

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

**Management's Report**

The accompanying unaudited interim financial statements of Ironhorse Oil & Gas Inc. for the three and nine month periods ended September 30, 2009 have been prepared by management and approved by the Board of Directors of the Company. The comparative information contained in these financial statements has not been reviewed by the Company's external auditors.

Dated November 17, 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>September 30<br/>2009</b> | <b>December 31<br/>2008</b> |
|---|------------------------------|-----------------------------|
| <b>Assets</b>   |                              |                             |
| Current assets  |                              |                             |
| Cash  | 31                           | 7                           |
| Accounts receivable   | 848                          | 1,821                       |
|   | <b>879</b>                   | 1,828                       |
| Petroleum and natural gas properties <span style="float: right;"><i>(note 3)</i></span> | <b>33,559</b>                | 30,371                      |
|   | <b>34,438</b>                | 32,199                      |
| <b>Liabilities</b>  |                              |                             |
| Current liabilities   |                              |                             |
| Accounts payable and accrued liabilities  | 413                          | 2,177                       |
| Bank loan <span style="float: right;"><i>(note 4)</i></span>                            | 11,608                       | 6,440                       |
|   | <b>12,021</b>                | 8,617                       |
| Asset retirement obligation <span style="float: right;"><i>(note 5)</i></span>          | 1,323                        | 1,034                       |
| Future income taxes <span style="float: right;"><i>(note 6)</i></span>                  | 2,490                        | 1,772                       |
|   | <b>15,834</b>                | 11,423                      |
| <b>Shareholders' Equity</b> <span style="float: right;"><i>(note 7)</i></span>          |                              |                             |
| Share capital   | 21,635                       | 22,842                      |
| Contributed surplus   | 1,371                        | 1,154                       |
| Deficit   | (4,402)                      | (3,220)                     |
|   | <b>18,604</b>                | 20,776                      |
|   | <b>34,438</b>                | 32,199                      |

*See accompanying notes to financial statements.*

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

|  | Three months ended<br>September 30 |                | Nine months ended<br>September 30 |                |
|--|------------------------------------|----------------|-----------------------------------|----------------|
|  | 2009                               | 2008           | 2009                              | 2008           |
| <i>Thousands of dollars except per share amounts</i>     |                                    |                |                                   |                |
| <b>Revenue</b>   |                                    |                |                                   |                |
| Petroleum and natural gas sales                          | 1,858                              | 4,355          | 7,208                             | 14,538         |
| Royalties  | (407)                              | (1,558)        | (1,820)                           | (5,785)        |
|  | <b>1,451</b>                       | <b>2,797</b>   | <b>5,388</b>                      | <b>8,753</b>   |
| <b>Expenses</b>  |                                    |                |                                   |                |
| Operating  | 272                                | 247            | 880                               | 642            |
| General and administrative                               | 300                                | 338            | 1,067                             | 951            |
| Stock-based compensation <i>(note 7)</i>                 | 84                                 | 328            | 260                               | 428            |
| Interest   | 81                                 | 156            | 212                               | 417            |
| Depletion, depreciation and accretion                    | 1,391                              | 1,394          | 4,497                             | 4,101          |
|  | <b>2,128</b>                       | <b>2,463</b>   | <b>6,916</b>                      | <b>6,539</b>   |
| <b>Income (loss) before taxes</b>                        | (677)                              | 334            | (1,528)                           | 2,214          |
| Capital taxes  |                                    |                | 7                                 |                |
| Future income taxes (recovery) <i>(note 6)</i>           | (166)                              | 107            | (353)                             | 756            |
| <b>Net income (loss) and comprehensive income (loss)</b> | (511)                              | 227            | (1,182)                           | 1,458          |
| Deficit, beginning of the period                         | (3,891)                            | (3,576)        | (3,220)                           | (4,807)        |
| <b>Deficit, end of the period</b>                        | <b>(4,402)</b>                     | <b>(3,349)</b> | <b>(4,402)</b>                    | <b>(3,349)</b> |
| <b>Net income (loss) per share</b>                       |                                    |                |                                   |                |
| Basic and diluted <i>(note 7)</i>                        | <b>(0.02)</b>                      | 0.01           | <b>(0.05)</b>                     | 0.07           |

