

## MANAGEMENT'S DISCUSSION and ANALYSIS

### ADVISORIES

This Management's discussion and analysis ("MD&A"), prepared effective November 11, 2010 should be read in conjunction with the Ironhorse Oil & Gas Inc. ("Ironhorse" or the "Company") unaudited financial statements for the three and nine months ended September 30, 2010 and the audited financial statements for the year ended December 31, 2009.

**Basis of Presentation** - The financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The reporting and measurement currency in the financial statements and in this MD&A is the Canadian dollar, unless otherwise stated.

**Non-GAAP Measures** - Ironhorse evaluates performance based on net income, funds from operations, funds from operations per share, net debt and field netback. Funds from operations, funds from operations per share, net debt and field netback are not measurements defined by GAAP, but are financial terms commonly used in the oil and gas industry.

**Funds from operations** are labelled on the Statement of Cash Flows and may not be comparable to other companies. Ironhorse calculates funds from operations as cash flow from operating activities prior to changes in non-cash working capital, and per share amounts are determined using the same method and shares outstanding, which are used in the determination of net earnings per share. The Company considers it a key measure as it demonstrates the ability of the Company to generate the funds to finance future capital investments and service debt.

**Field netback** - Ironhorse also uses field netback as a key performance indicator. Field netback does not have a standardized meaning prescribed by Canadian GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Field netback is determined by deducting royalties and operating expenses from petroleum and natural gas sales revenue. The Company considers field netback a key measure in assessing the economic efficiency of its oil and gas assets in relation to current oil and gas commodity prices.

**Net debt** - Ironhorse also uses net debt as a key performance indicator. Net debt is calculated as current liabilities less current assets plus any long term debt.

**Funds from operations and field netback** are not intended to represent operating profits, nor should they be viewed as an alternative to other measures of financial performance calculated in accordance with GAAP.

**Boe Conversion** - Certain natural gas volumes have been converted to barrels of oil equivalent ("boe"), whereby six thousand cubic feet ("mcf") of natural gas is equal to one barrel ("bbl") of oil, unless otherwise stated. This conversion ratio is based on an energy equivalent conversion applicable at the burner tip and does not represent a value equivalency at the wellhead.

Forward-Looking Information - Certain information regarding Ironhorse set forth in this document, including management's assessment of the Company's future plans and operations, contains forward-looking statements that involve substantial known and unknown risks and uncertainties. These forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Ironhorse's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of or availability of qualified technical personnel or management, stock market volatility and ability to access capital from internal and external sources.

Ironhorse's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact it would have on Ironhorse. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions have been used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management.

Examples of forward-looking statements in this MD&A include, but are not limited to the following, each of which is subject to significant risks and uncertainties and is based on assumptions which may prove to be incorrect:

- The expectation that the two (0.4 net) Pembina oil wells are capable of producing at more than 3,500 (700 net) boe per day and will be placed on production on or before June 2012 at unrestricted rates;
- The expectation that fourth quarter production will average 900 boe per day with a 75:25 gas to oil production mix;

## **Risk Factors**

Additional risk factors can be found under "Risk Factors" in the Company's Annual Information Form, which can be found on [www.sedar.com](http://www.sedar.com). Some risks are discussed below, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

Oil and natural gas operations involve many risks that even a combination of experience and knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserve are exploited. A future increase in the Company's reserves will depend on the Company's ability to explore and develop any properties it may have from time to time, and on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

The Company's principal risks include finding and developing economic hydrocarbon reserves efficiently and being able to fund the capital program. The Corporation's need for capital is both short-term and long-term in nature. Short-term working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets, while the acquisition and development of oil and natural gas properties requires large amounts of long-term capital. The Company anticipates that future capital requirements will be funded through a combination of cash flow from operations, debt, equity financing and proceeds from the sale of assets.

There is no assurance that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements. If any components of the Company's business plan are missing, the Company may not be able to execute the entire business plan.

Although the Company has no set policy concerning derivative financial instruments, the management of the Company may use derivative financial instruments to reduce corporate risk in certain situations.

## **Overview**

Ironhorse is a Canadian-based oil and gas company whose shares trade on the TSX Venture Exchange under the symbol "IOG". Ironhorse's business plan is value creation through a combination of low risk development drilling and high impact exploration. The Company's principal oil and gas properties are listed below.

### Shackleton, Saskatchewan

The Company has a 50% working interest in 100 (50 net) gas wells which produced an average of 9,800 (4,900 net) mcf/d or 1,630 (815 net) boe/d in the first nine months of 2010 representing approximately 87% of the Company's production. Ironhorse is using the funds generated by this property together with its available credit facilities to fund exploration and development activities at its other properties. The Company does not plan to undertake any further development activities on this property in 2010 or 2011.

