

### IRONHORSE OIL & GAS INC. (\$1.35, IOG:TSX-V)

#### Recommendation

Speculative Buy

#### Risk

High

#### Price (Nov 28)

\$1.35

#### 52-Week Range

\$2.30 - \$1.10

#### Target Price

1 Year: \$2.60

4 Year: \$4.70

#### Potential Return

1 Year: 1.9x

3 Year: 3.5x

#### Shares O/S

19.6 million

#### Market Cap

\$26.5 million

#### Average Daily Volume

20-day: 6,050

150-day: 7,800

#### Year-End

December 31

C\$	BVPS	CFPS
2005A	\$0.56	\$0.02
2006A	\$0.64	\$0.06
2007E	\$0.88	\$0.23
2008E	\$0.84	\$0.50

BVPS: Book Value Per Share

CFPS: Earnings Per Share

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Data Source: [www.BigCharts.com](http://www.BigCharts.com)

#### UPFRONT

Cash flow is the life-blood of an oil and gas company and, for Ironhorse, its cash flow is expected to accelerate sharply over the next two years, given that completion of its 2006-2008 \$30 million capex program should result in significantly higher production levels. Higher production means higher cash flow which, in turn, should provide a higher share price.

#### RECOMMENDATION

We are reiterating our Speculative Buy recommendation for the shares of Ironhorse Oil & Gas Inc., and maintaining our 12-month Target Price of \$2.60 per share. We are also establishing a three-year price target of \$4.70 per share. The stock is recommended for higher-risk investors.

#### PROFILE

Ironhorse Oil & Gas Inc. ("Ironhorse" or the "Company") is an independent energy company with producing assets in the Shackleton area of southwest Saskatchewan and exploration properties in the prolific Pembina region in Alberta. The Company develops its assets with joint-venture partners.

#### HIGHLIGHTS

- ▶ Increased valuation on shallow gas exploration and production (E&P) prospects.
- ▶ Attractive and rapidly growing E&P story.
- ▶ Recent successful transition to one of the fastest-growing junior oil and gas exploration and production companies.
- ▶ Low-risk, low-cost shallow gas production accelerating on 100% drilling success.
- ▶ Utilizing earnings from shallow gas production to finance high-impact Nisku oil exploration and development prospects at Pembina.
- ▶ Highly levered to the price of natural gas.

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## THE COMPANY

Ironhorse Oil & Gas Inc. is an independent energy company engaged in the exploration and production of oil and gas properties in western Canada. The Company has evolved through the acquisition of several under-developed oil and gas assets in Alberta and development of shallow gas assets and infrastructure in southwestern Saskatchewan. Ironhorse plans to continue exploration and development of its prospect portfolio and further advance commercial production.

Ironhorse also has assets in Alberta's prolific Pembina region, which has decades of production history. All of the Company's operations are being developed through joint ventures with industry partners. Consequently, its working interests in different properties range from 6.6% to 50%.

## CORPORATE STRATEGY

The long-term strategy of Ironhorse is to identify oil and gas exploration and development projects within the Company's key operational areas and subsequently develop them, either on its own or through a partnership, to producing assets. Ironhorse intends to be engaged in the subsequent production as the operator. The ultimate objective of the Company is to be a vertically integrated oil and gas E&P company.

The corporate strategy of Ironhorse is distinctly different than that of other junior oil and gas companies engaged in pure exploration. Rewards from a pure exploration company are usually capital gains as the company progresses from proving-up reserves to the drill-ready stage and eventually towards an asset sale to a larger company for subsequent production. With its producing assets, Ironhorse has demonstrated its commitment to be engaged in production. The Company uses the ensuing cash flow from its producing assets to expand and finance the development and exploration of its prospect inventory. Its strategy is to acquire other prospects in its operating regions.

Ironhorse plans to develop its prospects through joint-venture partnerships with mid- to large-sized Canadian oil and gas companies. This is a low-risk strategy, as such partnerships provide technological and operational expertise while minimizing the financial commitment from the Company. All of Ironhorse's prospects are currently being developed and operated through joint ventures.

## KEY JOINT-VENTURE PARTNER

The Company's primary joint-venture partner is the privately-owned Grizzly Resources Ltd. ("Grizzly"). Grizzly and Ironhorse are related companies because of their common management. The principals of Grizzly also hold over 21% of the issued and outstanding shares of Ironhorse. Due to this relationship, compensation to Grizzly for the use of technical and administrative support is governed through a production and capital activity based agreement. Grizzly is an exploration and production company with operations predominantly in Alberta. The management of the Company has successfully acquired and developed lands throughout western Canada, and has a proven track record in the development of several locations at Pembina dating back to 1997.

## PROPERTY SUMMARY

### A. Producing Assets

- Boundary Lake, Alberta – Producing oil and natural gas field;
- Lochend, Alberta – Producing oil and natural gas field; and
- Shackleton, Saskatchewan – Producing natural gas field and infrastructure.

### B. Development Properties

- Pembina, Alberta – Exploration and development; and
- Northeast British Columbia – Exploration and development.

#### Producing Properties

<u>Property</u>	<u>Number of Acres</u>	<u>Working Interest</u>	<u>Number of Wells</u>	<u>Type</u>	<u>Reserves (boe)</u>
Boundary Lake	1,120	8.4%	3	Oil/Natural gas	52,000
Lochend	4,160	6.6%-16.5%	15	Oil/Natural gas	26,000
S.W. Saskatchewan	111,720	50.0%	38*	Natural gas	15.1BCF

\* 32 wells have been tied into production, with six completed and waiting to be tied-in.

*Source: Company*

More detailed information on the Company's properties is found in Appendix 2, page 18.

## INVESTMENT CONSIDERATIONS

**Increased Valuation:** We have reassessed and increased our estimate of the intrinsic value of Ironhorse, based on higher production, exploration potential, cash flow acceleration and price forecasts.

**Natural Gas Price Weakness Induced Discount:** Despite its great potential, Ironhorse stock has been weak, largely due to low natural gas prices. We expect Ironhorse to revert to profitability in 2008, aided by increased production from the Company's southwest Saskatchewan property and accelerating cash flow. The current supply-driven weakness in gas prices may be exacerbated by the prospects of a warm winter in North America, causing gas pricing to remain out of sync with dynamics in the oil market. We expect that the current price divergence between the two energy markets will ultimately reverse; however, until we see decisive evidence that this has begun to occur, we expect that Ironhorse, along with many other natural gas players, will continue to trade at a discount to intrinsic value.

**Attractive and Rapidly Growing E&P Story:** Ironhorse has made a successful transition to a fast-growing junior oil and gas exploration and production company.

**Low Risk, High Potential:** Ironhorse is a low-risk, high-potential oil and gas exploration play. The Company's prospects include producing assets, which are located in prolific hydrocarbon regions in Alberta and southwestern Saskatchewan. Ironhorse's partnerships with other oil and gas companies provide some technological advantages while reducing its financial commitment. The Company's operations in the Pembina region provide exposure to the Nisku hydrocarbon fairway, which is the source of the most significant series of light oil discoveries in western Canada.

**Accelerating Production:** The Company has recently commenced production at its southwest Saskatchewan property, where it now has 32 wells tied-in to its own processing infrastructure. With the continued development of the shallow gas assets, Company cash flow is expected to continue to accelerate throughout the next 12 months and beyond.

**Accelerating Cash Flow:** Interests in oil assets coupled with Saskatchewan shallow gas assets are generating increasing cash flow to finance the high-potential exploration program in the Pembina Nisku hydrocarbon fairway.

