

Ironhorse Oil & Gas Inc.
December 31, 2009
Audited Financial Statements

Management's Report

Management, in accordance with Canadian generally accepted accounting principles, has prepared the accompanying financial statements of Ironhorse Oil & Gas Inc. Management is responsible for the integrity of the financial information. Internal control systems are designed and maintained to provide a reasonable assurance that the assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

Kenway Mack Slusarchuk Stewart LLP was appointed by the Ironhorse Oil & Gas Inc. shareholders to express an opinion on the financial statements. Their examination included such tests and procedures, as they considered necessary, to provide reasonable assurance that the financial statements are presented fairly in accordance with the Canadian generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises the responsibility through the Audit Committee, with assistance from the Reserves Committee regarding the annual review of our petroleum and natural gas reserves. The Audit Committee meets regularly with management and the independent auditors to ensure that management's responsibilities are properly discharged, to review the financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Audit Committee also considers the independence of the external auditors, their fees and, for review by the Board of Directors and approval by the shareholders, their engagement or re-appointment. The external auditors have access to the Audit Committee without the presence of management.

signed "Larry J. Parks"

signed "Rob Solinger"

Larry J. Parks
President & Chief Executive Officer

Rob Solinger
Vice President, Finance &
Chief Financial Officer

March 29, 2010

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, 2009 and 2008** and the statements of operations, comprehensive income (loss) 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 misstatements. 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

signed "Kenway Mack Slusarchuk Stewart LLP"
Chartered Accountants

March 12, 2010 (except note 8(a) which is as of March 22, 2010)
Calgary, Alberta

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

<i>Thousands of dollars</i>	Year ended December 31 2009	Year ended December 31 2008
Assets		
Current assets		
Cash	\$ 345	\$ 7
Accounts receivable	1,009	1,821
	1,354	1,828
Petroleum and natural gas properties <i>(note 4)</i>	35,137	30,371
	\$ 36,491	\$ 32,199
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,513	\$ 2,177
Bank loan <i>(note 5)</i>	8,750	6,440
	11,263	8,617
Asset retirement obligation <i>(note 6)</i>	1,343	1,034
Future income taxes <i>(note 7)</i>	2,258	1,772
	14,864	11,423
Shareholders' Equity <i>(note 8)</i>		
Share capital	24,919	22,842
Contributed surplus	1,423	1,154
Deficit	(4,715)	(3,220)
	21,627	20,776
	\$ 36,491	\$ 32,199

See accompanying notes to financial statements.

Approved on behalf of the Board:

(Signed) "Larry J. Parks"

Director

(Signed) "Gerry C. Quinn"

Director

Ironhorse Oil & Gas Inc.
Statements of Operations, Comprehensive Income (Loss) and Deficit

<i>Thousands of dollars except per share amounts</i>	Year ended December 31 2009	Year ended December 31 2008
Revenue		
Petroleum and natural gas sales	\$ 9,392	\$ 17,965
Royalties	(2,387)	(6,883)
	7,005	11,082
Expenses		
Operating	1,277	903
General and administrative	1,407	1,356
Stock-based compensation <i>(note 8)</i>	316	514
Interest	440	544
Depletion, depreciation and accretion	5,547	5,507
	8,987	8,824
Income (loss) before taxes	(1,982)	2,258
Current tax	7	-
Future income taxes (recovery) <i>(note 7)</i>	(494)	672
Net income (loss) and comprehensive income (loss)	(1,495)	1,586
Deficit, beginning of the period	(3,220)	(4,806)
Deficit, end of the period	\$ (4,715)	\$ (3,220)
Net income (loss) per share <i>(note 8)</i>		
Basic and diluted	\$ (0.06)	\$ 0.08

See accompanying notes to financial statements.

