



To Our Shareholders

Painted Pony Petroleum Ltd. ("Painted Pony" or the "Company") is pleased to present its third quarter 2009 financial results together with an update of its operational activities to date. The Company has:

- grown daily production to average 1,655 boe/d in the third quarter of 2009, up 26% over the second quarter 2009 average rate, with September 2009 production averaging 1,833 boe/d (weighted 68% oil and liquids and 32% gas);
- exited the third quarter with positive working capital of \$1.1 million and no debt;
- increased the bank credit facilities to \$40 million in October 2009, which credit facilities are undrawn to date;
- raised \$51.7 million (before costs) in a bought deal financing through the issuance of 8.8 million Class A shares at \$5.88 in November 2009;
- enjoyed third quarter 2009 field netbacks of \$51.08 per bbl for SE Saskatchewan oil on sales averaging \$71.18 per bbl;
- closed four acquisitions of undeveloped land and light oil production costing an aggregate of \$13.6 million primarily in the Company's core Midale/Huntoon area in SE Saskatchewan;
- drilled 7 (6.3 net) Bakken light oil wells in the third quarter; and
- commenced construction of a multi-well oil battery and water disposal and gathering system in the main producing areas of Midale/Huntoon, which is expected to reduce transportation and operating costs and minimize production disruptions due to weather.

Growing Production

The Company grew production 26% compared to the second quarter of 2009 and 79% compared to the third quarter of 2008, to average 1,655 boe/d in the third quarter, weighted 61% oil, 3% condensate and natural gas liquids, and 36% gas. In September 2009, sales averaged 1,833 boe/d, with oil and liquids contributing 68% and gas contributing 32%.

Adding to Land Inventory

At September 30, 2009, the Company had an inventory of 153,997 net acres of land consisting of 59,843 net acres in Saskatchewan and 94,154 net acres in British Columbia. During the fourth quarter, the Company successfully participated in a British Columbia land sale, bringing total lands in the province to 98,400 net acres as at November 1, 2009. Painted Pony has over 68,500 net acres with Montney/ Doig rights.

Light Oil Operations

In the third quarter of 2009, the Company closed four acquisitions primarily in the Company's core Midale/Huntoon area securing additional undeveloped lands and Bakken production at an aggregate cost of \$13.6 million, including closing costs and adjustments.

Painted Pony carried out an active third quarter horizontal Bakken development drilling program with the drilling of 7 (6.3 net) wells. In the first three quarters of 2009, Painted Pony has participated in the drilling of 11 (10.3 net) horizontal Bakken oil wells and 1 (0.5 net) conventional gas well. To date in the fourth quarter, the Company has participated in the drilling of 8 (6.2 net) Bakken oil wells along with an additional 1 (0.13 net) well planned before the end of 2009.

Painted Pony is currently planning an active drilling program in 2010. In the first quarter, the Company anticipates participating in the drilling of 10 (8.4 net) horizontal Bakken oil wells in Saskatchewan, primarily developmental wells. Painted Pony currently anticipates drilling over 30 net Bakken wells in Saskatchewan in 2010.

Natural Gas Operations

During the third quarter of 2009, operations resumed under two farm-out agreements, whereby a senior oil and gas company has farmed-in on portions of Montney rights held by the Company within the Cypress and Cameron areas of British Columbia. On the Cameron lands, a second vertical well targeting the Montney formation which commenced drilling on July 29, 2009 is currently waiting on completion. A third well targeting the Montney formation committed to under the terms of the farm-out agreement on the Cameron lands is expected to commence being horizontally drilled in the fourth quarter of 2009. On the Cypress lands, a horizontal well targeting the Montney formation drilled primarily during the first quarter of 2009 is currently being flow tested. Further completion work is anticipated. Painted Pony has over 68,500 net acres of lands with Montney/Doig rights in British Columbia, as at November 1, 2009.

In preparation for the 2010 drilling program on the Company's two natural gas resource plays, Painted Pony is in the process of licensing 3 (2.3 net) potential Montney wells at Blair, of which 2 (1.3 net) are horizontal locations. The Company anticipates air drilling up to 2 (1.0 net) wells targeting the Buckingham shale gas formation in the third quarter of 2010. Within the Cameron area, Painted Pony expects to participate in the drilling of 2 (1.0 net) wells targeting the Bluesky/Gething zone in the first quarter of 2010.

