markets its petroleum and natural gas to established credit worthy purchasers.

At December 31, 2008 accounts receivable were \$1.8 million, of which \$1.1 million relates to accrued revenue for the month of December and \$0.6 million is receivable from Grizzly. The remaining balance is made up of various smaller account balances. All amounts outstanding at December 31, 2008 between the Company and Grizzly were settled in February 2009.

c) Liquidity risk

Liquidity risk is the potential for the Company to have difficulty in meeting its obligations associated with financial liabilities as they become due. Ironhorse financial liabilities consist of accounts payable, financial instruments, and bank debt. All of the Company's financial liabilities have contractual maturities of less than one year and accounts payable are processed within normal payment terms. Ironhorse prepares an annual budget which is monitored and updated throughout the year. Occasionally the Company enters into fixed price contracts with respect to the sale of a portion of its production to protect its cash flow from commodity price declines. The Company also mitigates liquidity risk by maintaining an insurance program to minimize its exposure to insurable losses.

d) Interest rate risk

The Company's bank lines bear interest at the bank prime rate plus 0.25 percent. Fluctuations in the prime rate will result in changes to the monthly interest expense. Assuming an average bank loan balance of \$10 million, a change in the interest rate of 0.50 percent will result in a \$50,000 change in the interest expense.

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2008	2007
Changes in non-cash working capital:		
Accounts receivable	\$ (939)	\$ (444)
Accounts payable and accrued liabilities	162	(962)
	<u>\$ (777)</u>	<u>\$ (1,406)</u>
Relating to:		
Operations	\$ (1,645)	\$ (278)
Investing	868	(1,128)
	<u>\$ (777)</u>	<u>\$ (1,406)</u>