

**Ironhorse Oil & Gas Inc.**  
**June 30, 2009**  
**Unaudited Financial Statements**

**Management's Report**

The accompanying unaudited interim financial statements of Ironhorse Oil & Gas Inc. for the three and six month periods ended June 30, 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 August 18, 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>	<b>June 30 2009</b>	<b>December 31 2008</b>
<b>Assets</b>		
Current assets		
Cash	33	7
Accounts receivable	899	1,821
	<b>932</b>	1,828
Petroleum and natural gas properties <span style="float: right;"><i>(note 3)</i></span>	<b>34,546</b>	30,371
	<b>35,478</b>	32,199
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	712	2,177
Bank loan <span style="float: right;"><i>(note 4)</i></span>	<b>11,725</b>	6,440
	<b>12,437</b>	8,617
Asset retirement obligation <span style="float: right;"><i>(note 5)</i></span>	<b>1,304</b>	1,034
Future income taxes <span style="float: right;"><i>(note 6)</i></span>	<b>2,655</b>	1,772
	<b>16,396</b>	11,423
<b>Shareholders' Equity</b> <span style="float: right;"><i>(note 7)</i></span>		
Share capital	<b>21,689</b>	22,842
Contributed surplus	<b>1,284</b>	1,154
Deficit	<b>(3,891)</b>	(3,220)
	<b>19,082</b>	20,776
	<b>35,478</b>	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>	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Revenue</b>				
Petroleum and natural gas sales	2,298	6,120	5,351	10,183
Royalties	(591)	(2,558)	(1,413)	(4,227)
	<b>1,707</b>	<b>3,562</b>	<b>3,938</b>	<b>5,956</b>
<b>Expenses</b>				
Operating	331	168	608	395
General and administrative	424	322	766	613
Stock-based compensation <span style="float: right;"><i>(note 7)</i></span>	93	12	176	100
Interest	68	133	132	261
Depletion, depreciation and accretion	1,652	1,527	3,106	2,707
	<b>2,568</b>	<b>2,162</b>	<b>4,788</b>	<b>4,076</b>
<b>Income (loss) before taxes</b>	<b>(861)</b>	<b>1,400</b>	<b>(850)</b>	<b>1,880</b>
Capital taxes	7	-	7	-
Future income taxes (recovery) <span style="float: right;"><i>(note 6)</i></span>	(215)	481	(186)	649
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(653)</b>	<b>919</b>	<b>(671)</b>	<b>1,231</b>
Deficit, beginning of the period	(3,238)	(4,495)	(3,220)	(4,807)
<b>Deficit, end of the period</b>	<b>(3,891)</b>	<b>(3,576)</b>	<b>(3,891)</b>	<b>(3,576)</b>
<b>Net income (loss) per share</b>				
Basic and diluted <span style="float: right;"><i>(note 7)</i></span>	<b>(0.03)</b>	0.05	(0.03)	0.06

*See accompanying notes to financial statements.*

**Ironhorse Oil & Gas Inc.**  
**Statements of Cash Flow**  
**Unaudited**

<i>Thousands of dollars</i>	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Net income (loss)	(653)	919	(671)	1,231
Items not affecting cash				
Depletion, depreciation and accretion	1,652	1,527	3,106	2,707
Stock-based compensation	93	12	176	100
Future income taxes (recovery)	(215)	481	(186)	649
Abandonment costs incurred	4	-	(1)	(17)
	<b>881</b>	<b>2,939</b>	<b>2,423</b>	<b>4,670</b>
Changes in non-cash working capital <i>(note 10)</i>	<b>1,598</b>	<b>(1,912)</b>	<b>1,795</b>	<b>(2,553)</b>
	<b>2,479</b>	<b>1,027</b>	<b>4,218</b>	<b>2,117</b>
<b>Financing activities</b>				
Issuance of common shares, net	-	615	-	615
Bank loan	1,055	(281)	5,285	3,729
Exercise of stock options	-	45	46	68
Purchase of common shares for cancellation	(50)	-	(174)	(34)
	<b>1,005</b>	<b>379</b>	<b>5,157</b>	<b>4,378</b>
<b>Investing activities</b>				
Petroleum and natural gas properties	(1,017)	(1,416)	(7,011)	(7,358)
Changes in non-cash working capital	(2,438)	-	(2,338)	819
	<b>(3,455)</b>	<b>(1,416)</b>	<b>(9,349)</b>	<b>(6,539)</b>
<b>Change in cash</b>	<b>29</b>	<b>(10)</b>	<b>26</b>	<b>(44)</b>
<b>Cash, beginning of the period</b>	<b>4</b>	<b>10</b>	<b>7</b>	<b>44</b>
<b>Cash, end of the period</b>	<b>33</b>	<b>-</b>	<b>33</b>	<b>-</b>

*See accompanying notes to financial statements.*

**IRONHORSE OIL & GAS INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**Unaudited**

For the period ended June 30, 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 development of 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 and do not include all note disclosures 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
June 30, 2009	48,917	14,371	34,546

During the period ended June 30, 2009, the Company capitalized \$230 thousand (June 30, 2008 - \$93 thousand) of general and administrative expenses. In calculating the depletion and depreciation provision for the period ended June 30, 2009, \$0.7 million (June 30, 2008 - \$2.0 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 \$5.3 million (June 30, 2008 - \$7.7 million) were included in the calculation of depletion and depreciation for the period ended June 30, 2009.

#### 4. BANK LOAN

At June 30, 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 \$11.7 million was drawn on the facility. Advances bear interest at the Bank's prime lending rate plus 1% 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.

