

Ironhorse Oil & Gas Inc.
March 31, 2009
Unaudited Financial Statements

Management's Report

The accompanying unaudited interim financial statements of Ironhorse Oil & Gas Inc. for the three months ended March 31, 2009 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

Dated May 21, 2009

On behalf of Ironhorse Oil & Gas Inc.

signed "Larry J. Parks"

Larry J. Parks
President & Chief Executive Officer

signed "Rob Solinger"

Rob Solinger
Vice President, Finance &
Chief Financial Officer

Ironhorse Oil & Gas Inc.
Balance Sheet
Unaudited

<i>Thousands of dollars</i>	March 31 2009	December 31 2008
Assets		
Current assets		
Cash	4	7
Accounts receivable	1,373	1,821
	1,377	1,828
Petroleum and natural gas properties <i>(note 3)</i>	35,166	30,371
	36,543	32,199
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	2,026	2,177
Bank loan <i>(note 4)</i>	10,670	6,440
	12,696	8,617
Asset retirement obligation <i>(note 5)</i>	1,284	1,034
Future income taxes <i>(note 6)</i>	2,871	1,772
	16,851	11,423
Shareholders' Equity <i>(note 7)</i>		
Share capital	21,785	22,842
Contributed surplus	1,145	1,154
Deficit	(3,238)	(3,220)
	19,692	20,776
	36,543	32,199

See accompanying notes to financial statements.

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

<i>Thousands of dollars except per share amounts</i>	March 31 2009	March 31 2008
Revenue		
Petroleum and natural gas sales	3,053	4,063
Royalties	(822)	(1,669)
	2,231	2,394
Expenses		
Operating	277	228
General and administrative	343	291
Stock-based compensation <i>(note 7)</i>	83	88
Interest	64	127
Depletion, depreciation and accretion	1,453	1,180
	2,220	1,914
Income before taxes	11	480
Future income taxes <i>(note 6)</i>	29	168
Net income (loss) and comprehensive income (loss)	(18)	312
Deficit, beginning of the period	(3,220)	(4,807)
Deficit, end of the period	(3,238)	(4,495)
Net income per share		
Basic and diluted <i>(note 7)</i>	0.00	0.02

See accompanying notes to financial statements.

Ironhorse Oil & Gas Inc.
Statements of Cash Flow
Unaudited

<i>Thousands of dollars</i>	March 31 2009	March 31 2008
Cash provided by (used in):		
Operating activities		
Net income (loss)	(18)	312
Items not affecting cash		
Depletion, depreciation and accretion	1,453	1,180
Stock-based compensation	83	88
Future income taxes	29	168
Abandonment costs incurred	(5)	(17)
	1,542	1,731
Changes in non-cash working capital <i>(note 10)</i>	197	(642)
	1,739	1,089
Financing activities		
Bank loan	4,230	4,010
Exercise of stock options	46	22
Purchase of common shares for cancellation	(125)	(33)
	4,151	3,999
Investing activities		
Petroleum and natural gas properties	(5,993)	(5,942)
Changes in non-cash working capital	100	819
	(5,893)	(5,123)
Change in cash	(3)	(35)
Cash, beginning of the period	7	45
Cash, end of the period	4	10

See accompanying notes to financial statements.

IRONHORSE OIL & GAS INC.
NOTES TO FINANCIAL STATEMENTS
Unaudited

For the period ended March 31, 2009
(Tabular amounts are expressed in thousands of dollars except share and per share numbers)

1. DESCRIPTION OF BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

These unaudited interim financial statements have been prepared by management in accordance with the accounting principles generally accepted in Canada. These unaudited interim financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements for the fiscal year ended December 31, 2008. These unaudited interim financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles ("GAAP") applicable for annual financial statements. Accordingly, the interim financial statements should be read in conjunction with the audited financial statements and the notes thereto for the year ended December 31, 2008.