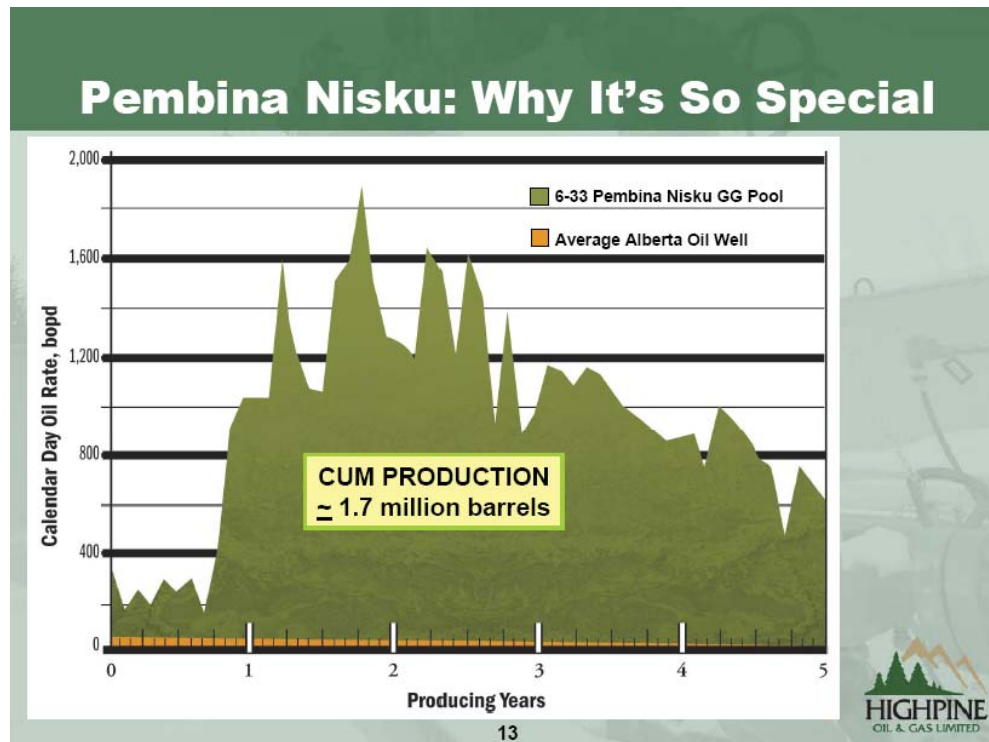
**Capital Program and Drilling Success:** Ironhorse is in the midst of a \$30 million, two-year exploration and development program, which will add to the already dramatic increases in production achieved in the past year. 80% of the capital has been allocated to shallow gas development at Shackleton in southwestern Saskatchewan, which has proven to be a source of highly repeatable, low-risk, incremental production. Ironhorse has achieved 100% drilling success so far in its shallow gas play at Shackleton.

**Pembina Nisku:** Ironhorse's 18.75% working interest in its exploration and development property in the prolific high-deliverability oil fields of Pembina provides excellent exposure to large upside potential with its partner Highpine Oil and Gas Limited – an expert in the area. The Company has a highly attractive risk/reward profile at Pembina with where it will drill two wells in 2008, one in 2009, with another three depending on the outcome of 2008 drilling. Ironhorse's Pembina property is flanked by fields that are producing at a rate greater than 1,000 boe/d per well, with initial production reports at some offset locations reaching as high as 2,500 boe/d per well.

Ironhorse's property at Mishow Creek, Pembina is flanked by West Energy (West) Limited's recent discovery, which is expected to produce at a rate of 1,400 boe/day. Three-dimensional seismic data of Ironhorse's Mishow Creek Nisku target zone at Mishow Creek is a look-alike to that of the West discovery.

The following chart demonstrates the appeal of the Pembina Nisku target zone compared with the average Alberta oil well, and explains why land positions are no longer available in the area.

## Why Pembina Nisku?



Source: Highpine Oil and Gas Limited

**Low-Cost Production:** While the current natural gas price weakness and volatility have been question marks for the entire industry, Ironhorse ranks as the second-lowest-cost producer of natural gas, allowing it to better weather low gas prices. Further contributing to the Company's resilience in this area has been its effective use of costless collars in its derivatives hedging program to mitigate the effect of natural gas price weakness.

**Commodity Price Leverage:** The Company is highly leveraged to the price of natural gas.

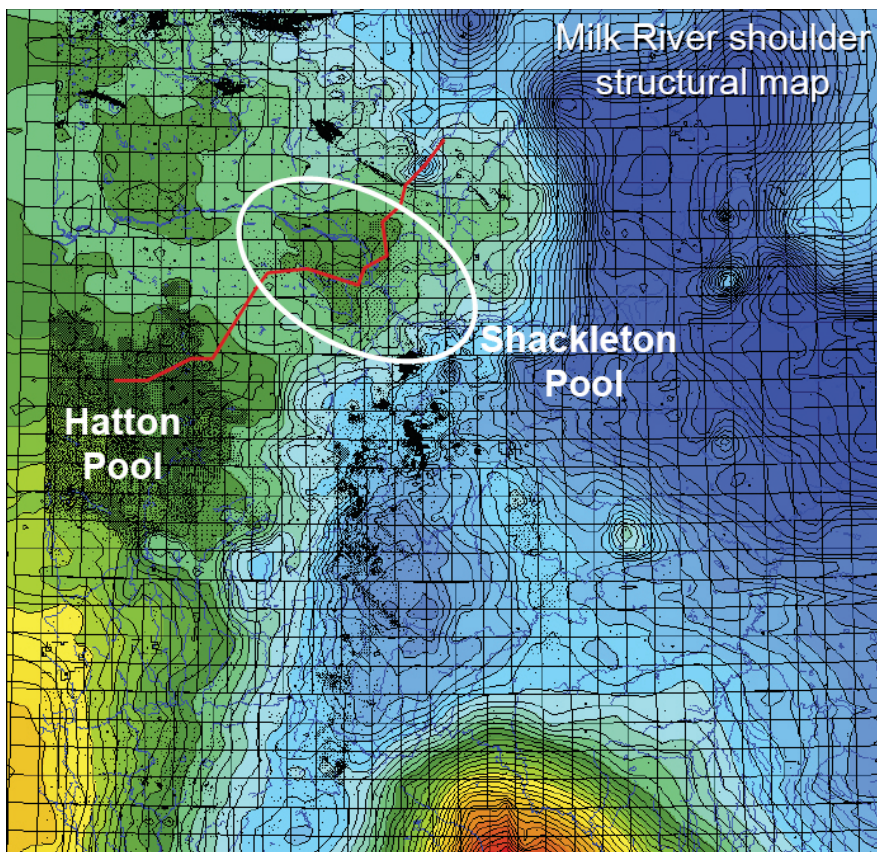
## RECENT DEVELOPMENTS

Ironhorse is currently focused on developing its more recent acquisitions in Pembina, Alberta and southwest Saskatchewan.

### 1. Shackleton, Saskatchewan

- ▶ Ironhorse has completed the first three stages of its five-stage Shackleton land acquisition plan, where it has significantly boosted natural gas production levels. The Company now has 32 producing wells on-stream, and another six wells waiting to be tied-in to production in 2008, which will add significant low-cost production.
- ▶ Ironhorse's Shackleton interests consist of a 50% interest in the 32 producing wells and the six awaiting tie-in, a gas plant now operating at a capacity of 14 Mmcf/d, and over 45 miles of pipeline infrastructure.