#### 5. ASSET RETIREMENT OBLIGATIONS

	June 30	December 31
	2009	2008
Balance, beginning of the period	1,034	666
Incurred in the period	235	367
Expenditures made on asset retirements	-	(28)
Accretion expense	35	29
<b>Balance, end of period</b>	<b>1,304</b>	<b>1,034</b>

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 June 30, 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 of 7.75% (2008 - 7.75%)

#### 6. FUTURE INCOME TAXES

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Statutory tax rate	30.3%	30.5%	30.3%	30.5%
Anticipated tax expense	(260)	427	(257)	574
Add (deduct)				
Non-deductible stock-based compensation	27	4	53	31
Other	18	50	18	44
Future income taxes	(215)	481	(186)	649

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

	<b>June 30</b>	<b>December 31</b>
	<b>2009</b>	<b>2008</b>
Future tax liabilities		
Petroleum and natural gas properties	3,131	2,193
Future tax assets		
Share issue costs	(70)	(83)
Non-capital losses	(41)	(48)
Asset retirement obligations	(365)	(290)
<b>Net future income tax liability</b>	<b>2,655</b>	<b>1,772</b>

## 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
<b>Balance, December 31, 2007</b>	<b>19,476,809</b>	<b>18,888</b>
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)
<b>Balance, December 31, 2008</b>	<b>21,779,743</b>	<b>22,842</b>
Options exercised	125,000	46
Shares purchased for cancellation	(153,500)	(174)
Transfer from contributed surplus	-	46
Tax effect of flow-through shares	-	(1,071)
<b>Balance, June 30, 2009</b>	<b>21,751,243</b>	<b>21,689</b>

### b) Normal Course Issuer Bid

During the period ended June 30, 2009, the Company acquired 153,500 common shares at an average cost of \$1.14 per share. Subsequent to June 30, 2009, the Company has acquired 35,500 common shares at an average price of \$0.81 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
<b>Balance, December 31, 2007</b>	<b>1,607,500</b>	<b>1.26</b>
Granted	1,266,500	1.26
Exercised	(293,334)	0.27
Exercised for cash	(230,000)	0.48
Forfeited	(194,499)	1.94
<b>Balance, December 31, 2008</b>	<b>2,156,167</b>	<b>1.41</b>
Granted	200,000	1.27
Exercised	(125,000)	0.37
Forfeited	(109,667)	0.92
<b>Balance, June 30, 2009</b>	<b>2,121,500</b>	<b>1.46</b>

**d) Per share amounts**

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Weighted average number of shares - basic	21,751,243	19,978,909	21,765,025	19,718,704
Effect of dilutive stock options	-	396,634	49,234	396,524
Weighted average number of shares - diluted	21,751,243	20,375,543	21,814,259	20,115,228

**e) Contributed Surplus**

	<b>June 30</b>	<b>December 31</b>
	<b>2009</b>	<b>2008</b>
<b>Balance, beginning of period</b>	1,154	994
Stock-based compensation expense	176	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	-	(2)
Transfer to share capital on exercise of options	(46)	(40)
<b>Balance, end of period</b>	<b>1,284</b>	<b>1,154</b>

**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 and Grizzly were as follows:

	<b>June 30</b>	<b>December 31</b>
	<b>2009</b>	<b>2008</b>
Accounts receivable	176	639
Accounts payable	86	140

The amounts outstanding at June 30, 2009 were settled in August 2009.

Management fees were paid as follows:

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Fees expensed to G&A	240	221	401	314
Fees capitalized to petroleum and natural gas properties	30	26	230	93
Management fees	270	246	631	407

**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 multiplied by four. The second net debt ratio is calculated as net debt divided by the credit facility limit. 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 limit at less than 90%. The ratios may temporarily increase at certain times beyond these guidelines as a result of capital expenditures, which are necessary to bring new reserves on production, and commodity prices being significantly lower than expectations. The annual and updated forecast of capital expenditures are based on then current commodity prices. As at June 30, 2009, Ironhorse's ratio of net debt to annualized cash flow from operations was 3.3 to 1.0 (December 31, 2008 – 1.1 to 1.0) which is outside the Company's optimal ratio due to lower natural gas prices and increased capital expenditures from the winter drilling program. The Company expects to be within its optimal ratio when gas prices recover and its oil reserves, discovered in 2009, are placed on production. The Company's ratio of net debt to credit facility limit was 79% (December 31, 2008 – 47%), which was within the range established by the Company.

	<b>June 30</b>	<b>December 31</b>
	<b>2009</b>	<b>2008</b>
Current assets	932	1,828
Current liabilities	12,437	8,617
Net debt	11,505	6,789
Annualized cash flow	3,525	6,100
<b>Ratio of net debt to annualized cash flow</b>	<b>3.3</b>	<b>1.1</b>
Credit facility limit	14,500	14,500
<b>Ratio of net debt to credit facility limit</b>	<b>79%</b>	<b>47%</b>

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. The company has complied with this requirement.

#### 10. CHANGES IN NON CASH WORKING CAPITAL

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Changes in non-cash working capital:				
Accounts receivable	474	(609)	922	(1,892)
Accounts payable and accrued liabilities	(1,314)	(1,303)	(1,465)	158
	(840)	(1,912)	(543)	(1,734)
Relating to:				
Operations	1,598	(1,912)	1,795	(2,553)
Investing	(2,438)	-	(2,338)	819
	(840)	(1,912)	(543)	(1,734)