Ironhorse Oil & Gas Inc.
Statements of Cash Flow

<i>Thousands of dollars</i>	Year ended December 31 2009	Year ended December 31 2008
Cash provided by (used in):		
Operating activities		
Net income (loss)	\$ (1,495)	\$ 1,586
Items not affecting cash		
Depletion, depreciation and accretion	5,547	5,507
Stock-based compensation	316	264
Future income taxes (recovery)	(494)	672
Abandonment costs incurred	-	(28)
Funds from operations	3,874	8,001
Changes in non-cash working capital <i>(note 12)</i>	667	(1,645)
	4,541	6,356
Financing activities		
Issuance of common shares, net	3,217	3,818
Bank loan	2,310	(454)
Exercise of stock options	47	18
Purchase of common shares for cancellation	(255)	(77)
	5,319	3,305
Investing activities		
Petroleum and natural gas properties	(10,004)	(10,566)
Changes in non-cash working capital <i>(note 12)</i>	482	868
	(9,522)	(9,698)
Change in cash	338	(37)
Cash, beginning of the year	7	44
Cash, end of the period	\$ 345	\$ 7
Supplemental information		
Cash interest paid	\$ 399	\$ 544
Cash taxes paid	7	-

See accompanying notes to financial statements.

IRONHORSE OIL & GAS INC.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008
(Tabular amounts are expressed in thousands except share and per share numbers)

1. DESCRIPTION OF BUSINESS

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles.

a) Petroleum and natural gas properties

Capitalized costs

The Company follows the full cost method of accounting, whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized in a single Canadian cost centre. Such amounts include land acquisition costs, geological and geophysical expenditures, carrying charges of non-producing properties, costs of drilling productive and non-productive wells, site restoration and abandonment costs and administrative costs related to exploration and development activities.

Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized in the statement of income unless the depletion and depreciation rate would be changed by 20% or more.

Impairment test

The Company performs an impairment test whereby the carrying value of its petroleum and natural gas properties is compared at the end of each reporting period to an estimate of the undiscounted future net cash flow from the production of gross proved reserves plus the cost of unproved properties, net of impairments, excluded from depletion. Net cash flow is estimated using forecast prices, less estimated costs directly associated with the development, production and sale of reserves. Should the impairment test result in an excess of carrying value, the Company would then measure the amount of impairment by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the carrying value of unproved properties, major development projects, net of impairments. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess is recorded as a permanent impairment. Undeveloped and unproved properties are also assessed periodically to determine whether impairment has occurred.

Depletion and depreciation

The capitalized costs of petroleum and natural gas properties plus future development costs, if any, are depleted and depreciated using the unit-of-production method based on the Company's interest in proved reserves of petroleum and natural gas calculated before royalties. Estimated proved reserves are based on reports prepared by independent engineering consultants. Petroleum substances are converted to volumes of energy equivalent barrels of oil at a conversion rate of six thousand cubic feet ("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.

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 property and equipment. 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) Joint operations

Substantially all of the Company's petroleum and natural gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

d) Future income taxes

The Company uses the liability method for accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities), and are measured using the currently enacted tax rates and laws expected to apply when those temporary differences reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period when the change is substantially enacted. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

e) Flow-through shares

Resource expenditure deductions funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. To recognize the foregone tax benefits to the Company, the future income tax liability and the carrying value of the shares issued are adjusted by the effect of the tax benefits renounced to subscribers in the period when the corresponding exploration and development expenditures are renounced.

f) Stock-based compensation

The 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.

At the discretion of the Board of Directors, the Company's stock option plan provides that option holders may take a cash settlement payment for the in-the-money value of the option on the exercise date. Should such a cash settlement payment be made to 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.

g) Revenue recognition

Revenue from the production of petroleum and natural gas is recognized when deliveries of products are made to third parties.

h) Use of estimates

Management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. The amounts recorded for depletion and depreciation of petroleum and natural gas properties and the provision for the asset retirement obligation and the ceiling test are based on estimates of proved reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. The fair value of stock options and the related stock-based compensation expense is based on estimates using the Black-Scholes option pricing model. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

i) Net income per share

Diluted per share amounts are calculated using the treasury stock method. Diluted calculations reflect the incremental common shares that would be issued upon exercise of dilutive options, warrants and equivalents assuming the proceeds would be used to repurchase shares at average market prices for the period. Anti-dilutive items are not included in the calculation.

