



To Our Shareholders

Painted Pony Petroleum Ltd. (“Painted Pony” or the “Company”) is pleased to present its second quarter 2009 financial results together with an update of its operational activities.

Highlights:

- grown daily production to average 1,313 boe/d in the second quarter of 2009, with current production estimated at 1,570 boe/d of which 990 bbls/d is light oil (63% light oil);
- exited the second quarter with no debt and positive working capital of \$22 million, after raising \$20 million through a bought deal equity financing;
- increased credit facilities to \$29 million;
- drilled 9 (9.0 net) Bakken light oil wells year to date with 100% success;
- generated a second quarter light oil field netback price of \$42.84/bbl; and
- closed three acquisitions of undeveloped land and Bakken production costing \$13.8 million (before adjustments) primarily in the Company’s core Midale/Huntoon area in the third quarter.

Painted Pony’s production for the second quarter of 2009 averaged 1,313 boe per day, weighted 41% oil, 3% liquids and 56% gas. Second quarter sales of light oil averaged 543 bbls/d with approximately 60 bbls/d of production temporarily shut-in due to spring breakup. Current field oil production rates for the first three weeks of August is estimated to be 990 bbls/d, bringing estimated total current production to 1,570 boe/d (approximately 63% light oil). In addition, two 100% Bakken oil wells are in various stages of completion and are expected to be placed on production by the end of the third quarter. In the third quarter, the Company began shutting in selected lower netback gas wells in the Cypress area (approximately 35 boe/d) due to weak natural gas prices.

The Company drilled 2 (2.0 net) successful step-out oil wells in the Midale/Huntoon area during the second quarter and 5 (5.0 net) wells in the third quarter to-date. Total horizontal Bakken light oil wells drilled this year is currently 9 (9.0 net) with 100% success. During the remainder of this year, the Company expects to drill an additional 8 (4.4 net) wells targeting the Bakken formation. With over 100 net development locations, the Company has a multi-year inventory of development drilling locations for Bakken oil.

After spring break-up, operations resumed in northeast British Columbia under two farm-out agreements. On the Cameron lands, one vertical Montney well was completed and flow tested. In the second half of 2009, two more vertical wells targeting the Montney formation are to be drilled under the terms of the farm-out agreement in the Cameron area, one of which spudded on July 29th, 2009. On the Cypress lands, a horizontal Montney well drilled primarily during the first quarter of this year is currently being completed. Painted Pony has 60,000 net acres of lands with Montney/Doig rights in the area.

The Buckingham shale gas play in the Blair area is in the testing stage. The zone is over-pressured, gas-charged throughout, over 800 meters thick and encountered at depths of 400 to 1,200 meters. The Company has over 70,000 net acres of land in this play. Stronger gas prices and additional evaluations of drilling and completion techniques would be required for Painted Pony to develop this potentially material resource. The Company has two pilot wells completed and on-stream to date. The feasibility of air drilling a well in the first quarter of 2010 is currently being assessed depending on commodity prices and costs.

Painted Pony's credit facilities have been increased to \$29 million. The Company also issued seven million Class A shares at \$2.85 per share at the end of the second quarter, raising \$20 million before costs. At the end of June 2009, Painted Pony had a positive working capital position of \$22 million and no debt. In the second half of 2009, the Company expects to expend approximately \$37 million primarily drilling for and acquiring light Bakken oil, mainly in the Midale/Huntoon core area.

Painted Pony continues to generate solid operating and financial results through successful drilling, acquisitions and a strong financial position. Improved oil prices and a successful financing combined with both drilling and completion cost reductions of 25 to 30% and acquisitions have allowed the Company to build operational momentum. Through focusing on further exploration and development of the Company's extensive Bakken assets, and testing unconventional resource exploitation play concepts for the Montney and Buckingham shale gas, Painted Pony aims to capitalize on a strong position in three of Western Canada's most attractive resource plays.

The Company announces Bruce Mezei has been appointed Vice President, Exploration South. Mr. Mezei previously was Vice President, Geology with the Company since November 2007. The Company also announces that Donald Slater has been appointed Vice President, Exploration North. Mr. Slater previously was Vice President, Geophysics with the Company since April 2007.

Painted Pony wishes to acknowledge all shareholders for their support. The continued dedication by each of the management, staff, directors and their families is both recognized and appreciated, as are Painted Pony's partners, suppliers, and government agencies; their cooperation and assistance continues to help us achieve a "steady climb".

On behalf of the Board of Directors.
Sincerely,

Patrick R. Ward
President & C.E.O.
August 26, 2009

Financial and Operational Highlights

(unaudited)

	Three months ended June 30,		Six months ended June 30,		
	2009	2008	2009	2008	
Financial					
Petroleum and natural gas revenue (before royalties)	\$ 4,889,384	\$ 6,435,897	\$ 9,448,816	\$ 7,790,656	
Funds flow from operations ⁽¹⁾	\$ 1,825,515	\$ 3,946,823	\$ 3,715,529	\$ 5,020,683	
Per share – basic ⁽²⁾	\$0.06	\$0.15	\$0.12	\$0.23	
Per share – diluted ⁽²⁾	\$0.06	\$0.14	\$0.12	\$0.23	
Cash flow from operating activities	\$530,563	\$ 2,949,215	\$ 2,029,816	\$ 4,263,821	
Net earnings (loss)	\$ (1,964,686)	\$ 1,525,544	\$ (3,561,835)	\$ 4,871,095	
Per share – basic and diluted ⁽²⁾	\$(0.06)	\$0.06	\$(0.11)	\$0.22	
Capital expenditures ⁽⁴⁾	\$ 4,892,340	\$ 12,592,455	\$ 12,422,407	\$ 43,178,938	
Net working capital	\$ 22,290,098	\$ 32,336,669	\$ 22,290,098	\$ 32,336,669	
Total assets	\$108,308,456	\$ 96,362,028	\$108,308,456	\$ 96,362,028	
Shares outstanding					
Class A	35,222,700	28,222,700	35,222,700	28,222,700	
Class B	1,173,600	1,173,600	1,173,600	1,173,600	
Operational					
Daily sales volumes					
Oil sales	(bbls/d)	543	316	563	232
Condensate sales	(bbls/d)	23	14	25	7
Natural gas liquids	(bbls/d)	15	7	13	3
Natural gas	(Mcf/d)	4,395	2,713	4,015	1,357
Total	(boe/d)	1,313	789	1,270	469
Realized prices					
Oil	(\$/bbl)	\$ 66.85	\$125.20	\$ 58.95	\$117.32
Gas	(\$/Mcf)	\$ 3.58	\$ 10.66	\$ 4.35	\$ 10.66
Field operating netbacks					
Oil	(\$/bbl)	\$ 42.84	\$ 91.20	\$ 37.31	\$ 84.31
Gas & liquids	(\$/boe)	\$ 4.08	\$ 36.00	\$ 7.77	\$ 36.00
Company combined		\$ 20.10	\$ 58.11	\$ 20.86	\$ 59.93
Wells drilled ⁽³⁾					
Gross		2	10	5	22
Net		2.0	4.5	4.5	9.3
Net success rate		100%	90%	100%	95%

1. This table contains the term "funds flow from operations", which should not be considered an alternative to, or more meaningful than "cash flow from operating activities" as determined in accordance with Canadian generally accepted accounting principles ("GAAP") as an indicator of the Company's performance. Funds flow from operations and funds flow from operations per share (basic and diluted) do not have any standardized meaning prescribed by GAAP and may not be comparable with the calculation of similar measures for other entities. Management uses funds flow from operations to analyze operating performance and leverage and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investment. The reconciliation between funds flow from operations and cash flow from operating activities can be found in "Management's Discussion and Analysis". Funds flow from operations per share is calculated using the basic and diluted weighted average number of shares for the period after the deemed conversion of the Class B shares to Class A shares.

2. Class B shares are converted into Class A shares at \$10 divided by the greater of \$1.00 and the Current Trading Price, defined as the weighted average trading price of the Class A shares for the last 30 consecutive trading days.

3. "Gross and net wells drilled" in 2008 excludes a salt water disposal well and includes a stratigraphic well. "Net wells drilled" refers to net revenue interest. "Net success rate" in 2008 excludes a stratigraphic well.

4. Including Asset Retirement Costs and Stock-Based Compensation

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of consolidated financial results as provided by the management of Painted Pony Petroleum Ltd. ("Painted Pony" or the "Company") should be read in conjunction with the unaudited interim consolidated financial statements for the three and six months ended June 30, 2009 and the consolidated financial statements and related notes for the year ended December 31, 2008. This commentary is dated August 26, 2009. The financial data presented is in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars, except where indicated otherwise. These documents and additional information about Painted Pony are available on SEDAR at www.sedar.com.

Description of Company

Painted Pony is a Calgary-based exploration and development company focused on conventional oil in southeast Saskatchewan and natural gas in northeast British Columbia. The Class A and Class B shares of Painted Pony trade on the TSX Venture Exchange under the symbols "PPY.A" and "PPY.B", respectively.

Painted Pony commenced commercial operations on April 3, 2007 upon completion of a financial reorganization as part of an overall restructuring of the Company. On May 23, 2007, subsequent to completion of an initial public offering on May 17, 2007, the Class A shares and Class B shares of Painted Pony Petroleum Ltd. began trading on the TSX Venture Exchange. Painted Pony then commenced an actively operated exploration program.

Non-GAAP Measures

Management's Discussion and Analysis contains the term "funds flow from operations", which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with GAAP as an indicator of the Company's performance. Funds flow from operations and funds flow from operations per share (basic and diluted) do not have any standardized meaning prescribed by GAAP and may not be comparable with the calculation of similar measures for other entities. Management uses funds flow from operations to analyze operating performance and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investment and to repay debt. Funds flow from operations per share is calculated using the basic and diluted weighted average number of shares for the period, and after deemed conversion of Class B shares into Class A, consistent with the calculations of earnings per share. The Company reconciles funds flow from operations to cash flow from operating activities, which is the most directly comparable measure calculated in accordance with GAAP, as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash flow from operating activities	\$ 530,563	\$ 2,949,215	\$ 2,029,816	\$ 4,263,821
Changes in non-cash working capital	1,265,246	997,608	1,644,252	756,862
Asset retirement expenditures	29,706	-	41,461	-
Funds flow from operations	\$ 1,825,515	\$ 3,946,823	\$ 3,715,529	\$ 5,020,683

Management's Discussion and Analysis also contains other industry benchmarks and terms, such as net working capital position (calculated as current assets less current liabilities) and operating netbacks (calculated on a boe basis as oil, gas and natural gas liquids revenues less royalties, transportation, and operating costs), which are not recognized measures under GAAP. Management believes these measures are useful supplemental measures of, firstly, the total net position of current assets and liabilities the Company has and, secondly, the profitability relative to commodity prices. Readers are cautioned, however, that these measures should not be construed as alternatives to other terms such as current and long-term debt or net income determined in accordance with GAAP as measures of performance. Painted Pony's method of calculating these measures may differ from other companies, and accordingly, may not be comparable to similar measures used by other companies.