- ▶ To date, the Company has achieved 100% drilling success in the Shackleton area on a per well basis, with flow rates averaging 300 Mcf/d, and an expected reserves life of 8-11 years.
- ▶ Ironhorse completed a reserves assessment for its Shackleton properties of 11.2 Bcf proven reserves and 15.1 Bcf of proven plus probable.
- ▶ The Company is poised to complete the fourth land acquisition stage of its Shackleton plan before the end of 2007, followed by the fifth acquisition stage in 2008. Due to the proximity of producing wells in the area, Ironhorse benefits from increased reserves upon completion of each stage of land acquisition. When complete, these stages will bring to 73 the number of drill locations. In total, 111 wells will be drilled as part of the current capital program.
- ▶ Ironhorse is currently constructing a pipeline to access the western quadrant of the Shackleton property, in order to tie production from scheduled drilling to be conducted there into its processing plant.
- ▶ Ironhorse has completed an assessment of the implications for an 80-acre downspacing infill drilling program at Shackleton, which would significantly increase the number of drilling locations in the area. Downspacing is planned as part of a 2009 capital program that will add 50-80 drilling locations, with a geographic bias towards the tighter, north and west portion of the land position where the porosity is lower.
- ▶ Main players in the area are Husky Energy and Focus Energy Trust, both of which are actively infill drilling/downspacing to 80 wells per section on lands adjacent to the Ironhorse land position.



Source: Saskatchewan Industry and Resources

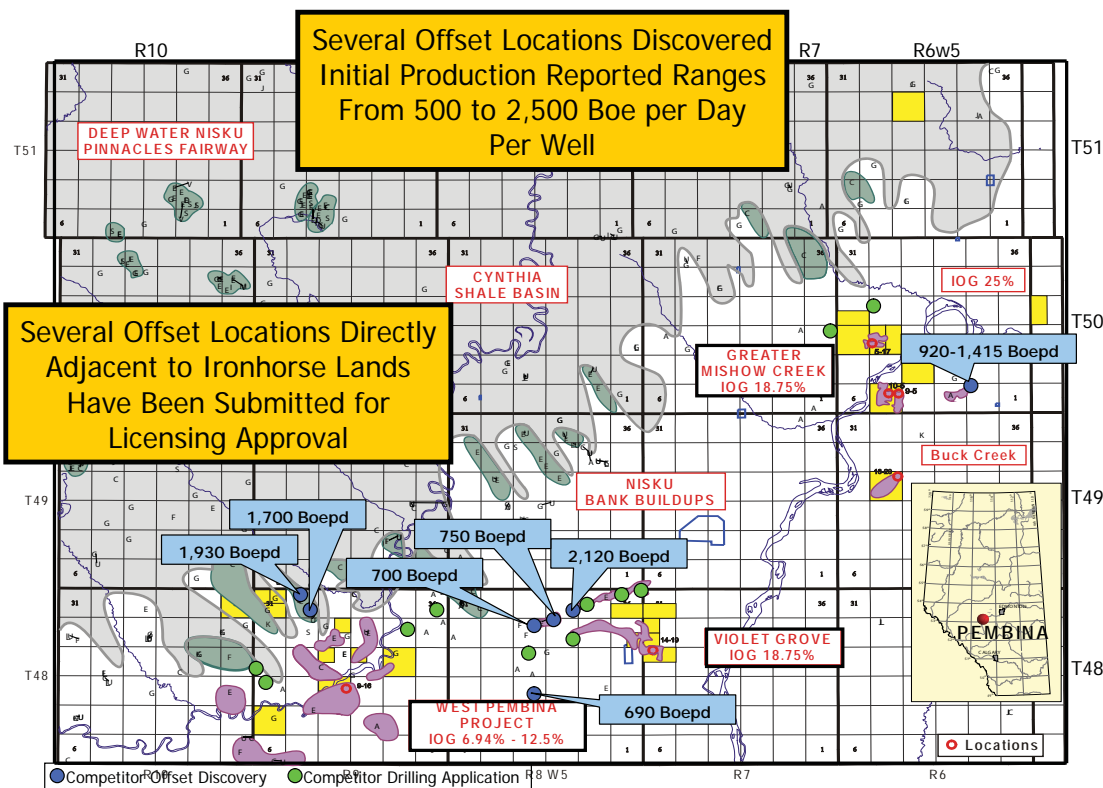
**COMMENT:** *In 2006, Ironhorse declared that production would exceed 1,200 boe/d in 2007. The Company was forced to curtail its drilling program due to an early break-up in the area and will exceed this milestone by the end of March 2008. With its current capital program underway, Ironhorse is on track to exceed 2,000 boe/d by 2009, based on the current Shackleton capital program alone. Adding the additional 50-80 anticipated downspacing infill wells, which would be part of the 2009 capital program, we expect that Ironhorse will exceed 3,000 boe/d by the first quarter of 2011 and provide free cash flow in excess of capital requirements from 2008 forward.*

*Furthermore, Ironhorse is likely to realize some success from its exploration and development efforts at Pembina, Alberta where it will be drilling between three and six locations through 2009 with its highly experienced partner, Highpine Oil and Gas Limited (Highpine). The empirical probability of drilling success at Pembina has been approximately 50%; however, Highpine has achieved 75% drilling success in the region over the past two years.*

## 2. Pembina

- ▶ At Pembina, Ironhorse has reversed the planned sequence of development, with drilling at the Mishow Creek location expected to commence first in 2008. For the remainder of 2007, capital earmarked for Pembina has been redeployed at Shackleton, pending licensing approvals at Pembina.
- ▶ The Company will drill its first two light sour oil wells starting in May and September 2008 at Mishow Creek with an 18.75% working interest.
- ▶ Ironhorse's property at Mishow Creek, Pembina is flanked by West Energy (West) Limited's recent discovery, which tested at 940 Boe/d (with a 3/8"choke). West has stated that it expects to produce this discovery at 1,400 boe/day.
- ▶ Three-dimensional seismic data of the Mishow Creek Nisku target zone at Mishow Creek is a look-alike to that of the West discovery.
- ▶ Ironhorse has also completed a three-dimensional seismic program over the second phase of the acreage, and has acquired additional undeveloped land.
- ▶ Ironhorse's partner Highpine is highly experienced in the area, and holds working interests in much of the surrounding pipeline infrastructure and facilities.
- ▶ In 2009, a first well will be drilled at Violet Grove in Pembina, and third and fourth wells will be drilled at Mishow Creek. As these lands are not yet developed, they do not yet have proven or probable reserves associated with them.

**Figure 1: Pembina Property Location Map**



Source: Company

### 3. Northeast British Columbia

- ▶ Ironhorse abandoned its Debolt and Jean Marie natural gas target formations in the first half of 2007 after assessing them as non-commercial. The Company shot new 2D seismic on another potential target acquisition opportunity in the area; however, Ironhorse has put all efforts in this area on hold and has redeployed the capital to Shackleton. Ironhorse plans to reinstate its natural gas exploration in northeastern British Columbia in 2009.

### 4. Corporate Developments

- ▶ In January 2007, Ironhorse closed a non-brokered private placement of 2,718,750 common shares, including 906,250 flow-through shares. The common shares were issued at \$2.00/share and the flow-through shares at a price of \$2.40, for total gross proceeds of \$5.8 million.
- ▶ In March 2007, Ironhorse announced a Normal Course Issuer Bid, under which it has repurchased 190,000 shares out of a possible 1,236,869 shares for cancellation, at an average price of \$1.69. The Company has until March 31, 2008 to repurchase the remaining shares.

