

PAINTED PONY

PETROLEUM LTD.



ANNUAL INFORMATION FORM

**For the year ended
December 31, 2008**

Dated May 20, 2009

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ABBREVIATIONS

Crude Oil and Natural Gas Liquids ("NGLs")		Natural Gas	
bbl	barrel	mcf	thousand cubic feet
mbbls	thousand barrels	mmcf	million cubic feet
bbls/d	barrels per day	mcf/d	thousand cubic feet per day
boe	barrels of oil equivalent converting gas to oil at a ratio of six mcf of gas to one bbl of oil		
mboe	thousand barrels of oil equivalent		
boe/d	barrels of oil equivalent per day		

CONVERSION

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units) or vice versa.

To Convert From	To	Multiply By	To Convert From	To	Multiply By
mcf	Cubic metres (m ³)	28.174	Feet	Metres	0.305
Cubic metres (m ³)	Cubic feet	35.494	Metres	Feet	3.281
Cubic metres (m ³)	bbls	6.289	Acres	Hectares	0.405
bbls	Cubic metres (m ³)	0.159	Hectares	Acres	2.471

CURRENCY

In this Annual Information Form ("AIF"), all dollar amounts are expressed in Canadian currency, unless otherwise noted.

FORWARD LOOKING STATEMENTS

This AIF contains forward-looking statements relating to future events. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by words such as "anticipate", "continue", "estimate", "expect", "forecast", "may", "will", "project", "should", "believe", "intend", or similar expressions. These statements represent management's best projections, expectations, and estimates as of the date of this document, but undue reliance should not be placed upon them as they are derived from numerous assumptions. These assumptions are subject to known and unknown risks and uncertainties, including the business risks discussed in the AIF, which may cause actual performance and financial results to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements.

The forward looking information in this document is subject to significant risks and uncertainties and is based on a number of material factors and assumptions which may prove to be incorrect; including but not limited to the following:

- the expectation that the discounted price the Company received in November and December of 2008 in comparison to reference prices is a temporary aberration, and the expectation that the price of Company crude will generally approximate the Edmonton light reference price;
- the expectation that the Company and its partners will pursue cost-savings opportunities in the Midale area in 2009 similar to the installation of a gathering system and subsequent oil transportation cost savings in the Kisbey area mid-year 2008;
- the expectation that additional volumes in the second quarter of 2009 from a well recompletion will contribute towards the excess capacity costs for the BC firm service contract;
- the expectation that production levels in 2009 are expected to show modest growth from fourth quarter production rates;

- the expectation that the tax pools for which a tax asset has been recorded will be utilized;
- the expectation that commodity prices will be volatile throughout 2009 and, overall, lower than 2008 prices; this is subject to the impact of actual energy market conditions, including supply available relative to demand;
- the expectation that income in 2009 from the rental of tubular pipe will diminish in comparison to 2008 as operated capital expenditure levels decrease;
- the expectation that the risk of accounts receivables becoming uncollectible is mitigated by the financial position of the entities; and
- the anticipation that the Company has sufficient financial resources with which to conduct the capital program; this is subject to the risk and uncertainty that the drilling rigs, field service providers, completion and tie in equipment will be available as required and that the costs of securing such services and equipment will not materially exceed expectations.

While we anticipate that subsequent events and developments may cause our views to change, we do not have an intention to update this forward-looking information, except as required by applicable securities laws. This forward-looking information represents our views as of the date of this document and such information should not be relied upon as representing our views as of any date subsequent to the date of this document. We have attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. However, there may be other factors that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. Other risks and uncertainties include, but are not limited to, the following:

- normal risks common to the oil and natural gas industry, including various operational risks in the carrying out of exploration, development and production operations;
- risks and uncertainty of oil and gas geological deposits;
- revisions, amendments or changes to capital expenditure plans including exploration, development and exploitation projects;
- risks as to the availability and pricing of appropriate financing alternatives;
- potential changes in income tax regulations, governmental policies, rules, practices or approval process changes, or delays, or enhancements; and
- ability to attract and retain qualified professional employees.

There can be no assurance that forward-looking information will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. From time to time, Painted Pony's management makes estimates and forms opinions on which the forward-looking statements are based. The Company assumes no obligation to update forward-looking statements if circumstances, management's estimates, or opinions change, unless prescribed by securities laws.

THE CORPORATION

General

Painted Pony Petroleum Ltd. ("**Corporation**" or "**Painted Pony**") is an Alberta-based junior oil and gas company with operations focused in southeast Saskatchewan for crude oil, and in northeast British Columbia for natural gas. See "Description of the Business" and "Reserves Data and Other Information".

The registered office of the Corporation is located at Suite 1600, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 and its head office is located at Suite 300, 602 – 12th Avenue S.W., Calgary, Alberta, T2R 1J3. The Corporation is a reporting issuer in Alberta, British Columbia, Nova Scotia, Ontario and Saskatchewan. The Class A Shares in the capital of Painted Pony ("**Class A Shares**") are listed for trading on the TSX Venture Exchange Inc. ("**TSXV**") under the symbol "PPY.A" and the Class B Shares in the capital of Painted Pony ("**Class B Shares**") are listed for trading on the TSXV under the symbol "PPY.B".

Painted Pony is the successor, by continuance and reorganization, to 1300873 Alberta Ltd. ("**1300873**"), incorporated as 1369127 Ontario Inc. ("**1369127**") on August 12, 1999 in the Province of Ontario pursuant to the provisions of the *Business Corporations Act* (Ontario). On October 7, 1999, 1369127 changed its name to The Etail Factory Ltd. ("**Etail**") and on June 19, 2000, Etail changed its name to Borderfree Ltd. ("**Borderfree**"). On April 28, 2006, Borderfree changed its name to 1369127 Ontario Inc. ("**1369127**"). On February 2, 2007, 1369127 changed its name to BFL Energy Ltd. ("**BFL**") and amended its articles to create an unlimited number of non-voting common shares and consolidated its issued common voting shares on a 2,500 to 1 basis. On February 13, 2007, BFL was continued into the Province of Alberta pursuant to provisions of the *Business Corporations Act* (Alberta) ("**ABCA**") and filed articles of amendment changing its name from BFL to 1300873. On April 3, 2007, the Corporation filed articles of amendment to change its name to Painted Pony Petroleum Ltd., to create the Class A Shares, Class B Shares and preferred shares, issuable in series, to reconstitute each issued and outstanding common voting share of the Corporation for 150 Class A Shares and 33.75 Class B shares and to remove the private company restrictions. On July 17, 2008, the Corporation amended its articles to cancel its authorized common voting and common non-voting shares.

Intercorporate Relationships

The following table provides the name, the percentage of votes attaching to all voting securities of Painted Pony's subsidiaries beneficially owned, or controlled or directed, directly or indirectly by Painted Pony, and the jurisdiction of incorporation, continuation, formation or organization of Painted Pony's subsidiaries as at the date hereof.