Forward-looking Information

This MD&A 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 reasonable 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 MD&A, 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 expectations that:

- a) production levels in 2009 are expected to show modest growth from fourth quarter 2008 production rates. Production growth in the second half of 2009 is expected to come from the acquisitions of and drilling for light oil. In the current low natural gas price environment, no additional gas wells are planned for the balance of this year.
- b) the expectation that the Company will receive an average oil price that approximates the Edmonton par reference price and a natural gas price which approximates the AECO daily spot price.
- c) royalties for the balance of 2009 will approximate 14% of total revenues.
- d) the investments in facilities will reduce production interruptions, provide incremental revenues from the sales of natural gas liquids and reduce overall operating costs through reduced trucking and water disposal fees.
- e) the per unit transportation cost for gas increases in the balance of this year reflecting normal production volumes declines.
- f) with increased capital expenditures during the third quarter of 2009, net general and administrative costs will decrease reflecting additional costs recovered through allocation to operated capital projects.
- g) as the gross oil sales increase throughout the balance of 2009, capital taxes will correspondingly increase.
- h) the tax pools for which a tax asset has been recorded will be utilized.
- i) in conjunction with the additional funds from the issuance of shares at the end of the second quarter of 2009, interest income during the third quarter of this year is expected to increase.
- j) processing income and salt water disposal income will moderately increase throughout the balance of the year, offsetting minimal tubular pipe rentals.
- k) stock-based compensation for the third quarter of 2009 will increase, reflecting the costs of 1,389,000 options cancelled in the third quarter plus 1,283,000 options granted.
- l) during the remainder of this year, the Company will drill an additional 8 (4.4 net) oil wells targeting the Bakken formation.
- m) the risk of accounts receivables becoming uncollectible is mitigated by the financial position of the entities.
- n) the Company will exit 2009 with minimal debt levels; however; the Company may utilize available credit facilities in conjunction with acquisitions on a periodic basis.

- o) 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 on acceptable terms;
- 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.

Statements relating to “reserves” or “resources” are by their nature deemed to be forward-looking statements, as they involve the implied assessment based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

The reader is further cautioned that the preparation of consolidated financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes.

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.

BOE Presentation

Barrels of oil equivalent (“boe”) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of gas (“Mcf”) to one barrel of oil (“bbl”) (6 Mcf: 1 bbl) is used as an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in this report are derived by converting natural gas to oil in the ratio of six Mcf of gas to one barrel of oil. Readers should be aware that historical results are not necessarily indicative of future performance.

Net Earnings and Funds Flow from Operations

Painted Pony generated funds flow from operations of \$1,825,515 and \$3,715,529 for the three and six months ended June 30, 2009, compared to \$3,946,823 and \$5,020,683 for the three and six months ended June 30, 2008. Basic and diluted funds flow from operations per share is \$0.06 and \$0.12 for the three and six months ended June 30, 2009, compared to \$0.15 and \$0.23 per basic share and \$0.14 and \$0.23 per share diluted for the three and six month periods ended June 30, 2008.

Cash flow from operating activities was \$530,563 and \$2,029,816 for the three and six months ended June 30, 2009, compared to \$2,949,215 and \$4,263,821 for the three and six months ended June 30, 2008. Painted Pony incurred losses of \$1,964,686 and \$3,561,835 for the three and six months ended June 30, 2009 and produced net earnings of \$1,525,544 and \$4,871,095 for the three and six months ended June 30, 2008. Basic and diluted loss per share is \$0.06 for the three months ended June 30, 2009 and \$0.11 for the six months ended June 30, 2009, compared to earnings of \$0.06 per basic and diluted share for the three months ended June 30, 2008 and \$0.22 for the six months ended June 30, 2008. In the first half of 2008, the Company recorded a \$4,068,509 future income tax reduction, primarily from the recognition of the income tax effect of a flow-through share issuance and the impact of non-cash stock-based compensation costs capitalized.

Sales Volumes

During the three and six months ended June 30, 2009, Painted Pony's sales volumes averaged 1,313 boe/d and 1,270 boe/d, respectively. This compared to average daily sales volumes of 789 boe/d and 469 boe/d experienced in the three and six month periods ended June 30, 2008. Daily sales volumes increased 66% in the second quarter of 2009 compared to the second quarter of 2008, as a result of incremental crude oil and gas from the southeast Saskatchewan and northeast British Columbia drilling and recompletion programs. In the first half of 2009 and 2008, all of Painted Pony's light oil sales originated from its Saskatchewan operations while sales of gas, condensate, and NGL's are primarily from the northeast British Columbia assets.

Production growth in the second half of 2009 is expected to come from the acquisitions of and drilling for light oil. In the current low natural gas price environment, no additional gas wells are planned for the balance of this year.*

**This paragraph contains forward-looking information. Please refer to "Forward-looking Information" and "Business Risks, Uncertainties and Forward-looking Information" for a discussion of the risks and uncertainties related to such information.*

Average Daily Sales Volumes

		Three months ended June 30,		Six months ended June 30,	
		2009	2008	2009	2008
Oil	(bbls/d)	543	316	563	232
Condensate	(bbls/d)	23	14	25	7
NGL's	(bbls/d)	15	7	13	3
Gas	(Mcf/d)	4,395	2,713	4,015	1,357
Total	(boe/d)	1,313	789	1,270	469

Crude oil sales for the six months ended June 30, 2009 were from 44 (17.0 net) wells in the Midale, Kisbey, Weyburn and Alameda areas of southeast Saskatchewan, compared to 18 (6.1 net) wells that produced during the first half of 2008.

Gas, condensate and liquids sales in the first six months of 2009 were primarily from 29 (14.1 net) wells in the Blair, Cypress and Cameron areas of northeast British Columbia, compared to sales from 23 (11.0 net) wells during the first half of 2008. A small amount of gas and NGL product was also sold from wells in the Kisbey area in southeast Saskatchewan, as gas conservation efforts began in the first quarter of 2009.

Revenues

Crude oil revenue in the three and six months ended June 30, 2009 was \$3,300,721 and \$6,002,071 compared to \$3,601,072 and \$4,955,831 during the three and six months ended June 30, 2008. First half 2009 oil sales increased 21% over the comparable 2008 period, as production volumes increased 143% relative to the prior year period while the average oil price was only 50% of the comparable period. Commodity prices weakened considerably during the second quarter of 2009 over the prior year. Oil prices averaged \$66.85 and \$58.95 per bbl during the three and six months ended June 30, 2009 compared to \$125.20 and \$117.32 per bbl for the three and six months ended June 30, 2008. Painted Pony received an average crude oil price of 1% greater than the Edmonton light reference price in the first half of 2009. Painted Pony's light oil is a premium light crude with low sulphur content.

Revenue from gas, condensate and NGL sales totaled \$1,588,663 and \$3,446,745 in the second quarter and first half of 2009, compared to \$2,834,825 received entirely during the second quarter of 2008. The Company received an average gas price of \$4.35/Mcf in the first half of 2009, 4% greater than the AECO daily spot average gas reference price. In the first half of 2008, the Company received an average gas price of \$10.66/Mcf.

To date, Painted Pony has not undertaken any hedging or commodity price contracts.

The Company generally expects to receive an average oil price which approximates the Edmonton par reference price and a natural gas price which approximates the AECO daily spot price.*

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Sales by Product

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Oil	\$3,300,721	\$3,601,072	\$6,002,071	\$4,955,831
Gas	1,431,429	2,631,334	3,163,300	2,631,334
Condensate	131,401	164,783	236,231	164,783
NGL and sulphur	25,833	38,708	47,214	38,708
Total	\$4,889,384	\$6,435,897	\$9,448,816	\$7,790,656

Average Benchmark Prices

			Three months ended June 30,		Six months ended June 30,	
			2009	2008	2009	2008
Exchange rate		US\$/Cdn\$	0.8581	0.9906	0.8311	0.9930
Oil	- WTI	US\$/bbl	\$59.51	\$123.94	\$51.19	\$110.91
	-Edmonton par	\$/bbl	\$66.16	\$126.38	\$58.16	\$112.30
Condensate	- Edmonton	\$/bbl	\$67.75	\$125.55	\$60.86	\$112.12
NGL	- Edmonton	\$/bbl	\$34.77	\$ 60.58	\$38.57	\$ 56.99
Gas	- AECO, daily spot	\$/Mcf	\$ 3.46	\$ 10.20	\$ 4.20	\$ 9.08

Painted Pony's Realized Prices

		Three months ended June 30,		Six months ended June 30,	
		2009	2008	2009	2008
Oil	\$/bbl	\$66.85	\$125.20	\$58.95	\$117.32
Condensate	\$/bbl	\$63.12	\$129.18	\$53.15	\$129.18
NGL	\$/bbl	\$18.34	\$ 63.15	\$18.89	\$ 63.15
Gas	\$/Mcf	\$ 3.58	\$ 10.66	\$ 4.35	\$ 10.66

Royalties

Royalties for the periods ending June 30, 2009 are lower on a percentage of sales, dollar amount and per boe basis compared to the same periods in 2008 due to lower commodity prices and prior period royalty amendments and adjustments. In the three and six months ended June 30, 2009, total royalties were \$470,265 and \$925,502, respectively, or approximately 10% of total revenue. Royalties for oil averaged 15.2% while royalties for gas and associated products averaged 0.4% for the first half of 2009. For the three and six months ended June 30, 2008, total royalties were \$1,063,673 and \$1,289,752 respectively, or approximately 17% of revenue. The Company anticipates that royalties for the balance of 2009 will approximate 14% of total revenues.*

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Painted Pony's properties in northeast British Columbia are on crown lands, while in southeast Saskatchewan production from its properties are primarily on freehold lands. Crown royalties during the three and six months ended June 30, 2009 were primarily from the sales of crude oil although royalties for both commodities were reduced by the various credits. Freehold royalties were all from the sale of oil, gas, and liquids in southeast Saskatchewan. Gross overriding royalties were 90% from the sale of oil on lands the Company has earned through farm-ins in Saskatchewan.