### Pembina, Alberta

In the first quarter of 2009 Ironhorse participated in the drilling of two (0.4 net) Nisku oil wells. These two oil wells are capable of producing at more than 3,500 (700 net) boe/d. The two Nisku oil wells are expected to produce both light oil and associated sour natural gas. At the present time there is limited infrastructure in the Pembina area for transporting and processing the associated sour gas. After examining various options for constructing pipelines to transport the oil and associated sour gas to third party facilities it has been determined that another viable option would be to construct facilities at the well site which would separate the sour gas from the oil, inject the sour gas back into the Nisku formation and transport sweet oil. Given our current understanding of the regulatory and construction time lines we are estimating the oil wells will be placed on production on or before June 2012 at unrestricted rates. Previously we had estimated that the two oil wells would be on production at restricted rates in the second quarter of 2011. We expect to finalize these plans this fall including submitting applications to the ERCB with respect to gas injection. Key milestones achieved to this point include ERCB approval to drill two pressure maintenance wells and one water source well; obtaining a surface lease for the construction of a facility and preparation of design plans for the facility. Future milestones include continued area resident consultations; submitting further applications to the ERCB, drilling the above noted wells and partner discussions. Various factors including further negotiations with industry partners and area residents together with regulatory delays could extend the time lines for this project.

### Dawson, Alberta

The Company spudded its first oil well in the Dawson, Alberta area in December 2009 and a second oil well was drilled in February 2010 both oil wells were placed on production in late March. Oil production from these wells averaged 300 (165 net) bbl/d in the three months ended September 30, 2010. During the third quarter Ironhorse completed construction of the flow line from the oil wells to a central oil battery. The flow line will transport the oil and associated solution gas thereby fulfilling the ERCB's good production practise conditions, reducing operating

costs and avoiding future production disruptions due to seasonal access issues. The oil wells are currently producing at 360 (200 net) bbl/d.

#### Leon Lake, Saskatchewan

In the first quarter of 2010, Ironhorse drilled, completed and placed on production its first (0.8 net) horizontal oil well in the Leon Lake, Saskatchewan area. The horizontal oil well is currently producing at 30 (23 net) bbl/d from the Upper Shaunavon formation. The Company undertook a three dimensional seismic program, in March, on its lands which has identified additional drilling locations in both the Upper and Lower Shaunavon formations. In June, the Company acquired an additional 5,120 acres of land in the Leon Lake area bringing its total land holdings in the area to 7,770 (7,123 net) acres.. In the third quarter Ironhorse drilled and cased a one (1.0 net) vertical oil well targeting both the Upper and Lower Shaunavon. The Upper Shaunavon formation was placed on production in late October at a rate of 30 bbl per day. The Company plans to drill additional Upper Shaunavon vertical oil wells which will also evaluate the potential of the Lower Shaunavon formation which we plan to drill horizontally at a later date.

#### Jedney, British Columbia

In early 2010, Ironhorse drilled and completed one (0.8 net) vertical well to evaluate multiple prospective gas zones. Ironhorse recently acquired an additional 3,500 acres of land in the Jedney area bringing its total land holdings in the area to 6,303 (5,322 net) acres. The lands are prospective for Halfway, Montney and Doig natural gas. The Company is currently evaluating various tie-in options for placing the gas well on production and the timing of the tie-in is dependent on higher gas prices. Based on the encouraging vertical production test results from the Montney formation and comparisons to recent Montney horizontal gas wells drilled in the Farrell Creek and Town areas, we have identified up to 18 potential horizontal locations on our acreage.

### **Outlook**

Priorities for the balance of this year and the first quarter of 2011 include drilling additional oil wells at Leon Lake, Saskatchewan, working towards placing the Pembina oil wells and identifying acquisition and merger candidates.

Ironhorse expects production in the fourth quarter to average 900 boe per day with a 75:25 gas to oil production mix. Further increases in production are expected with continued drilling success at Leon Lake and when the Pembina oil wells and Jedney gas well are placed on production.

## Third quarter 2010 overview

SELECTED INFORMATION	Three Months Ended		September 30, 2009
	September 30, 2010	June 30, 2010	
<i>Thousands except per share amounts</i>			
<b>Financial</b>			
Revenue	2,628	\$2,682	\$1,858
Royalties	474	496	407
Funds from operations	840	1,153	798
- per share basic and diluted	0.03	0.04	0.04
Loss	416	231	511
- per share basic and diluted	0.01	0.01	0.02
Total assets	46,010	46,355	34,438
Capital expenditures	1,260	4,691	384
Net debt	15,233	14,799	11,142
Weighted average shares outstanding			
Basic	27,885	27,331	21,663
Fully diluted	27,885	27,331	21,698
<b>Operations</b>			
Production			
Gas – mcf/d	4,298	4,633	6,252
Oil – bbl/d	203	179	8
Total – boe/d	919	951	1,051
Average sales price			
Gas - \$/mcf	3.31	3.61	3.15
Oil - \$/bbl	72.24	71.08	57.24
Boe - \$/boe	31.41	30.99	19.22
Royalty - \$/boe	5.67	5.73	4.21
Operating expenses - \$/boe	7.08	3.35	2.81
Field Netback - \$/boe	18.66	21.91	12.20
General & administrative expenses - \$/boe	6.36	6.72	3.10

During the third quarter of 2010 higher oil production offset lower gas production resulting in revenues increasing 41% in the third quarter of 2010 as compared to the same period in 2009. Funds from operations for the third quarter of 2010 increased 5% as increases in revenues were offset by higher operating and general and administrative expenses.