	Percentage of securities held (directly or indirectly)	Jurisdiction of Formation
Painted Pony Petroleum Corp.	100%	Alberta

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

The Corporation previously operated in the information technology industry. It ceased operations in that industry in November 2005.

The Corporation, StoneBridge Merchant Capital Corp. ("**StoneBridge**"), its primary creditor, and Painted Pony Petroleum Corp. ("**PrivateCo**") entered into a letter of intent dated January 31, 2007, and amended on March 20, 2007 whereby PrivateCo agreed to assist in the reorganization of the Corporation.

On March 27, 2007, the Corporation entered into a financing agreement (the "**Financing Agreement**") with PrivateCo, pursuant to which PrivateCo agreed to assist with, among other things, the reconstitution of the Corporation's board of directors, the reorganization of the share capital of the Corporation and the filing of articles of amendment to change the name of the Corporation to Painted Pony Petroleum Ltd., all of which was approved by the shareholders of the Corporation on March 27, 2007 and which was effected on April 3, 2007. Additionally, pursuant to the Financing Agreement, PrivateCo agreed to assist the Corporation with its reorganization and agreed to transfer all of its assets as well as all of its liabilities to the Corporation.

On May 17, 2007, Painted Pony closed its initial public offering ("**IPO**"), raising gross proceeds of \$12,000,000. A total of 12,000 units at a price of \$1,000 per unit were sold, each unit consisting of 400 "flow-through" Class A Shares at a price of \$0.25 per share and 90 "flow-through" Class B Shares at a price of \$10.00 per share. The Corporation also issued 386,600 non "flow-through" Class A Shares at a price of \$0.25 per share and 86,985 non "flow-through" Class B Shares at a price of \$10.00 per share to satisfy outstanding debt obligations ("**Debt Satisfaction**"). A non-brokered private placement of 5,900,000 Class A Shares at a price of \$0.25 per share to founders closed after the IPO and Debt Satisfaction for additional proceeds of \$1,475,000.

On December 6, 2007, the Company completed a private placement of 4,166,700 Class A Shares at a price of \$2.40 per share on a bought deal private placement basis for total gross proceeds of \$10,000,080.

On March 31, 2008, Painted Pony issued 4,110,000 Class A Shares at a deemed price of \$4.33 per share as partial consideration for an acquisition of producing properties and undeveloped land located in northeastern British Columbia. The Class A Share holdings of the vendor, Crescent Point Energy Trust ("**Crescent Point**"), as of the date of the acquisition, represented approximately 20% of the total issued and outstanding voting shares of Painted Pony.

On April 30, 2008, Painted Pony completed a private placement of 8,800,000 Class A Shares at a price of \$4.35 per share on a bought deal private placement basis for total gross proceeds of \$38,280,000.

Significant Acquisitions

On March 31, 2008, Painted Pony acquired certain natural gas properties focused in the multi-zone gas-prone Cameron River/ Blair fairway in northeast British Columbia (the "**Assets**") from Crescent Point. The acquisition was accounted for at \$3.83 per share for the 4,110,000 Class A Shares issued to Crescent Point and \$5.3 million cash and transaction costs, for a total purchase price of \$21.2 million. The Assets are located in the Corporation's northeast British Columbia core area, where Painted Pony had access to 1,200 Km² of three dimensional seismic through an area of mutual interest agreement. The Assets included 73,339 net acres of undeveloped lands. Painted Pony filed on SEDAR a Form 51-102F4 – *Business Acquisition Report* in respect of the acquisition of the Assets on May 28, 2008.

DESCRIPTION OF THE BUSINESS

Overview

Painted Pony's strategy is to grow through exploration and development drilling within its core properties. Additionally, Painted Pony pursues asset (or corporate) acquisitions of crude oil and natural gas properties. The principal properties of the Corporation are located in its two focus areas: primarily crude oil in southeast Saskatchewan; and natural gas in northeast British Columbia.

Corporate Strategy

In order to focus its exploration and development drilling programs, the Corporation considers some or all of the following criteria prior to allocating capital to new projects:

- required capital and degree of risk relative to expected production rate and potential reserves volumes;
- multi-zone target reservoirs with higher deliverability formation characteristics;
- risk of drilling costs significantly exceeding expected amounts. The Corporation attempts to minimize risk by initially participating in wells shallower than 2,500 m and not participating in critical sour wells;
- quality of the anticipated production and reserves. The Corporation's exploration efforts are focused towards light oil and sweet gas with lower operating and development cost and high net back;
- favourable payout and return on investment. The Corporation strives to identify projects which have the ability to achieve payout in less than three years and have the ability to generate a return on investment of at least 15% per annum;
- availability and application of seismic to reduce risk. The Corporation attempts to minimize risk by pursuing play types that are seismically supported;

- availability of operatorship or a good relationship with the operator in non-operated ventures;
- offset and trend land opportunities and the ability to expand the Corporation's holdings upon success; and
- target areas where infrastructure is available and accessible. The Corporation targets areas and opportunities where the time from drilling to production is realistically expected to be less than six months.

Strategic acquisitions of oil and natural gas properties which are synergistic to the Corporation's exploration focus are a key component of the Corporation's growth plans. In evaluating any potential acquisitions, the Corporation will undertake the appropriate due diligence review, including obtaining title opinions if deemed necessary in the circumstances. Management has industry experience in a wide range of producing areas of Western Canada, in addition to its initial focus areas of Saskatchewan and northeast British Columbia. Such diverse experience provides the capability to expand the scope of the Corporation's activities and opportunities through selective asset and corporate acquisitions. The Corporation intends to finance acquisitions through a combination of debt and equity. When reviewing potential participations or acquisitions, the Corporation considers some or all of the following criteria:

- the opportunity must present identifiable and measurable upside, either through drilling, completions, reservoir management or production/facility optimization;
- producing properties should exhibit lower decline and longer reserves life, typically greater than five years;
- operatorship or the possibility of becoming operator;
- complementary to exploration efforts;
- ensuring facilities and infrastructure provide near-term market access, with capability of expansion to accommodate increased activity;
- required return on investment from acquired producing properties should be at least 10% per annum;
- all acquisitions, when fully exploited, should enhance the net asset value and cash flow per share of the Corporation; and
- commodity price and exchange rate assumptions from projections by major independent petroleum engineering firms and future contract pricing.

In addition to the above criteria, in most circumstances where the Corporation seeks to acquire assets of a material nature with proven reserves, prior to the investment decision being finalized, the Corporation intends to obtain an independent engineering report (whether from the vendor of such assets or otherwise) relating to such proven reserves.