Royalties as a % of Revenue

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Crown	0.5	7.2	0.5	6.0
Freehold	6.9	6.9	6.8	7.8
GOR	2.2	2.4	2.5	2.8
	9.6	16.5	9.8	16.6

Royalties by Type

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Crown	\$ 23,338	\$ 462,202	\$ 51,673	\$ 467,442
Freehold	338,572	446,507	640,169	607,142
GOR	108,355	154,964	233,660	215,168
	\$ 470,265	\$ 1,063,673	\$ 925,502	\$ 1,289,752
Per boe (6 Mcf:1 bbl)	\$ 3.94	\$ 14.81	\$ 4.03	\$ 15.12

Transportation Costs

Transportation costs for the three and six months ended June 30, 2009 were \$811,245 and \$1,586,852 respectively, compared to \$609,977 and \$687,644 for the three and six months ended June 30, 2008.

Transportation by Commodity

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Light oil	\$ 123,587	\$ 181,200	\$ 285,314	\$ 258,867
Gas and associated liquids	687,658	428,777	1,301,538	428,777
Net	\$ 811,245	\$ 609,977	\$ 1,586,852	\$ 687,644

In Saskatchewan, for the six months ended June 30, 2009 and 2008, transportation costs were 5% of gross oil revenues, and for the three months ending at the same date 4% and 5%, respectively. These charges are trucking costs of hauling oil to various sales points, addressing occasional capacity issues.

In the first quarter of 2009 in the Kisbey area the Company added additional wells to the gas gathering system. Construction of a multi-well oil battery and gathering system in the Midale area was completed and placed on-stream in the summer of 2009. In the Huntoon area, the Company is planning a multi-well oil battery facility and water disposal facility to be in place by year end. In the Weyburn area, a multi-well oil battery complete with a gas conservation facility was placed on stream in July 2009. The Company continues the installation of electricity to numerous wells previously powered by gas engines. These investments in facilities are expected to reduce production interruptions, provide incremental revenues from the sales of natural gas liquids and reduce overall operating costs through reduced trucking and water disposal fees.*

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In British Columbia, gas gathering, processing and transmission services are provided by mid-stream processing companies. These services allow the Company to avoid allocating capital resources for facilities, on a firm-service or interruptible basis. The all-in charges for these services are included in transportation costs. In conjunction with the northeast British Columbia assets, the Company is committed to a five MMcf/d firm-service contract to the end of October 2010. The cost for transporting the gas and field products primarily from the British Columbia properties averaged \$10.18/boe in the first half of 2009 and \$9.96/boe during the first half of 2008. This includes costs for excess capacity under the firm service contract, ensuring that incremental future volumes can be transported and processed. As advised, the additional volumes in the second quarter of 2009 from a well recompletion put on-stream late in the first quarter contributed towards the excess capacity, bringing the second quarter 2009 costs down to \$9.81/boe. The per unit transportation cost for gas is anticipated to increase in the balance of this year reflecting normal production volumes declines.*

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Operating Costs

Operating costs for the three and six months ended June 30, 2009 was \$1,207,125 or \$10.10/boe and \$2,144,481 or \$9.34/boe. This compares to \$589,714 or \$8.21/boe and \$702,545 or \$8.24/boe for the three and six months ending June 30, 2008.

Operating Costs

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Oil	\$ 576,452	\$ 190,609	\$ 1,004,959	\$ 303,440
Gas and associated liquids	630,673	399,105	1,139,522	399,105
Production expenses	\$ 1,207,125	\$ 589,714	\$ 2,144,481	\$ 702,545
Oil (\$/ bbl)	\$ 11.67	\$ 6.63	\$ 9.87	\$ 7.18
Gas and associated liquids (\$/ boe)	9.00	9.27	8.91	9.27
Operating cost (\$/boe)	\$ 10.10	\$ 8.21	\$ 9.34	\$ 8.24

Operating costs on a per unit basis increased in the second quarter of 2009 compared to the prior quarter, the result of normal temporary spring breakup access issues due to wet conditions and weather. For oil producing properties, these primarily consist of salt water disposal and hauling fees, equipment rentals for gas engines to run the pump jacks prior to electrification of each battery site, fuel and power expenditures, and contract operator fees. In the second quarter of 2009, Painted Pony rented rig mats to minimize production losses due to wet road conditions, costing an incremental \$0.90/bbl. The Company anticipates the investments made in various batteries and gathering systems should result in a reduction of operating costs in future months.*

**This paragraph contains forward-looking information. Please refer to "Forward-looking Information" and "Business Risks, Uncertainties and Forward-looking Information" for a discussion of the risks and uncertainties related to such information.*

Operating costs for gas and associated liquids properties primarily consist of compression fees, contract operating fees, salt water hauling and disposal costs, equipment rentals, glycol and methanol costs, and routine repairs and maintenance expenditures on more mature properties. Gas operating costs were slightly lower on a per boe basis in the first half of 2009 compared to the first half of 2008, primarily due to incremental production volumes.

Operating Netbacks

For the three and six months ended June 30, 2009, field operating netbacks averaged \$20.10/boe and \$20.86/boe respectively, compared to field operating netbacks of \$58.11/boe and \$59.93/boe experienced during the three and six months ended June 30, 2008.

Combined Field Operating Netback (\$/boe)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenues	\$ 40.93	\$ 89.63	\$ 41.14	\$ 91.35
Transportation costs	(6.79)	(8.50)	(6.91)	(8.06)
Royalties	(3.94)	(14.81)	(4.03)	(15.12)
Operating costs	(10.10)	(8.21)	(9.34)	(8.24)
Field operating netback	\$ 20.10	\$ 58.11	\$ 20.86	\$ 59.93

Netbacks by Commodity

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Crude oil (\$/bbl)	\$ 42.84	\$ 91.20	\$ 37.31	\$ 84.31
Gas and associated products (\$/boe)	\$ 4.08	\$ 36.00	\$ 7.77	\$ 36.00

Netbacks from crude oil production in southeast Saskatchewan were \$42.84/bbl and \$37.31/bbl respectively, for the three and six months ended June 30, 2009. This compares to crude oil production netbacks of \$91.20/bbl and \$84.31/bbl for the three and six months ended June 30, 2008. In comparison to the first half of 2008, the decreased netback for crude oil in the first half of 2009 is primarily due to per bbl oil prices being only 50% of the 2008 price, somewhat offset by lower royalties and transportation costs.

Gas and associated products netbacks primarily from the northeast British Columbia operations averaged \$4.08/boe and \$7.77/boe for the three and six months ending June 30, 2009. This compares to \$36.00/boe netbacks from gas and products during the second quarter of 2008. The Company had no gas or associated product sales in the first quarter of 2008. In comparison to the prior quarter of 2009, netbacks have declined primarily as a result of the reduced gas price. Operating and transportation costs and royalties on a per unit basis have remained relatively constant.

General and Administrative

Net general and administrative expenses during the three and six months ended June 30, 2009 were \$550,923 and \$1,071,941, respectively, compared to \$419,646 and \$500,186 net general and administrative expenses incurred during the three and six months ended June 30, 2008.

Gross general and administrative costs for the three and six months ended June 30, 2009 were 14% and 39% greater than the corresponding periods in 2008, primarily due to salaries and consulting costs for thirteen full-time and three part-time people compared to eight full time and two part-time people in 2008. Other significant costs include office rent and parking, fees to professional service providers, costs associated with annual reporting, and computer related charges. Gross general and administrative costs increased period over period primarily due to the increased number of employees, increased rent expense, and the associated expenditures for more personnel.

The Company's policy of capitalizing costs associated with new capital projects was unchanged in 2009 compared to 2008. During the three and six months ended June 30, 2009, the Company recovered \$75,451 and \$186,727, respectively, of administrative costs from operated activities compared to \$184,049 and \$460,398 during the three and six months ended June 30, 2008. Recoveries of costs in the first half of 2009 reflect the reduced operated capital expenditure levels compared to the same 2008 period.

General and Administrative Costs

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Gross costs	\$ 847,577	\$ 742,292	\$ 1,713,421	\$ 1,228,844
Capitalized	(221,203)	(138,597)	(454,753)	(268,260)
Recoveries	(75,451)	(184,049)	(186,727)	(460,398)
Net costs	\$ 550,923	\$ 419,646	\$ 1,071,941	\$ 500,186
G&A (\$/boe)	\$ 4.61	\$ 5.84	\$ 4.67	\$ 5.86

With the increased capital expenditures during the third quarter of 2009, net general and administrative costs are expected to decrease reflecting additional costs recovered through allocation to operated capital projects.*

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Capital and Other Taxes

Capital and other taxes for the three and six months ended June 30, 2009 were \$52,714 and \$98,759, respectively, compared to \$123,888 and \$211,515 incurred during the three and six months ended June 30, 2008. Saskatchewan capital taxes were \$98,759 and \$79,730, for the first halves of 2009 and 2008 respectively, and, for 2008, are determined as a prescribed percentage of the greater of: (i) the capital employed in the province; and (ii) the sales revenue generated from production in the province. For 2009, these taxes are calculated simply as a prescribed percentage of sales revenue generated in the province. The Part XII.6 tax of \$131,785 incurred in the six months ended June 30, 2008 for flow-through funds renounced on a "look-back" basis. The Company satisfied its flow-through obligations late in 2008 and thus, has no Part XII.6 tax expense in the first half of 2009. As the gross oil sales increases throughout the balance of 2009, the Company anticipates the capital taxes to correspondingly increase.*

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Capital and Other Taxes

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Capital tax	\$ 52,714	\$ 56,699	\$ 98,759	\$ 79,730
Part XII.6 tax	-	67,189	-	131,785
	\$ 52,714	\$ 123,888	\$ 98,759	\$ 211,515

Interest and Other Income

Painted Pony invests cash in short-term term deposits. These activities generated interest income of \$6,003 and \$39,948 during the three and six months ended June 30, 2009. During the same periods of 2008, the Company earned \$256,744 and \$430,227, respectively, of interest income. The reduced interest income in the first half of 2009 is due to a combination of significantly lower interest rates and less cash available for short-term investing. In conjunction with the additional funds from the issuance of shares at the end of the second quarter of 2009, interest income during the third quarter of this year is expected to increase.*

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Other income, primarily from processing, salt water disposal fees and rentals of tubular pipe for Company-operated fracs, was \$22,400 and \$54,300, respectively, during the three and six months ended June 30, 2009. This compares to other income of \$61,080 and \$191,442 earned during the second quarter and first half of 2008, reflecting the reduced operated capital expenditures in 2009 and rentals of tubular pipe. Processing income and salt water disposal income are expected to moderately increase throughout the balance of the year, offsetting minimal tubular pipe rentals.*

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Interest and Other Income

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Interest income	\$ 6,003	\$ 256,744	\$ 39,948	\$ 430,227
Other income	22,400	61,080	54,300	191,442
	\$ 28,403	\$ 317,824	\$ 94,248	\$ 621,669

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense for operations during the three and six months ended June 30, 2009 was \$3,354,629 and \$6,383,719, respectively. For the three and six months ended June 30, 2008, depletion, depreciation and accretion expense was \$2,178,781 and \$2,813,812, respectively. In the second quarter of 2009, Painted Pony excluded \$11,180,707 (June 30, 2008: \$nil) of undeveloped land from the depletion calculation.