j) Financial instruments

The Company's financial assets and liabilities are classified and measured as follows:

- Cash and cash equivalents are classified as held for trading and are measured at fair value.
- Accounts receivable are classified as loans and receivables and are initially measured at fair value, and subsequently at amortized cost using the effective interest rate method, which approximates fair value.
- Accounts payable, accrued liabilities and bank loan payable are classified as other liabilities and are initially measured at fair value, and subsequently at amortized cost using the effective interest rate method, which approximates fair value.
- Gains and losses related to periodic revaluations are recorded in net income

The Company accounts for its physical delivery sales contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items, in accordance with its expected purchase, sale or usage requirements, as executory contracts on an accrual basis rather than as financial instruments.

3. CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards ("IFRS")

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

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

4. Petroleum and Natural Gas Properties

	Cost	Accumulated depletion and depreciation	Net Book Value
2008	41,670	11,299	30,371
2009	51,909	16,772	35,137

During 2009, the Company capitalized \$ 0.4 million (2008 - \$0.2 million) of general and administrative expenses. In calculating the depletion and depreciation provision for the year ended December 31, 2009, \$4.0 million (December 31, 2008 - \$2.2 million) of costs relating to undeveloped land, seismic and other costs were excluded from costs subject to depletion and depreciation. Estimated future development costs of \$5.0 million (December 31, 2008 - \$8.6 million) were included in the calculation of depletion and depreciation for the year ended December 31, 2009.

In conducting the ceiling test as at December 31, 2009, the Company's estimated future cash flows exceeded the carrying value of the related petroleum and natural gas properties, after using certain assumptions pertaining to future commodity prices. Assumptions for crude oil and natural gas sales prices

in Canadian dollars, which were used in the ceiling test, are consistent with the Company's December 31, 2009 reserve report as provided by GLJ Petroleum Consultants and are detailed below:

	Oil Light Oil at Edmonton (\$Cdn/barrel)	Gas AECO Spot (\$Cdn/mmbtu)
2010	83.26	5.96
2011	86.42	6.79
2012	89.58	6.89
2013	92.74	6.95
2014	95.90	7.05
Thereafter	+2%/year	+2%/year

5. BANK LOAN

At December 31, 2009, the Company had a \$20 million demand credit facility (2008 - \$14.5 million) with a Canadian financial institution comprised of a \$16 million revolving operating facility and a \$4 million non revolving development facility to finance costs associated with the Pembina oil discovery. 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 2.50%; guaranteed notes bear interest at a base rate of 4% plus an applicable fee. The monthly unused portion of the credit facility is subject to an annualized fee of 0.80%. The credit facility is secured by a general security agreement providing a first floating charge over all of the assets and a fixed charge over the Pembina oil wells. The credit facility is reviewed annually with the next scheduled review to occur prior to July 31, 2010. At December 31, 2009 an amount of \$8.8 million was drawn on the revolving operating facility (December 31, 2008 - \$6.4 million).

6. ASSET RETIREMENT OBLIGATIONS

	2009	2008
Balance, beginning of the year	1,034	666
Incurred in the year	235	367
Expenditures made on asset retirements	-	(28)
Accretion expense	74	29
Balance, end of the year	1,343	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 December 31, 2009 was \$3.9 million (2008 - \$3.1 million) using an inflation rate of 1.5% (2008 - 1.5%). The estimated costs have been discounted at a credit adjusted risk free rate of 7.75% (2008 - 7.75%).

