



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, 2007 and 2006** and the statements of operations 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 misstatement. 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, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

March 13, 2008
Calgary, Alberta

Kenway Mack Slusarchuk Stewart LLP

Chartered Accountants

IRONHORSE OIL & GAS INC.

Balance Sheets

	December 31 2007	December 31 2006
ASSETS		
Current Assets:		
Cash	\$ 44,518	\$ 8,674
Accounts receivable	833,791	398,766
Prepaid expenses	47,579	38,902
	925,888	446,342
Property and equipment (note 3)	24,917,055	16,402,488
	\$ 25,842,943	\$ 16,848,830
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 2,015,408	\$ 2,977,699
Revolving production bank loan (note 9)	6,893,808	1,806,000
	8,909,216	4,783,699
Asset retirement obligation (note 4)	666,379	323,037
Future income taxes (note 5)	1,192,439	788,701
	10,768,034	5,895,437
Shareholders' equity:		
Share capital (note 6)	18,887,650	14,093,637
Contributed surplus (note 6)	993,804	854,156
Deficit	(4,806,545)	(3,994,400)
	15,074,909	10,953,393
	\$ 25,842,943	\$ 16,848,830

See accompanying notes to the financial statements.

Approved on behalf of the board:

(signed) "Larry J. Parks"
Director – Larry J. Parks

(signed) "Gerry C. Quinn"
Director – Gerry C. Quinn

IRONHORSE OIL & GAS INC.

Statements of Operations and Deficit

	Year ended December 31 2007	Year ended December 31 2006
Revenue	\$ 9,032,888	\$ 2,709,734
Royalties	(3,410,341)	(1,092,481)
	5,622,547	1,617,253
Other income	8,063	57,319
	5,630,610	1,674,572
Expenses		
Operations	811,742	316,622
General and administration	890,844	288,466
Stock-based compensation	421,666	555,628
Interest	308,337	11,516
Depletion, depreciation and accretion	4,261,150	1,460,410
	6,693,739	2,632,642
Income (loss) before income taxes	(1,063,129)	(958,070)
Future income tax recovery (note 5)	250,984	225,249
Net income (loss)	(812,145)	(732,821)
Deficit, beginning of the year	(3,994,400)	(3,261,579)
Deficit, end of the year	\$ (4,806,545)	\$ (3,994,400)
Net income (loss) per share (note 7)		
Basic	\$ (0.04)	\$ (0.04)
Diluted	\$ (0.04)	\$ (0.04)

See accompanying notes to the financial statements.

IRONHORSE OIL & GAS INC.

Statements of Cash Flows

	Year ended December 31 2007	Year ended December 31 2006
Cash flows from operating activities:		
Net income (loss)	\$ (812,145)	\$ (732,821)
Add (deduct) items not affecting cash		
Depletion, depreciation and accretion	4,261,150	1,460,410
Future income tax recovery	(250,984)	(225,249)
Stock-based compensation	357,416	555,628
Abandonment costs incurred	(25,900)	(8,240)
Funds flow from operations	3,529,537	1,049,728
Changes in non-cash working capital (note 11)	(278,005)	(208,731)
	3,251,532	840,997
Cash flows from financing activities		
Increase in revolving production bank loan	5,087,808	1,806,000
Issuance of common shares	5,771,628	5,051,377
Exercise of stock options	5,984	
Repurchase of common shares	(546,645)	
	10,318,775	6,857,377
Cash flows from investing activities		
Expenditures on property and equipment	(12,406,475)	(13,913,779)
Changes in non-cash working capital (note 11)	(1,127,988)	2,504,176
	(13,534,463)	(11,409,603)
Net increase (decrease) in cash during the year	35,844	(3,711,229)
Cash, beginning of the year	8,674	3,719,903
Cash, end of the year	\$ 44,518	\$ 8,674

See accompanying notes to the financial statements.

IRONHORSE OIL & GAS INC.

Notes to the Financial Statements

For the Years Ended December 31, 2007 and 2006

1. NATURE OF OPERATIONS

The Company was incorporated on September 18, 1972 in the Province of British Columbia and was continued under the Alberta Business Corporations Act on November 26, 2002. The Company is in the business of exploration for and production of petroleum and natural gas.

2. SIGNIFICANT ACCOUNTING POLICIES

(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 operations unless the depletion and depreciation rate would be changed by 20% or more.