3. PETROLEUM AND NATURAL GAS PROPERTIES

	Cost	Accumulated depletion and depreciation	Net Book Value
December 31, 2008	41,670	11,299	30,371
March 31, 2009	47,904	12,737	35,167

During the period ended March 31, 2009, the Company capitalized \$200 thousand (March 31, 2008 - \$60 thousand) of general and administrative expenses. In calculating the depletion and depreciation provision for the period ended March 31, 2009, \$0.5 million (March 31, 2008 - \$2.2 million) of costs relating to the undeveloped land, seismic and other costs were excluded from costs subject to depletion and depreciation. Estimated future development costs of \$1.5 million (March 31, 2008 - \$7.7 million) were included in the calculation of depletion and depreciation for the period ended March 31, 2009.

4. BANK LOAN

At March 31, 2009, the Company had a \$14.5 million (December 31, 2008 - \$14.5 million) revolving production credit facility with a Canadian chartered bank, of which \$10.7 million was drawn on the facility. Advances bear interest at the Bank's prime lending rate plus 0.25% or at prevailing bankers' acceptance rate plus an applicable bank fee. The credit facility is reviewed semi-annually and is secured by a general security agreement, demand debenture providing a first floating charge over all of the assets and a fixed charge over all the producing wells. Subsequent to March 31, 2009, the Bank completed its interim review and confirmed the available credit facilities would remain at \$14.5 million and the interest rate on direct advances would increase to the Bank's prime lending rate plus 1%.

5. ASSET RETIREMENT OBLIGATIONS

	March 31 2009	December 31 2008
Balance, beginning of the period	1,034	666
Incurred in the period	235	367
Expenditures made on asset retirements	-	(28)
Accretion expense	15	29
Balance, end of period	1,284	1,034

The Company's asset retirement obligations are based on the net ownership interests in wells and facilities. Management estimates the costs to abandon and reclaim the wells and facilities and the estimated time period during which these costs will be incurred in the future. These costs are expected to be incurred over the next 21 years with the majority of the costs being incurred between 2023 and 2026. The undiscounted amount of the estimated costs at March 31, 2009 was \$4 million (December 31, 2008 - \$2.2 million) using an inflation rate of 1.5% (2008 -3.5%). The estimated costs have been discounted at a credit adjusted risk free rate 7.75% (2008 - 7.75%)

6. FUTURE INCOME TAXES

Future income taxes differs from the amount that would be computed by applying the basic combined federal and provincial statutory income tax rate of 30.3% (2008 - 30.5%) to income before taxes. The reasons for the differences are as follows:

	Three months ended March 31	
	2009	2008
Statutory tax rate	30.3%	30.5%
Anticipated tax expense	3	146
Add (deduct)		
Non-deductible stock-based compensation	26	27
Other	-	(5)
Future income taxes	29	168

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

	March 31	December 31
	2009	2008
Future Tax liabilities		
Petroleum and natural gas properties	3,356	2,193
Future Tax assets		
Share issue costs	(77)	(83)
Non-capital losses	(48)	(48)
Asset retirement obligations	(360)	(290)
Net future income tax liability	2,871	1,772

7. 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, 2007	19,476,809	18,888
Issue of common shares for cash	200,000	300
Issue of flow-through common shares for cash	1,883,000	3,820
Options exercised	293,334	80
Shares purchased for cancellation	(73,400)	(83)
Transfer from contributed surplus	-	47
Share issue costs, net of future income taxes of \$92	-	(210)
Balance, December 31, 2008	21,779,743	22,842
Options exercised	125,000	46
Shares purchased for cancellation	(104,700)	(105)
Transfer from contributed surplus	-	72
Tax effect of flow-through shares	-	(1,070)
Balance, March 31, 2009	21,800,043	21,785

b) Normal Course Issuer Bid

During the period ended March 31, 2009, the Company acquired 104,700 common shares at an average cost of \$1.20 per share. Subsequent to March 31, 2009, the Company has acquired 26,300 common shares at an average price of \$1.06 per share.

