



Ironhorse Oil & Gas Inc.

**Financial Statements
December 31, 2010**

Independent Auditors' Report

To: The Shareholders of Ironhorse Oil & Gas Inc.

We have audited the accompanying financial statements of Ironhorse Oil & Gas Inc., which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of operations and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Ironhorse Oil & Gas Inc. as at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart LLP

April 13, 2011

Calgary, Alberta

Chartered Accountants

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

<i>Thousands of dollars</i>	Year ended December 31 2010	Year ended December 31 2009
Assets		
Current assets		
Cash	\$ 23	\$ 345
Accounts receivable	2,259	1,009
	2,282	1,354
Petroleum and natural gas properties <i>(note 4)</i>	43,501	35,137
	\$ 45,783	\$ 36,491
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 867	\$ 2,513
Bank loan <i>(note 5)</i>	16,264	8,750
	17,131	11,263
Asset retirement obligation <i>(note 6)</i>	1,510	1,343
Future income taxes <i>(note 7)</i>	2,574	2,258
	21,215	14,864
Shareholders' Equity <i>(note 8)</i>		
Share capital	28,848	24,919
Contributed surplus	1,676	1,423
Deficit	(5,956)	(4,715)
	24,568	21,627
	\$ 45,783	\$ 36,491

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 Operations and Deficit

<i>Thousands of dollars except per share amounts</i>	Year ended December 31 2010	Year ended December 31 2009
Revenue		
Petroleum and natural gas	\$ 10,936	\$ 9,392
Royalties	(2,303)	(2,387)
	8,633	7,005
Expenses		
Operating and transportation	1,910	1,277
General and administrative	2,105	1,407
Stock-based compensation <i>(note 8)</i>	270	316
Interest	725	440
Depletion, depreciation and accretion	5,364	5,547
	10,374	8,987
Loss before taxes	(1,741)	(1,982)
Current tax	1	7
Future income tax reduction <i>(note 7)</i>	(501)	(494)
Net loss and comprehensive loss	(1,241)	(1,495)
Deficit, beginning of the year	(4,715)	(3,220)
Deficit, end of the year	(5,956)	\$ (4,715)
Net loss per share <i>(note 8)</i>		
Basic and diluted	\$ (0.05)	\$ (0.06)

See accompanying notes to financial statements.

**Ironhorse Oil & Gas Inc.
Statements of Cash Flows**

<i>Thousands of dollars</i>	Year ended December 31 2010	Year ended December 31 2009
Cash provided by (used in):		
Operating activities		
Net loss	\$ (1,241)	\$ (1,495)
Items not affecting cash		
Depletion, depreciation and accretion	5,364	5,547
Stock-based compensation	270	316
Future income tax reduction	(501)	(494)
Funds from operations	3,892	3,874
Changes in non-cash working capital <i>(note 12)</i>	(340)	667
	3,552	4,541
Financing activities		
Issuance of common shares, net	4,760	3,217
Bank loan	7,514	2,310
Exercise of stock options	22	47
Purchase of common shares for cancellation	(53)	(255)
	12,243	5,319
Investing activities		
Petroleum and natural gas properties	(13,561)	(10,004)
Changes in non-cash working capital <i>(note 12)</i>	(2,556)	482
	(16,117)	(9,522)
Change in cash	(322)	338
Cash, beginning of the year	345	7
Cash, end of the period	23	\$ 345
Supplemental information		
Cash interest paid	\$ 767	\$ 399
Cash taxes paid	1	7

See accompanying notes to financial statements.

IRONHORSE OIL & GAS INC.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009
(Tabular amounts are expressed in thousands except share and per share numbers)

1. DESCRIPTION OF BUSINESS

Ironhorse Oil & Gas Inc. ("Ironhorse" or the "Company") is engaged in the exploration, 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 ("Canadian GAAP").

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 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 records a liability for the fair value of legal obligations associated with the retirement of long-lived assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost which is depleted the same as the related asset, on a unit-of-production basis over the life of the proved reserves. The liability is measured at fair value which is estimated using the present value of the estimated future cash costs to abandon wells and facilities, using the Company's credit-adjusted risk free interest rate. The liability is adjusted each reporting period for the change in present value with the accretion charged to earnings 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. Actual costs incurred upon settlement of the obligations are charged against the obligation to the extent of the liability recorded.

c) Joint operations

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 compensation cost attributable to all share option grants is measured at fair value at the time of the share option grant using the Black-Scholes pricing model and expensed over the vesting period of the share options. The offsetting entry is made to contributed surplus. When options are exercised, the cash consideration received together with the amount previously charged to contributed surplus is recorded as an increase in share capital. The Company estimates a forfeiture rate for options that will not vest when calculating the fair value of the option grant.