## OPERATIONS

Our operations are focused in Southwest Saskatchewan, Central Alberta and Northeast British Columbia. In addition to the properties currently being developed, we are constantly evaluating new areas which have the potential to become focus areas.

## Sales Volumes

		Three months ended September 30			Nine months ended September 30		
		2010	2009	%Change	2010	2009	% Change
Daily sales volumes							
Natural gas	<i>mcf/d</i>	4,298	6,252	(31)	4,640	6,633	(30)
Light oil & ngls	<i>bbls/d</i>	203	8	2,439	162	11	1,373
Total	<i>boe/d</i>	919	1,051	(13)	935	1,117	(16)

Lower sales volumes for the three and nine months ended September 30 2010 were due to natural declines in gas production in the Shackleton area which were offset by the increased oil production attributable to the Dawson oil wells which were placed on production in March of this year.

## Marketing and Revenue

		Three months ended September 30			Nine months ended September 30		
		2010	2009	%Change	2010	2009	%Change
<b>Benchmark</b>							
Alberta Spot – Natural gas	\$/mcf	3.56	2.98	19	3.59	3.77	(5)
West Texas Intermediate - Oil	US\$/bbl	76.00	68.19	11	75.31	57.93	30
Edmonton Par - Oil	\$/bbl	77.36	71.67	8	74.54	63.37	18
<b>Company Prices</b>							
Natural gas price	\$/mcf	3.31	3.15	5	3.89	3.88	-
Light oil & ngls price	\$/bbl	72.24	57.24	26	72.96	59.27	23
Boe	\$/boe	31.41	19.22	63	31.91	23.64	35
<b>Revenue</b>							
Natural gas	\$m	1,293	1,811	(29)	4,921	7,024	(30)
Light oil & ngls	\$m	1,335	47	2,740	3,226	184	1,653
Total	\$m	2,628	1,858	41	8,148	7,208	13

The Company's Shackleton gas production is marketed through the marketing arm of a large international oil and gas company. The Shackleton gas is priced at the Alberta gas spot price at the AECO Hub adjusted for heating content, plus \$0.85 per gigajoule ("GJ") less a transportation charge of approximately \$0.15 per GJ. Natural gas pricing tends to be volatile and is affected by supply and demand, storage levels, weather conditions and fuel switching to alternative sources of energy. Gas prices peaked in the second quarter of 2008 and have generally drifted downward throughout the balance of 2009 and 2010 as North American supply increased primarily due to the development of "shale gas reserves" in the United States while commercial and industrial demand declined in the response to the economic downturn. To date in 2010 all of Ironhorse's natural gas production was sold on the spot market. The Company's natural gas receives a price which is approximately 6% lower than the average benchmark price due to the lower heat content per mcf of the Shackleton natural gas. Crude oil is marketed on 30 day evergreen contracts at prevailing market prices.

The Company monitors the impact of commodity price exposure and from time to time, enters into structured sales contracts such as swaps, options or collars for fixed periods of time to mitigate commodity price risk. The objective

of this strategy is to reduce the Company's risk exposure to changes in funds from operations resulting from changes in commodity prices, thereby ensuring our ability to complete the planned capital investment program.

Revenues for the three and nine months ended September 30, 2010 were 41% and 13% respectively higher than the same period in the prior year due to increases in oil sales volumes.

## Royalties

		Three months ended September 30			Nine months ended September 30		
		2010	2009	% Change	2010	2009	% Change
Royalties	\$m	474	407	16	1,619	1,820	(11)
Per boe	\$	5.67	4.21	35	6.34	5.97	6
Royalty rate	%	18.0	21.9	(18)	19.9	25.3	(21)

Ironhorse's producing wells are subject to crown, First Nation and overriding royalties which are payable to the owners of the mineral rights. The mineral rights for Company's Shackleton property are owned by the Carry the Kettle First Nation and are subject to a lessor royalty, which is equivalent to Saskatchewan crown royalty, plus a 15% gross overriding royalty. Royalty rates vary based on a number of factors including commodity pricing and production rates. Royalties are calculated on sales revenues based on daily spot prices and without reference to contracted pricing differences. Our new oil production is eligible for various royalty holiday programs.

Wells drilled in Alberta, between April 1, 2009 and March 31, 2010; earn a drilling credit of \$200 per meter. Ironhorse has included as a reduction of capital expenditures at September 30, 2010 an expected royalty recovery of \$0.4 million with respect to wells drilled in Alberta in the first quarter of 2010.