7. 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 – 30.3%) to income before taxes. The reasons for the differences are as follows:

	2009	2008
Statutory tax rate	30.3%	30.3%
Anticipated tax expense (recovery)	(599)	683
Add (deduct)		
Non-deductible stock-based compensation	95	61
Tax rate changes in future	10	(72)
Future income taxes (recovery)	(494)	672

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

	2009	2008
Future Tax liabilities		
Petroleum and natural gas properties	3,089	2,193
Future Tax assets		
Share issue costs	(124)	(83)
Non-capital losses	(331)	(48)
Asset retirement obligations	(376)	(290)
Net future income tax liability	2,258	1,772

8. SHARE CAPITAL

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

a) Common shares

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

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

Subsequent to December 31, 2009 the Company entered into an agreement to issue 3,683,143 common shares on a flow through basis at a price of \$1.40 per share for gross proceeds of \$5.2 million. The private placement is scheduled to close on April 14, 2010.

b) Normal Course Issuer Bid

During the year, the Company acquired for cancellation 231,800 common shares at an average cost of \$1.10 per share. The shares had an average carrying value of \$1.01 per share. The difference between the cost to repurchase the shares and the carrying value was charged to contributed surplus. To date in 2010, the Company has acquired 23,400 common shares at an average cost of \$1.17 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	300,000	1.23
Exercised	(125,000)	0.37
Forfeited	(297,999)	1.96
Balance, December 31, 2009	2,033,168	1.37

Exercise Price	December 31, 2009			December 31, 2008		
	Options Outstanding	Options Vested	Remaining Contractual Life (Years)	Options Outstanding	Options Vested	Remaining Contractual Life (Years)
\$0.37-0.38	58,000	58,000	0.1	183,000	183,000	0.5
1.01	476,834	161,179	3.9	541,500	-	4.9
1.15 - 1.68	1,400,834	660,006	2.7	1,229,167	449,170	3.3
2.00 - 2.95	97,500	92,500	1.5	202,500	133,338	2.4
	2,033,168	971,685	2.9	2,156,167	765,508	3.4

The stock-based compensation expense is calculated based on the fair value of the stock options on the date of grant using the Black-Scholes option pricing model. The following assumptions were applied by the Company in this calculation for options granted in the period.

	2009	2008
Weighted average fair value per option	\$ 0.64	\$ 0.51
Dividend yield	nil	nil
Volatility	54%	43%
Risk-free rates	4%	3.5%
Pre-vesting forfeiture rate	7%	nil
Expected life – years	5	5

Subsequent to December 31, 2009 the Company issued 228,900 stock options to independent directors and employees at an exercise price of \$1.07 per share. The Company also issued 125,000 stock options to its investor relations firm which vest immediately and will expire April 28, 2011 as follows: 50,000 options at a price of \$1.75 a share for six months from issuance then \$2.00 a share until expiry and 75,000 options at a price of \$2.25 a share for 12 months from issuance then \$2.50 a share until expiry.

d) Per share amounts

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

	2009	2008
Weighted average number of shares - basic	22,042,370	20,225,000
Effect of dilutive stock options	-	127,000
Weighted average number of shares - diluted	22,042,370	20,352,000

Options to purchase 2,033,168 (2008 – 2,029,167) common shares were not included in the calculation because they were anti-dilutive.

e) Contributed Surplus

	2009	2008
Opening balance, January 1	1,154	994
Stock-based compensation expense	316	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	(23)	(2)
Transfer to share capital on exercise of options	(24)	(40)
Closing balance, December 31	1,423	1,154

9. RELATED PARTY TRANSACTIONS

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

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

	2009	2008
Accounts receivable	4	639
Accounts payable	183	140

The amounts outstanding at December 31, 2009 were settled in February 2010.