The board of directors of the Corporation may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to these guidelines based upon the board of directors' consideration of the qualitative aspects of the subject properties including risk profile, technical upside, reserves life, asset quality and market conditions.

Employees

As at December 31, 2008, Painted Pony had twelve full-time employees and, as at the date hereof, Painted Pony had thirteen full-time employees.

RISK FACTORS

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in Painted Pony's other public filings before making an investment decision. The risks below are not an exhaustive description of all the risks associated with oil and natural gas exploration.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing global credit and liquidity concerns.

Stage of Development

An investment in the Corporation is subject to certain risks related to its stage of development. There are numerous factors which may affect the success of the Corporation's business which are beyond the Corporation's control including local, national and international economic and political conditions. The Corporation's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The Corporation has not paid any dividends and it is unlikely to pay dividends in the immediate or foreseeable future. The inability of the Corporation to deal with future growth could have a material adverse impact on its business, operations and prospects.

Share Price Volatility

The market price of the Class A Shares and the Class B Shares could be subject to wide fluctuations in response to the Corporation's results of operations, changes in earnings estimates by analysts, changing conditions in the oil and gas industry, or changes in general market, economic or political conditions.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves that the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that the Corporation will be able to locate and continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that commercial quantities of oil and natural gas will be discovered or acquired by the Corporation. It is difficult to project the costs of implementing an exploratory or development drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressurized geological zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Corporation currently has a number of specifically identified exploration and development prospects. Management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and their past practices. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Corporation will be able to locate satisfactory resource properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. While the Corporation has established a set of criteria with respect to participations and acquisitions (see "Description of the Business of Painted Pony – Corporate Strategy"), a substantial amount of the Corporation's available capital may be spent on properties which are not yet identified.

Future oil and natural gas exploration or development may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal oilfield operating conditions cannot be eliminated and can be expected to adversely affect revenue, cash flow and financial condition levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, the Corporation may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to the Corporation. In accordance with industry practice, the Corporation is not fully insured against all of these risks, nor are all such risks generally insurable. Although the Corporation will maintain liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Corporation could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas exploration, development and production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on the Corporation and its financial condition.

Commodity Prices

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely in recent years. Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic conditions, in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Corporation's carrying value of its proved reserves, borrowing capacity, revenues, profitability and cash flows from operations.

Fluctuations in the exchange rate between the Canadian and the U.S. dollar may also affect the profitability of the Corporation.

Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to the Corporation may in part be determined by the Corporation's borrowing base. A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion, or all, of any potential bank debt of the Corporation be repaid.

Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver crude oil and natural gas to commercial markets. The Corporation may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities, and related to operational problems with such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Corporation has limited experience in marketing oil and natural gas.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of Painted Pony's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of Painted Pony's reserves. Painted Pony might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Painted Pony's net production revenue causing a reduction in its oil and gas acquisition, development and exploration activities. In addition, bank borrowings available to Painted Pony are in part determined by Painted Pony's borrowing base. A sustained material decline in prices from historical average prices could further reduce Painted Pony's borrowing base, therefore reducing the bank credit available to Painted Pony and could require that a portion of Painted Pony's bank debt be repaid. Painted Pony has reduced this risk by not carrying any bank debt at this time.

Project Risks

The Corporation will manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond the Corporation's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel services;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Resource Risks

The resource data included herein are expressions of judgment based on the knowledge and experience of the Corporation's management and industry practice. In general, estimates of economically recoverable oil and natural gas reserves and the future net revenue therefrom are based upon a number of variable factors and assumptions, such as expected reservoir characteristics based on geological, geophysical and engineering assessments; ultimate reserve recovery; timing and amount of capital expenditures; future production rates based on future operating and investment activities; future oil and natural gas prices and quality differentials; marketability of oil and gas; royalty rates; assumed effects of regulation by governmental agencies; and future development and operating costs, all of which may vary materially from actual results.

It should not be assumed that estimated future net revenue is representative of the fair market value of the Corporation's properties.

Reserve Replacement

The Corporation's future oil and natural gas reserves, production, if any, and cash flows to be derived therefrom are highly dependent on the Corporation successfully acquiring or discovering and developing new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and cash flows to be derived therefrom, including many factors beyond the Corporation's control. Reserve and associated cash flow information once compiled will represent estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary from actual results. For those reasons, any estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues expected therefrom prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, if any, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material. Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools.

Substantial Capital Requirements

The Corporation anticipates making substantial capital expenditures for the exploration, development, production and acquisition of oil and natural gas reserves in the future. If the Corporation's future revenues or reserves decline, it may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by future operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition and/or its results of operations.

Pipeline Capacity

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market oil and natural gas production. In addition, the pro-rationing of capacity on inter provincial pipeline systems also continues to affect the ability to export oil and natural gas.

Availability of and Access to Drilling and Related Equipment

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities. In the recent past, industry conditions have led to extreme shortages of drilling equipment in certain areas of the United States and Canada. To the extent the Corporation is not the operator of its oil and natural gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and may be largely unable to direct or control the activities of the operators.

Assessments of Value of Acquisitions

Acquisitions of oil and natural gas companies and oil and natural gas assets are typically based on engineering and economic assessments made by independent engineers and the Corporation's own assessments. These assessments will include a series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the Corporation's control. In particular, the prices of, and markets for, oil and natural gas products may change from those anticipated at the time of making such assessment. In addition, all such assessments involve a measure of geologic and engineering uncertainty which could result in lower production and reserves than anticipated. Initial assessments of acquisitions may be based on reports by a firm of independent engineers that are not the same as the firm that the Corporation uses for its year-end reserve evaluations. Because each of these firms may have different evaluation methods and approaches, these initial assessments may differ significantly from the assessments of the firm used by the Corporation. Any such instance may offset the return on and value of the Class A Shares and the Class B Shares.

Reliance on Operators and Key Personnel

The Corporation's success will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on the Corporation. The Corporation does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Corporation are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Corporation will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

Reliance on Industry Partners

The Corporation relies on industry partners with respect to the evaluation, acquisition and development of, and future production from, its properties and a failure or inability to perform by such partners could materially affect the prospects of the Corporation.

Operational Dependence

Other companies operate some of the assets in which the Corporation has an interest. As a result, the Corporation has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect the Corporation's financial performance. The Corporation's return on assets operated by others therefore depends upon a number of factors that may be outside of the Corporation's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Conflicts of Interest

Certain directors and officers of the Corporation are also directors of other companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. See "Interest of Management and Others in Material Transactions".