Depletion, Depreciation and Accretion Costs

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Depletion	\$ 3,308,327	\$ 2,136,761	\$ 6,292,720	\$ 2,765,039
Depreciation	8,651	6,251	17,682	10,111
Accretion	37,651	35,769	73,317	38,662
Total	\$ 3,354,629	\$ 2,178,781	\$ 6,383,719	\$ 2,813,812
Per boe	\$ 28.08	\$ 30.34	\$ 27.79	\$ 32.99

Depletion rates reflect the combined effect of the purchase of the British Columbia assets and the earning of a land position through farm-ins. Depreciation expense of \$8,651 and \$17,682 (three and six months ended June 30, 2008: \$6,251 and \$10,111) was incurred in the three and six months ending June 30, 2009 to reflect office equipment, computer hardware and software, and office furniture being depreciated on a 20% per annum declining balance basis. Accretion costs were \$37,651 in the second quarter of 2009 and \$73,317 in the first half of 2009, compared to \$35,769 in the second quarter of 2008 and \$38,662 in the first half of 2008, reflecting the higher future retirement liabilities incurred from drilling activities and the 2008 northeast British Columbia property acquisition.

Stock-Based Compensation

The stock-based compensation expense is calculated utilizing the Black-Scholes model and reflects the non-cash costs of the 2,790,000 (2008: 1,347,000) options granted to purchase Class A shares at a weighted-average price of \$5.00 (2008: \$3.97) per share, of which generally one-third vested immediately on granting, one-third will vest on the one year anniversary of the grant and the final one-third will vest on the two year anniversary of the grant. This expense may not represent actual cash compensation realized by the recipients of the options.

Stock-based compensation costs expensed in three and six months ending June 30, 2009 were \$489,674 and \$1,015,896, respectively, compared to \$302,046 and \$1,404,285 for the same periods in 2008. The Company capitalized \$125,939 and \$227,936 to oil and gas properties in the second quarter and first half of 2009. In the three and six months ended June 30, 2008, the Company capitalized \$126,539 and \$613,081, respectively, of stock-based compensation costs. Total stock-based compensation costs for the three and six months ended June 30, 2009 was \$615,613 and \$1,243,832 (three and six months ended June 30, 2008: \$428,585 and \$2,017,366).

Stock based compensation for the third quarter of 2009 is expected to increase reflecting the costs of 1,389,000 options cancelled in the third quarter plus 1,283,000 options granted.*

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Capital Expenditures

The Company incurred non-acquisition capital expenditures of \$4,633,387 and \$11,939,168 during the three and six months ended June 30, 2009 compared to \$10,659,045 in the second quarter of 2008 and \$19,553,423 in the first half of 2008. In addition, on March 31, 2008, Painted Pony closed the acquisition of natural gas properties located in northeast British Columbia for a total cost of \$21,020,928 (estimated at June 30, 2008), including closing costs and adjustments. During the first half of 2009, Painted Pony participated in 5 (4.5 net) wells at a net success rate of 100%. In the six months ended June 30, 2008, the Company drilled 22 (9.3 net) wells, primarily in Saskatchewan.

In southeast Saskatchewan in the first half of 2009, the Company invested \$9.1 million with the drilling of 4 (4.0 net) oil wells in the Huntoon area and the recompletion of 1 (0.6 net) well, all targeting the Bakken zone. Two of the Huntoon wells were completed and then placed on production in May and June 2009. First half 2008 cash expenditures in southeast Saskatchewan totaled \$19.1 million with the drilling of 19 (8.3 net) Bakken horizontal wells and 1 (1.0 net) step-out stratigraphic exploration well.

Capital expenditures in northeast British Columbia in the first half of 2009 totaled \$2.8 million, with the drilling of 1 (0.5 net) gas well in the Cameron area targeting the Bluesky zone, compared to \$0.5 million incurred entirely in the second quarter of 2008 to equip and tie in wells.

Capital Expenditures

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Lease acquisitions & retention	\$ 104,821	\$ 1,509,065	\$ 826,406	\$ 3,010,134
Seismic	69	179,916	69	179,916
Drilling & completions	3,718,405	7,853,837	9,246,536	14,289,313
Facilities & equipment	808,658	1,064,529	1,864,574	2,015,885
Head office expenditures	1,434	51,698	1,583	58,175
Exploration & development	4,633,387	10,659,045	11,939,168	19,553,423
Property acquisition	-	1,605,365	-	21,020,928
Stock-based compensation costs and tax effect	180,041	186,088	350,187	901,590
Asset retirement cost	78,912	141,957	133,052	1,702,997
Total expenditures	\$ 4,892,340	\$ 12,592,455	\$ 12,422,407	\$ 43,178,938

¹For comparative purposes, 2008 data has been summarized to correspond to 2009 data.

The Company participated in the experimental recompletion and tie-in of one Buckingham/Fort St. John shale well in the first quarter of 2009 as part of a pilot program. The Company is in the very early stages of proving up the commercial viability of the project.

The Company has entered into two farm-out agreements allowing an oil and gas competitor to farm-in on portions of the Montney rights within the Cypress and Cameron areas. Under the terms of the agreements, four test wells will be drilled on these land blocks in 2009. The first well on the Cypress block was drilled primarily in the first quarter of 2009. On the Cameron block, the first well was drilled during the first quarter of 2009 and a second well commenced drilling on July 29, 2009. Both agreements contain rolling option provisions whereby additional lands can be earned through conducting additional activities on the farm-out lands. Under the terms of the farm-out agreements, Painted Pony does not pay any drilling or completion costs and can elect whether to pay their proportionate share of the equipping and tie-in costs.

The Company built its land position through drilling to earn land, freehold leasing, and acquisitions. At June 30, 2009, the Company owned 53,596 net acres of developed and undeveloped land (98% undeveloped) in Saskatchewan and 96,707 net developed and undeveloped acres of land (79% undeveloped) in British Columbia.

To-date in the third quarter, Painted Pony has drilled 5 (5.0 net) wells, bringing total horizontal Bakken light oil wells drilled to-date this year to 9 (9.0 net) with 100% success. During the remainder of this year, the Company expects to drill an additional 8 (4.4 net) oil wells targeting the Bakken formation. In addition, in the third quarter of 2009, the Company has closed three acquisitions of undeveloped land and Bakken production costing \$13.8 million (before adjustments) primarily in the Company's core Midale/Huntoon area.*

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Ceiling Test

The Company performed a ceiling test calculation at June 30, 2009, resulting in undiscounted future cash flows from proved reserves and unproved properties exceeding the carrying amount of oil and gas assets. Consequently, no impairment of oil and gas assets was identified.

At June 30, 2009, the Company calculated the ceiling test using weighted-average prices of \$94.58 per bbl for light gravity crude oil, \$6.50 per Mcf for natural gas, \$94.99 per bbl for condensate, and \$52.08 per bbl for NGL's.

Capital Resources

At June 30, 2009, Painted Pony had a \$20 million demand revolving credit facility and a \$5 million demand non-revolving acquisition/development facility with a Canadian chartered bank. Subsequent to June 30, 2009, the availability under the demand revolving credit facility was increased to \$24 million. Interest is payable at a floating rate, determined as the lender's prime rate, plus between 0.25% and 2.5%, depending on the Company's debt to cash flow ratio, on the demand revolving facility and at the lender's prime rate plus between 0.75% and 3.0%, depending on the floating rate, on the demand non-revolving facility. A standby fee is charged on one quarter of one percent (0.25%) to one half of one percent (0.50%) on the undrawn portion of the credit facilities, depending on the Company's cash flow ratio, as defined. Security is provided by a first fixed and floating charge debenture of \$50 million. Painted Pony has provided a negative pledge and undertaking to provide fixed charges over major petroleum and natural gas reserves in certain circumstances.

The availability under the demand revolving credit facilities is subject to an interim review on or before October 31, 2009. As at June 30, 2009, Painted Pony has no debt under either credit facility. To date, the Company has not drawn on either facility. There can be no assurance that the amount of the available demand credit facilities will not be decreased.

Share Capital

On March 31, 2008, the Company issued 4,110,000 Class A shares at a deemed price of \$4.33 per share as partial consideration for the acquisition of gas properties located in northeast British Columbia.

On April 30, 2008, the Company 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.

On June 30, 2009, the Company completed a bought deal financing of 7,000,000 Class A Shares at a price of \$2.85 per share for total gross proceeds of \$19,950,000.

As at June 30, 2009 and August 26, 2009, 35,222,700 Class A shares and 1,173,600 Class B shares were issued and outstanding. The Company is authorized to issue an unlimited number of Preferred Shares, issuable in series. As at June 30, 2009 and August 26, 2009 no Preferred Shares were outstanding.

The Company has a Stock Option Plan (the "Plan") whereby options to purchase Class A Shares may be granted by the Board of Directors to directors, officers, employees of, and consultants to the Company. The Plan has reserved for issuance a number of Class A shares equal to ten percent of the aggregate number of Class A Shares and Class B Shares issued and outstanding from time to time. As at June 30, 2009, 2,790,000 options were issued and outstanding. The options are exercisable over a 5-year period at a weighted-average price of \$5.00 per share with generally one-third vesting immediately, one-third vesting one year from the date of grant, and one-third vesting two years from the date of grant.