Management fees were paid as follows:

	2009	2008
Fees expensed to G&A	762	729
Fees capitalized to petroleum and natural gas properties	358	156
Total management fees	1,120	885

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

The methods used by the Company to monitor capital is based on the ratio of net debt to annualized funds from operations and also the ratio of net debt to the maximum amount of the Company's credit facility. The first net debt ratio is calculated as net debt, defined as current assets minus current liabilities, divided by annualized funds from operations which is calculated as the current quarter ended funds from operations times four. The second net debt ratio is calculated as net debt divided by the credit facility availability. Ironhorse's current strategy is to maintain a ratio of net debt to annualized funds from operations of no more than 2.0 to 1.0 and its ratio of net debt to credit facility availability at less than 90%. The ratios may temporarily increase at certain times as a result of capital expenditures, which are necessary to bring new reserves on production, and commodity prices being significantly lower than those used in the budget. The annual and updated budgets are based on current commodity prices. As at December 31, 2009, Ironhorse's ratio of net debt to annualized funds from operations was 3.8 to 1.0 (2008 – 1.1 to 1.0) which is well outside the Company's optimal ratio due to lower natural gas prices in 2009. The Company expects the ratio to be within its self imposed guideline in the first half of 2010 when production and funds from operations increases as new oil wells are placed on production. The Company's ratio of net debt to credit facility availability was 49% (2008 – 47%), which was within the range established by the Company. This ratio is expected to go higher in the first quarter of 2010 as the Company completes its winter 2009/2010 winter drilling program.

The Company's share capital is not subject to external restrictions but the Company does have financial covenants in regards to its credit facility. The credit facility requires the Company to maintain a working capital ratio of not less than 1:1 for the period of April to December and permits a maximum working capital deficit of \$1 million for the period of January to March. The working capital ratio is calculated as current assets plus unused portion of the credit facility divided by current liabilities excluding any amount drawn under the credit facilities. The Company has complied with these financial covenants.

	2009	2008
Current assets	1,354	1,828
Current liabilities	11,263	8,617
Net debt	9,909	6,789
Annualized funds from operations	2,612	6,100
Ratio of net debt to annualized cash flow	3.8	1.1
Credit facility limit	20,000	14,500
Ratio of net debt to credit facility limit	0.49	0.47

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has identified the following risks which are significant to its operations:

a) Commodity price risk management

The Company produces petroleum and natural gas which have historically been subject to fluctuations in price. During 2009, the Company had entered into several fixed price gas contracts to manage its exposure to price fluctuations. These were comprised of various physical sales, none of which remain in effect at December 31, 2009.

b) Credit risk

Credit risk is the potential financial loss to the Company if a customer or joint venture partner is unable to meet its contractual obligations and arises principally from the Company's accounts receivable with respect to the sale of petroleum and natural gas. The Company's petroleum and natural gas is marketed on behalf of the company by Grizzly under standard industry terms. In order to mitigate credit risk, Grizzly markets its petroleum and natural gas to established credit worthy purchasers.

At December 31, 2009 accounts receivable were \$1.0 million, of which \$0.9 million relates to accrued revenue for the month of December. The remaining balance is made up of various smaller account balances. The amounts outstanding have been settled in March 2010.

c) Liquidity risk

Liquidity risk is the potential for the Company to have difficulty in meeting its obligations associated with financial liabilities as they become due. Ironhorse financial liabilities consist of accounts payable, financial instruments, and bank debt. All of the Company's financial liabilities have contractual maturities of less than

one year and accounts payable are processed within normal payment terms. Ironhorse prepares an annual budget which is monitored and updated throughout the year. Occasionally the Company enters into fixed price contracts with respect the sale of a portion of its production to protect its cash flow from commodity price declines. The Company also mitigates liquidity risk by maintaining an insurance program to minimize its exposure to insurable losses.

d) Interest rate risk

The Company's credit facilities bear interest at the lender's prime rate plus 2.5 %. Fluctuations in the prime rate will result in changes to the interest expense. Assuming an average loan balance drawn on the revolving operating facility of \$10 million, a change in the interest rate of 0.50 percent will result in a \$50,000 change in the interest expense.

12. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2009	2008
Changes in non-cash working capital:		
Accounts receivable	812	(939)
Accounts payable and accrued liabilities	337	162
	<u>1,149</u>	<u>(777)</u>
Relating to:		
Operations	667	(1,645)
Investing	482	868
	<u>1,149</u>	<u>(777)</u>