## FINANCIAL REVIEW AND OUTLOOK

**Revenue:** Ironhorse's 50% working interest in production and infrastructure at Shackleton represented 98% of the Company's year-to-date production. The Company achieved a 293% increase in production revenue in the nine months ended September 30, 2007 compared to the previous year, attributable to a 257% increase in production (boe/d) and a 10% increase in price (\$/boe). New wells at Shackleton, which were producing for the entire second and third quarter of 2007, added greatly to the increase in revenues.

**Cash:** Ironhorse reported cash and equivalents of C\$36,417 as at September 30, 2007, compared to C\$519,095 at the same time last year. Continued development expenditure is the reason behind the decline in cash balance. Working capital as of September 30, 2007 was negative \$7.2 million, reflecting the use of the revolving production loan facility to bridge-finance exploration and development.

**Burn Rate:** The Company was operating at a \$135,000/month cash burn rate. As part of its SG&A, the Company pays fees to Grizzly Resources for its management and technical services on an ongoing basis. Under this arrangement, Ironhorse has access to a resource of 25 individuals from the Grizzly talent pool. These fees amounted to \$590,507 for the nine month period ending September 30, 2007, of which \$259,635 was capitalized.

**Capex:** During the first nine months of 2007, total capital expenditure amounted to C\$10.6 million. Much of the capex has been allocated to the following activities:

- ▶ Drilling of 31 natural gas development wells in Saskatchewan.
- ▶ Drilling one well in northeast British Columbia, which was deemed non-commercial and abandoned.
- ▶ Shooting a two-dimensional seismic survey in British Columbia.
- ▶ Surveying drilling locations in Saskatchewan.

Capex for 2008 is expected to be approximately \$8.6 million, which will be primarily allocated to development drilling at Shackleton.

**COMMENT:** *We anticipate that the Company's capital expenditure through 2008 will focus on completion of the \$30 million, two-year drilling program that commenced in 2007. The program is heavily weighted towards southwestern Saskatchewan, which has approximately 75% of the remaining capital program allocation. Drilling of two light sour oil wells at Pembina is expected to commence in 2008.*

*Ironhorse has completed an assessment for infill down-spacing of its acreage in Saskatchewan, to 80-acre spacing, which would potentially double the number of wells possible in some of its production areas and extend the capital program into 2009. This will provide 50-80 locations in the tighter, north and west portions of the property to minimize depletion. We expect that these infill wells will be low-cost, since they will be drilled from existing pad locations and use the same monitoring equipment.*

**Financing:** Ironhorse closed a non-brokered private placement in January 2007, whereby it issued 1,812,500 common shares at \$2.00/share as well as 906,250 common shares issued on a flow-through basis at \$2.40/share. Net proceeds from the financing totaled \$5.75 million.

During Q2/07, the Company repurchased 190,000 common shares for cancellation at an average price of \$1.69/share through its Normal Course Issuer Bid.

After the quarter end, the Company successfully increased the limit on its revolving production loan facility to \$8 million. The debt facility increases Ironhorse's financial flexibility as a bridging mechanism to fund short-term working capital deficiencies. We expect the Company will have sufficient cash flow through 2008 to comfortably pay down its loan facility by \$3.5 million and continue to fund its expansion programs.

**Capital Structure:** As at June 30, 2007, the Company had 19.6 million common shares outstanding. This translates to a market capitalization of approximately C\$27.5 million at current prices. Directors and senior officers of Ironhorse collectively control about 25% of the voting shares of the Company.

**Warrants:** The Company has no outstanding warrants at the present time.

**Options:** As at the end of the first half of 2007, Ironhorse had 1.68 million exercisable options, issued over multiple periods and expiring at the end of five years from the date granted. These options have a weighted average exercise price of \$1.28 and are currently "in-the-money". Since these option contracts have a remaining life of at least two years and mature beyond our forecast period, they have not been included in our calculation of the intrinsic value of the Company.

#### Ironhorse Options Outstanding

<u>Number</u>	<u>Exercise Price (C\$)</u>	<u>Comments</u>
1,684,666	1.28	In-the-Money

*Source: Ironhorse Oil & Gas Inc.*

**Financial Statements:** Set out in the table below are abridged financial statements, including Statement of Income/ (Loss), Statement of Cash Flow, and Balance Sheet. A comment follows.

Table 1: Selected Financial Information

	Nine Months Ended Sept. 30:		Year Ended December 31:				
	2006	2007	2004	2005	2006	2007e	2008e
<b>Statement of Income/(Loss):</b>							
Operating Income	\$1,001,584	\$4,227,530	\$296,834	\$371,128	\$1,617,253	\$5,800,000	\$11,400,000
Non-Operating Income	57,070	8,010	4,506	56,890	57,319	10,000	12,000
Operating Gen & Admin Expense	(389,100)	(1,216,935)	(171,059)	(227,699)	(605,088)	(1,700,000)	(2,000,000)
Amortization + Non-Cash Items	(921,426)	(3,279,187)	(85,523)	(46,763)	(1,460,410)	(4,500,000)	(6,000,000)
Stock-based Compensation	(418,447)	(300,466)	(41,074)	(278,970)	(555,628)	(370,000)	(400,000)
Other Expenses	-	(200,758)	-	460,890	(11,516)	(310,000)	(400,000)
Future Income Tax Recovery	133,300	212,218			225,249	350,000	(200,000)
Net Income (Loss)	(\$537,019)	(\$549,588)	\$3,684	\$335,476	(\$732,821)	(\$720,000)	\$2,412,000
Total Shares Outstanding	17,054,892	19,524,143	8,871,558	14,871,558	17,067,392	19,611,143	19,611,143
Wtd. Average Shares Outstanding	16,996,117	19,958,640	8,871,558	12,556,186	16,346,171	19,958,640	19,958,640
Earnings (Loss) Per Share	(\$0.03)	(\$0.03)	\$0.00	\$0.03	(\$0.04)	(\$0.04)	\$0.12
<b>Statement of Cash Flow:</b>							
Net Income (Loss)	(\$537,019)	(\$549,588)	\$3,684	\$335,476	(\$732,821)	(\$720,000)	\$2,412,000
Non-Cash Items	1,198,333	3,341,535	126,597	(135,157)	1,782,549	3,800,000	9,012,000
Cash Flow from Operations	661,314	2,791,947	130,281	200,319	1,049,728	3,080,000	11,424,000
Cash Flow Per Share	\$0.04	\$0.14	\$0.01	\$0.02	\$0.06	\$0.23	\$0.50
Capital Expenditures (Properties)	(10,513,770)	(10,570,196)	-	(3,434,941)	(13,913,779)	(11,000,000)	(8,600,000)
Other Investing Items	(434,600)	(346,507)	-	188,172	-	-	-
Free Cash Flow	(10,287,056)	(8,124,756)	130,281	(3,046,450)	(12,864,051)	(7,920,000)	2,824,000
Working Capital Changes	2,039,233	(2,085,708)	23,294	44,072	2,295,445	(2,000,000)	1,000,000
Equity Financing	5,047,015	5,230,399	-	6,325,410	5,051,377	5,000,000	-
Debt Financing	-	5,007,808	-	-	1,806,000	5,200,000	(3,500,000)
Change in Cash	(3,200,808)	27,743	153,575	3,323,032	(3,711,229)	280,000	324,000
Cash, Beginning of Period	3,719,903	8,674	243,296	396,871	3,719,903	8,674	288,674
Cash, End of Period	519,095	80,688	396,871	3,719,903	8,674	288,674	612,674
<b>Balance Sheet:</b>							
	<b>As at Sept. 30:</b>		<b>As at December 31:</b>				
	2006	2007	2004	2005	2006	2007E	2008E
Cash	519,095	\$36,417	396,871	3,719,903	\$8,674	288,674	612,674
Other Current Assets	291,689	904,693	39,510	73,371	437,668	1,244,533	1,414,022
Property Plant & Equipment	13,418,297	23,983,707	332,249	3,730,982	16,402,488	22,902,488	25,502,488
Other Assets	435,600	346,507	-	-	-	-	-
Total Assets	\$14,664,681	\$25,271,324	\$768,630	\$7,524,256	\$16,848,830	\$24,435,695	\$27,529,184
Accounts payable	\$2,575,508	\$1,359,016	\$45,286	\$317,957	\$2,977,699	695,456	4,377,791
Bank loan	-	6,813,808	-	-	1,806,000	7,006,000	3,506,000
Current Liabilities	2,575,508	8,172,824	45,286	317,957	4,783,699	7,701,456	7,883,791
Other Liabilities	481,000	1,148,776	109,151	527,069	1,111,738	1,500,846	2,000,000
Total Liabilities	3,056,508	9,321,600	154,437	845,026	5,895,437	9,202,302	9,883,791
Shareholders' Equity	11,607,673	15,949,724	614,193	6,679,230	10,953,393	15,233,393	17,645,393
Total Liabilities & Equity	14,664,181	25,271,324	\$768,630	\$7,524,256	16,848,830	\$24,435,695	\$27,529,184
Book Value (S.E.) Per Share	\$0.73	\$0.85	\$0.07	\$0.56	\$0.64	\$0.88	\$0.84