For the three and nine months ended September 30, 2010 the royalty rate as a percentage of revenue decreased 18% and 21% respectively as compared to the same period in the prior year as the new oil wells are subject to royalty holiday programs. Royalties as a percentage of revenue for the balance of 2010 are expected to be approximately 20%.

## Operating and Transportation Expenses ("O&T")

		Three months ended September 30			Nine months ended September 30		
		2010	2009	% Change	2010	2009	% Change
O&T	\$m	592	272	118	1,231	880	40
Per boe	\$	7.08	2.81	152	4.82	2.89	67

Operating and transportation expenses were \$0.6 million, or \$7.08 per boe, for the quarter ended September 30, 2010 compared to \$0.3 million or \$2.81 per boe, during the comparable period of 2009. The increase in operating and transportation expenses per boe for the three and nine months ended September 30 2010 is attributable to the new oil production which incurs transportation charges when trucked to the third party facilities, equipment rentals and annual property tax payments. Operating expenditures for the balance of 2010 are expected to be approximately \$4.50 per boe.

## General and Administrative Expense (“G&A”) and Stock Based Compensation (“SBC”)

		Three months ended September 30			Nine months ended September 30		
		2010	2009	% Change	2010	2009	% Change
G&A	\$m	532	300	77	1,449	1,067	36
SBC	\$m	75	84	(11)	222	260	(15)
Per boe							
G&A	\$	6.36	3.10	105	5.67	3.50	62
SBC	\$	0.90	0.87	3	0.87	0.85	2

The increase in G&A and G&A per boe for the three and nine months ended September 30, 2010 is due to higher management fees charged by Grizzly Resources Inc. For additional information on management fees refer to the related party section of this MD&A.

## Interest Expense

		Three months ended September 30			Nine months ended September 30		
		2010	2009	% Change	2010	2009	% Change
Interest expense	\$m	188	81	132	509	212	140
Per boe	\$	2.25	0.84	168	1.99	0.70	185

Interest expense for the three and nine months ended September 30, 2010 increased 132% and 140% respectively due to higher debt levels, interest rates and stand by fees. Interest expense for the balance of 2010 is expected to remain at current levels as debt levels and interest rates are expected to remain at current levels for the balance of the year.

## Depletion, Depreciation and Accretion (“DD&A”)

		Three months ended September 30			Nine months ended September 30		
		2010	2009	% Change	2010	2009	% Change
DD&A	\$m	1,303	1,391	(6)	4,377	4,497	(3)
Per boe	\$	15.57	14.40	8	17.14	14.75	16

The DD&A provision for the nine months ended September 30, 2010 decreased 6% as the increase in the depletion, depreciation and accretion rate per boe was largely offset by lower production numbers during the period. The increase in the depletion, depreciation and accretion rate per boe reflects lower prorata reserves additions in relation to capital expenditures incurred during the year than last year. The depletion, depreciation and accretion rate per boe for the balance of 2010 will vary with drilling results and capital expenditures during the second half of the year.

## Income Taxes

		Three months ended September 30			Nine months ended September 30		
		2010	2009	% Change	2010	2009	% Change
Future income tax recovery	\$m	122	166	(27)	386	353	9

The future income tax recoveries are consistent with the loss before tax adjusted for non-deductible items and changes in the future tax rates.

## Field Netback

\$ Per boe	Three months ended September 30			Nine months ended September 30		
	2010	2009	% Change	2010	2009	% Change
Revenue	31.41	19.22	63	31.91	23.64	35
Less: Royalties	5.67	4.21	35	6.34	5.97	6
Operating expenses	7.08	2.81	152	4.82	2.89	67
Field netback	18.66	12.20	53	20.75	14.78	40

Ironhorse's field netback per boe for the three and nine ended September 30, 2010 increased 53% and 40% respectively as the Company increased the oil weighting of its production and oil receives a higher price per boe than gas.

## Funds from Operations and Loss

		Three months ended September 30			Nine months ended September 30		
		2010	2009	% Change	2010	2009	% Change
Funds from operations	\$m	840	798	5	3,338	3,222	4
Basic and diluted per share	\$	0.03	0.04	(25)	0.13	0.15	(13)
Net loss	\$m	416	511	(19)	875	1,182	(26)
Basic and diluted loss per share	\$	0.01	0.02	(50)	0.03	0.05	(40)
Weighted average shares outstanding							
Basic		27,885	21,663	29	25,781	21,744	22
Diluted	m	27,885	21,698	29	25,781	21,789	22

Funds from operations for the three and nine months ended September 30, 2010 increased 5% and 4% respectively. Net loss for the three and nine months ended September 30, 2010 decreased 19% and 26% respectively. The increase in funds from operations and decrease in the net loss were primarily due to higher revenues associated with the new oil production.