c) Options and Stock Based Compensation

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

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

	Number of options	Weighted average exercise price
Balance, December 31, 2007	1,607,500	1.26
Granted	1,266,500	1.26
Exercised	(293,334)	(0.27)
Exercised for cash	(230,000)	(0.48)
Forfeited	(194,499)	(1.94)
Balance, December 31, 2008	2,156,167	1.41
Granted	200,000	1.27
Exercised	(125,000)	0.37
Forfeited	(69,667)	1.29
Balance, March 31, 2009	2,161,500	1.47

d) Per share amounts

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

	Three months ended March 31	
	2009	2008
Weighted average number of shares - basic	21,779,000	19,500,000
Effect of dilutive stock options	-	9,000
Weighted average number of shares - diluted	21,779,000	19,509,000

Options to purchase 2,161,500 (March 31, 2008 – 1,756,500) common shares were not included in the calculation because they were anti-dilutive.

e) Contributed Surplus

	March 31	December 31
	2009	2008
Opening balance beginning of period	1,154	994
Stock-based compensation expense	83	264
Reversal of amortized portion of the option value on the exercise of options for a cash payment	-	(62)
Normal course issuer bid purchase price excess over carrying value	(20)	(2)
Transfer to share capital on exercise of options	(72)	(40)
Closing balance end of period	1,145	1,154

8. RELATED PARTY TRANSACTIONS

The Company is party to a management services contract with Grizzly Resources Ltd. ("Grizzly"), a company related by virtue of common management. Grizzly is also a significant joint operations partner in the Company's operating areas. These transactions are in the normal course of business and are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties.

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

	March 31	December 31
	2009	2008
Accounts receivable	83	639
Accounts payable	1,053	140

The amounts outstanding at March 31, 2009 were settled in April 2009.

Management fees were paid as follows:

	Three months ended March 31	
	2009	2008
Fees expensed to G&A	159	135
Fees capitalized to petroleum and natural gas properties	200	60
Management fees	355	195

9. MANAGEMENT OF CAPITAL STRUCTURE

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

Ironhorse's capital structure includes shareholders' equity, bank debt and working capital. In managing its capital structure, the Company considers the following: future investment and acquisition

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

The methods used by the Company to monitor capital is based on the ratio of net debt to annualized cash flow 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, divided by annualized cash flow from operations which is calculated as the current quarter ended cash flow from operations times four. The second net debt ratio is calculated as net debt, divided by the credit facility availability. Ironhorse's current strategy is to maintain a ratio of net debt to annualized cash flow from operations of no more than 2.0 to 1.0 and its ratio of net debt to credit facility availability at less than 90%. The ratios may temporarily increase at certain times as a result of capital expenditures, which are necessary to bring new reserves on production, and commodity prices being significantly lower than those used in the budget. The annual and updated budgets are based on current commodity prices. As at March 31, 2009, Ironhorse's ratio of net debt to annualized funds from operations was 1.8 to 1.0 (December 31, 2008 – 1.1 to 1.0) which is well within the Company's optimal ratio despite lower commodity prices and increased levels of debt due to the winter drilling capital expenditures. The Company's ratio of net debt to credit facility availability was 78% (December 31, 2008 – 47%), which was within the range established by the Company.

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

	March 31	December 31
	2009	2008
Current assets	1,377	1,828
Current liabilities	12,696	8,617
Net debt	11,319	6,789
Annualized cash flow	6,168	6,100
Ratio of net debt to annualized cash flow	1.8	1.1
Credit facility availability	14,500	14,500
Ratio of net debt to credit facility availability	78%	47%

10. CHANGES IN NON CASH WORKING CAPITAL

	Three months ended March 31	
	2009	2008
Changes in non-cash working capital:		
Accounts receivable	479	(1,305)
Prepays and deposits	(31)	1,461
Accounts payable and accrued liabilities	(151)	21
	<u>297</u>	<u>177</u>
Relating to:		
Operations	197	(642)
Investing	100	819
	<u>297</u>	<u>177</u>