Source: eResearch and Ironhorse Oil and Gas

**COMMENT:** Ironhorse is an exploration and development company that, prior to 2007, had little operating revenue. The Company has been aggressively developing its low-cost, shallow-gas assets and infrastructure in Shackleton. With the bulk of the capital expenditure associated with the development of the Shackleton gathering infrastructure and plant largely behind Ironhorse, the Company is concentrating on drilling the remaining 79 wells of its two-year 111-well, shallow-gas development program and will follow this up with 50-80 additional infill wells from 2009 to the first quarter of 2011. The Company has found the Milk River zone at Shackleton to be a source of predictable, repeatable, gas production, and is demonstrating rapid operating revenue, cash flow, and earnings acceleration.

## VALUATION SUMMARY

eResearch has increased its estimate of the intrinsic value of the shares of Ironhorse to \$2.81 from \$2.60 at the time of our Initiating Report of January 17, 2007. However, given the current anemic fundamentals for natural gas, we are maintaining our 12-month Target Price of \$2.60/share. As determined below, and are setting a three-year Target Price of \$4.70 per share.

We have used two different valuation methodologies to derive an estimate of the intrinsic value of the shares of Ironhorse:

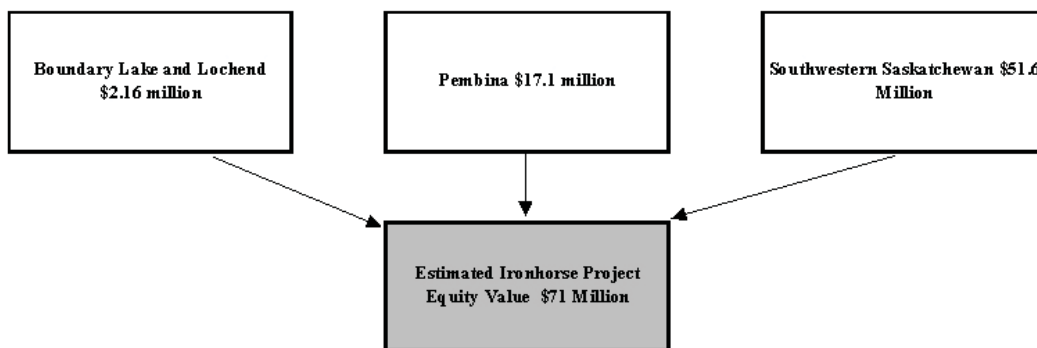
- A. **Cash Flow Multiples Analysis:** We applied a reasonable price-to-cash flow multiple of 5x to Ironhorse’s forward 2008 cash flow to arrive at an intrinsic value of \$2.50 per share.
- B. **Net Present Value Analysis:** We revised our net present value analysis and calculated the new sum of the parts valuation for Ironhorse to be \$3.12 per share.

### A. Cash Flow Multiples Analysis

eResearch has taken a reasonable 5x Ironhorse’s 2008 forecast cash flow of \$0.50/share to arrive at an estimate of its intrinsic value of \$2.50 per share.

### B. Net Present Value:

Using our Net Present Value Analysis, we have estimated the intrinsic value of the three components that comprise the Company’s operations. These component values are set out in the chart below and total C\$71 million.



Source: eResearch

**NPV of Ironhorse Assets**

	<u>Company Share (\$ MM)</u>
Boundary Lake and Lochend	\$2.16
Pembina	\$17.10
<u>Southwestern SK</u>	<u>\$51.62</u>
<b>NPV of properties</b>	<b>\$70.88</b>
Plus: Cash & Equivalents	\$0.08
<u>Less: Debt</u>	<u>\$9.68</u>
<b>Intrinsic Value</b>	<b>\$61.28</b>
Number of Shares (MM)	19.61

**Intrinsic Value per Share** **\$3.12** \*

\*Using PV-10%

Including its cash reserves and net of debt, Ironhorse's total equity intrinsic value is C\$61.28 million. This translates to an intrinsic value per share of C\$3.12 per share.

**Valuation Conclusion**

We have placed equal weighting on each of the two valuation methodologies used and derived an intrinsic value for the shares of Ironhorse of \$2.81 per share.

**Ironhorse Valuation Summary**  
(C\$/Share)

<u>Method</u>	<u>Implied Intrinsic Value</u>	<u>Weight</u>	<u>Weighted Value</u>
<b>A. Cash Flow Multiples</b>	\$2.50	0.5	\$1.25
<b>B. Net Asset Value</b>	\$3.12	0.5	\$1.56
<b>Intrinsic Value Per Share</b>			<span style="border: 1px solid black; padding: 2px;"><b>\$2.81</b></span>

**Source: eResearch**

Despite our increased estimate of the intrinsic value of the shares of Ironhorse to \$2.81 per share, and until we see a decisive firming in natural gas fundamentals, we are maintaining our current 12-month Target Price of \$2.60/share.

Based on the cash flow analysis presented on the following page, we are setting a three-year Target Price of \$4.70 per share.

**Three-Year Target Price:**

We examined Ironhorse's price-to-cash flow multiple in comparison with those of its peer group as shown in the table below. We observed that Ironhorse's peer group traded at an average cash flow multiple of 7.8x cash flow for 2006. Because Ironhorse is at an earlier stage of development, and due to prevailing natural gas price weakness, we have used a more conservative 5x 2010 forecast cash flow multiple to derive a three year Target Price for the shares of Ironhorse of \$4.70/share.