Financial Resources

In October 2009, Painted Pony's revolving credit facilities were increased to \$33.0 million for its demand revolving operating credit facility (from \$24.0 million) and to \$7.0 million for its demand non-revolving acquisition/development facility (from \$5.0 million). Both facilities are provided by a Canadian chartered bank. The credit facilities are subject to a review date on or before March 31, 2010, at the sole discretion of the bank. Currently, Painted Pony has no funds drawn under either credit facility.

In November 2009, the Company issued 8.8 million Class A shares at \$ 5.88 per share, raising \$51.7 million before costs. At the end of September 2009, Painted Pony had a positive working capital position of \$1.1 million and no debt.

Appointment

The Company is pleased to announce the appointment of Michael Belenkie, P. Eng., as Vice President, Corporate Development. Mr. Belenkie was previously Manager of Corporate Development since joining Painted Pony in September 2008. Prior to that, he held numerous positions with a major oil and gas company, lastly as Montney Development Lead. Mr. Belenkie graduated in 1997 with a B. Sc. (Eng) from the University of Calgary and has approximately 13 years of industry experience.

Outlook

Painted Pony expects to continue to generate solid operating and financial results through successful drilling, complemented by a strong financial position and healthy oil prices. During the balance of 2009 and in 2010, the Company intends to expand its Bakken exploration and development program and commence the exploratory evaluation of its Montney and Buckingham shale gas resource plays. Approximately 75% of the expected drilling, completion and equipping costs in 2010 are targeted for light oil operations. The Company's budget anticipates 2010 capital expenditures of approximately \$90 million.

Interested parties are invited to visit the Company's website on Friday, November 27, 2009 to view an updated presentation.

Painted Pony wishes to acknowledge all shareholders for their support, especially in the turbulent past year. The continued dedication by each of the staff, management, directors and their families is both recognized and appreciated, as are Painted Pony's partners, suppliers, and government agencies. As we head into the holiday season, please "Take Care to Share".

On behalf of the Board of Directors,

Patrick R. Ward
President & C.E.O.
November 25, 2009

Financial and Operational Highlights

(unaudited)

	Three months ended September 30,		Nine months ended September 30,		
	2009	2008	2009	2008	
Financial					
Petroleum and natural gas revenue (before royalties)	\$ 7,833,928	\$ 7,188,501	\$ 17,282,744	\$ 14,979,157	
Funds flow from operations ⁽¹⁾	\$ 4,513,191	\$ 4,845,733	\$ 8,228,720	\$ 9,866,416	
Per share – basic and diluted ⁽²⁾	\$ 0.12	\$ 0.16	\$ 0.25	\$ 0.38	
Cash flow from operating activities	\$ 4,273,094	\$ 5,756,112	\$ 6,302,910	\$ 10,019,933	
Net earnings (loss)	\$ (2,046,483)	\$ 328,233	\$ (5,608,318)	\$ 5,199,328	
Per share – basic and diluted ⁽²⁾	\$ (0.05)	\$ 0.01	\$ (0.17)	\$ 0.20	
Capital expenditures ⁽³⁾	\$ 26,629,630	\$ 16,997,381	\$ 39,010,576	\$ 60,176,319	
Net working capital	\$ 1,095,754	\$ 21,336,077	\$ 1,095,754	\$ 21,336,077	
Total assets	\$112,861,191	\$100,933,521	\$ 112,861,191	\$100,933,521	
Shares outstanding					
Class A	35,237,700	28,222,700	35,237,700	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)	1,008	457	713	308
Condensate sales	(bbls/d)	24	15	24	10
Natural gas liquids	(bbls/d)	20	9	15	5
Natural gas	(Mcf/d)	3,617	2,677	3,881	1,806
Total	(boe/d)	1,655	925	1,399	622
Realized prices					
Oil	(\$/bbl)	71.18	118.34	64.78	117.83
Gas	(\$/Mcf)	3.20	8.11	3.99	9.38
Field operating netbacks					
Oil	(\$/bbl)	51.08	87.82	43.87	86.06
Gas & liquids	(\$/boe)	6.44	24.68	7.35	30.33
Company combined	(\$/boe)	33.63	55.82	25.95	57.87
Wells drilled ⁽⁴⁾					
Gross		7	15	12	37
Net		6.3	7.8	10.8	17.1
Net success rate		95%	87%	97%	91%

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, and after the deemed conversion of the Class B shares to Class A shares, consistent with the calculations of earnings per share.
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. Including Asset Retirement Costs and Stock-Based Compensation
4. “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.