Impairment test

The Company calculates a ceiling test whereby the carrying value of its property and equipment is compared at each reporting period end to an estimate of undiscounted future net cash flow from the production of gross proved reserves plus the cost of unproved properties and major development projects, 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 ceiling 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, 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.

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For the Years Ended December 31, 2007 and 2006

(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 depletion, depreciation and accretion. 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.

With approval from the Board of Directors, the Company's stock option plan provides that option holders may exercise their right to take a cash settlement payment for the in-the-money value of the option on the exercise date. Should such a right be exercised by 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.

IRONHORSE OIL & GAS INC.

Notes to the Financial Statements

For the Years Ended December 31, 2007 and 2006

(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

Effective January 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") accounting standards in respect of Financial Instruments – Recognition and Measurement, Hedges, Comprehensive Income and Financial Instruments - Disclosure and Presentation. These accounting standards require the classification of all financial instruments by category: loans and receivables, held to maturity investments, available for sale financial assets, held for trading assets or other liabilities. The standards prescribe criteria for the recognition of certain derivative financial instruments. As well, the standards prescribe the measurement basis, either amortized cost or fair value, of the specified classes of financial instruments subsequent to their initial recognition; the timing and recognition of realized and unrealized gains and losses on financial instruments in net income or other comprehensive income; and disclosures, including a new category of shareholders' equity called accumulated other comprehensive income. In accordance with transitional provisions in the standards, these accounting policies were adopted on a prospective basis with no restatement of prior period financial statements.

Application of the standards to the classification and measurement of the Company's financial instruments did not have any impact on net income in 2007. The Company did not recognize any items affecting other comprehensive income or accumulated other comprehensive income on adoption of the standards for the year ended December 31, 2007.

(k) Accounting changes

The Company adopted the revised accounting standard of the CICA concerning Accounting Changes effective January 1, 2007. The new standard permits voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively, unless it is impractical to determine the period and

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cumulative impact of the change. Corrections of prior period errors are applied retroactively, and changes in accounting estimates are applied prospectively by including these changes in earnings. No accounting policy changes were adopted or prior period corrections were made in 2007.

3. PROPERTY AND EQUIPMENT

	December 31, 2007		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	\$30,732,339	\$ 5,815,284	\$24,917,055

	December 31, 2006		
	Cost	Accumulated Depletion and Depreciation	Net
Petroleum and natural gas properties	\$ 18,010,747	\$ 1,608,259	\$ 16,402,488

In conducting the ceiling test as at December 31, 2007, 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 at the wellhead in Canadian dollars are consistent with the Company's December 31, 2007 reserve report as provided by GLJ Petroleum Consultants and are detailed below:

	Oil (\$/barrel)	Gas (\$/mcf)
2008	\$ 86.33	\$ 6.43
2009	82.33	7.20
2010	78.33	7.24
2011	76.33	7.25
2012	76.33	7.25
Thereafter	76.33 – 83.55	7.25 – 8.76

During the year ended December 31, 2007, the Company has capitalized general and administrative costs of \$184,974 (December 31, 2006 – \$185,014) and interest in the amount of \$nil (December 31, 2006 – \$nil).

An estimated future capital cost of \$7,647,000 (December 31, 2006 – \$7,736,000), required for properties to which proved reserves have been attributed, has been added to property and equipment costs for depletion and depreciation purposes. Costs relating to unproved properties of \$2,220,092 (December 31, 2006 – \$5,191,878), including \$nil (December 31, 2006 – \$3,012,191) of facilities and infrastructure pertaining to future development projects anticipated to be completed subsequent to year-end, have been excluded from property and equipment costs for depletion and depreciation purposes.

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4. ASSET RETIREMENT OBLIGATION

	Year ended December 31 2007	Year ended December 31 2006
Asset retirement obligation, beginning of the year	\$ 323,037	\$ 113,140
Incurred in the year	315,117	208,184
Expenditures made on asset retirements	(25,900)	(8,240)
Change in present value during period	54,125	9,953
Asset retirement obligation, end of the year	\$ 666,379	\$ 323,037

The total undiscounted amount of cash flows required to settle the obligations as measured at December 31, 2007 is estimated to be \$951,555 (December 31, 2006 - \$869,910). These obligations are expected to be settled at various times over the 16 years subsequent to December 31, 2007. The credit-adjusted risk free rate at which the estimated cash flows were discounted was 7.75% during the year ended December 31, 2007 (December 31, 2006 – 8%) and the estimated inflation rate used to project future costs was 1.5% (December 31, 2006 – 1.5%).