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 periodic 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

International Financial Reporting Standards (“IFRS”)

The CICA has confirmed January 1, 2011 as the effective date for the change over to IFRS from Canadian GAAP. The Company will be required to begin reporting under IFRS in the first quarter of 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP; however, there will be significant differences in recognition, measurement and disclosures.

The Company has begun the process of transitioning to IFRS and has identified key areas of Ironhorse's financial reporting that will be affected by the change from current Canadian GAAP to IFRS.

4. PETROLEUM AND NATURAL GAS PROPERTIES

	Cost	Accumulated depletion and depreciation	Net Book Value
2010	\$ 65,528	\$ 22,027	\$ 43,501
2009	\$ 51,909	\$ 16,772	\$ 35,137

During 2010, the Company capitalized \$0.7 million (2009 - \$0.4 million) of general and administrative expenses. In calculating the depletion and depreciation provision for the year ended December 31, 2010, \$4.6 million (2009 - \$4.0 million) of costs relating to undeveloped land, seismic and other costs were excluded from costs subject to depletion and depreciation. Estimated future development costs of \$8.8 million (2009 – \$5.0 million) were included in the calculation of depletion and depreciation for the year ended December 31, 2010.

In conducting the ceiling test as at December 31, 2010, 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, 2010 reserve report as provided by GLJ Petroleum Consultants and are detailed below:

	Oil Light Oil at Edmonton (\$Cdn/barrel)	Gas AECO Spot (\$Cdn/mmBtu)
2011	86.22	4.16
2012	89.29	4.74
2013	90.92	5.31
2014	92.96	5.77
2015	96.19	6.22
2016	98.62	6.53
2017	101.39	6.76
2018	103.92	6.90
2019	106.68	7.06
2020	108.84	7.21
Thereafter	+2%/year	+2%/year

5. BANK LOAN

At December 31, 2010, the Company had a \$17 million demand credit facility (2009 - \$20 million) with a Canadian financial institution. Draws against the credit facility are made by way of direct advances or guaranteed notes. Direct advances bear interest at the financial institution's prime lending rate plus 2.25%; guaranteed notes bear interest at a base rate of 3.75% plus an applicable fee. The monthly unused portion of the credit facility is subject to an annualized fee of 0.80%. The credit facility is secured by a general security agreement providing a first floating charge over all of the assets and a fixed charge over the Pembina oil wells. The credit facility is reviewed annually with the next scheduled review to occur prior to July 31, 2011. At December 31, 2010, \$16.3 million was drawn on the facility (2009 - \$8.8 million).

6. ASSET RETIREMENT OBLIGATIONS

	2010	2009
Balance, beginning of the year	\$ 1,343	\$ 1,034
Incurred in the year	169	235
Disposed of in the year	(10)	-
Change in estimate	(100)	-
Accretion expense	108	74
Balance, end of the year	<u>\$ 1,510</u>	<u>\$ 1,343</u>

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 15 years with the majority of the costs being incurred between 2023 and 2026. The undiscounted amount of the estimated costs at December 31, 2010 was \$3.4 million (2009 - \$3.2 million) using an inflation rate of 2.0% (2009 - 1.5%). The estimated costs have been discounted at a credit adjusted risk free rate of 8.0% (2009 - 7.75%).