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 nine months ended September 30, 2009 and the consolidated financial statements and related notes for the year ended December 31, 2008. This commentary is dated November 25, 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash flow from operating activities	\$ 4,273,094	\$ 5,756,112	\$ 6,302,910	\$10,019,933
Changes in non-cash working capital	232,387	(910,379)	1,876,639	(153,517)
Asset retirement expenditures	7,710	-	49,171	-
Funds flow from operations	\$ 4,513,191	\$ 4,845,733	\$ 8,228,720	\$ 9,866,416

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 per unit 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) oil sales in the last quarter of 2009 will increase as the fourth quarter drilling program targeting the Bakken light oil formation in Saskatchewan is placed onto production and gas sales will decrease due to natural declines. The Company expects oil sales to average approximately 70% of total sales volumes in the fourth quarter of 2009.
- b) it will receive an average oil price which slightly exceeds or approximates the Edmonton par reference price and a natural gas price at a premium to the AECO daily spot price.
- c) overall royalties in the fourth quarter of 2009 will approximate 14% of total revenues, but will vary if prices move significantly.
- d) the investments in facilities will reduce production interruptions, provide incremental revenues from the sales of gas and natural gas liquids and reduce overall operating costs through reduced trucking and water disposal fees.
- e) the per unit transportation cost for gas in the fourth quarter of 2009 will be similar to the third quarter costs.
- f) general and administrative costs, net of allocations and capitalization, in the fourth quarter of 2009 are expected to be lower than those in the third quarter of 2009 reflecting an actively operated capital program in the period.
- g) as the gross oil sales increase in the fourth quarter of 2009, capital taxes will correspondingly increase.
- h) in conjunction with the additional funds from the issuance of shares in November 2009, additional interest income will be earned in the fourth quarter of this year.
- i) total stock-based compensation cost for the fourth quarter of 2009 is estimated to be approximately \$0.5 million, based on options currently issued.
- j) the lands in a continuation application to BC MEMPR will be continued and the application for licenses will be issued.
- k) during the remainder of this year, the Company expects to participate in the drilling of an additional 1 (0.13 net) oil well targeting the Bakken formation.
- l) the tax pools for which a tax asset has been recorded will be utilized.
- m) the Company will exit 2009 with no debt. In 2010, the Company may utilize available credit facilities on a periodic basis.
- n) the risk of accounts receivables becoming uncollectible is mitigated by the financial position of the applicable entities.
- o) the Company has sufficient financial resources with which to conduct its capital program; further, this is subject to the additional assumption 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:

- a) Normal risks common to the oil and natural gas industry, including various operational risks in the carrying out of exploration, development and production operations;
- b) Risks and uncertainty of oil and gas geological deposits;
- c) Revisions, amendments or changes to capital expenditure plans including exploration, development and exploitation projects;
- d) Risks as to the availability and pricing of appropriate financing alternatives on acceptable terms;
- e) Potential changes in income tax regulations, governmental policies, rules, practices or approval process changes, or delays, or enhancements; and
- f) 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 \$4.5 million for the three months ended September 30, 2009, compared to \$4.8 million for the same period in 2008. In the first nine months of 2009, the Company generated funds flow from operations of \$8.2 million compared to \$9.9 million in 2008. On a basic and diluted per share basis, funds flow from operations for the third quarter of 2009 was \$0.12 compared to \$0.16 in 2008, and for the first three quarters of 2009 was \$0.25 compared to \$0.38 in the prior year.

Cash flow from operating activities was \$4.3 million and \$6.3 million for the three and nine months ended September 30, 2009, compared to \$5.8 million and \$10.0 million for the three and nine months ended September 30, 2008.

Painted Pony incurred a net loss of \$2.0 million in the three months ended September 30, 2009, compared to net earnings of \$0.3 million in the same 2008 period. In the third quarter of 2009, Painted Pony recorded \$2.1 million of non-cash stock-based compensation expenses, of which \$1.1 million was for share options surrendered for cancellation in the quarter. The third quarter 2009 net loss was \$0.05 per basic and diluted share compared to net earnings of \$0.01 in 2008.