	<b>Ticker</b>	<b>Price 27-Nov-07</b>	<b>P/CFPS 2005</b>	<b>P/CFPS 2006</b>
<b>Action Energy Inc.</b>	AEC: TSV-V	\$1.55	15.5x	12.9x
<b>Mahalo Energy Ltd.</b>	CBM: TSX	\$2.60	12.4x	8.7x
<b>Masters Energy Corp.</b>	MSY: TSX	\$2.07	8.0x	8.3x
<b>Rockyview Energy Inc.</b>	RVE:TSX	\$3.11	11.1x	5.4x
<b>Bow Valley Energy Ltd.</b>	BVX: TSX	\$6.05	16.4x	25.2x
<b>Crew Energy Inc.</b>	CR: TSX	\$7.82	6.5x	6.4x
<b>Carrizo Oil &amp; Gas Inc.</b>	US\$ CRZO: Q	\$47.86	32.1x	19.0x
<b>Infinity Energy Resources Inc.</b>	US\$ IFNY: OTCBB	\$0.49	0.9x	0.6x
<b>Petrohawk Energy Corp.</b>	US\$ HK:NYSE	\$16.09	20.1x	9.1x
<b>Kereko Energy Ltd.</b>	KCO:TSX	\$3.76	4.3x	3.0x
<b>RSX Energy Inc</b>	RSX: TSX	\$1.70	5.5x	8.5x
<b>Defiant Resources Corp.</b>	DFR: TSX	\$1.81	9.5x	4.8x
<b>Edge Petroleum Corp.</b>	US\$ EPEX:Q	\$6.17	1.9x	1.8x
<b>Average</b>			<b>10.5x</b>	<b>8.0x</b>
<b>Ironhorse Oil &amp; Gas</b>	<b>IOG: TSX-V</b>	\$1.35	<b>67.5x</b>	<b>22.5x</b>
		<b>2007E</b>	<b>2008E</b>	<b>2009E</b>
<b>CFPS</b>		<b>\$0.23</b>	<b>\$0.50</b>	<b>\$0.70</b>
<b>Implied Forward Intrinsic Value</b>			<b>\$2.50</b>	<b>\$4.70</b>

Source: eResearch

## APPENDIX 1: MANAGEMENT AND DIRECTORS

### **Larry J. Parks, President, Chief Executive Officer and Director**

Mr. Parks joined Ironhorse in June of 2003 as the company's Chairman, President & Chief Executive Officer. Under his direction, the Company was transformed from a junior mining exploration company based in Vancouver to a junior oil and gas exploration and production company based in Calgary. Mr. Parks has more than 28 years of experience in all areas of oil and gas exploration and production including over 20 years in management and executive capacities. Prior to this, he earned a Bachelor of Science degree in Chemistry from the University of Alberta. He is also President and Chief Executive Officer of Grizzly Resources Ltd., a private oil and gas exploration and production company. Mr. Parks is the company's Chairman of the Board, President & Chief Executive Officer.

### **Alan G. Withey, Vice-President, Finance and Chief Financial Officer**

Mr. Withey joined Ironhorse in April of 2005 when he was appointed the company's Chief Financial Officer. During his tenure, Ironhorse has grown from a market capitalization of approximately \$3 million. Mr. Withey holds a Bachelor of Commerce degree from the University of Calgary and is a Chartered Accountant with the Institute of Chartered Accountants of Alberta, a Certified Public Accountant with the University of Illinois at Urbana/Champaign and holds a Certified Financial Planning designation with the Financial Planners Standards Council. He has over 15 years of experience in finance with over 10 years focused on oil and gas exploration and production including five years in an executive capacity. Mr. Withey is the company's Vice President, Finance & Chief Financial Officer.

### **William G. Manley, Vice-President, Engineering & Operations**

Mr. Manley joined Ironhorse in July of 2003 as the company's Engineering and Operations Vice President. Under his direction, Ironhorse has added drilling operating areas in Pembina, Alberta, Southwest Saskatchewan and Northeast British Columbia and commenced production operations in Southwest Saskatchewan. He has 24 years of experience in reservoir, production and exploitation engineering as well as experience with the administration, acquisition and disposition of oil and gas properties. Prior to this, he earned an Engineering Science diploma from the Southern Alberta Institute of Technology (SAIT) and a Bachelor of Science degree in Geological Engineering from the Montana College of Mineral Science & Technology. He is a member in good standing of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA). Mr. Manley is also the Vice President, Engineering & Operations of Grizzly Resources Ltd., a private oil and gas exploration and production company. Mr. Manley is the company's Vice President of Engineering and Operations.

### **James K. Wilson, Vice-President, Corporate Secretary and Director**

Mr. Wilson joined Ironhorse in July of 2003 as both a Director and as a Vice President. Mr. Wilson is a University of Calgary Commerce undergraduate and a Chartered Accountant with over 24 years of finance and administration experience in the domestic and international oil and gas industry. His responsibilities have included finance, treasury, tax planning and structuring, strategic planning, risk management, accounting, investor relations, human resources, information systems and administration activities. In his career, he has been actively involved in acquisition and divestiture negotiation and structuring. He maintains memberships in Financial Executives International Canada and the Canadian Petroleum Tax Society. He is also Vice President, Finance and Chief Financial Officer of Grizzly Resources Ltd., a private oil and gas exploration and production company. Mr. Wilson is a Director and Vice President and is the company's Corporate Secretary.

**Blaine C. Flavel, Director**

Mr. Favel has served as a Director of Ironhorse since January of 2004. He is President of Thundersong Consulting, a firm dedicated to advising First Nation tribes on oil and gas development, private equity and business strategy.

**Jeff Lawson, Director**

Mr. Lawson has served as a Director of Ironhorse since July of 2003. He has been Managing Director and Head of Calgary Investment Banking with Blackmont Capital Inc. since October 1, 2007. Prior thereto, he was a Partner with Burnet, Duckworth & Palmer LLP Barristers & Solicitors, where he gained over 12 years' experience in a diverse commercial legal practice with particular emphasis on merger and acquisition activities, corporate finance, corporate restructuring and private equity funds. He obtained a Bachelor of Laws from the University of Alberta. Mr. Lawson sits as a Director and officer of a number of public and private companies and also on the boards of certain charitable organizations.

**Gerry C. Quinn, Director**

Mr. Quinn has served as a Director of Ironhorse since January 2004 and is the Company's Audit Committee Chairman. He is President of The Erin Mills Investment Corporation, a substantial private venture capital company with a diverse investment portfolio, and has held that position since September 1989. He has served as a senior officer in Magna International Inc. and Barrincorp., both publicly traded companies, and has also served as a Partner at Ernst & Young LLP, a major public accounting firm. He has served and continues to serve as a Director of a number of public and private enterprises in a wide range of industries, including over 15 years as a Director of various oil and gas companies, and acts as an investment advisor to emerging businesses.

## APPENDIX 2: PROPERTIES

### 1. Boundary Lake

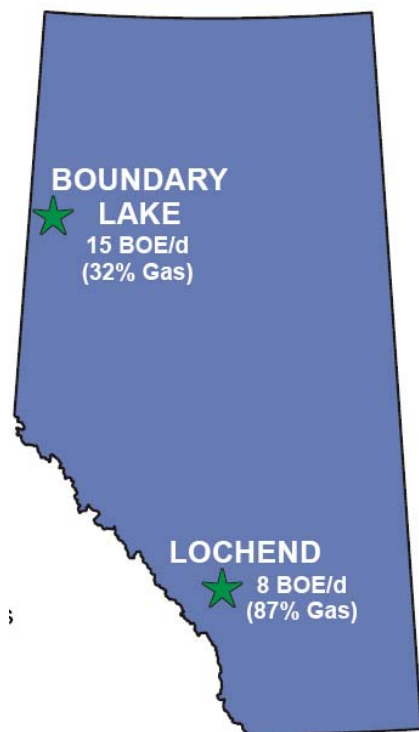
The Boundary Lake property covers an area of 1,120 acres and is located 65 km northeast of Fort St. John, British Columbia. The Company has an 8.4% working interest in three wells, with two of them currently producing oil from the Triassic zone. Net recoverable resources of the Boundary Lake property are estimated to be approximately 52,000 barrels of oil equivalent (boe).