Expiration of Leases or Licenses

The Corporation's properties are generally held in the form of licenses and exploratory permits. If the Corporation or the holder of its interests fails to meet the specific requirement(s) of a particular interest, the interest may terminate or expire. There can be no assurance that any of the obligations required to maintain each interest will be met. The termination or expiration of a Corporation's particular interest may have a material adverse effect on the Corporation's financial condition and/or its results of operations.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Corporation which could result in a reduction of the revenue received by the Corporation. Title to oil and natural gas interests is often not determinable without incurring substantial expense. In accordance with industry practice, Painted Pony will conduct such title reviews in connection with its principal properties as it believes are commensurate with the value of such properties. The actual interest of Painted Pony in certain properties may vary from its records.

Insurance

The Corporation's involvement in the exploration for and development of oil and gas properties may result in the Corporation becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although prior to drilling the Corporation obtains, as a matter of course, insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not in all circumstances be insurable or, in certain circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Issuance of Debt

From time to time, the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Depending on future exploration and development plans, the Corporation may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness, from time to time, could impair the Corporation's ability to obtain additional financing in the future on a timely basis, impairing its ability to take advantage of business opportunities that may arise.

The Corporation's potential lenders will likely require security over substantially all of the assets of the Corporation. If the Corporation becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell some or potentially all of the Corporation's properties. The proceeds of any such sale would be applied to satisfy amounts owed to the Corporation's lenders and other creditors and only the remainder, if any, would be available to the Corporation.

Competition

The oil and gas industry is highly competitive particularly as it pertains to the search for and development of new sources of oil and natural gas reserves, the construction and operation of oil and natural gas pipelines and facilities, and the transportation and marketing of oil, natural gas, sulphur and other petroleum products. Painted Pony's competitors include major integrated oil and gas companies and numerous other independent oil and gas companies, some of which have greater financial, technical and other resources than Painted Pony. The Corporation's ability to increase reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploratory drilling. There is no assurance that Painted Pony will be able to successfully compete against its competitors. However, Painted Pony strives to be competitive by maintaining a strong financial position and by using its network of contacts and relationships to source and secure appropriate investment opportunities.

Management of Growth

The Corporation may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Corporation to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Corporation to deal with this growth may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Environmental Risks and Regulations

All phases of the oil and gas industry present environmental risks and are subject to environmental regulation pursuant to a variety of international conventions and local laws and regulations. Such legislation provides for, among other things, restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of fines and penalties which may be material. Environmental legislation is becoming increasingly stringent and the costs of regulatory compliance are increasing. No assurance can be given that environmental legislation will not result in a curtailment of production or a material increase in the costs of exploration, development or production activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Oil and Gas Activities Involve Risks, Many of Which Are Beyond Painted Pony's Control

The business of exploration and production of oil and gas involves a high degree of risk which even a combination of experience, knowledge and careful evaluation may not be able to prevent. Few properties that are explored are ultimately developed into producing oil and gas fields.

The Corporation's rights to exploit its oil and gas assets are limited in time. There is no guarantee or assurance that such rights can be extended or that new rights can be obtained to replace any rights that expire.

Significant expenditure is required to establish the extent of oil and gas reserves through seismic surveys, drilling and completion and there can be no certainty that oil and gas reserves will be found.

It is difficult to project the costs of implementing drilling programs due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over-pressured geological zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior wells or additional seismic data and interpretations thereof.

Drilling may involve unprofitable efforts, not only with respect to dry wells, but also with respect to wells which, though yielding some petroleum, are not sufficiently productive to justify commercial development or cover operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity, or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. The Corporation's ability to execute projects and market oil and natural gas depends upon numerous factors beyond the Corporation's control, including the availability of drilling and related equipment; the availability and proximity of pipeline capacity; the availability of processing capacity; the availability and productivity of skilled labour; the effects of inclement weather; unexpected cost increases; currency fluctuations; the supply of and demand for oil and natural gas; the availability of alternative fuel sources; accidental events; and regulation of the oil and natural gas industry by various levels of government and governmental agencies. Because of these factors, the Corporation could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it hopes to produce.

Conflicting Interests with Partners

Joint venture, acquisition, financing and other agreements and arrangements must be negotiated with independent third parties and, in some cases, must be approved by governmental agencies. These third parties generally have objectives and interests that may not coincide with Painted Pony's interests and may conflict with Painted Pony's interests. Unless the parties are able to compromise these conflicting objectives and interests in a mutually acceptable manner, agreements and arrangements with these third parties will not be consummated.

In certain circumstances, the concurrence of co-venturers may be required for various actions. Other parties influencing the timing of events may have priorities that differ from Painted Pony's, even if they generally share Painted Pony's objectives. Demands by or expectations of governments, co-venturers, customers, and others may affect Painted Pony's strategy regarding the various projects. Failure to meet such demands or expectations could adversely affect Painted Pony's participation in such projects or its ability to obtain or maintain necessary licenses and other approvals.

Governmental Regulation

The petroleum industry is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and possibly expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for natural gas and oil, increase costs and may have a material adverse impact on Painted Pony. Export sales are subject to the authorization of provincial and federal government agencies and the corresponding governmental policies of foreign countries. Development of reserves and rates of return are also susceptible to changes in national fiscal policy. There can be no assurance that the Corporation will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its properties. It is not expected that any of these controls or regulations will affect the operation of the Corporation in a manner materially different than they would affect other oil and natural gas companies of similar size.

The further development of the Corporation's properties requires the approval of applicable regulatory authorities of the plans of the Corporation with respect to the drilling and development of such properties. A failure to obtain such approval on a timely basis or to have material conditions imposed by such authority in connection with the approval may materially affect the prospects of the Corporation.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. The Corporation is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful this could have an adverse effect on the Corporation and its operations.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in the ability of the Corporation to carry out its exploration and production activities.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Corporation's exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject the Corporation to possible future legislation regulating emissions of greenhouse gases. The Government of Canada has proposed a Bill, which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and natural gas exploration and production. Future federal legislation, together with provincial emission reduction requirements, such as those included in Alberta's *Climate Change and Emissions Management Act* (partially in force), may require the reduction of emissions (or emissions intensity) produced by the Corporation's expected operations and facilities. The direct or indirect costs of these regulations may adversely affect the expected business of the Corporation.

The Corporation is unable to predict the total impact of these potential regulations upon its business. It is possible the Corporation could face increases in operating costs in order to comply with this legislation which could have the impact of curtailing exploration and development by oil and natural gas producers which in turn, could negatively affect the Corporation's operations.

Acquisition Risks

Although the Corporation performs a review of properties prior to acquiring them that it believes is consistent with industry practice, such reviews are inherently incomplete. It is generally not feasible to review in depth every individual property involved in each acquisition. Generally, the Corporation will focus its due diligence efforts on higher valued properties and will sample the remainder. However, even an in-depth review of all properties and records may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and capabilities. The Corporation may be required to assume pre-closing liabilities, including environmental liabilities, and may acquire interest in properties on an "as is" basis.