In July 2009, the Company cancelled 1,389,000 options and granted 1,283,000 options. As at August 26, 2009, 2,684,000 options were issued and outstanding at an average exercise price of \$3.43.

Income Taxes

The Company recognized a future tax asset of \$947,542 in the fourth quarter of 2008 for a portion of the estimated future value of its tax pools as the Company believes that it met and continues to meet the criteria of these pools being utilized as being more likely than not.*

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In the first quarter of 2008, the Company recognized in the consolidated financial statements the tax effect of tax benefits renounced to subscribers pursuant to shares issued on a flow-through basis in 2007. The future income tax reduction of \$4,068,509 relates primarily to the recognition of the income tax effect of the \$12.0 million renounced in February 2008 pursuant to the May 2007 flow-through share issuance and the income tax impact of the non-cash stock-based compensation costs capitalized.

Subsequent Events

On July 15, 2009, the Company acquired certain oil properties effective May 1, 2009, focused in the Bakken-prospective fairway in the Company's Midale/Huntoon core area in southeast Saskatchewan for \$10.0 million, before closing adjustments and related costs. On July 17, 2009, the Company acquired certain oil properties effective June 1, 2009 in southeast Saskatchewan for \$1.1 million, before closing adjustments and related costs. On August 6, 2009, the Company acquired certain oil properties effective June 1, 2009 in southeast Saskatchewan for \$2.7 million, before closing adjustments and related costs.

On July 29, 2009, the Company issued 804,500 options to purchase at a price of \$2.85 per Class A share of the Company. The options expire five years from date of grant and 1/3 vest immediately, 1/3 vest one year from date of grant and 1/3 vest two years from date of grant. On July 30, 2009, an aggregate of 1,389,000 options previously issued to employees, officers and directors were surrendered and subsequently cancelled. On July 31, 2009, the Company issued 478,500 options to purchase at a price of \$3.15 per Class A share of the Company. The options expire five years from date of grant and 1/3 vest immediately, 1/3 vest one year from date of grant and 1/3 vest two years from date of grant.

Dividends

The Company has not declared or paid any dividends. Any decision to pay dividends on any of its shares will be made by the Board of Directors on the basis of earnings, financial requirements and other conditions existing at such future time.

Comprehensive Income

As Painted Pony does not have any other comprehensive income, the consolidated financial statements do not include a Statement of Comprehensive Income describing the components, nor is a section needed in shareholders' equity, nor is a Statement of Accumulated Other Comprehensive Income presented (which would provide a continuity of the balance).

Liquidity

As at June 30, 2009, Painted Pony had current assets of \$31.0 million and current liabilities of \$8.7 million, resulting in a net working capital position of \$22.3 million. Available cash has been, and is currently, in term deposits in a major Canadian financial institution. Management has received confirmation from the financial institution that these funds are available on demand.

Management anticipates that the Company will continue to have adequate liquidity to fund future working capital requirements and capital expenditures through a combination of cash flows, the availability of credit facilities and investment capital. As a result of the global economic slowdown, there exists uncertainty in the commodity, credit and capital markets, which the Company continues to monitor in conjunction with its financing alternatives. The capital program will be reviewed, and adjusted if necessary based on commodity prices, perceived credit and investment capital availability and share price levels to support the Company's objectives of maintaining a net debt to funds flow from operations ratio of one times or less.

At June 30, 2009, the Company had a positive working capital position of \$22.3 million and nothing drawn on the two bank credit facilities totaling \$25.0 million. The Company's previous guidance indicated the intent to maintain its balance sheet with little to no debt. Currently, Painted Pony expects to exit 2009 with minimal debt levels; however may utilize available credit facilities in conjunction with acquisitions on a periodic basis.*

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Performance Compared to Guidance and Outlook*

The Company continues to evaluate its lands for multi-zone light oil and natural gas potential. Previously announced guidance indicated the Company expected production levels in 2009 to show modest growth from fourth quarter 2008 production rates of 1,173 boe/d, weighted 55% light oil and liquids and 45% natural gas. Consistent with this guidance, in 2009 the first quarter sales averaged 1,225 boe/d and the second quarter averaged 1,313 boe/d, weighted 44% light oil and liquids and 56% natural gas. Oil sales in the remainder of 2009 are expected to increase while gas sales will decline, reflecting the focus of operations on crude oil.

The Company's expectation it would receive an average oil price which approximates the Edmonton par reference price and a natural gas price which approximates the AECO daily spot price was realized in the second quarter.

Operating and transportation per unit costs were marginally lower in the first quarter of 2009 compared to the fourth quarter of 2008, reflecting the savings from shutting in some high operating cost wells late in 2008 despite seasonal winter costs. As guided by the Company, seasonal weather could cause production disruptions in 2009. In addition, incremental costs were incurred by the Company to maintain production in response to wet weather conditions. As guided by the Company, spring break-up in the second quarter of 2009 caused temporary production disruptions in Saskatchewan due to difficulty accessing some well sites.

In northeast British Columbia transportation costs continued to reflect the impact of unutilized firm-service obligations. The Company anticipated accurately that additional volumes in the second quarter of 2009 from a well recompletion put on-stream late in the first quarter would contribute towards transportation costs due to excess capacity.

In the second quarter of 2009, the Company anticipated drilling 2 (1.7 net) oil wells. With a partner declining to participate in the drilling of one well, Painted Pony drilled both wells at 100% working interests.

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Commitments

At June 30, 2009, the Company is committed to the physical delivery of five MMcf per day of natural gas production. The estimated cost of the commitment is:

	Amount
2009	\$ 340,400
2010	562,400

At June 30, 2009, the Company was committed to future payments totaling \$1,371,328 for office space rental and a proportionate share of operating costs through 2013.

In June 2009, Painted Pony committed to purchase 46.5 square miles of 3D seismic covering the Blair area in northeast British Columbia at an approximate cost of \$810,000.

Off Balance Sheet Arrangements

No off balance sheet arrangements existed as at June 30, 2009.

Related Party Transactions

The Company utilizes the services of a law firm in which the Corporate Secretary is a Partner. During the three and six months ended June 30, 2009, the Company incurred \$153,958 and \$170,744, respectively, on services obtained from the firm. During the same periods of 2008, the Company incurred \$62,552 and \$130,618, respectively.

All related party transactions are in the normal course of business and have been measured at the agreed to terms and exchange values, being the consideration established and agreed to by the parties.

Financial Instruments and Other Instruments

The fair values of the Company's term deposits, accounts receivables, accounts payables and accrued liabilities approximate their carrying amounts due to the short-term nature of these financial instruments.

The Company's accounts receivables are primarily with industry partners and are subject to normal industry credit risks. The Company extends unsecured credit to these entities, and therefore, the collection of any receivables may be affected by changes in the economic environment or other conditions. Management believes the risk is mitigated by the financial position of the entities.*

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To date, the Company has not participated in any hedges or commodity price contracts.

Change in Accounting Policy

Goodwill and Intangible Assets

On January 1, 2009, the Company adopted the new accounting standard, Section 3064, "Goodwill and Intangible Assets". This section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements is required. There was no impact of this new standard on the Company's financial statements.

Future Accounting Policy Changes

Business Combinations

In December 2008, the CICA issued Section 1582, Business Combinations, and related standards for non-controlling interests and consolidated financial statements. These sections are effective January 1, 2011 and apply prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. These sections replace Section 1581, Business Combinations and harmonize the Canadian standards with IFRS.

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The International Accounting Standards Board ("IASB") has approved amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting reduces the administrative burden in the transition from the Current Canadian Accounting Guideline 16 to IFRS. The amendment will permit the Company to apply IFRS prospectively to the full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the provision that a ceiling test, under IFRS standards, be conducted at the transition date.

In response, the Company has completed its high-level IFRS changeover plan and established a preliminary timeline for the execution and completion of the conversion project. The changeover plan was determined following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company.

During the next phase of the project, scheduled to take place during the second half of 2009, the Company will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements. External advisors may be retained to assist management with the project on an as-needed basis. Staff training programs will continue in 2009 and be ongoing as the project unfolds.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of its adoption of IFRS.

Critical Accounting Estimates

The significant accounting policies used by the Company are disclosed in note 3 to the Company's annual audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities and expense. For a discussion on critical accounting policies and estimates, the reader is directed to the 2008 annual Management's Discussion and Analysis on SEDAR. The Company's management reviews its estimates regularly.*

**This paragraph contains forward-looking information. Please refer to "Forward-looking Information" and "Business Risks, Uncertainties and Forward-looking Information" for a discussion of the risks and uncertainties related to such information.*

Business Risks, Uncertainties and Forward-looking Information*

Statements in this document may contain forward-looking information including expectations of future production, components of cash flow and earnings, expected future events and/or financial results that are forward-looking in nature and subject to substantial risks and uncertainties. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. The Company cautions the readers that actual performance will be affected by a number of factors, as many may respond to changes in economic and political circumstances throughout the world. Events or circumstances may cause actual results to differ materially from those predicted, a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. These risks include, but are not limited to, the risks associated with the oil and gas industry, commodity prices and exchange rate changes. Industry related risks could include, but are not limited to, operational risks in exploration, development and production, delays or changes in plans, risks associated with the uncertainty of reserve estimates, health and safety risks and the uncertainty of estimates and projections of production, costs and expenses. These external factors beyond the Company's control may affect the marketability of oil and natural gas produced, industry conditions including changes in laws and regulations, changes in income tax regulations, increased competition, fluctuations in commodity prices, interest rates, and variations in the Canadian/United States dollar exchange rate. The reader is cautioned not to place undue reliance on this forward-looking information.

Painted Pony's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers to the much larger integrated petroleum companies. Painted Pony is subject to the various types of business risks and uncertainties including:

- Finding and developing oil and natural gas reserves at economic costs;
- Production of oil and natural gas in commercial quantities; and
- Marketability of oil and natural gas produced.

In order to reduce exploration risk, the Company strives to employ highly qualified and motivated professional employees with a demonstrated ability to generate quality proprietary geological and geophysical prospects. To help maximize drilling success, Painted Pony combines exploration in areas that afford multi-zone prospect potential, targeting a range of low to moderate risk prospects with some exposure to select high-risk plays with high-reward opportunities. Painted Pony also explores in areas where the Company's officers and employees have significant drilling experience.