*See accompanying notes to financial statements.*

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

| <i>Thousands of dollars</i>                          | Three months ended<br>September 30 |              | Nine months ended<br>September 30 |                |
|--|------------------------------------|--------------|-----------------------------------|----------------|
|  | 2009                               | 2008         | 2009                              | 2008           |
| <b>Cash provided by (used in):</b>                   |                                    |              |                                   |                |
| <b>Operating activities</b>                          |                                    |              |                                   |                |
| Net income (loss)                                    | (511)                              | 227          | (1,182)                           | 1,458          |
| Items not affecting cash                             |                                    |              |                                   |                |
| Depletion, depreciation and accretion                | 1,391                              | 1,394        | 4,497                             | 4,101          |
| Stock-based compensation                             | 84                                 | 78           | 260                               | 756            |
| Future income taxes (recovery)                       | (166)                              | 107          | (353)                             | 178            |
| Abandonment costs incurred                           | -                                  | -            | -                                 | (17)           |
|  | <b>798</b>                         | <b>1,806</b> | <b>3,222</b>                      | <b>6,476</b>   |
| Changes in non-cash working capital <i>(note 10)</i> | (276)                              | (453)        | 1,518                             | (3,005)        |
|  | <b>522</b>                         | <b>1,353</b> | <b>4,740</b>                      | <b>3,471</b>   |
| <b>Financing activities</b>                          |                                    |              |                                   |                |
| Issuance of common shares, net                       | -                                  | (62)         | -                                 | 615            |
| Bank loan  | (117)                              | (925)        | 5,167                             | 2,803          |
| Exercise of stock options                            | -                                  | -            | 47                                | 6              |
| Purchase of common shares for cancellation           | (50)                               | -            | (225)                             | (34)           |
|  | <b>(167)</b>                       | <b>(987)</b> | <b>4,989</b>                      | <b>3,390</b>   |
| <b>Investing activities</b>                          |                                    |              |                                   |                |
| Petroleum and natural gas properties                 | (384)                              | (366)        | (7,395)                           | (7,724)        |
| Changes in non-cash working capital                  | 27                                 | -            | (2,310)                           | 819            |
|  | <b>(357)</b>                       | <b>(366)</b> | <b>(9,705)</b>                    | <b>(6,905)</b> |
| <b>Change in cash</b>                                | <b>(2)</b>                         | <b>-</b>     | <b>24</b>                         | <b>(44)</b>    |
| <b>Cash, beginning of the period</b>                 | <b>33</b>                          | <b>-</b>     | <b>7</b>                          | <b>44</b>      |
| <b>Cash, end of the period</b>                       | <b>31</b>                          | <b>-</b>     | <b>31</b>                         | <b>-</b>       |

*See accompanying notes to financial statements.*

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

For the period ended September 30, 2009  
Tabular amounts are expressed in thousands.

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**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<br>and depreciation | Net Book<br>Value |
|--------------------|--------|---|-------------------|
| December 31, 2008  | 41,670 | 11,299                                    | 30,371            |
| September 30, 2009 | 49,301 | 15,742                                    | 33,559            |

During the period ended September 30, 2009, the Company capitalized \$249 thousand (September 30, 2008 - \$130 thousand) of general and administrative expenses. In calculating the depletion and depreciation provision for the period ended September 30, 2009, \$1.5 million (September 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 \$5.0 million (September 30, 2008 - \$7.7 million) were included in the calculation of depletion and depreciation for the period ended September 30, 2009.

**4. BANK LOAN**

At September 30, 2009, the Company had a \$14.5 million (December 31, 2008 - \$14.5 million) revolving production credit facility with a Canadian financial institution, of which \$11.6 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.