5. INCOME TAXES

	Year ended December 31 2007	Year ended December 31 2006
Statutory tax rate	33.87%	32.12%
Anticipated tax expense (recovery)	\$ (360,082)	\$ (307,732)
Increase (decrease) resulting from:		
Non-deductible stock-based compensation	121,057	178,468
Tax rate changes	(12,516)	(60,344)
Other	557	(35,641)
Future tax expense (recovery)	\$ (250,984)	\$ (225,249)

The components of the net future tax liability are as follows:

	December 31 2007	December 31 2006
Future income tax assets related to:		
Non-capital losses	\$ 66,547	\$ 103,530
Asset retirement obligations	203,246	103,759
Share issue costs	21,143	29,006
Total future income tax assets	290,936	236,295
Future income tax liabilities related to:		
Property and equipment	(1,483,375)	(1,024,996)
Future income tax asset (liability)	\$ (1,192,439)	\$ (788,701)

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Pursuant to the Company's issue of common shares on a flow-through basis in 2007, the Company has committed to renounce to investors qualifying expenditures of \$2,175,000 to be incurred prior to December 31, 2008. As at December 31, 2007, the Company has remaining commitments to incur \$1,165,140 of qualifying expenditures prior to December 31, 2008.

6. SHARE CAPITAL

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

(a) Common Shares

	Year ended December 31, 2007	
	Number	Amount
Balance, beginning of the year	17,067,392	\$14,093,637
Issued during the year	1,812,500	3,625,000
Issued on a flow-through basis during the year	906,250	2,175,000
Shares issued on exercise of stock options	31,667	21,517
Shares repurchased under normal course issuer bid at average stated capital price per share	(341,000)	(344,410)
Share issue costs	-	(28,372)
Tax effect of flow-through shares issued	-	(663,375)
Tax effect of share issue costs	-	8,653
Balance, end of the year	19,476,809	\$18,887,650
	Year ended December 31, 2006	
	Number	Amount
Balance, beginning of the year	14,871,558	\$ 9,620,765
Issued during the year	1,495,834	3,204,833
Issued on a flow-through basis during the year	700,000	1,925,000
Share issue costs	-	(56,940)
Tax effect of flow-through shares issued	-	(618,310)
Tax effect of share issue costs	-	18,289
Balance, end of the year	17,067,392	\$ 14,093,637

At December 31, 2007, the Company is holding 7,049 common shares in escrow arising from an agreement that provides for a release subject to approval by regulatory authorities.

(b) Normal Course Issuer Bid

Effective April 1, 2007, the Company implemented a normal course issuer bid whereby it could acquire within one year of the effective date up to 10% of the estimated public float of its outstanding common shares, which was estimated to be 1,236,869 shares. During the year, the Company acquired 341,000 at an average cost of \$1.60 per share.

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(c) Stock Options

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

	Year ended December 31, 2007		Year ended December 31, 2006	
	Number Outstanding	Weighted Avg Price Per Share	Number Outstanding	Weighted Avg Price Per Share
Balance, beginning of the year	1,651,666	\$ 1.244	1,483,500	\$ 0.884
Granted during the year	210,500	1.473	264,000	2.946
Exercised during the year	(31,667)	0.331	(95,834)	0.348
Cancelled during the year	(222,999)	1.077		
Balance, end of the year	1,607,500	\$ 1.229	1,651,666	\$ 1.244
Exercisable, end of the year	1,045,112	\$ 0.961	718,666	\$ 0.675

The following table summarizes information about the Company's stock options outstanding:

Exercise Price	December 31, 2007			December 31, 2006		
	Options Outstanding	Amounts Vested	Remaining Contractual Life (Years)	Options Outstanding	Amounts Vested	Remaining Contractual Life (Years)
\$0.225	300,000	300,000	1.0	360,000	360,000	2.0
0.370	200,000	200,000	1.1	200,000	133,333	2.1
0.380	178,334	118,888	2.1	207,666	18,666	3.1
1.280	105,500	-	4.9			
1.300	50,000	-	5.0			
1.680	515,000	343,334	2.5	615,000	205,000	3.5
2.000	15,000	-	4.4			
2.070	5,000	3,333	2.9	5,000	1,667	3.9
2.860	12,500	4,167	3.4	12,500	-	4.4
2.950	226,166	75,390	3.4	251,500	-	4.4

Assumptions used in the calculation of the weighted average fair value of options granted are as follows:

Year ended	December 31 2007	December 31 2006
Options granted during the year	210,500	264,000
Risk-free interest rate	4.0%	5.0%
Expected life	5 years	5 years
Average volatility	29%	80%
Anticipated dividends	none	none
Weighted-average fair value per option	\$ 0.52	\$ 1.98

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(d) Contributed Surplus

	Year ended December 31 2007	Year ended December 31 2006
Contributed surplus, beginning of the year	\$ 854,156	\$ 320,044
Stock-based compensation charged during the year	357,416	555,628
Reversal of amortized portion of the option value on exercise of option holder right to a cash payment	(4,500)	
Normal course issuer bid excess purchase price over stated capital	(202,235)	
Amounts transferred to share capital on exercise of options	(11,033)	(21,516)
Contributed surplus, end of the year	\$ 993,804	\$ 854,156

7. PER SHARE AMOUNTS

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year ended December 31, 2007 of 19,411,224 (year ended December 31, 2006 – 16,346,171).

Options to purchase 1,607,500 common shares were outstanding at December 31, 2007 (1,651,666 – December 31, 2006), 622,904 of which were potentially dilutive (year ended December 31, 2006 – 1,387,666) and which have not been included in the computation of earnings per share as the effect would be anti-dilutive.

The following table sets forth the details of the denominator used for the computation of basic and diluted earnings per share:

	Year ended December 31 2007	Year ended December 31 2006
Basic weighted average number of common shares	19,411,224	16,346,171
Net effect of dilutive securities		
Stock options	-	-
Diluted weighted average number of common shares	19,411,224	16,346,171

IRONHORSE OIL & GAS INC.
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8. RELATED PARTY TRANSACTIONS

(a) Management Agreement

The Company is subject to a management agreement with Grizzly Resources Ltd. ("Grizzly"), a company related by virtue of common management. Under the agreement Grizzly provides technical and administrative services, which 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 contract charges the Company for services based on a fee for units of production and a percentage of capital expenditures.

	Year ended December 31 2007	Year ended December 31 2006
Management fees	\$ 538,453	\$ 297,436
Less amounts capitalized	(184,974)	(185,014)
Management fees expensed	\$ 353,479	\$ 112,422

As at December 31, 2007, \$140,302 (December 31, 2006 – \$76,878) related to these services was included in accounts payable and accrued liabilities.

(b) Joint Venture Operator

The joint venture operator of the majority of the petroleum and natural gas properties owned by the Company is Grizzly. As operator, in accordance with industry standards for joint interest billings, Grizzly charged \$211,496 (2006 – \$176,918) in overhead administration, of which \$137,039 (2006 - \$160,650) was capitalized as property and equipment costs.

(c) Overriding Royalty

Until January 15, 2007, the Company was subject to an overriding royalty agreement with a member of the Company's Board of Directors on one of the Company's operating areas. The agreement provided for a 2% overriding royalty on revenue earned within the area. During the year, \$nil (2006 – \$29,457) was paid in royalties under this contract. As at December 31, 2007, \$nil (2006 - \$19,052) related to unpaid royalties under this contract was included in accounts payable and accrued liabilities.

On January 15, 2007, the Company acquired this overriding royalty payable to a member of the Company's Board of Directors, for a price not to exceed \$550,000. The Company paid \$250,000 on the acquisition date, and is obligated to pay the balance of the consideration upon the Company obtaining title to certain additional lands within the area subject to the royalty.

(d) Consulting Fees

During the year, the Company paid consulting fees in the amount of \$72,000 to a member of the Board of Directors. At year-end, \$6,000 remained in accounts payable and accrued liabilities.

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9. REVOLVING PRODUCTION BANK LOAN

	Year ended December 31 2007	Year ended December 31 2006
Balance, beginning of year	\$ 1,806,000	\$ -
Amounts advanced, net of repayments	5,087,808	1,806,000
Balance, end of year	\$ 6,893,808	\$ 1,806,000

At year-end, the Company had a revolving production bank loan facility available to a maximum of \$8,000,000 with a Canadian bank (2006 - \$6,000,000). The outstanding loan balance under this facility bears interest at the bank's prime rate per annum. On February 8, 2008, the Company's bank provided an additional revolving term loan facility in the amount of \$4 million to provide development capital for drilling and equipping operations at its principal producing property. Interest on loan draws under this incremental facility is charged at the annual rate of bank prime plus 1%. The bank loan facilities are secured by a general security agreement and demand debenture providing a first floating charge over all present and after acquired property of the Company.