The Company mitigates its risk related to producing hydrocarbons through the utilization of the most appropriate technology and information systems. In addition, Painted Pony seeks operational control of its projects, where feasible.

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risks, Painted Pony conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains current insurance coverage for general and comprehensive liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements, as well as industry standards and government regulations. Painted Pony may periodically use financial or physical delivery hedges to reduce its exposure against the potential adverse impact of commodity price volatility, as governed by formal policies approved by senior management, subject to controls established by the Board of Directors.

**This section contains forward-looking information. Please refer to "Forward-looking Information" and "Business Risks, Uncertainties and Forward-looking Information" for a discussion of the risks and uncertainties related to such information.*

Legal, Environmental, Remediation and Other Contingent Matters

The Company reviews legal, environmental remediation and other contingent matters to both determine whether a loss is probable based on judgment and interpretation of laws and regulations, and determine that the loss can reasonably be estimated. When the loss is determined, it is charged to earnings. The Company's management monitors known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstances.

Additional Information

Additional information regarding the Company and its business and operations is available on the Company's profile at www.sedar.com. Copies of the information can also be obtained by contacting the Company at Painted Pony Petroleum Ltd., 300, 602 – 12 Avenue SW., Calgary, Alberta T2R 1J3 (Phone 403 475-0440) or by email at info@paintedpony.ca or on the Company's website at www.paintedpony.ca.

Selected Consolidated Quarterly Information

The following table sets forth selected consolidated financial information of the Company for the most recently completed quarters ending at the second quarter of 2009.

Quarter ended (unaudited) (\$)	Mar 31, 2009	June 30, 2009
Gross revenues ⁽¹⁾	4,559,432	4,889,384
Funds flow from operations	1,890,014	1,825,515
Basic, per share	0.05	0.06
Diluted, per share	0.05	0.06
Cash flow from operating activities	1,499,252	530,563
Net earnings (loss)	(1,597,149)	(1,964,686)
Basic and diluted, per share	(0.05)	(0.06)
Capital expenditures, net	7,305,781	4,633,387
Capital acquisitions, net	-	-
Total assets	92,605,471	108,308,456
Long-term financial liabilities (ARO) ⁽²⁾	1,843,678	1,930,537

(1) Petroleum and natural gas sales, before royalties and transportation, excluding interest and other income.

(2) Asset retirement obligation.

Quarter ended (unaudited) (\$)	Mar 31, 2008	June 30, 2008	Sept 30, 2008	Dec 31, 2008
Gross revenues ⁽¹⁾	1,354,759	6,435,897	7,188,501	5,655,782
Funds flow from operations	1,073,860	3,946,823	4,845,733	2,891,375
Basic, per share	0.06	0.15	0.16	0.08
Diluted, per share	0.06	0.14	0.16	0.08
Cash flow from operating activities	1,314,606	2,949,215	5,756,112	3,579,139
Net earnings	3,345,551	1,525,544	328,233	253,818
Basic and diluted, per share	0.19	0.06	0.01	0.01
Capital expenditures, net	8,894,379	10,659,045	15,790,485	12,244,791
Capital acquisitions, net	19,415,563	1,605,365	55,840	14,335
Total assets	58,660,444	96,362,028	100,933,521	97,193,946
Long-term financial liabilities (ARO) ⁽²⁾	1,656,273	1,833,999	1,996,268	1,765,629

(1) Petroleum and natural gas sales, before royalties and transportation, excluding interest and other income.

(2) Asset retirement obligation.

Quarter ended (unaudited) (\$)	June 30, 2007	Sept 30, 2007	Dec 31, 2007
Gross revenues ⁽¹⁾	-	38,751	744,092
Funds flow (used in) from operations	(52,793)	79,885	575,864
Basic and diluted, per share	(0.01)	0.00	0.04
Cash flow from (used in) operating activities	(141,693)	(59,524)	367,763
Net earnings (loss)	(53,661)	46,254	164,855
Basic and diluted, per share	(0.01)	0.00	0.01
Capital expenditures, net	497,615	3,027,516	2,532,377
Capital acquisitions, net	-	-	-
Total assets	13,865,033	17,054,020	26,194,023
Long-term financial liabilities (ARO) ⁽²⁾	5,081	26,954	92,340

(1) Petroleum and natural gas sales, before royalties and transportation, excluding interest and other income.

(2) Asset retirement obligation.

PAINTED PONY PETROLEUM LTD.
INTERIM CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

As at	June 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27,274,975	\$ 19,792,514
Accounts receivable	2,410,336	5,822,755
Prepaid expenses and deposits	1,297,092	364,629
	<u>30,982,403</u>	<u>25,979,898</u>
Long-term assets		
Property and equipment (<i>notes 4 & 5</i>)	76,378,511	70,266,506
Future income tax	947,542	947,542
	<u>\$ 108,308,456</u>	<u>\$ 97,193,946</u>
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,692,305	\$ 14,145,283
Long-term liabilities		
Asset retirement obligations (<i>note 7</i>)	1,930,537	1,765,629
	<u>10,622,842</u>	<u>15,910,912</u>
Shareholders' equity		
Capital stock (<i>note 8</i>)	89,364,823	70,644,240
Contributed surplus (<i>note 9</i>)	7,276,032	6,032,200
Retained earnings	1,044,759	4,606,594
	<u>97,685,614</u>	<u>81,283,034</u>
	<u>\$ 108,308,456</u>	<u>\$ 97,193,946</u>

Basis of Presentation (*note 2*)

Commitments (*note 13*)

Subsequent Events (*note 16*)

See accompanying notes to the interim consolidated financial statements.

**PAINTED PONY PETROLEUM LTD.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS,
COMPREHENSIVE INCOME (LOSS), AND RETAINED EARNINGS**

(Unaudited)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Revenue				
Petroleum and natural gas	\$ 4,889,384	\$ 6,435,897	\$ 9,448,816	\$ 7,790,656
Royalties	(470,265)	(1,063,673)	(925,502)	(1,289,752)
Interest	6,003	256,744	39,948	430,227
Other	22,400	61,080	54,300	191,442
	4,447,522	5,690,048	8,617,562	7,122,573
Expenses				
Operating	1,207,125	589,714	2,144,481	702,545
Transportation	811,245	609,977	1,586,852	687,644
General and administrative	550,923	419,646	1,071,941	500,186
Capital and other taxes	52,714	123,888	98,759	211,515
Stock-based compensation (note 8)	489,674	302,046	1,015,896	1,404,285
Depletion, depreciation and accretion	3,354,629	2,178,781	6,383,719	2,813,812
	6,466,310	4,224,052	12,301,648	6,319,987
Income (loss) before income taxes	(2,018,788)	1,465,996	(3,684,086)	802,586
Future income tax reduction	54,102	59,548	122,251	4,068,509
Net income (loss) and comprehensive income (loss) for the period	(1,964,686)	1,525,544	(3,561,835)	4,871,095
Retained earnings (deficit), beginning of period	3,009,445	2,498,999	4,606,594	(846,552)
Retained earnings, end of period	\$ 1,044,759	\$ 4,024,543	\$ 1,044,759	\$ 4,024,543
Net income (loss) per share (note 10)				
Basic and diluted	\$ (0.06)	\$ 0.06	\$ (0.11)	\$ 0.22

See accompanying notes to the interim consolidated financial statements.

PAINTED PONY PETROLEUM LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating activities				
Net income (loss) for the period	\$ (1,964,686)	\$ 1,525,544	\$ (3,561,835)	\$ 4,871,095
Items not affecting cash:				
Stock-based compensation	489,674	302,046	1,015,896	1,404,285
Depletion, depreciation, and accretion	3,354,629	2,178,781	6,383,719	2,813,812
Future income tax reduction	(54,102)	(59,548)	(122,251)	(4,068,509)
Asset retirement expenditures	(29,706)	-	(41,461)	-
Change in non-cash working capital <i>(note 11)</i>	(1,265,246)	(997,608)	(1,644,252)	(756,862)
	530,563	2,949,215	2,029,816	4,263,821
Financing activities				
Issuance of share capital	19,950,000	38,399,100	19,950,000	38,399,100
Share issuance costs	(1,229,417)	(2,430,879)	(1,229,417)	(2,500,855)
Change in non-cash working capital <i>(note 11)</i>	176,259	88,024	71,160	86,359
	18,896,842	36,056,245	18,791,743	35,984,604
Investing activities				
Expenditures on property and equipment additions	(4,633,387)	(10,659,045)	(11,939,168)	(19,553,423)
Property and equipment acquisitions	-	(1,605,365)	-	(5,279,628)
Change in non-cash working capital <i>(note 11)</i>	775,342	(856,746)	(1,399,930)	7,485,738
	(3,858,045)	(13,121,156)	(13,339,098)	(17,347,313)
Change in cash and cash equivalents	15,569,360	25,884,304	7,482,461	22,901,112
Cash and cash equivalents, beginning of period	11,705,615	14,366,053	19,792,514	17,349,245
Cash and cash equivalents, end of period	\$ 27,274,975	\$ 40,250,357	\$ 27,274,975	\$ 40,250,357
Cash and cash equivalents is comprised of:				
Bank balance	\$ 422,475	\$ -	\$ 422,475	\$ -
Short term deposits	26,852,500	40,250,357	26,852,500	40,250,357
	\$ 27,274,975	\$ 40,250,357	\$ 27,274,975	\$ 40,250,357

See accompanying notes to the interim consolidated financial statements.

PAINTED PONY PETROLEUM LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Three and six months ended June 30, 2009 and 2008

1. Nature of Operations

Painted Pony Petroleum Ltd.'s (the "Company") principal business activity is the exploration, development and production of petroleum and natural gas resources in western Canada.

2. Basis of Presentation

The interim consolidated financial statements of Painted Pony Petroleum Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the audited consolidated financial statements of the Company for the year ended December 31, 2008, except as described in Note 3. The disclosures which follow are incremental to the disclosures included in the December 31, 2008 consolidated financial statements of the Company. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008. These interim consolidated financial statements include the accounts of Painted Pony Petroleum Ltd. and its wholly-owned subsidiaries, Painted Pony Petroleum Corporation and Painted Rock Resources Ltd.