Subsequent to September 30, 2009 the Company's credit facility was increased to \$20 million comprised of a \$16 million revolving production facility and a \$4 million non revolving development facility to finance the costs associated with placing the Pembina oil discovery on production.

## 5. ASSET RETIREMENT OBLIGATIONS

|  | September 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                      | 54           | 29           |
| <b>Balance, end of period</b>          | <b>1,323</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 September 30, 2009 was \$4 million (December 31, 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%)

## 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<br>September 30 |            | Nine months ended<br>September 30 |            |
|---|------------------------------------|------------|-----------------------------------|------------|
|   | 2009                               | 2008       | 2009                              | 2008       |
| Statutory tax rate (recovery)           | 30.3%                              | 30.5%      | 30.3%                             | 30.5%      |
| Anticipated tax expense                 | (205)                              | 101        | (462)                             | 675        |
| Add (deduct)                            |                                    |            |                                   |            |
| Non-deductible stock-based compensation | 25                                 | 23         | 79                                | 54         |
| Other                                   | 14                                 | (17)       | 30                                | 27         |
| <b>Future income taxes</b>              | <b>(166)</b>                       | <b>107</b> | <b>(353)</b>                      | <b>756</b> |

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

|  | <b>September 30</b> | <b>December 31</b> |
|--|---------------------|--------------------|
|  | <b>2009</b>         | <b>2008</b>        |
| Future tax liabilities                 |                     |                    |
| Petroleum and natural gas properties   | 2,972               | 2,193              |
| Future tax assets                      |                     |                    |
| Share issue costs                      | (70)                | (83)               |
| Non-capital losses                     | (41)                | (48)               |
| Asset retirement obligations           | (371)               | (290)              |
| <b>Net future income tax liability</b> | <b>2,490</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>19,477</b>    | <b>18,888</b> |
| Issue of common shares for cash                       | 200              | 300           |
| Issue of flow-through common shares for cash          | 1,883            | 3,820         |
| Options exercised                                     | 293              | 80            |
| Shares purchased for cancellation                     | (73)             | (83)          |
| Transfer from contributed surplus                     | -                | 47            |
| Share issue costs, net of future income taxes of \$92 | -                | (210)         |
| <b>Balance, December 31, 2008</b>                     | <b>21,780</b>    | <b>22,842</b> |
| Options exercised                                     | 125              | 46            |
| Shares purchased for cancellation                     | (207)            | (225)         |
| Transfer from contributed surplus                     | -                | 42            |
| Tax effect of flow-through shares                     | -                | (1,070)       |
| <b>Balance, September 30, 2009</b>                    | <b>21,698</b>    | <b>21,635</b> |

Subsequent to September 30, 2009, the Company entered into an agreement to issue 2.5 million common shares on a flow through basis at a price of \$1.40 per share for gross proceeds of \$3.5 million. The offering is scheduled to close on November 19, 2009.

### b) Normal Course Issuer Bid

During the period ended September 30, 2009, the Company acquired 206,500 common shares at an average cost of \$1.09 per share. Subsequent to September 30, 2009, the Company has acquired 15,700 common shares at an average price of \$1.23 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<br>Exercise price |
|------------------------------------|-------------------|------------------------------------|
| <b>Balance, December 31, 2007</b>  | <b>1,608</b>      | <b>1.26</b>                        |
| Granted                            | 1,266             | 1.26                               |
| Exercised                          | (293)             | 0.27                               |
| Exercised for cash                 | (230)             | 0.48                               |
| Forfeited                          | (195)             | 1.94                               |
| <b>Balance, December 31, 2008</b>  | <b>2,156</b>      | <b>1.41</b>                        |
| Granted                            | 200               | 1.27                               |
| Exercised                          | (125)             | 0.37                               |
| Forfeited                          | (110)             | 0.92                               |
| <b>Balance, September 30, 2009</b> | <b>2,121</b>      | <b>1.46</b>                        |