### 2. Lochend, Alberta

The Lochend property, with estimated resources of 26,000 boe, covers an area of 4,160 acres and is located 70 km northwest of Calgary. The Company has working interests ranging from 6.6% to 16.5% over 18 wells, of which 15 are producing. The Lochend property targets the oil-bearing late Cretaceous Cardium Formation.

The Cardium Formation, exposed along the Rocky Mountain Foothills and present beneath the Alberta Plains, is best known as an oil reservoir with production from fine-grained sandstone, interpreted as having been deposited in a shallow marine environment. The Cardium Formation (Turonian–Coniacian, Upper Cretaceous) is one of the major hydrocarbon sources, and consequently one of the most intensely studied siliciclastic formations in the Western Canada Sedimentary Basin. The formation is encased in a thick succession of black mudstones, the Blackstone/Kaskapau formations below and the Wapiabi/Muskiki formations above. All of these formations comprise a sedimentary assemblage assigned throughout Alberta and British Columbia to the Smoky, Alberta, La Biche and Colorado groups (Source: Alberta Energy and Utilities Board).

**Figure 2: Boundary Lake Location Map**



Source: Company Website

**COMMENT:** *The Cardium Formation has been responsible for several producing hydrocarbon fields and regions such as those operated by ARC Resources, and make the Lochend property a low-risk prospect.*

### 3. Shackleton, Saskatchewan

Ironhorse is very focused on development drilling at its 11,720-acre, shallow-gas land position at Shackleton in which it has a 50% working interest. Estimated proven and probable reserves on the property stand at 15.1 Bcf of gas. The property is a multi-well, shallow-gas field that allows rapid tie-in to the Company's own infrastructure. Ironhorse has constructed a gas plant at Shackleton, with a daily capacity of 14 million cubic feet in which it also has a 50% interest. All of the Company's production in the area is flowing through this facility, which is now operating near its capacity. Ironhorse will be adding a third compressor in December of this year (the plant has space for a total of six), which will increase that capacity to 18 Mmcf of sales volume.

Ironhorse's aggressive development program at Shackleton has enabled it to reach an estimated average 2007 sales volume in the area of 4,000 Mcf per day, net to the Company. This will result in net operating revenues for 2007 of \$4.72 million from its shallow-gas production alone.

<b>Shackleton Saskatchewan</b>			<b>2007 Production</b>
<b>2007 Average Daily Production</b>			<b>8000 Mcf/d</b>
<b>Annual Field Production</b>			<b>2.92 Mmcf</b>
<b>Gross Revenues</b>	<b>@ Pgas</b>	<b>\$6.18</b>	<b>\$18.05 Million</b>
<b>Net Revenues to Ironhorse</b>	<b>@W.I</b>	<b>50%</b>	<b>\$9.02 Million</b>
<b>Net Revenues after Royalties and Direct Operating Costs</b>			<b>\$4.72 Million</b>

*Source: eResearch & Ironhorse*

**COMMENT:** *Ironhorse spent approximately \$8.6 million in the first half of 2007 in further development of this field, including land acquisition, drilling, completion, and tie-in of 25 wells plus facilities construction. High upfront capital investment associated with plant and infrastructure development costs have subsided, with most of the remaining approximately \$6.3 million in Q4/2007 to Q1/2008 capex to be allocated to drilling and tying-in additional throughput, helping to reduce the already low cost of production. As a result, we expect to see a more direct relationship between capex, and revenue/earnings acceleration over the remainder of 2007 and onward.*

#### 4. Pembina Property

The Pembina property covers an area of 8,000 acres and is located 50 km west of Edmonton, Alberta, in the prolific high-deliverability oil fields of Pembina.

The Company is targeting oil along the prolific Pembina Nisku Fairway. Successful wells along this fairway have produced over 1,000 boe of oil per day and associated natural gas. The fairway has been the host to several producing fields and is the source of many light oil discoveries in Western Canada. According to industry sources, a single Nisku well can produce over 750 boe per day oil and can have reserves over 1 million boe. The Nisku oil reserves are light, with API gravity of over 38°. This feature has generated heavy exploration activity in the region, from companies such as Dominion Resources and Highpine Energy, in an effort to develop Nisku oil.

<b>Location</b>	<b>Interest</b>	<b>Net Recoverable (BOE)</b>
West Pembina	6.9% to 12.5%	100,000 to 500,000 bbl
Violet Grove	18.75%	200,000 to 400,000 bbl
Greater Mishow Creek	18.75% to 25.0%	700,000 to 3,000,000 bbl

**Figure 3: Pembina Property Map**



Source: Company Website

**COMMENT:** *Helped by the API gravity, Nisku oil generally commands high prices in the market. While producing companies benefit from high margins, exploration companies such as Ironhorse benefit from the higher carrying value of their prospects.*

Ironhorse's Violet Grove prospect area has attracted significant interest due to drilling success reported by several other exploration companies (see below), and is considered to be one of the most prolific areas in the Pembina region. Violet Grove area is currently undergoing intense drilling.

For instance, Ironhorse's partner at Pembina - Highpine Oil & Gas Limited (Highpine) - made two discoveries in the Violet Grove area during its 2005 drill program in the area. Highpine is a Canadian E&P company engaged in the exploration for, and the acquisition, development and production of, natural gas and crude oil in Western Canada.

The most notable Nisku discovery to date, however, is the II Pool development by Dominion Drilling in 2003. Since the inception of its drill program, Dominion has drilled 10 wells along the Pembina Nisku Fairway, with six of them leading to economic wells. The Violet Grove discovery, however, is expected to be larger than the II Pool. Dominion now operates a total of eight wells in the Violet Grove area.

### **Nisku Oil Formation**

The most renowned oil and natural gas prospects in Western Canada are within the Nisku Formation in the Pembina region of Alberta, approximately 100 km southwest of Edmonton. There is intense competition in this region between companies such as Dominion Resources, Highpine Energy and Fairborne Energy in this region for drilling rights, plant capacity, facility construction approvals and land. The region's hydrogeological factors have aided the transportation and entrapment of hydrocarbons as well as the movement of groundwater on hydrocarbon migration.

The Pembina region has been more commonly known for its long-life Cardium oil play, but the greatest interest recently has been in Nisku oil. Although it came into prominence just recently, the Nisku Formation was first discovered by Dome Petroleum in the early 1970s when it was drilling the Brazeau Nisku P pool. This discovery has produced over 415 Bcf of gas so far, and was producing as much as 10 Mmcf of natural gas per day at its peak.

The Nisku Formation in Pembina has two pinnacle belts, with the belt located more basin-ward carrying much of the oil resources. The Pembina Nisku extends from southwest to northeast, with patch reef build-ups providing the framework for the hydrocarbon build-up. The wells at the northeast end of the formation need to be between 2,000 and 3,000 metres to reach the porous Nisku. However, due to regional tilting, wells drilled on the reef bank towards the southwest section need only to be around 1,000 metres. Ironhorse's West Pembina property is located more towards the southwest of the Formation.