3. Significant Accounting Policies

Change in Accounting Policy

a) Goodwill and intangible assets

On January 1, 2009, the Company adopted the new accounting standard, Section 3064, "Goodwill and Intangible Assets". This section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements is required. There was no impact of this new standard on the Company's financial statements.

b) Business combinations

In January 2009, the CICA Accounting Standards Board (AcSB) issued Section 1582, Business Combinations. Section 1582 replaces Section 1581, Business Combinations and harmonizes the Canadian standards with International Financial Reporting Standards (IFRS). Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This section is effective January 1, 2011, and applies prospectively to business combinations for which the acquisition date is on or after the first reporting period of the Corporation beginning on or after January 1, 2011. Early adoption is permitted. The Corporation will adopt Section 1582 effective January 1, 2011. Adoption of this section is not expected to impact the Corporation's results of operations or financial position.

c) Consolidated statements and non-controlling interests

In January 2009, the AcSB issued Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements and harmonizes the Canadian standards with IFRS. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These sections are effective on or after the beginning of the first reporting period beginning on or after January 1, 2011. Early adoption is permitted. The Corporation will adopt Section 1601 and Section 1602 effective January 1, 2011. Adoption of these sections is not expected to impact the Corporation's results of operations or financial position.

d) Financial instruments

In May 2009, the CICA amended Section 3862, Financial Instruments – Disclosures, to improve disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009.

4. Property Acquisition

On March 31, 2008, the Company completed the acquisition of certain natural gas properties in northeast British Columbia ("the Assets"). The acquisition was accounted for at \$3.83 per share for the 4,110,000 Class A shares of the Company issued and \$5.3 million cash (of which \$3.7 million was advanced at March 31, 2008) and transaction costs, for a total purchase price of \$21.2 million.

The following table summarizes the fair value of the Assets acquired at the date of acquisition.

Consideration:	
Issue of 4,110,000 Class A shares	\$ 15,741,300
Cash	5,268,362
Transaction costs	151,544
Total consideration	\$ 21,161,206
Allocated to:	
Property and equipment	\$ 22,725,312
Asset retirement obligations	(1,564,106)
	\$ 21,161,206

5. Property and Equipment

June 30, 2009	Cost	Accumulated depletion & depreciation	Net book value
Petroleum properties, including exploration and development thereon	\$ 91,065,789	\$ 14,851,648	\$ 76,214,141
Other	218,091	53,721	164,370
	\$ 91,283,880	\$ 14,905,369	\$ 76,378,511

December 31, 2008	Cost	Accumulated depletion & depreciation	Net book value
Petroleum properties, including exploration and development thereon	\$ 78,644,964	\$ 8,558,928	\$ 70,086,036
Other	216,509	36,039	180,470
	\$ 78,861,473	\$ 8,594,967	\$ 70,266,506

The Company has included \$18,991,500 (December 31, 2008: \$12,925,000) for future development costs and excluded \$11,180,707 (December 31, 2008: \$11,641,313) for undeveloped land from the depletion calculation and the ceiling test.

For the three and six months ended June 30, 2009 and June 30, 2008, the Company capitalized general and administrative expenses and stock-based compensation as follows:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
General and administrative	\$ 221,203	\$ 138,597	\$ 454,753	\$ 268,260
Stock-based compensation	125,939	126,539	227,936	613,081
Total	\$ 347,142	\$ 265,136	\$ 682,689	\$ 881,341

6. Bank Debt

At June 30, 2009 and December 31, 2008, the Company had no bank debt. The Company has available a \$20 million demand revolving credit facility and a \$5 million demand non-revolving acquisition/development facility with a Canadian chartered bank. Subsequent to June 30, 2009, the availability under the demand revolving credit facility was increased to \$24.0 million. Security is provided by a first fixed and floating charge demand debenture of \$50 million. Painted Pony has provided a negative pledge and undertaking to provide fixed charges over major petroleum and natural gas reserves in certain circumstances. Interest for the demand revolving credit facility is payable at a floating rate determined as the lender's prime rate plus between 0.25% and 2.5%, depending on the Company's debt to cash flow ratio, as defined. Interest on the non-revolving facility is payable at the lender's prime rate plus between 0.75% and 3.0%, depending on the Company's debt to cash flow ratio as defined. A standby fee is charged on 0.25% to 0.50% of the undrawn portion of the credit facilities, depending on the Company's debt to cash flow ratio. The facilities are subject to a review on or before October 31, 2009.

7. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the Company's net ownership in wells and facilities, estimated costs to reclaim and abandon the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the total undiscounted asset retirement obligations to be \$6.6 million as at June 30, 2009 (December 31, 2008: \$6.2 million). These payments are expected to be made over the next 29 years, with the majority estimated to be spent between 2026 and 2028. The Company used a credit-adjusted risk-free rate of 8% and an inflation rate of 2% to calculate the present value of the asset retirement obligations.

The following table reconciles the Company's asset retirement obligations:

	Six months ended June 30, 2009	Year ended December 31, 2008
Obligations, beginning of period	\$ 1,765,629	\$ 92,340
Liabilities incurred	133,052	362,175
Revisions	-	(235,306)
Abandonments	(41,461)	(130,515)
Liabilities acquired on property acquisition (see note 4)	-	1,564,106
Accretion expensed	73,317	112,829
Obligations, end of period	\$ 1,930,537	\$ 1,765,629

8. Capital Stock

a) Authorized

Unlimited Class A shares
 Unlimited Class B shares
 Unlimited Preferred shares, none outstanding as at June 30, 2009.

b) Issued and Outstanding

Class A and Class B Shares

	Class A Shares		Class B Shares	
	Number of Shares	Amount	Number of Shares	Amount
Balance, December 31, 2007	15,282,700	\$ 11,947,635	1,173,600	\$ 10,761,710
Shares issued for property acquisition (note 4)	4,110,000	15,741,300	-	-
Private placement	8,800,000	38,280,000	-	-
Options exercised	30,000	119,100	-	-
Transfer from contributed surplus on exercise of options	-	78,546	-	-
Share issuance costs	-	(2,504,051)	-	-
Income tax effect of flow-through share renouncement, allocated	-	(378,000)	-	(3,402,000)
Balance, December 31, 2008	28,222,700	63,284,530	1,173,600	7,359,710
Issuance of shares	7,000,000	19,950,000	-	-
Share issuance costs	-	(1,229,417)	-	-
Balance, June 30, 2009	35,222,700	\$ 82,005,113	1,173,600	\$ 7,359,710

On June 30, 2009, the Company completed a financing by way of a prospectus offering of 7 million Class A shares issued at a price of \$2.85 per share.

c) Stock Option Plan

The Company has a Stock Option Plan (the "Plan") pursuant to which options to purchase Class A Shares may be granted by the Board of Directors to directors, officers, employees of, and consultants to the Company. The Plan has reserved for issuance a number of Class A shares equal to 10% of the aggregate number of Class A Shares and Class B Shares issued and outstanding from time to time.

As at June 30, 2009, 2,790,000 options (December 31, 2008: 2,840,000) are issued and outstanding, at an average exercise price of \$5.00 (December 31, 2008: \$5.03) and with a weighted-average life of 3.8 years (December 31, 2008: 4.3 years). A total of 1,420,000 of the options granted are vested and the remainder vest in equal tranches on the first and second anniversaries of the date of grant. The options expire 5 years from date of grant.

The following tables summarize information regarding stock options for the six months ended June 30, 2009 and the year ended December 31, 2008:

	Weighted Average Exercise Price	Number
Balance, December 31, 2007	-	-
Granted	\$ 5.02	2,870,000
Exercised	\$ 3.97	(30,000)
Balance, December 31, 2008	\$ 5.03	2,840,000
Forfeited	\$ 6.68	(50,000)
Balance, June 30, 2009	\$ 5.00	2,790,000

Stock Options, June 30, 2009

Number of Options Outstanding	Exercise Price	Weighted Average Remaining Life (yrs)	Exercisable Options
1,317,000	\$ 3.97	3.6	923,000
1,040,000	\$ 6.68	4.0	352,667
205,000	\$ 5.00	4.2	68,333
153,000	\$ 4.15	4.2	51,000
75,000	\$ 1.40	4.4	25,000
2,790,000	\$ 5.00	3.8	1,420,000

In July 2009, a total of 1,283,000 options were granted and 1,389,000 options were surrendered and subsequently cancelled. As at August 26, 2009, 2,684,000 options at an average exercise price of \$3.43 are issued and outstanding.

d) Stock-Based Compensation

The Company accounts for its stock options granted to employees, consultants, officers, and directors using the fair value method. In accordance with the Company's incentive stock plan, these options have an exercise price equal to the fair value of the security at the date of grant. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions have been used:

	Year ended December 31, 2008
Fair value per option (weighted average)	\$ 3.17
Risk free rate (%)	3.13
Expected life (years)	5
Expected volatility (%)	80
Expected dividends	-

No stock options were granted during the six months ended June 30, 2009.

9. Contributed Surplus

	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of period	\$ 6,032,200	\$ -
Stock-based compensation, net (see note 8(d))	1,243,832	6,110,746
Transfer to share capital on exercise of options	-	(78,546)
Balance, end of period	\$ 7,276,032	\$ 6,032,200

For the three and six months ended June 30, 2009, the Company recorded \$615,613 and \$1,243,832, respectively, (three and six months ended June 30, 2008: \$428,584 and \$2,017,365, respectively) of compensation cost related to stock options issued. During the three and six months ended June 30, 2009, \$125,939 and \$227,936, respectively (three and six months ended June 30, 2008: \$126,539 and \$613,081) was capitalized to oil and gas properties and \$489,674 and \$1,015,896, respectively (three and six months ended June 30, 2008: \$302,046 and \$1,404,285) was expensed.

10. Per Share Amounts

The weighted average number of Class A and Class B shares outstanding during the three months ended June 30, 2009 and 2008, and the six months ended June 30, 2009 and 2008 was as follows:

Weighted Average Shares

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Class A – basic	28,299,623	25,396,052	28,261,374	20,361,958
Class A – diluted	28,299,623	25,785,088	28,261,374	20,604,877
Class B – basic	1,173,600	1,173,600	1,173,600	1,173,600
Class B – deemed conversion to Class A	3,869,895	1,493,859	3,869,895	1,493,859
Class A & B - basic	32,169,518	26,889,911	32,131,269	21,855,817
Class A & B - diluted	32,169,518	27,278,947	32,131,269	22,098,736

During the three and six months ended June 30, 2009, 2,790,000 options were excluded in the weighted-average diluted share calculation of Class A shares. During the three and six months ended June 30, 2008, no options were excluded in the weighted-average diluted share calculation of Class A shares. Class B shares are converted into Class A shares at \$10 divided by the greater of \$1.00 and the Current Trading Price, defined as being the weighted-average trading price per share of Class A shares for the last 30 consecutive trading days.