7. FUTURE INCOME TAXES

Future income taxes differ from the amount that would be computed by applying the basic combined federal and provincial statutory income tax rate of 29% (2009 – 30.3%) to income before taxes. The reasons for the differences are as follows:

	2010	2009
Statutory tax rate	29%	30.3%
Anticipated tax expense (reduction)	\$ (505)	\$ (599)
Add (deduct)		
Non-deductible stock-based compensation	78	95
Tax rate changes in future	(74)	10
Future income taxes (reduction)	\$ (501)	\$ (494)

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

	2010	2009
Future tax liabilities		
Petroleum and natural gas properties	\$ 4,256	\$ 3,089
Future tax assets		
Share issue costs	(165)	(124)
Non-capital losses	(1,117)	(331)
Asset retirement obligations	(400)	(376)
Net future income tax liability	\$ 2,574	\$ 2,258

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, 2008	21,779,743	\$ 22,842
Issue of flow-through common shares on a flow-through basis	2,513,138	3,518
Options exercised	125,000	47
Shares repurchased under normal course issuer bid	(231,800)	(255)
Tax effect of 2008 flow-through financing	-	(1,070)
Transfer from contributed surplus	-	47
Share issue costs, net of future income taxes of \$91	-	(210)
Balance, December 31, 2009	24,186,081	\$ 24,919

Issue of flow-through common shares on a flow-through basis	3,683,143	5,156
Options exercised	58,000	22
Shares repurchased under normal course issuer bid	(51,400)	(51)
Tax effect of 2009 flow-through financing	-	(932)
Transfer from contributed surplus	-	15
Share issue costs, net of future income taxes of \$115	-	(281)
Balance, December 31, 2010	27,875,824	\$ 28,848

On November 19, 2009, the Company completed a brokered private placement of 2,513,138 common shares issued on a "flow-through" basis at a price of \$1.40 per share for gross proceeds of \$3.5 million. Pursuant to the terms of the placement the Company incurred \$3.5 million of qualifying Canadian exploration expenditures prior to December 31, 2010. The tax effect was recorded in 2010 when the expenditures were renounced to the subscribers.

On April 15, 2010, the Company completed a brokered private placement of 3,683,143 common shares issued on a "flow-through" basis at a price of \$1.40 per share for gross proceeds of \$5.2 million. Pursuant to the terms of the placement the Company is obligated to incur \$5.2 million of qualifying Canadian exploration expenditures prior to December 31, 2011. As at December 31, 2010, the Company had incurred \$1.5 million of qualifying Canadian exploration expenditures and was required to incur \$3.7 million of additional qualifying Canadian exploration expenditures prior to December 31, 2011. The tax effect of the financing will be recorded in 2011 when the expenditures are renounced to the subscribers.

b) Normal Course Issuer Bid

During the year, the Company acquired for cancellation 51,400 (2009 - 231,800) common shares at an average cost of \$1.00 (2009 - \$1.10) per share. The shares had an average carrying value of \$1.03 per share. The difference between the cost to repurchase the shares and the carrying value was charged to contributed surplus.

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, 2008	2,156,167	\$ 1.41
Granted	300,000	1.23
Exercised	(125,000)	0.37
Forfeited	(297,999)	1.96
Balance, December 31, 2009	2,033,168	1.37
Granted	1,169,150	0.80
Exercised	(58,000)	0.38
Forfeited/Expired	(773,501)	1.60
Balance, December 31, 2010	2,370,817	\$ 1.04

Exercise Price	2010			2009		
	Options Outstanding	Options Vested	Remaining Contractual Life (Years)	Options Outstanding	Options Vested	Remaining Contractual Life (Years)
\$ 0.38 - 0.50	675,250	-	4.9	58,000	58,000	0.1
1.01 - 1.50	1,475,567	661,176	3.1	1,414,334	411,183	3.7
1.51 - 2.00	130,000	103,335	1.4	478,334	420,002	1.2
2.01 - 2.95	90,000	90,000	0.4	82,500	82,500	1.4
	2,370,817	854,511	3.4	2,033,168	971,685	2.9

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 pricing model. The following assumptions were applied by the Company in this calculation for options granted in the period:

	2010	2009
Weighted average fair value per option	\$ 0.57	\$ 0.64
Dividend yield	nil	nil
Volatility	52%	54%
Risk-free rates	4%	4%
Pre-vesting forfeiture rate	7%	7%
Expected life – years	4.4	5

Subsequent to December 31, 2010 the Company issued 200,000 stock options to an officer at an exercise price of \$0.40 per share.

d) Per share amounts

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

	2010	2009
Weighted average number of shares - basic	26,839,168	22,042,370
Effect of dilutive stock options	-	-
Weighted average number of shares - diluted	26,839,168	22,042,370

Options to purchase 2,370,817 (2009 – 2,033,168) common shares were not included in the calculation because they were anti-dilutive.

e) Contributed Surplus

	2010	2009
Opening balance, January 1	\$ 1,423	\$ 1,154
Stock-based compensation expense	270	316
NCIB purchase price excess over carrying value	(2)	(23)
Transfer to share capital on exercise of options	(15)	(24)
Closing balance, December 31	\$ 1,676	\$ 1,423

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 venture 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 and Grizzly at December 31 were as follows:

	2010	2009
Accounts receivable	\$ 11	\$ 4
Accounts payable	\$ -	\$ 183

The amounts outstanding at December 31, 2010 were settled in February 2011.