10. FINANCIAL INSTRUMENTS

a. Classification and measurement

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.

b. Credit risk

The majority of the accounts receivable are in respect of oil and natural gas operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

The Company has not experienced any credit loss in the collection of receivables to date.

c. Interest rate risk

The Company is exposed to the risk of interest rate fluctuations on the amounts drawn on its revolving production bank loan. The outstanding loan balance bears interest that is based on the bank's prime rate or a factor based on the bank's prime rate.

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d. Commodity price, foreign exchange rate and interest rate risk

The nature of the company's operations results in exposure to fluctuation in commodity prices, foreign exchange rates and interest rates. Derivative financial instruments may be used by the Company to reduce its exposure to fluctuations in commodity prices, foreign exchange rates and interest rates. All derivative instruments, including embedded derivatives, are recorded at fair value. All changes in fair value are included in net income unless effective hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

The Company entered into a costless collar natural gas sales contract, effective November 1, 2006 to March 31, 2007. The collar contract provided the Company with a floor sales price of \$8.00 per gigajoule (GJ) and a ceiling of \$11.10 per GJ of natural gas on 625 GJ per day during the period. Effective from April 1, 2007 to March 31, 2008, the Company entered into another costless collar natural gas sales contract with a floor price of \$7.00 per GJ and a ceiling of \$9.42 per GJ on 1,000 GJ per day throughout the contract period. The unrealized gain from these embedded derivatives has been included in accounts receivable and revenue accordingly.

	Year ended December 31 2007	Year ended December 31 2006
Amounts collected (paid) as a result of contracts during the year	\$ 380,585	\$ 36,318
Unrealized gain on contract at year-end	49,704	90,000
Net increase (reduction) to revenue from contracts during the year	\$ 430,289	\$ 126,318

11. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Year ended December 31 2007	Year ended December 31 2006
Changes in non-cash working capital		
Accounts receivable	\$ (435,025)	\$ (351,443)
Prepaid expenses	(8,677)	(12,854)
Accounts payable and accrued liabilities	(962,291)	2,659,742
Total changes in non-cash working capital	(1,405,993)	2,295,445
Less changes in non-cash working capital from investing	1,127,988	(2,504,176)
Changes in non-cash working capital from operations	\$ (278,005)	\$ (208,731)

IRONHORSE OIL & GAS INC.

Notes to the Financial Statements

For the Years Ended December 31, 2007 and 2006

12. SUBSEQUENT EVENTS

(a) Normal Course Issuer Bid

After the year-end, the Company acquired an additional 25,900 shares for \$33,020 pursuant to its normal course issue bid. Due to restrictions on the use of funds drawn under the Company's bank loan facilities, further purchases made under the normal course issuer bid were suspended in February 2008.

(b) Commodity Price Hedging

Since December 31, 2007, the Company has entered into three commodity price hedge contracts. On February 7, 2008, it entered into a fixed price physical natural gas sale from April 1, 2008 to October 31, 2008 on 2000 GJ per day at \$7.05 per GJ. Thereafter, the Company entered into two costless collar physical natural gas sales 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.

13. FUTURE ACCOUNTING POLICY CHANGES

(a) Financial Instruments

In 2008, the Company will be required to adopt updated CICA pronouncements regarding Financial Instruments – Disclosures and Financial Instruments – Presentation. These new accounting standards replace the current accounting standard on Financial Instruments – Presentation and Disclosure that was adopted by the Company in 2007. The Company anticipates that the main impact to its financial statements will be in terms of additional disclosures required with respect to the significance of financial instruments on its financial position and performance; qualitative and quantitative information about its exposure to risks arising from financial instruments; and management's objectives, policies and processes for managing such risks.

(b) Capital Disclosures

In 2008, the Company will be required to disclose information about its objectives, policies and processes for managing capital.

(c) Going Concern

The Company will be required to provide additional disclosures, beginning in 2008, with respect to management's assessment of the Company's ability to continue as a going concern. The Company does not anticipate any impact to its financial statements arising from adoption of this new accounting standard.

(d) Convergence with International Financial Reporting Standards

The CICA has recently announced the convergence of Canadian generally accepted accounting principles with International Financial Reporting Standards effective January 1, 2011. While specific requirements of the transition continue to be under review by the CICA, management is currently unable to assess the impact on the Company's financial statements.