For the nine months ended September 30, 2009, the Company recorded a net loss of \$5.6 million compared to net earnings of \$5.2 million for the same period in 2008. Non-cash stock-based compensation expenses for the 2009 nine month period totaled \$3.1 million. In the 2008 period, the Company recorded a \$4.4 million future income tax reduction, primarily from the income tax effect of recognizing an offsetting, previously recorded liability for flow-through shares issued. On a basic and diluted share basis, the net loss for the first three quarters of 2009 was \$0.17 compared to net earnings of \$0.20 in 2008.

Sales Volumes

During the three months ended September 30, 2009, Painted Pony's sales volumes averaged 1,655 boe/d compared to 925 boe/d in the third quarter of 2008, an increase of 79%. For the nine months ended September 30, 2009, daily sales volumes grew 125% to average 1,399 boe/d compared to 622 boe/d in 2008. All of Painted Pony's light oil sales originate from the Saskatchewan operations while sales of gas, condensate, and NGL's are primarily from the northeast British Columbia assets. The increased production was primarily the result of incremental crude oil from the Company's drilling program and asset acquisitions during the third quarter in southeast Saskatchewan supplemented by the first quarter 2009 northeast British Columbia drilling and recompletion programs. Third quarter 2009 sales were weighted 61% oil, 36% gas and 3% liquids.

Oil sales in the last quarter of 2009 are expected to increase as the fourth quarter drilling program targeting the Bakken light oil formation in Saskatchewan is placed onto production. No additional gas wells are planned for the balance of this year. The Company expects oil sales to average approximately 70% of total sales volumes in the fourth quarter of 2009.*

**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		Nine months ended	
		2009	2008	2009	2008
Oil	(bbls/d)	1,008	457	713	308
Condensate	(bbls/d)	24	15	24	10
NGL's	(bbls/d)	20	9	15	5
Gas	(Mcf/d)	3,617	2,677	3,881	1,806
Total	(boe/d)	1,655	925	1,399	622

Oil production volumes for the first nine months of 2009 increased 131% relative to the prior year period. Crude oil sales for the nine months ended September 30, 2009 were from 57 (34.4 net) wells in the Midale, Kisbey, Weyburn and Alameda areas of southeast Saskatchewan, compared to 33 (13.8 net) wells that produced during the first nine months of 2008.

Average sales of natural gas were 35% greater in the third quarter of 2009 compared to the same period in 2008, being stabilized sales rates following the flush production from the successful first quarter 2009 drilling and re-completion program partially offset by the Company voluntary shutting in of lower netback gas wells in the Cypress area. Gas, condensate and liquids sales in the first nine months of 2009 were primarily from 30 (14.1 net) wells in the Blair, Cypress and Cameron areas of northeast British Columbia, compared to sales from 24 (11.0 net) wells during the first nine months of 2008. A small amount of gas and NGL product was also sold from wells in the Kisbey and Weyburn areas in southeast Saskatchewan, as gas conservation began in the first quarter of 2009 from Kisbey and the third quarter of 2009 from Weyburn. In the first week of October 2009, the Company experienced a temporary reduction of approximately a quarter of the daily oil sales volumes due to excessively wet surface conditions.

Revenues

Petroleum and natural gas sales were \$7.8 million in the three months ending September 30, 2009, compared to \$7.2 million for the same period in 2008. For the nine month periods, total sales were \$17.3 million, up 15% from the prior year. In the third quarter of 2009, oil sales revenues represented 84% of total sales compared to 73% year to date. In comparison, in 2008, the third quarter oil sales contributed 69% of total revenues compared to 66% for the nine month period. In both years, oil sales have generated a greater proportion of total sales compared to the relative production volumes, reflecting the relative strength of crude oil prices compared to gas prices.

Sales by Product

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Oil	\$ 6,600,698	\$ 4,976,623	\$ 12,602,769	\$ 9,932,454
Gas	1,063,536	1,996,974	4,226,836	4,628,308
Condensate	128,664	153,884	364,895	318,667
NGL and sulphur	41,030	61,020	88,244	99,728
Total	\$ 7,833,928	\$ 7,188,501	\$ 17,282,744	\$ 14,979,157

Crude oil revenue in the three and nine months ended September 30, 2009 was \$6.6 million and \$12.6 million compared to \$5.0 million and \$9.9 million during the three and nine months ended September 30, 2008. Oil sales increased 27% in the first nine months of 2009 over the comparable 2008 period, and 33% during the third quarter of 2009 compared to 2008.