## Capital Expenditures

Expenditure category \$m	Three months ended September 30			Nine months ended September 30		
	2010	2009	%Change	2010	2009	%Change
Land	4	250	(98)	3,125	520	501
Seismic	13	60	(78)	416	171	143
Drilling, completions and tie-in	1,119	54	1,972	9,253	6,455	43
G&A	124	20	520	626	249	151
	1,260	384	228	13,420	7,395	81

Area \$m	Three months ended September 30			Nine months ended September 30		
	2010	2009	%Change	2010	2009	%Change
Saskatchewan	800	133	502	5,467	4,591	19
NE British Columbia	6	-	100	5,059	50	10,018
Alberta	330	231	43	2,268	2,505	(9)
G&A	124	20	520	626	249	151
	1,260	384	228	13,420	7,395	81

Capital expenditures for the three months ended September 30 2010 increased 228% from \$0.4 million in 2009 to \$1.3 million in 2010 as a result of capital expenditures at Dawson and Leon Lake. Significant capital expenditures in the third quarter included the construction of the flow line and associated facilities at Dawson and drilling an oil well at Leon Lake.

Ironhorse plans to undertake up to a \$15 million capital spending program in 2010 which is expected to be financed through a combination of funds from operations, proceeds from issuing new equity and draws on our credit facilities. Activities planned for the balance of 2010 include completing and equipping the Leon Lake oil well which was placed on production in November 2010 and preparations with respect to drilling another vertical oil well at Leon Lake. Capital expenditures in the first quarter of 2011 will continue to focus on developing the Leon Lake oil property.

## Related Party Transactions

Ironhorse is party to a management services agreement with Grizzly Resources Ltd. ("Grizzly") a company related by virtue of common management. Pursuant to the terms of the agreement Grizzly provides technical and administrative services typically required in operating an oil and gas company. This arrangement has provided Ironhorse with the benefits of accessing a larger more comprehensive pool of technical and administrative services than it could otherwise afford during its early stage of development. Previously, the management contract charged Ironhorse a fee based on units of production and a percentage of capital expenditures. The production fee was charged to G&A and was calculated based on a fee of \$2.43 per producing boe. The fee on capital expenditures was capitalized to property and equipment. The capital fee was 4.13 percent of capital expenditures incurred during the period. Effective April 1, 2010 the management agreement was revised such that Ironhorse is charged a fixed amount of \$241,000 per month. Ironhorse capitalizes an amount equal to 4.13% of the capital expenditures incurred plus \$25,000 per month and the remaining amount is expensed to G&A. The management contract is reviewed annually at December 31.

		Three months ended September 30			Nine months ended September 30		
		2010	2009	%Change	2010	2009	%Change
Charged to G&A	\$m	600	193	211	1,231	595	107
Capitalized	\$m	124	20	520	626	249	151
Management fees	\$m	724	213	239	1,857	844	120

### Normal Course Issuer Bid

On December 1, 2009 the Company renewed its program to purchase for cancellation its common shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities law.

Pursuant to the terms of the current normal course issuer bid, Ironhorse may purchase for cancellation, as Ironhorse considers advisable, up to a maximum of 1,649,749 common shares during the 12 month period commencing December 1, 2009. The purchases are to be made on the open market through the TSX Venture Exchange. PI International Corp. is the brokerage firm conducting the normal course issuer bid on behalf of the Company.

Ironhorse believes that the purchase of its common shares will create shareholder value as market prices for its common shares do not always reflect the underlying value of its oil and gas reserves. To the extent that the Company is able to purchase shares on the open market for cancellation there is a proportionate increase in the value attributable to remaining outstanding common shares.

During the period ended September 30, 2010, the Company acquired 51,400 common shares at an average cost of \$1.03 per share.

### Liquidity and Capital Resources

Oil and gas exploration and development is a capital intensive business. Periodic infusions of additional capital may be required to accelerate the rate of the Company's growth. Ironhorse chooses to finance its ongoing capital expenditure program through a combination of reinvesting funds from operations, bank borrowing and additional share equity.

The Company had drawn \$15.8 million against its \$17 million credit facility at September 30, 2010. The Company's credit facility, reviewable annually, is with a Canadian financial institution. Draws against the credit facilities 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 loan is secured by all of the Company's assets. Principal repayments are required only if the borrowing base is exceeded.

On April 15, 2010 the Company completed a private placement of 3.7 million common shares on a flow-through basis for gross proceeds of \$5.2 million.

The Company plans to finance its budgeted \$15 million 2010 capital expenditure program from funds from operations, existing credit facilities and issuing common shares from treasury. The priorities for the balance of 2010 include:

- Completing and placing on production an oil well drilled in the fourth quarter at Leon Lake, Saskatchewan;
- Placing the two (0.4 net) Pembina, Alberta oil wells on production, which includes drilling the pressure maintenance injection wells, constructing well site facilities and installing pipelines; and
- Identifying acquisition and merger opportunities.

Ironhorse believes it can complete these activities with its current financial resources.