Absence of Cash Dividends

Painted Pony has not paid any cash dividends to date on the Class A Shares or Class B Shares and there are no plans for such dividend payments in the foreseeable future.

Additional Financing Requirements and Dilution of Investment

It may take many years and substantial capital expenditures to pursue successfully or otherwise, the exploration and development of Painted Pony's existing undeveloped properties. From time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's future revenues from its potential reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its potential reserves or to maintain its production. If the Corporation's hypothetical cash flow is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms. The availability of equity or debt financing is affected by many factors, including world and regional economic conditions; the state of international relations; the stability and the legal, regulatory, fiscal and tax policies of various governments in areas of operation; fluctuations in the world and regional price of oil and gas and in interest rates; the outlook for the oil and gas industry in general and in areas in which the Corporation has or intends to have operations; and competition for funds from possible alternative investment projects. The terms of any such equity financing may be dilutive to holders of Class A Shares or Class B Shares and subscribers would experience dilution based on the subscription price of the Class A Shares or Class B Shares and the net tangible assets of the Corporation per Class A Share or Class B Share prior to the offering. Potential investors and lenders will be influenced by their evaluations of the Corporation and its projects, including their technical difficulty, and comparison with available alternative investment opportunities. If adequate funds are not available, the Corporation will be required to scale back or even relinquish certain projects. If additional financing is raised by the issuance of shares from treasury, control of Painted Pony may change and existing shareholders may suffer dilution.

Hedging

At such time as oil and/or natural gas production is achieved by the Corporation and from time to time thereafter, the Corporation may enter into agreements to receive fixed prices on such production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Corporation will not benefit from such increases and the Corporation may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time the Corporation may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, the Corporation will not benefit from the fluctuating exchange rate.

Borrowing

The Corporation's lenders will be provided with security over substantially all of the assets of the Corporation. If the Corporation becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, these lenders may foreclose on or sell the Corporation's properties. The proceeds of such sale would be applied to satisfy amounts owed to the Corporation's lenders and other creditors and only the remainder, if any, would be available to the Corporation or to its shareholders upon liquidation.

Third Party Credit Risk

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with current or future joint venture partners, with marketers of petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Corporation, such failures could have a material adverse effect on the Corporation and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners of the Corporation may impact a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner.

Delays in Business Operations

In addition to the usual delays in payments by purchasers of oil and natural gas to the Corporation or to the operator, and the delays by operators in remitting payment to the Corporation, payments between these parties may be delayed due to restrictions imposed by lenders, accounting delays, delays in the sale or delivery of products, delays in the connections of wells to a gathering system, adjustment for prior periods, or recovery by the operator of expenses incurred in the operation of the properties. Any of these delays could reduce the amount of cash flow available for the business of the Corporation in a given period and expose the Corporation to additional third party credit risks.

Alternatives to and Changing Demand for Petroleum Products

Full conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Accounting

The Corporation is engaged in the exploration for and production of oil and natural gas in Canada. The Corporation will follow the full cost method of accounting for oil and gas operations whereby all costs related to the acquisition of, exploration for and development of oil and gas reserves are capitalized into a single Canadian cost centre. Such costs include leasehold acquisition costs, geological and geophysical expenses, costs of drilling productive and non-productive wells, production equipment costs, general and administrative costs and stock-based compensation directly related to exploration and development activities and asset retirement costs. Proceeds from the sale of properties are applied against capitalized costs; without gain or loss being recognized, unless such sale would alter the rate of depletion by more than 20%.

All costs of acquisition, exploration and development of oil and gas reserves, associated tangible plant and equipment costs and estimated costs of future development of proven undeveloped reserves are depleted and depreciated by the unit of production method based on estimated proven reserves (before deduction of royalties) as determined by engineers. Costs of unproved properties and seismic costs on undeveloped land may be initially excluded from oil and gas properties for the purpose of calculating depletion. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion. For purposes of the calculation, natural gas reserves and production will be converted to equivalent volumes of petroleum based upon relative energy content.

The Corporation will assess the carrying value of property, plant and equipment for impairment (the “ceiling test”). The ceiling test will be calculated by comparing the carrying value of property, plant and equipment to the sum of undiscounted cash flows expected to result from the future production of proved reserves and the lower of cost and market value of unproved properties. Cash flows will be based on third party quoted forward prices, adjusted for quality and transportation. Should the ceiling test result in an excess of carrying value, an impairment loss will be recognized to the extent that the carrying value of property, plant and equipment exceeds the estimated net present value of proved and probable reserves, and the sale of unproved properties.

Income Taxes

The Corporation will file all required income tax returns and believes that it will be in full compliance with the provisions of the *Income Tax Act* (Canada) and all applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Corporation, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government that may be amended from time to time. The Corporation's operations may require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

The Canadian Federal Government has announced its intention to regulate greenhouse gases ("GHG") and other air pollutants. The Government is currently developing a framework that outlines its clean air and climate change action plan, including a target to reduce GHG emissions by 45 percent to 65 percent by 2050 and a commitment to regulate industry on an emissions intensity basis in the short-term. Currently there are few technical details regarding the implementation of the Government's plan to regulate industrial GHG emissions, but the Government has made a commitment to work with industry to develop the specifics. As this federal program is under development, the Corporation is unable to predict the total impact of the potential regulations upon its business. It is possible that the Corporation's customers could face increases in operating costs in order to comply with GHG emissions legislation which could have the effect of curtailing exploration and development by oil and natural gas producers and that in turn, could adversely affect the Corporation's operations by reducing demand for its services.

Changes in Legislation

The return on an investment in securities of the Corporation is subject to changes in Canadian federal and provincial tax laws and government incentive programs and there can be no assurance that such laws or programs will not be changed in a manner that adversely affects the Corporation or the holding or disposing of the securities of the Corporation.

Changes to Royalty Regime

Each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur, and natural gas production. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, and the type or quality of the petroleum product produced.

Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays, and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. Some provincial governments have eliminated, amended or allowed some such incentive programs to expire without renewal. There can be no assurance that the Government of British Columbia, the Government of Saskatchewan or the Government of Canada will not adopt a new royalty regime or modify the methodology of royalty calculations which could increase the royalties paid by the Corporation. An increase in royalty could reduce the Corporation's earnings and/or it could make capital expenditures by the Corporation uneconomic.

Litigation Matters

Claims may be made against the Corporation and in the event of such claims arising, management of Painted Pony will undertake a review to determine what, if any, action Painted Pony should take. Any claim, whether or not without merit, may prove time-consuming to evaluate, result in costly litigation and may cause delay in the operations and/or business of Painted Pony.