Oil production volumes for the first nine months of 2009 increased 131% relative to the prior year period while the average oil price was only 55% of the comparable period. Commodity prices weakened considerably during the first nine months of 2009 over the prior year. Oil prices averaged \$71.18 and \$64.78 per bbl during the three and nine months ended September 30, 2009 compared to \$118.34 and \$117.83 per bbl for the three and nine months ended September 30, 2008. Painted Pony received an average crude oil price approximately the same as the Edmonton light reference price in the third quarter of 2009. Painted Pony's light oil is a premium light crude with low sulphur content.

Revenue from gas, condensate and NGL sales totaled \$1.2 million and \$4.7 million in the third quarter and first nine months of 2009, compared to \$2.2 million and \$5.0 million received during the third quarter and first nine months of 2008. The Company received an average gas price of \$3.20/Mcf in the third quarter of 2009, a premium to the AECO daily spot average gas reference price. In the first nine months of 2009, the Company received an average gas price of \$3.99/Mcf.

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

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

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Average Benchmark Prices

			Three months ended September 30,		Nine months ended September 30,	
			2009	2008	2009	2008
Exchange rate		US\$/Cdn\$	0.911	0.973	0.858	0.982
Oil	- WTI	US\$/bbl	\$ 68.24	\$ 118.21	\$ 57.11	\$ 113.34
	- Edmonton par	\$/bbl	\$ 71.77	\$ 122.50	\$ 62.73	\$ 115.86
Gas	- AECO, daily spot	\$/Mcf	\$ 2.99	\$ 7.73	\$ 3.79	\$ 8.69

Painted Pony's Realized Prices

		Three months ended September 30,		Nine months ended September 30,	
		2009	2008	2009	2008
Oil	\$/bbl	\$ 71.18	\$ 118.34	\$ 64.78	\$ 117.83
Condensate	\$/bbl	\$ 58.32	\$ 112.07	\$ 54.86	\$ 120.31
NGL	\$/bbl	\$ 22.33	\$ 68.78	\$ 20.41	\$ 64.49
Gas	\$/Mcf	\$ 3.20	\$ 8.11	\$ 3.99	\$ 9.38

Royalties

Royalties for the nine months ending September 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 nine months ended September 30, 2009, total royalties were \$0.9 million and \$1.9 million, respectively, or approximately 12.1% and 10.8%, respectively, of total revenue. For the three and nine months ended September 30, 2008, total royalties were \$1.2 million and \$2.5 million respectively, or approximately 16.6% of revenue.

In the third quarter of 2009, royalties for oil averaged 13.1% of sales, while royalties for gas and associated products averaged 6.8%. The Company anticipates that overall royalties in the fourth quarter of 2009 will approximate 14% of total revenues, but will vary if prices move significantly.*

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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 nine months ended September 30, 2009 were primarily from the sales of crude oil although royalties for both commodities were reduced by various credits in the first half of the year. Freehold royalties were all from the sale of oil, gas, and liquids in southeast Saskatchewan. Gross overriding royalties were 92% from the sale of oil on lands the Company has earned through farm-ins in Saskatchewan.

Royalties as a % of Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Crown	2.1	5.2	1.2	5.6
Freehold	7.4	7.9	7.1	7.9
GOR	2.6	3.5	2.5	3.1
	12.1	16.6	10.8	16.6

Royalties by Type

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Crown	\$ 161,392	\$ 372,415	\$ 213,065	\$ 839,857
Freehold	580,199	568,849	1,220,368	1,175,991
GOR	205,221	252,978	438,881	468,146
	\$ 946,812	\$ 1,194,242	\$ 1,872,314	\$ 2,483,994
Per boe (6 Mcf:1 bbl)	\$ 6.22	\$ 14.01	\$ 4.91	\$ 14.56

Transportation Costs

Transportation costs for the three and nine months ended September 30, 2009 were \$0.7 million and \$2.3 million respectively, compared to \$0.5 million and \$1.2 million for the three and nine months ended September 30, 2008.