Management fees were paid as follows:

	2010	2009
Fees expensed to G&A	\$ 1,689	\$ 762
Fees capitalized to petroleum and natural gas properties	\$ 731	\$ 58
Total management fees	\$ 2,420	\$ 1,120

In December 2010, the Company sold its Boundary Lake property to a director of the Company for sale proceeds of \$0.6 million. The transaction was consistent with fair market value of the property.

On April xx, 2011, Ironhorse entered into an agreement with Copper Island Resources Ltd ("CIRL") a company related by virtue of common management to acquire a 50% working interest in 19.75 sections of land in Central, Alberta owned by CIRL. Ironhorse and CIRL have agreed to pool their respective land positions subject to Ironhorse making a payment of \$1.7 million on or before July 7, 2011.

10. MANAGEMENT OF CAPITAL STRUCTURE

Ironhorse's strategy is to maintain a capital structure which will sustain the growth of the Company and retain creditor and investor confidence. 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, sell properties or adjust its capital 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 current assets minus current liabilities, 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 divided by the credit facility available. 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 and production rates. As at December 31, 2010, Ironhorse's ratio of net debt to annualized funds from operations was 6.7 to 1.0 (2009 – 3.8 to 1.0) which is well outside the Company's optimal ratio due to sustained lower natural gas prices for the past two years and further delays with respect to placing the Pembina oil wells on production. The Company expects to be outside its self imposed optimal ratio until such time as gas prices increase, the Pembina oil wells are on production or the Company receives an infusion of cash from the sale of one or more of its properties. The Company's ratio of net debt to credit facility availability was 87% (2009 – 49%), which was within the range established by the Company. This ratio is expected to decrease in 2011 when the Company completes the sale of one or more of its properties.

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 working capital ratio of not less than 1:1 for the period of April to December and permits a maximum working capital

deficit of \$1 million for the period of January to March. The working capital ratio is calculated as current assets plus unused portion of the credit facility divided by current liabilities excluding any amount drawn under the credit facilities. The Company has complied with these financial covenants.

	2010	2009
Current assets	\$ 2,282	\$ 1,354
Current liabilities	17,131	11,263
Net debt	14,849	9,909
Annualized funds from operations	\$ 2,216	\$ 2,612
Ratio of net debt to annualized cash flow	6.7	3.8
Credit facility limit	\$ 17,000	\$ 20,000
Ratio of net debt to credit facility limit	0.87	0.49

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 fluctuations in price. During 2010, the Company sold all of its oil and natural gas pursuant to variable price contracts. During 2009, the Company entered into fixed price gas contracts to manage its exposure to price fluctuations.

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 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. The Company independently markets its oil through a well established credit worthy purchaser.

At December 31, 2010 accounts receivable were \$2.3 million, of which: \$0.9 million relates to accrued revenue for the month of December; \$0.6 million is sale proceeds receivable from the Boundary Lake property disposition; \$0.4 million is receivable from the Crown with respect to drilling credits and the remaining balance is made up of various smaller account balances. The amounts outstanding, with the exception of the drilling credits have been settled in full during the first three months of 2011.

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's 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 credit facilities bear interest at the lender's prime rate plus 2.25 %. Fluctuations in the prime rate will result in changes to the interest expense. Assuming an average loan balance drawn on the revolving operating facility of \$15 million, a change in the interest rate of 0.50 percent will result in a \$75,000 change in the interest expense.

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2010	2009
Changes in non-cash working capital:		
Accounts receivable	\$ (1,250)	\$ 812
Accounts payable and accrued liabilities	(1,646)	337
	<u>(2,896)</u>	<u>1,149</u>
Relating to:		
Operations	(340)	667
Investing	(2,556)	482
	<u>\$ (2,896)</u>	<u>\$ 1,149</u>