RESERVES DATA AND OTHER INFORMATION

Reference is made to the Corporation's Statement of Reserves Data and Other Oil & Gas Information dated effective December 31, 2008, the Report of Reserves Data by Qualified Reserves Evaluator dated March 10, 2009, prepared by Sproule Associates Limited ("**Sproule**"), independent petroleum reservoir engineers, and the Report of Management and Directors dated April 28, 2009, all of which were prepared pursuant to National Instrument 51-101 – Standards of Disclosure for Oil and Gas Issuers and filed on SEDAR on April 29, 2009, and which are available on the SEDAR website at www.sedar.com and are incorporated by reference herein.

DIVIDENDS

The Corporation has not paid any dividends on its Class A Shares or Class B Shares. It is the present policy of the board of directors of the Corporation to retain any earnings to finance the growth and development of the Corporation's business and, therefore, the Corporation does not anticipate paying any dividends in the immediate or foreseeable future.

DESCRIPTION OF CAPITAL STRUCTURE

The Corporation is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares and an unlimited number of preferred shares, issuable in series ("**Preferred Shares**").

The following is a summary of the rights, privileges, restrictions and conditions attaching to the Class A Shares, Class B Shares and Preferred Shares.

Class A Shares

Holders of Class A Shares are entitled to one vote per share at meetings of shareholders of the Corporation, have the right to receive dividends if, as and when declared by the board of directors of the Corporation, and have the right to receive the remaining property and assets of the Corporation upon its dissolution, liquidation or winding-up, subject to the rights of shares having priority over the Class A Shares.

Class B Shares

Holders of Class B Shares are entitled to one vote per share at meetings of shareholders of the Corporation. Holders of Class B Shares have the right to receive dividends, subject to the rights of shares having priority over the Class B Shares, if, as and when declared by the board of directors of the Corporation, which dividend shall be equivalent to the dividend that would have been paid if the Class B Shares had been converted into Class A Shares (as described below) on the date the notice of the dividend was given. Upon the dissolution, liquidation or winding-up of the Corporation, the Class B Shares shall be converted into Class A Shares (as described below) on the date of the public notice of the dissolution, liquidation or winding-up.

The Class B Shares will be convertible, at the option of the Corporation, at any time after June 30, 2010 and on or before June 30, 2012 into Class A Shares, upon five days prior notice to holders of Class B Shares. The number of Class A Shares obtained upon conversion of each of the Class B Shares will be equal to \$10.00 divided by the greater of \$1.00 and the Current Market Price (as defined below) of the Class A Shares at the effective date of conversion. If the Corporation fails to exercise the option to convert the Class B Shares into Class A Shares by 5 p.m. (Calgary time) on June 30, 2012, then the Class B Shares shall be convertible, at the option of the shareholder, at any time on or after June 30, 2012 and on or before August 1, 2012 into Class A Shares. The number of Class A Shares obtained upon conversion of each Class B Share will be equal to \$10.00 divided by the greater of \$1.00 and the Current Market Price of the Class A Shares at the effective date of conversion. Any Class B Shares outstanding at 5:00 p.m. (Calgary time) on August 1, 2012 shall be automatically converted into Class A Shares. The number of Class A Shares obtained upon conversion of each Class B Share will be equal to \$10.00 divided by the greater of \$1.00 and the Current Market Price of the Class A Shares at the effective date of conversion.

"Current Market Price" at any date shall mean the weighted average trading price per share for Class A Shares for any 30 consecutive trading days selected by the Corporation and commencing not more than 45 trading days before such date on the TSXV, or, if the Class A Shares are not then listed thereon, on such stock exchange on which the Class A Shares are listed as may be selected for such purpose by the directors, or if such Class A Shares are not listed on any stock exchange, then on the over-the-counter market. The weighted average trading price shall be determined by dividing the aggregate sale price of all Class A Shares sold on the said exchange or market, as the case may be, during the said 30 consecutive trading days by the total number of such Class A Shares so sold. In the event the foregoing cannot be determined, then the Current Market Price shall be established by a qualified independent valuer approved by the board of directors.

The conversion option may be exercised by shareholders by notice in writing given to Olympia Trust Company, accompanied by the share certificate or certificates representing the Class B Shares in respect of which the holder desires to exercise such conversion option.

Preferred Shares

The Corporation is authorized to issue an unlimited number of Preferred Shares, issuable in series, having such rights, restrictions, conditions and limitations as the board of directors of the Corporation may from time to time determine. The preferred shares of each series shall, with respect to dividends, liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, rank on parity with the Preferred Shares of every other series, and shall be entitled to preference over the Class A Shares, the Class B Shares and the shares of any other class ranking junior to the Preferred Shares. No preferred shares are presently issued and outstanding.

MARKET FOR SECURITIES

Trading Price and Volume

The Class A Shares are listed for trading on the TSXV under the symbol "PPY.A" and the Class B Shares are listed for trading on the TSXV under the symbol "PPY.B".

The following tables set out the high and low trading price each month and the volume of trading for the Class A Shares and the Class B Shares, respectively, on the TSXV for the periods indicated:

Class A Shares

	Price Range (\$)		Trading Volume
	High	Low	
<u>2008</u>			
January	6.50	3.92	572,952
February	4.70	4.16	233,670
March	4.75	4.11	353,370
April	6.25	4.20	1,044,602
May	9.00	5.75	1,232,879
June	8.40	7.00	1,054,954
July	7.49	5.41	537,063
August	6.38	4.76	299,496
September	5.30	3.15	859,049
October	3.90	2.06	1,561,003
November	2.49	1.35	1,531,913
December	1.67	1.00	1,924,097

Class B Shares

	Price Range (\$)		Trading Volume
	High	Low	
<u>2008</u>			
January	5.90	5.10	58,150
February	5.55	5.10	27,530
March	5.60	5.11	9,360
April	6.50	5.55	31,950
May	7.50	6.21	35,724
June	7.25	6.00	29,830
July	6.50	5.50	49,360
August	6.25	5.75	15,600
September	6.00	5.40	28,000
October	6.00	3.75	24,730
November	4.20	3.80	7,870
December	3.80	2.50	43,200

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The following table sets forth the name, residence, position with Painted Pony, time served as a director (if applicable) and the principal occupation during the last five years of each director and officer of Painted Pony. Directors are elected at the annual meetings of shareholders and serve until the next annual meeting or until a successor is elected or appointed. The board of directors presently consists of six directors.