11. Changes in Non-Cash Working Capital

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Accounts receivable	\$ 2,404,812	\$ (1,226,432)	\$ 3,412,419	\$ (6,657,757)
Prepaid expenses and deposits	(963,073)	(141,406)	(932,463)	(205,348)
Accounts payable and accrued liabilities	(1,755,384)	(398,492)	(5,452,978)	13,678,340
	\$ (313,645)	\$ (1,766,330)	\$ (2,973,022)	\$ 6,815,235

The change in non-cash working capital has been allocated to the following activities:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Operating	\$ (1,265,246)	\$ (997,608)	\$ (1,644,252)	\$ (756,862)
Financing	176,259	88,024	71,160	86,359
Investing	775,342	(856,746)	(1,399,930)	7,485,738
	\$ (313,645)	\$ (1,766,330)	\$ (2,973,022)	\$ 6,815,235

12. Related Party Transactions

The Company utilizes the services of a law firm in which the Corporate Secretary is a Partner. During the three and six months ended June 30, 2009, the Company incurred \$153,958 and \$170,744, respectively (three and six months ended June 30, 2008: \$62,552 and \$130,618) on services obtained from the firm. As at June 30, 2009, the Company owes this related party \$80,580.

All related party transactions are in the normal course of business and have been valued at the agreed to terms and exchange values, being the consideration established and agreed to by the parties and on normal commercial terms.

13. Commitments

- a) At June 30, 2009, the Company is committed to the physical delivery of five MMcf per day of natural gas production. The estimated remaining cost of the commitment is:

	Amount
2009	\$ 340,400
2010	562,400

- b) At June 30, 2009, the Company was committed to future payments for office space rental and a proportionate share of operating costs through 2013 as follows:

	Amount
2009	\$ 171,416
2010	342,832
2011	342,832
2012	342,832
2013	171,416
Total	\$1,371,328

14. Capital Disclosures

At June 30, 2009, the Company considers its capital structure to include shareholders' equity, working capital, and available credit facilities. The Company will adjust its capital structure to manage any projected deficiencies of working capital through the issuance of shares, the use of available credit facilities, and/or adjusting its capital spending. The Company monitors its capital spending program based on the current and projected ratios of net debt to funds flow.

The Company's objectives in managing its capital structure are to:

- a) Create and maintain flexibility to enable the Company to continue to meet its financial obligations; and
- b) Finance its growth either through internally generated projects, joint interest relationships or asset/corporate acquisitions.

The Company monitors its capital structure using primarily the non-GAAP financial measure of net debt to annualized funds flow from operations ratio. The Company's objective is to maintain a net debt to funds flow from operations ratio of one times or less. To facilitate the management of this ratio, the Company prepares an annual budget, which is updated as required throughout the year for any significant acquisition, a change in economic circumstances outside the control of the Company, and success or failure of capital deployed. Each of the annual budgets and periodic updates are approved by the Board of Directors. As at June 30, 2009, the Company had no debt and had positive working capital of \$22.3 million as detailed below:

	As at June 30, 2009
Current assets	\$ 30,982,403
Current liabilities	(8,692,305)
Net working capital	\$ 22,290,098

The Company is required to maintain a minimum working capital ratio of 1:1 to remain in compliance with its credit facility. For purposes of this calculation, working capital ratio is defined as the ratio of current assets plus any undrawn availability under the revolving credit facility to current liabilities less any amount drawn under the credit facilities. At June 30, 2009, the Company had a working capital ratio of 5.9:1, which is greater than the minimum ratio required.

15. Financial Instruments

Management has primary responsibility for monitoring and managing financial instrument risks, under direction from the Board of Directors, which has overall responsibility for establishing the Company's risk management framework. In certain circumstances, for example, price fixing of future production revenue, the Board has established policies and has established risk limits and controls and monitors these risks in relation to market conditions. In other circumstances, for example, extending credit to purchasers of the Company's products, the Board has delegated responsibility for credit assessment to management, but receives frequent financial and operating reports.

The Company's financial instruments recognized on the interim consolidated balance sheet at June 30, 2009 and the audited consolidated balance sheet at December 31, 2008, consist of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying amounts, based on the short term nature of these instruments.

- a) Credit risk: A substantial portion of the Company's accounts receivable are concentrated with a limited number of purchasers of commodities and joint interest partners in the oil and gas industry and are subject to normal industry credit risk. Management considers these concentrations of credit risk to be minimal, as commodity purchasers are major industry participants, and receivables from partners are protected by effective industry standard legal remedies. Receivables related to the sale of the Company's production are normally collected on the 25th day of the month following delivery.

As at June 30, 2009, accounts receivable was comprised of the following:

<u>(\$000)</u>	
Sales revenue accounts receivable	\$ 1,837
Joint interest accounts receivable	406
Accrued and other accounts receivable	167
<u>Total accounts receivable</u>	<u>\$ 2,410</u>

The carrying amounts of cash and cash equivalents, and accounts receivable represent the Company's maximum credit exposure. The Company has not experienced any credit loss in the collection of its accounts receivable. The Company has no allowance for doubtful accounts as at June 30, 2009. As at June 30, 2009, the Company estimates its trade accounts receivable to be aged as follows:

<u>Aging (\$000)</u>	
Not past due (less than 30 days)	\$ 2,340
Past due 31-60 days	28
Past due 61-90 days	-
Past due more than 90 days	42
<u>Total</u>	<u>\$ 2,410</u>

b) Market risk: Market risks are as follows and are largely outside of the control of the Company:

Commodity Prices

The Company is constantly exposed to the risk of volatility of prices for its products with a corresponding impact on cash flow. Reduced cash flow may result in lower levels of capital being available for field activity, thus compromising the Company's capacity to grow production while at the same time replacing continuous declines from existing properties. In certain circumstances, usually when debt levels are forecast to increase due to capital expenditures exceeding cash flow, or where the Company has financed, in whole or in part, an acquisition using bank debt, the Company may enter into oil and natural gas hedging contracts in order to provide stability to future cash flow. These contracts reduce the fluctuation in production revenue by fixing prices of future deliveries of oil and natural gas. At June 30, 2009, the Company had no fixed price contracts or financial instruments associated with future production.

Interest Rates

Interest on the Company's revolving bank facility varies, and is most commonly based on the lender's prime rate. The Company is thus exposed to increased borrowing costs during periods of increasing interest rates, with a corresponding reduction in both cash flows and project economics. The Company had no bank debt at June 30, 2009 and has had no interest rate swaps or similar contracts. The Company invests available cash in short-term term deposits from which interest income will vary with changes in prime rates.

For the six months ended June 30, 2009, if interest rates had been 0.5% lower than the six month 2009 weighted average rate of 0.79%, with all other variables held constant, after tax net earnings for the period would have been \$25,370 lower, due to lower interest income. An equal and opposite impact would have occurred to net earnings had interest rates been 1% higher.

Foreign Exchange

Although the Company's product revenues are denominated in Canadian dollars, the underlying market prices are affected by the exchange rate between the Canadian and the United States dollar. As at June 30, 2009, the Company had no contracts in place to manage foreign exchange risk.

Liquidity Risk

Liquidity difficulties would emerge if the Company was unable to meet its financial obligations as they fell due within normal credit terms. This may be the consequence of diminished cash flows resulting from lower product prices, production interruptions, or unexpected operating or capital cost increases. Liquidity difficulties could also occur if the Company's bankers were unable to continue to provide credit at a level and on terms compatible with the Company's capital requirements. Generally the Company will, over a reasonable period of time, limit its capital programs to funds flow from operations, available cash, and available credit. In addition, the Company endeavors to maintain its debt at a level to ensure financial flexibility to deal with unforeseen or rapidly changing circumstances.

16. Subsequent Events

a) Property acquisitions:

On July 15, 2009, the Company acquired certain properties in southeast Saskatchewan for cash consideration of \$10.0 million, before closing adjustments and related costs.

On July 17, 2009, the Company acquired certain properties in southeast Saskatchewan for cash consideration of \$1.1 million, before closing adjustments and related costs.

On August 6, 2009, the Company acquired certain properties in southeast Saskatchewan for cash consideration of \$2.7 million, before closing adjustments and related costs.

b) Options:

On July 29, 2009, the Company issued 804,500 options to directors and officers at a price of \$2.85 to purchase Class A shares of the Company. The options expire five years from date of grant and 1/3 vest immediately, 1/3 vest one year from date of grant and 1/3 vest 2 years from date of grant.

On July 30, 2009, an aggregate of 1,389,000 options previously issued to employees, consultants, officers and directors were surrendered and subsequently cancelled.

On July 31, 2009, the Company issued 478,500 options to employees and consultants at a price of \$3.15 to purchase Class A shares of the Company. The options expire five years from date of grant and 1/3 vest immediately, 1/3 vest one year from date of grant and 1/3 vest 2 years from date of grant.

Corporate Information

BOARD OF DIRECTORS

Ronald R. Talbot, Chairman
President
557146 Alberta Inc.
Calgary, Alberta

Kevin Angus
President
KD Angus & Associates Ltd.
Calgary, Alberta

Allan K. Ashton
Chairman of the Board
Ashton Petroleum Consultants
Priddis, Alberta

Glenn R. Carley
Executive Chairman & Director
Galleon Energy Inc.
Calgary, Alberta

Arthur J. G. Madden
President
554492 Alberta Ltd.
Edmonton, Alberta

Patrick R. Ward
President & Chief Executive Officer
Painted Pony Petroleum Ltd.
Calgary, Alberta

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EXCHANGE LISTING

The TSX Venture Exchange
PPY.A
PPY.B

OFFICERS

Patrick R. Ward
President and Chief Executive Officer

Joan E. Dunne
Vice President, Finance and Chief Financial Officer

James H. French
Vice President, Engineering

Bruce Mezei
Vice President, Exploration South

James S. Thomson
Vice President, Land

Donald J. Slater
Vice President, Exploration North

Mary Kay Axford
Controller

Douglas McCartney
Partner, Burstall Winger LLP
Corporate Secretary

LEGAL COUNSEL

Burstall Winger LLP

AUDITORS

KPMG LLP

BANKERS

National Bank of Canada

EVALUATION ENGINEERS

Sproule Associates Limited

REGISTRAR AND TRANSFER AGENT

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