Ironhorse has 27,875,824 common shares and 1,897,569 stock options with a weighted average exercise price of \$1.29 per share outstanding as at November 11, 2010. At the November 11, 2010 board meeting the directors authorized the issuance of an additional 680,250 stock options to directors, officers, employees and consultants, these options will be priced at market prices when issued.

### **Contractual Obligations**

Ironhorse has various contractual obligations and commitments arising in the normal course of operations and financing activities. These obligations and commitments have been considered when assessing the cash requirements in the above discussion of future liquidity.

The Company issued flow-through common shares in 2009 and 2010. Pursuant to the terms of the financings, the Company is obligated to spend the gross proceeds on qualifying Canadian exploration expenditures. As at September 30, 2010, Ironhorse had incurred qualifying expenditures to fulfill all of its 2009 flow-through financing obligations. On April 15, 2010 the Ironhorse completed a private placement on a flow-through basis which requires the Company to incur qualifying Canadian exploration expenditures prior to December 31, 2011, as at September 30, 2010 Ironhorse needed to incur \$4.1 million of eligible expenditures.

### **Critical Accounting Estimates**

The preparation of the Company's financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported financial results of the Company. On an on-going basis, management reviews its estimates in light of currently available information. Changes in facts and circumstances may require revisions to estimates causing changes to reported results. Ironhorse's critical accounting estimates are discussed below.

#### *Oil and Gas Accounting*

Ironhorse follows the full-cost accounting guideline to account for its petroleum and natural gas operations. Under this method, all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized in one Canadian cost centre. These capitalized costs, along with estimated future development costs, are depleted and depreciated on a unit-of-production basis using estimated proved petroleum and natural gas reserves. By their inclusion in the unit-of-production calculation, reserve estimates are a significant component of the calculation of depletion and depreciation expense.

Independent engineers engaged by the Company use all available geological, reservoir, and production performance data to prepare the reserve estimates. These estimates are reviewed and revised, either upward or downward, as new information becomes available. Revisions are necessary due to changes in assumptions based on reservoir performance, commodity prices, economic conditions, government regulations and other

relevant factors. If reserve estimates are revised downward, net income could be affected by increased depletion and depreciation.

### *Impairment of Petroleum and Natural Gas Assets*

Companies that use the full-cost method of accounting for oil and natural gas operations are required to perform an impairment test (the "ceiling test") that calculates a limit for the net carrying cost of petroleum and natural gas assets. The net amount at which petroleum and natural gas properties are carried is subject to a cost recovery test. The ceiling test is a two-stage process. The first stage of the test is a recovery test which compares the undiscounted future cash flows from proved reserves at forecast prices plus the cost, less impairment, of unproved properties to the net book value of the petroleum and natural gas assets to determine if the assets are impaired. An impairment loss exists when the net book value of the petroleum and natural gas assets exceeds such undiscounted cash flows. The second stage determines the amount of the impairment loss to be recorded. The impairment is measured as the amount by which the net book value of the petroleum and natural gas assets exceeds the future discounted cash flows from proved plus probable reserves at the forecast prices. If reserve estimates are revised downward, net income could be affected by any additional depletion and depreciation recorded under the ceiling test calculation and could result in a significant accounting expense for a particular period. No impairment was determined at September 30, 2010 pursuant to the first stage of the test.

### *Asset Retirement Obligations*

The amounts recorded for asset retirement obligations are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and the facilities and the estimated time period during which these costs will be incurred in the future. Any changes to these estimates could change the amount recorded for asset retirement obligations and may materially impact the financial statements of future periods.

### **Changes in Accounting Policies**

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants (CICA) recommendations for capital disclosures which require disclosure of qualitative and quantitative information regarding the Company's objectives, policies and processes for managing capital (refer to Note 10 to the financial statements).

Effective January 1, 2009, the Company adopted the CICA recommendations pertaining to disclosure and presentation of financial instruments which require disclosure of the classification of the Company's financial instruments and additional qualitative and quantitative information regarding the nature and extent of risks arising from financial instruments to which the Company is exposed (refer to Note 11 to the financial statements).

### **Financial Instruments**

Ironhorse's financial instruments consist of cash, accounts receivable and accounts payable, accrued liabilities and bank loan payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments is their carrying value due to their short-term maturity and capacity for prompt liquidation.

### **IFRS Changeover Plan**

Canada's Accounting Standards Board has confirmed January 1, 2011 as the date that International Financial Reporting Standards ("IFRS") will replace existing Canadian GAAP for all publicly accountable enterprises in

Canada. The Company will begin reporting under IFRS in the first quarter of 2011, with restatement, for comparative purposes, of amounts reported on the Company's opening IFRS balance sheet as at January 1, 2010 and of quarterly amounts reported by the Company during 2010.