Name, Residence and Position	
<p>Patrick R. Ward Calgary, Alberta, Canada</p> <ul style="list-style-type: none"> • <i>President and Chief Executive Officer</i> • <i>Director</i> 	<p>Director Since April 3, 2007</p> <p>President of the Corporation since May 6, 2007. Mr. Ward has been President of 764503 Alberta Ltd. (a private company) since 1997. Mr. Ward was Vice-President, Exploration of Innova Exploration (a public oil and gas company) from May 2004 to May 2006. Mr. Ward co-founded Chowade Energy Ltd. (a private oil and gas company) in 2003 which merged into Innova Exploration in 2004. From 1999 to 2003 Mr. Ward was Manager, Geology & Geophysics with the NCE Resources Group and Petrofund Energy Trust (a public oil and gas energy trust). Mr. Ward was Vice-President and Chief Operating Officer at Rockport Energy Corp. (a public oil and gas company) from 1998 to 1999. Mr. Ward held various positions, lastly as Exploration Manager from 1981 to 1997 for Total Petroleum Canada (subsequently Rigel Oil & Gas, both public oil and gas companies).</p> <p>Mr. Ward, <i>P. Geol.</i>, graduated from the University of Calgary in 1978 with an Honours Degree in Geology. Mr. Ward is a member of Association of Professional Engineers, Geologists and Geophysicists of Alberta ("APEGGA").</p>
<p>Ronald R. Talbot Calgary, Alberta, Canada</p> <ul style="list-style-type: none"> • <i>Non-Executive Chairman</i> • <i>Director</i> • <i>Chairman, Compensation Committee</i> • <i>Corporate Governance Committee</i> 	<p>Director Since April 3, 2007</p> <p>President of 557146 Alberta Inc. (a private investment company) since 1993. Mr. Talbot was an energy industry consultant focusing on exploration strategies from 2003 to 2008. Prior to that, Mr. Talbot was Dean of the Energy Department at the Southern Alberta Institute of Technology (SAIT) from January 2000 to 2002. Mr. Talbot served in an executive capacity at Lexxor Energy Inc. (a public oil and gas company) commencing in 1995, including roles as founding President, Chief Executive Officer, and Chairman. Mr. Talbot was co-founder, President, Chief Executive Officer and Chairman of Quadron Resources Ltd. (a public oil and gas company) from March 1990 to June 1995. Mr. Talbot was Vice-President, Exploration at Westmin Resources Ltd. (a public oil and gas company) from 1986 to 1990. Mr. Talbot was a founding director of Baytex Energy Ltd. (a public oil and gas company) from 1993 to 1995.</p> <p>Mr. Talbot, <i>P. Geol.</i>, graduated from the University of Calgary in 1974 with a Bachelor of Science in Geology and is a member of APEGGA.</p>
<p>Arthur J. G. Madden Edmonton, Alberta, Canada</p> <ul style="list-style-type: none"> • <i>Director</i> • <i>Chairman, Audit Committee</i> • <i>Chairman, Corporate Governance Committee</i> 	<p>Director Since August 27, 2008</p> <p>President of 554492 Alberta Ltd. (a private company providing consulting services to the energy sector) since 1993. Mr. Madden was Vice-President Finance, Chief Financial Officer, and Director of Adamant Energy Inc. (a private oil and gas company) from July 2004 to May 2008. Mr. Madden was Vice-President, Finance, and Chief Financial Officer of Cavell Energy Corporation (a public oil and gas company) from June 1994 to July 2004.</p> <p>Mr. Madden, <i>C.M.A., M.B.A.</i>, has a Certified Management Accountant designation as well as a Masters of Business Administration from Queens University, is a member of Financial Executives International, and the Institute of Corporate Directors and is enrolled in the certification course for the ICD designation.</p>

Glenn R. Carley
Calgary, Alberta, Canada

Director Since April 3, 2007

- *Director*
- *Compensation Committee*
- *Audit Committee*

Executive Chairman and Director of Galleon Energy Inc. (a public oil and gas company) since March 2005 and Chairman of Culane Energy Corp. (a public oil and natural gas company) since December 2002. Chairman of High Point Resources Inc. from October 2001 to August 2005. Mr. Carley has also been the President of Selinger Capital Inc., a private investment company for more than the last five years. He was the Chairman and Chief Executive Officer of Venture Energy Inc. (a private oil and gas company) from December 2002 to December 2004. Mr. Carley was Executive Chairman of Flagship Energy Inc. (a public oil and gas company) from April 2005 to July 2008. Mr. Carley was the Chairman and Chief Executive of New Venture Energy Inc. (a private oil and gas company) from December 2004 to December 2005. Mr. Carley was a director of High Point Resources Inc. (a public oil and natural gas company) from October 2001 to August 2005. Mr. Carley was co-founder, Chairman and Chief Executive Officer of Magin Energy Inc. (a public oil and gas company) from January 1994 to June 2001.

Mr. Carley, *B.A., LL.B., M.B.A.*, holds a Masters of Business Administration, a Bachelor of Laws degree and a Bachelor of Arts degree.

Kevin Angus
Calgary, Alberta, Canada

Director Since April 3, 2007

- *Director*
- *Compensation Committee*
- *Corporate Governance Committee*

Executive Vice-President and Director of Pegasus Oil and Gas Inc. (a public oil and gas company) since June 2006 and prior to that, Vice-President, Exploration at Mustang Resources Inc. (a public oil and gas company) from June 2003 to July 2005. Mr. Angus was at Husky Oil Operations Ltd. (a public oil and gas company) from 1983 to 1994. Thereafter, Mr. Angus worked in senior geophysical positions at three junior oil and natural gas companies, Petrorep Resources Inc. (1994 to 1995), Ulster Petroleum Ltd., (1995 to 1996) and Archean Energy Ltd. (1997). Mr. Angus was President of KD Angus & Associates Ltd. (a private company providing exploration consulting services) from 1997 to 2002.

Mr. Angus, *P. Geoph.*, graduated in 1983 with a Bachelors of Science degree. Mr. Angus is registered as a Professional Geologist with A.P.E.G.G.A. and is a member of the CSEG and the SEG.

Allan K. Ashton
Priddis, Alberta, Canada

Director Since April 3, 2007

- *Director*
- *Chairman, Reserves Sub Committee*
- *Audit Committee*

President of Ashton Petroleum Consultants Ltd. (a private company providing consulting services to the energy sector) since 1985. Mr. Ashton joined the Board of Directors of Cobalt Energy Ltd., (a public oil and gas company) in 2007. Mr. Ashton was Chairman of the Board and co-founder of AJM Petroleum Consultants ("AJM") since co-founding it in 1999 until March 2009. AJM specializes in the evaluation of corporate reserves, acquisitions and divestitures and unconventional reserves, such as coalbed methane and tight gas. Mr. Ashton joined British American Oil (subsequently Gulf Canada, a public oil and gas company) in 1965, holding various positions lastly as Manager of Reservoir Engineering until 1983. In 1986 Mr. Ashton co-founded AMH Group Ltd., which subsequently merged with Ashton Jenkins and Associates to form AJM. Mr. Ashton co-founded and was a director of Moreland Oil and Gas Ltd., (a public oil and natural gas company) from 1987 to 1990.

Mr. Ashton, *P. Eng.*, graduated from the University of Alberta in 1965 with a Bachelor of Science degree in Chemical Engineering. Mr. Ashton is a member of APEGGA and the Petroleum Society of CIM.