### d) Per share amounts

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

|   | Three months ended<br>September 30 |        | Nine months ended<br>September 30 |        |
|---|------------------------------------|--------|-----------------------------------|--------|
|   | 2009                               | 2008   | 2009                              | 2008   |
| Weighted average number of shares - basic   | 21,663                             | 20,111 | 21,744                            | 19,847 |
| Effect of dilutive stock options            | 35                                 | 378    | 45                                | 378    |
| Weighted average number of shares - diluted | 21,698                             | 20,489 | 21,789                            | 20,225 |

### e) Contributed Surplus

|   | September 30<br>2009 | December 31<br>2008 |
|---|----------------------|---------------------|
| <b>Balance, beginning of period</b>   | 1,154                | 994                 |
| Stock-based compensation expense  | 260                  | 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                              | (18)                 | (2)                 |
| Transfer to share capital on exercise of options  | (25)                 | (40)                |
| <b>Balance, end of period</b>   | <b>1,371</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>September 30</b> | <b>December 31</b> |
|---------------------|---------------------|--------------------|
|                     | <b>2009</b>         | <b>2008</b>        |
| Accounts receivable | 314                 | 639                |
| Accounts payable    | 76                  | 140                |

The amounts outstanding at September 30, 2009 were settled in November 2009.

Management fees were paid as follows:

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30</b>       |             | <b>September 30</b>      |             |
|  | <b>2009</b>               | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| Fees expensed to G&A   | 174                       | 214         | 346                      | 547         |
| Fees capitalized to<br>petroleum and natural gas<br>properties | 19                        | 37          | 249                      | 130         |
| Management fees  | 193                       | 251         | 595                      | 677         |

## 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 forecasts of capital expenditures are based on then current commodity prices. As at September 30, 2009, Ironhorse's ratio of net debt to annualized cash flow from operations was 3.5 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 77% (December 31, 2008 – 47%), which was within the range established by the Company.

|   | <b>September 30</b> | <b>December 31</b> |
|---|---------------------|--------------------|
|   | <b>2009</b>         | <b>2008</b>        |
| Current assets                                    | 879                 | 1,828              |
| Current liabilities                               | 12,021              | 8,617              |
| Net debt  | 11,142              | 6,789              |
| Annualized cash flow                              | 3,200               | 6,100              |
| <b>Ratio of net debt to annualized cash flow</b>  | <b>3.5</b>          | <b>1.1</b>         |
| Credit facility limit                             | 14,500              | 14,500             |
| <b>Ratio of net debt to credit facility limit</b> | <b>77%</b>          | <b>47%</b>         |

Subsequent to September 30, 2009, the Company entered into an agreement to issue 2,513,138 common shares on a flow through basis at a price of \$1.40 per share for gross proceeds of \$3.5 million and its credit facility was increased to \$20 million. These changes will lower the ratio of net debt to annualized cash flow and decrease the ratio of net debt to credit facility limit.

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<br>September 30 |              | Nine months ended<br>September 30 |                |
|--|------------------------------------|--------------|-----------------------------------|----------------|
|  | 2009                               | 2008         | 2009                              | 2008           |
| Changes in non-cash working capital:     |                                    |              |                                   |                |
| Accounts receivable                      | 59                                 | 898          | 981                               | (993)          |
| Accounts payable and accrued liabilities | (299)                              | (1,351)      | (1,764)                           | (1,193)        |
|  | <u>(240)</u>                       | <u>(453)</u> | <u>(783)</u>                      | <u>(2,186)</u> |
| Relating to:                             |                                    |              |                                   |                |
| Operations                               | (268)                              | (453)        | 1,527                             | (3,005)        |
| Investing                                | 28                                 | -            | (2,310)                           | 819            |
|  | <u>(240)</u>                       | <u>(453)</u> | <u>(783)</u>                      | <u>(2,186)</u> |