Strong flow rates are a hallmark of Nisku formations, with typical Nisku gas wells and oil wells recording flow rates over 25 Mmcf/day and 2,500 bbl/day respectively. The industry consensus on the recovery factor for this region is in the 40%-60% range. This compares very favourably with average recovery estimates of 30%-50% by the Alberta Energy and Utilities Board (AEUB). The average drilling success on the Pembina Nisku is estimated to be approximately 50%.

Records of other companies operating in the Pembina region indicate the attractive prospects surrounding Nisku oil. According to various industry sources such as West Energy, a public oil and gas exploration company that focuses its exploration efforts on the light oil Nisku reef fairway in west-central Alberta, a typical Nisku well can have resources exceeding 1 million boe. Historically high success rates and the attractive API gravity make ventures in the Nisku hydrocarbon fairway distinctly attractive.

Exploration of the Nisku formation, however, is not without risks, including the difficulty in reading the nature of fluid residing within the pore space, as an oil-filled reef looks similar to one filled with water. This could lead to higher operating costs and extended lead times. In addition, the high sour content (3%-30% hydrogen sulphide H<sub>2</sub>S) of the associated gas requires the adherence to generally costly environmental procedures.

**COMMENT:** *Geological characteristics surrounding the Nisku Formation make the Ironhorse prospect and property inventory more valuable. They also strengthen the Company's investment case, as Ironhorse becomes a less risky proposition.*

## APPENDIX 3: SWOT ANALYSIS

### Strengths:

- Producing assets in Lochend, Boundary Lake and Milk River (Shackleton) Saskatchewan properties.
- High prices commanded by Nisku oil.
- A low decline rate in production.
- Exploration interest in property located within the prolific Pembina region with the Nisku formation.
- 100% drilling success and excellent execution of plan for shallow gas development properties in Saskatchewan.
- Experienced management team.
- Low-cost shallow-gas production from Saskatchewan gas plant, capacity

### Opportunities:

- Continued strength in oil prices.
- All three phases of Pembina property expected to be in production by end of 2009.
- Ability to attract further financing due to the availability of producing assets in prolific regions.

### Weaknesses:

- Minority shareholder position in most of the properties and prospects.
- Near-term earnings are dependent on the production of two properties.
- Delays due to AEUB environmental restrictions.

### Threats:

- Increased oil and gas E&P activity in Alberta leading to high operating costs.
- Technological and operational problems.
- Loss of key personnel could hamper continued progress.
- Availability of drill rigs.
- Weak natural gas prices.
- Uncertainty in capital markets.
- Higher royalties in Alberta

## APPENDIX 4: RISK FACTORS

Ironhorse has two producing properties and two prospects which are undergoing a drill program. Continued success of the Company is dependent upon the resource potential of its properties and drilling success.

### 1. Resource Assumptions and Technical Risk

While Ironhorse already has a couple of producing properties and is confident of the resource potential of the newly acquired Pembina and Shackleton properties, the Company is yet to prove-up their extent.

### 2. Drilling and Operations

Teething problems related to technical and other operational issues may hamper exploration, development and production activities. Such disruptions may cause lower-than-expected output, higher operating expenses and lower profitability. There could also be delays in development and production.

### 3. Environmental Concerns

High hydrogen sulphide content in Nisku oil prompted AEUB to license Nisku wells under the “critical sour” designation. Environmental regulations surrounding this category could lead to considerable delays.

### 4. Implementation Ability

While Ironhorse’s sites have adequate infrastructure, there may be difficulties securing drill rigs, which are in strong demand due to brisk drill programs currently underway. Availability of necessary infrastructure and other such facilities is beyond the Company’s control.

### 5. Dependence on Key Personnel

As with many junior oil and gas companies engaged in exploration, Ironhorse’s success depends on its management team. Continued availability of their services is not necessarily guaranteed and the loss of key personnel could lead to a perceived disruption of operations and exploration progress.

### 6. Ability to Raise Future Financing

Ironhorse has thus far been successful in raising financing for its operations, including the acquisition of new drilling rights. However, the Company’s ability to continue to raise such financing is dependent on its success in the newly acquired properties, global oil prices, and alternative investment opportunities and capital markets uncertainty.

### 7. Equity Dilution

We expect Ironhorse to seek more equity financing to fund future acquisitions. Additional equity financing could lead to earnings dilution.

### 8. Global Oil and Gas Prices

Oil and natural gas prices are volatile, and Ironhorse’s profitability may be affected by price fluctuations. A sudden and prolonged decline in energy prices could not only lead to lower earnings, but could affect the carrying value of the Company’s assets and its borrowing capacity.

## ANALYST CERTIFICATION

Each Research Analyst who was involved in the preparation of this Research Report hereby certifies that: (1) the views, opinions, and recommendations expressed in this Research Report reflect accurately the Research Analyst's personal views concerning any and all securities and issuers that are discussed herein and are the subject matter of this Research Report; and (2) the fees, earnings, or compensation, in any form, payable to the Research Analyst, is not and will not, directly or indirectly, be related to the specific views, opinions, and recommendations expressed by the Research Analyst in this Research Report.

**eResearch analysts on this report: Ross Deep B.A.(Economics), MBA:** Ross Deep has spent 16 years in the investment community gaining a range of experience, including options specialist at TD Securities, an investment advisor at BMO Nesbitt Burns, investment banking at both Credifinance Securities and, more recently, at James Edward Capital Corporation, a private merchant bank. His responsibilities have extended to the financial services, life sciences, technology, and communications industries.

**Bob Weir, B. Comm, B.Sc., CFA.** Bob Weir has 40 years of investment research and analytical experience in both the equity and fixed-income sectors, and in the commercial real estate industry. He was at Dominion Bond Rating Service (DBRS) from 1994 to 2001, latterly as Executive Vice-President responsible for conducting the day-to-day management affairs of the company. He joined eResearch in 2004.

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### Chief Economist

Beverly Brooks

## eResearch Recommendation System

<b>Strong Buy:</b>	Expected total return within the next 12 months is at least 40%.
<b>Buy:</b>	Expected total return within the next 12 months is between 10% and 40%.
<b>Speculative Buy:</b>	Expected total return within the next 12 months is substantial, but Risk is High (see below).
<b>Hold:</b>	Expected total return within the next 12 months is between 0% and 10%.
<b>Sell:</b>	Expected total return within the next 12 months is negative.

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## eResearch Risk Rating System

A company may have some, but not necessarily all, of the following characteristics of a specific risk rating to qualify for that rating:

<b>High Risk:</b>	<i>Financial</i> - Little or no revenue and earnings, limited financial history, weak balance sheet, negative free cash flows, poor working capital solvency, no dividends. <i>Operational</i> - Weak competitive market position, early stage of development, unproven operating plan, high cost structure, industry consolidating, business model/technology unproven or out-of-date.
<b>Medium Risk:</b>	<i>Financial</i> - Several years of revenue and positive earnings, balance sheet in line with industry average, positive free cash flow, adequate working capital solvency, may or may not pay a dividend. <i>Operational</i> - Competitive market position and cost structure, industry stable, business model/technology is well established and consistent with current state of industry.
<b>Low Risk:</b>	<i>Financial</i> - Strong revenue growth and earnings over several years, stronger than average balance sheet, strong positive free cash flows, above average working capital solvency, company may pay (and stock may yield) substantial dividends or company may actively buy back stock. <i>Operational</i> - Dominant player in its market, below average cost structure, company may be a consolidator, company may have a leading market/technology position.

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