Joan E. Dunne

Calgary, Alberta, Canada

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- *Vice President, Finance and Chief Financial Officer* Ms. Dunne has been the Vice-President, Finance and Chief Financial Officer of the Corporation since inception. She was Vice President, Finance and Chief Financial Officer of True Energy Inc., and subsequently True Energy Trust from November 2002 until June 2006.

Donald J. Slater

Calgary, Alberta, Canada

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- *Vice President, Geophysics* Mr. Slater has been the Vice-President, Geophysics of the Corporation since inception. He was most recently Chief Geophysicist for Prairie Schooner Petroleum, from 2002 to September 2006. He is a member of C.S.E.G., C.S.P.G. and APEGGA.

James French

Cochrane, Alberta, Canada

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- *Vice President, Engineering* Mr. French has been the Vice-President Engineering of the Corporation since inception. He was Senior/Operations Engineer, Trident Exploration from May 2005 to January 2007. Mr. French's expertise is in production completion and reservoir optimization. Mr. French is a member of APPEGA, APEGS and SPE.

James Thomson

Calgary, Alberta, Canada

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- *Vice President, Land* Mr. Thomson has been the Vice-President Land of the Corporation since inception. He was Vice-President, Land for Dyno Energy Ltd., a startup private oil and natural gas company from December 2004 to August 2006. Prior thereto, he was a District Landman and Senior Negotiator in the A&D Group for Talisman Energy Inc. since 1995.

Bruce Mezei

Calgary, Alberta, Canada

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- *Vice President, Geology* Mr. Mezei has been the Vice-President, Geology of the Corporation since November 2007. Mr. Mezei joined Painted Pony in May 2007 as Manager, Geology. He was District Manager of Geology and Geophysics (Sask) for Innova Exploration from April 2004 to April 2007.

Mary Kay Axford

Calgary, Alberta, Canada

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- *Controller* Ms Axford has been the Controller of the Corporation since January 2008. She was most recently Controller for Redcliffe Exploration Inc. from April 2007 until February 2008. From March 2002 to December 2006, Ms Axford was Controller for True Energy Inc./True Energy Trust.

Doug McCartney

Calgary, Alberta, Canada

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- *Corporate Secretary* Partner of Burstall Winger LLP, a law firm, since January 1, 2008. He was an associate with Burstall Winger LLP from July, 2005 to December, 2007. From November 2003 to July, 2005, Mr. McCartney was an associate at Eeson & Woolstencroft LLP.
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Ownership of Shares

As at the date hereof, the directors and officers of the Corporation and its subsidiaries, as a group, own or control, directly or indirectly, an aggregate of 5,373,188 Class A Shares representing 19.0% of the issued and outstanding Class A Shares and 7,000 Class B Shares representing 0.6% of the issued and outstanding Class B Shares.

Cease Trade Orders

To the knowledge of management, no director or executive officer of Painted Pony is, as of the date of this AIF, or has been, within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company that, while such person was acting in that capacity, was the subject of a cease trade, an order similar to a cease trade order or an order that denied the company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days.

Bankruptcies

To the knowledge of management, no director or executive officer of Painted Pony, or shareholder holding a sufficient number of securities to affect materially the control of Painted Pony is, as of the date of this AIF, or has been, within 10 years before the date hereof, a director or executive officer of any company that, while such person was acting in that capacity, became bankrupt, made a proposal to under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

To the knowledge of management, no director or executive officer of Painted Pony, or shareholder holding a sufficient number of securities to affect materially the control of Painted Pony has, within 10 years before the date of this AIF, become bankrupt, made a proposal to under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Penalties or Sanctions

To the knowledge of management, no director or executive officer of Painted Pony, or shareholder holding a sufficient number of securities to affect materially the control of Painted Pony has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of the Corporation or its subsidiaries may be subject in connection with the operations of the Corporation or its subsidiaries. Some of the directors and officers are engaged and will continue to be engaged, directly or indirectly, in other businesses and situations may arise where some of the directors and officers will be in direct competition with the Corporation or its subsidiaries. Doug McCartney, an officer of the Corporation, is a partner of Burstall Winger LLP, which provides legal services to the Corporation on a fee for services basis.

Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

PROMOTERS

Patrick Ward may be considered to be a promoter of the Corporation in that he took the initiative in reorganizing the Corporation. Mr. Ward currently owns or controls 1,271,688 Class A Shares and no Class B Shares.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of Painted Pony is not aware of any existing or contemplated legal proceedings material to Painted Pony, to which Painted Pony is, or during the financial year ended December 31, 2008 was, a party or of which any of its property is, or during the financing year ended December 31, 2008 was, subject.

Management of Painted Pony is not aware of any penalties or sanctions imposed against Painted Pony by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2008 or any other penalties or sanctions imposed by a court or regulatory body against Painted Pony that would likely be considered important to a reasonable investor in making an investment decision.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of the Corporation, or shareholder that beneficially owns, or controls or directs, directly or indirectly, more than 10 percent of any class or series of voting securities of the Corporation, or associate or affiliate of any of the foregoing persons has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Corporation.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Painted Pony are KPMG LLP, Chartered Accountants, in Calgary, Alberta.

Olympia Trust Company, at its principal office in Calgary, Alberta, is the transfer agent and registrar for the Class A Shares and Class B Shares of the Corporation.

MATERIAL CONTRACTS

Painted Pony has not entered into any contract, other than contracts entered into in the ordinary course of business, that is material to Painted Pony and that was entered into within the most recently completed financial year or before the most recently completed financial year but is still in effect.

INTERESTS OF EXPERTS

The Corporation's auditors are KPMG LLP, Chartered Accountants, who have prepared an independent auditors' report dated April 1, 2009 in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the year ended December 31, 2008. KPMG LLP has advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

Sproule prepared the independent report filed with the Form 51-101F1 – *Statement of Reserves Data and Other Oil & Gas Information* in which it evaluated as at December 31, 2008 the oil and natural gas reserves attributable to the principal properties of the Corporation.

The partners, employees and consultants of Sproule hold, directly or indirectly, in aggregate, less than 1% of any securities or other property of the Corporation or of one of its associates or affiliates either at the time of such reports or since that time.

ADDITIONAL INFORMATION

Additional information regarding the Corporation may be found on SEDAR. Additional information, including directors' and officers' remuneration and indebtedness to the Corporation, principal holders of securities of the Corporation and securities authorized for issuance under equity compensation plans is contained in the Corporation's Information Circular dated April 15, 2009, prepared in connection with the annual and special meeting of shareholders to be held June 3, 2009. Additional financial information is provided in the Corporation's comparative consolidated financial statements for its financial year ended December 31, 2008, together with the accompanying report of the auditor and management's discussion & analysis filed on SEDAR.