The Company has developed a changeover plan that addresses accounting policy changes, financial reporting requirements to information technology and systems impacts, business process changes, and education and training requirements. Staff participate in on-going meetings with peers in the industry and accounting and information system service providers to identify the practices that will be used to obtain the most relevant and comparable financial information upon conversion to IFRS. The Company has also documented its accounting policy choices and the effects of those choices on the organization.

The Company has completed an initial assessment of the effects of adopting IFRS and identified the following as having the greatest potential to change the Company's accounting policies and procedures, financial reporting and information systems upon conversion to IFRS.

### *Property and Equipment*

IFRS 1, First-time Adoption of International Financial Reporting Standards in the oil & gas industry, provides entities the option to elect to measure their assets at historical cost at transition or retrospective restatements of the property, plant & equipment accounts. Ironhorse has elected to use the historical cost option to restate its assets.

IFRS 6, Exploration for and Evaluation of Mineral Resources, is the standard under which oil and gas exploration and evaluation costs are to be accounted for, and it requires entities to choose from among several different policies when accounting for exploration and evaluation costs. Ironhorse plans to capitalize its exploration and evaluation costs until it has determined that the property contains reserves and is transferred to development and production assets, or that no future economic benefits exist and the costs are expensed and de-recognized. Costs incurred prior to obtaining the right to explore will be expensed. Exploration and evaluation costs will be reported as separate line item on the Company's balance sheet; however, the adoption of IFRS 6 should have no other significant effect on Ironhorse's financial results.

IFRS 16, Property, Plant and Equipment, requires the Company to identify the significant parts of its property, plant and equipment and to depreciate and deplete each part separately, in contrast to Canadian GAAP where full cost accounting permitted one such calculation for the full cost pool. In addition, IFRS requires the recognition of gains and losses on disposition of oil and gas properties. Under Canadian GAAP, proceeds of smaller dispositions were credited against the carrying amount of the full cost asset pool. The IFRS method of componentizing plant and equipment may result in an increase in the number of component parts, analogous to separate cost centers, and recorded and depreciated and, as a result, will affect the depletion and depreciation calculation.

IAS 36, Impairment of Assets, requires impairment testing to be performed at the cash generating unit ("CGU") level as opposed to the full cost pool as permitted under full-cost accounting under Canadian GAAP. The concept of full-cost accounting under existing Canadian GAAP does not fit within the IFRS framework and, as such, Canadian companies engaged in oil and gas exploration and development must allocate the carrying amount of their oil and gas assets to CGUs at the date of transition to IFRS. A CGU is defined as the smallest identifiable asset or group of assets that generates largely independent cash flows. This change will result in impairment test calculations at the CGU level and could possibly result in more frequent write-downs of the carrying values of CGUs since the impairment tests are performed at a lower level than under Canadian GAAP.

IAS 36 also uses a one-step approach for testing and measuring impairments, with asset carrying amounts being compared to the higher of value in use and fair value, less cost to sell. Value in use is defined as being equal to the present value of future cash flows expected to be derived from the asset in its current state. In the absence of an active market, fair value, less cost to sell, may also be determined using discounted cash flows. The use of discounted cash flows under IFRS differs from Canadian GAAP where undiscounted cash flows are used to compare against the asset's carrying amounts to determine if impairment exists. This may result in more frequent write-downs, since asset carrying amounts that were previously supported under Canadian GAAP, based on, undiscounted cash flows, may not be supported on a discounted cash flow basis under IFRS. However, under IAS 36, previous impairment losses can be reversed where circumstances change, such that any remaining impairment is reduced. This also differs from Canadian GAAP, which prohibits the reversal of previously recognized impairment losses.

#### *Financial Instruments*

IFRS prohibits the use of the "critical terms match" approach and "shortcut" methods, which assume no effectiveness in a hedge transaction, whereas Canadian GAAP permits the use of both for assessing and measuring ineffectiveness of a hedge if certain conditions are met. This change will likely prevent Ironhorse from applying hedge accounting rules to any derivative contracts.

#### *Decommissioning Liabilities*

In calculating asset retirement obligations, IFRS requires the use of the current market-based discount rate at each reporting date rather than the entity's credit-adjusted risk-free rate used under Canadian GAAP. To the extent of any difference between these discount rates, this change will affect the Company's asset retirement obligation liability at the date of conversion to IFRS.

#### *Future Income Taxes*

The requirements under the IFRS for future income taxes are similar to that required under Canadian GAAP and should not have a significant effect on the Company's financial statements.

#### *Information Systems*

The adoption of the IFRS will affect information systems requirements. The Company is working with external suppliers on systems upgrades and changes to the chart of accounts, as well as cost centre hierarchies and related measurements to accommodate the new CGU definitions, and to month-end accounting processes to ensure an efficient conversion to IFRS.

#### *Summary*

The differences described above are those existing based on Canadian GAAP and IFRS today and should not be regarded as complete, as the intention is to highlight those areas believed to be most significant. This analysis of possible changes is on-going and not all decisions have been made where choices of accounting policies are available. Further, the International Accounting Standards Board has significant on-going projects that could affect the Company's financial statements in future years.

An analysis of the effects of the adoption of IFRS on Ironhorse's financial statements is set out below. It should be recognized that this analysis is preliminary and not comprehensive and is likely to change as IFRS and industry and management's interpretation of IFRS evolves.

<b><i>Financial Statement Category</i></b>	<b><i>Change Under IFRS</i></b>	<b><i>Effect on Financial Statements of Ironhorse</i></b>
Property and Equipment	Existing full-cost pool to be divided into exploration and evaluation and development and producing segments. Testing for impairment upon restatement.	Certain cost attributable to cash generating units (CGUs) with no future development potential will be charged to retained earnings on transition. Future depletion charges will be reduced accordingly.
Property and Equipment	Development and producing segments to be allocated into CGUs and depleted at a lower level.	Additional depletion calculations will be required at each reporting period.
Property and Equipment	Depletion can be calculated using either proven or proved plus probable reserves.	Continuing to use proved reserves in depletion calculation will result in minor changes in depletion expense.
Property and Equipment	Gains and losses on dispositions will be measured and recognized in the income statement. There is no de minimis rule as exists under current GAAP.	Gains and losses on property sales will be an income statement item.
Property and Equipment	Impairment test will be calculated at the CGU level plus changes to the impairment calculation methodology.	Impairment of CGUs from existing asset base may occur upon retrospective restatement.
Financial Instruments	Hedge accounting requirements have become significantly more stringent.	All future hedges will be marked to market and gains or losses will be included in the income statement.
Asset Retirement Obligation	A market-based discount rate will be used instead of using a credit-adjusted risk-free rate.	Effect not yet determinable.
Borrowing Costs	Interest costs relating to the financing of assets with a long ready-for-use time frame to be capitalized.	Likely no effect on Ironhorse, based on existing assets.
Cash Flow Statement	To focus on cash measurements only, with no adjustment for working capital components.	More a presentation than a measurement issue. However, non-GAAP funds from operations will be harder to measure and may disappear from common usage.
Share-Based Payments	Stock options that vest in instalments should be valued separately.	No material effect likely.

## Selected Quarterly Information

	Unit	2010				2009			2008	
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
<b>Financial</b>										
Revenue	\$m	2,628	2,682	2,838	2,183	1,858	2,299	3,053	3,427	
Funds from operations	\$m	840	1,153	1,345	653	798	881	1,542	1,525	
Per share – basic	\$	0.03	0.04	0.06	0.03	0.04	0.04	0.07	0.07	
Per share – diluted	\$	0.03	0.04	0.05	0.03	0.04	0.04	0.07	0.07	
Income (loss)	\$m	(416)	(231)	(228)	(313)	(511)	(653)	(18)	128	
Per share – basic	\$	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)	0.00	0.00	
Per share – diluted	\$	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.03)	0.00	0.00	
Capital expenditures	\$m	1,260	4,691	7,470	2,610	384	1,017	5,993	2,842	
Net debt	\$m	15,233	14,799	16,041	9,909	11,142	11,505	11,319	6,789	
Total assets	\$m	46,010	46,355	42,483	36,491	34,438	35,478	36,543	32,199	
<b>Operational</b>										
Production										
Natural gas	mcf/d	4,298	4,633	5,044	5,560	6,252	7,153	6,498	5,486	
Light oil & ngls	bbls/d	203	179	105	10	8	19	7	7	
Total	boe/d	919	951	946	937	1,051	1,211	1,089	921	
<b>Average price</b>										
Natural gas	\$/mcf	3.31	3.61	4.64	4.15	3.15	3.37	5.16	6.72	
Light oil & ngls	\$/bbl	72.24	71.08	77.61	66.91	57.24	59.95	53.12	54.41	
Boe	\$/boe	31.41	30.99	33.34	25.35	19.22	20.85	31.11	40.41	
<b>Field Netback</b>	\$/boe	18.66	21.91	21.61	14.15	12.20	12.49	19.91	24.37	
<b>Weighted average shares outstanding</b>										
Basic	m	27,885	27,331	24,214	22,859	21,663	21,751	21,779	21,780	
Diluted	m	27,885	27,331	24,214	22,897	21,698	21,751	21,779	21,906	

In the first quarters of 2008 and 2009 the Company drilled gas wells at Shackleton which resulted in gas production increasing in the second quarter of each year, no additional gas wells were drilled at Shackleton in 2010. In the first quarter of 2010 the Company drilled two (1.1 net) oil wells at Dawson, one (0.8 net) oil well at Leon Lake and one (0.8 net) gas well at Jedney which resulted in oil production increasing in 2010. The revenues

and funds from operations in each quarter varied with production and the then current oil and natural gas commodity prices.

#### **ADDITIONAL INFORMATION**

Additional information regarding Ironhorse Oil & Gas Inc., including the Company's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.ihorse.ca](http://www.ihorse.ca).