Transportation by Commodity

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Light oil	\$ 120,810	\$ 75,730	\$ 406,124	\$ 334,597
Gas and associated liquids	559,158	448,317	1,860,696	877,094
Net	\$ 679,968	\$ 524,047	\$ 2,266,820	\$1,211,691

In Saskatchewan, for the nine months ended September 30, 2009 and 2008, transportation costs were 3% of gross oil revenues, and for the third quarter periods then ended, 2%. These charges are the trucking costs of hauling oil to various sales points, addressing occasional capacity issues. During the third quarter of 2009, transportation costs per unit of production decreased as the costs savings from the facilities and gathering systems began to be realized.

In the first quarter of 2009 in the Kisbey area the Company added additional wells to the 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 constructing a multi-well oil battery facility and water disposal facility expected to be completed 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 gas and natural gas liquids and reduce overall operating costs through reduced trucking and water disposal fees.*

**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.*

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 firm-service contract for the processing costs associated with the physical delivery of five MMcf/d of natural gas to the end of October 2010. The cost for transporting the gas and field products primarily from the British Columbia properties averaged \$9.93/boe in the first three quarters of 2009 and \$7.10/boe during the first three quarters of 2008. This includes costs for excess capacity under the firm service contract, ensuring that incremental future volumes can be transported and processed.

Transportation costs during the third quarter of 2009 averaged \$9.40/boe. The Company had expected the per unit transportation cost for gas to increase in the second half of 2009, reflecting normal production volumes declines, however, the savings from the voluntary production curtailment of lower netback gas wells in the Cypress area partially offset this. Painted Pony expects transportation costs to be similar for the balance of 2009.*

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Operating Costs

Operating costs for the three and nine months ended September 30, 2009 were \$1.1 million or \$7.14/boe and \$3.2 million or \$8.46/boe. This compares to \$0.7 million or \$8.33/boe and \$1.4 million or \$8.29/boe for the three and nine months ending September 30, 2008.

Operating Costs

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Oil	\$ 880,617	\$ 368,379	\$ 1,885,576	\$ 671,820
Gas and associated liquids	206,488	342,308	1,346,010	741,412
Production expenses	\$ 1,087,105	\$ 710,687	\$ 3,231,586	\$ 1,413,232
Oil (\$/bbl)	\$ 9.50	\$ 8.76	\$ 9.69	\$ 7.97
Gas and associated liquids (\$/boe)	\$ 3.47	\$ 7.92	\$ 7.18	\$ 8.60
Operating cost (\$/boe)	\$ 7.14	\$ 8.33	\$ 8.46	\$ 8.29

Operating costs on a per unit basis decreased in the third quarter of 2009 compared to the prior quarter for both oil and gas operations.

For oil producing properties, the operating costs primarily consist of salt water disposal and hauling fees, equipment rentals for gas engines to run the pump jacks prior to electrification of each well 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. In the third quarter, rig mats were also used, with the related costs contributing approximately \$1/bbl of the oil operating costs in the period. The Company anticipates reduced operating costs in future months from the investments made in various batteries and gathering systems combined with a reduced price negotiated for water disposal in the Midale/Huntoon area.*

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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 lower on a per boe basis in the first nine months of 2009 compared to the first nine months of 2008, primarily due to incremental production volumes. Third quarter 2009 per unit savings were realized from the combination of credits from a multi-period renegotiated compression fee combined with voluntarily shutting in some high-operating cost gas wells.

Operating Netbacks

For the three and nine months ended September 30, 2009, field operating netbacks averaged \$33.63/boe and \$25.95/boe respectively, compared to field operating netbacks of \$55.82/boe and \$57.87/boe experienced during the three and nine months ended September 30, 2008.

Combined Field Operating Netback (\$/boe)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues	\$ 51.46	\$ 84.31	\$ 45.25	\$ 87.83
Transportation costs	(4.47)	(6.15)	(5.93)	(7.11)
Royalties	(6.22)	(14.01)	(4.91)	(14.56)
Operating costs	(7.14)	(8.33)	(8.46)	(8.29)
Field operating netback	\$ 33.63	\$ 55.82	\$ 25.95	\$ 57.87

Netbacks by Commodity

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Crude oil (\$/bbl)	\$ 51.08	\$ 87.82	\$ 43.87	\$ 86.06
Gas and associated products (\$/boe)	\$ 6.44	\$ 24.68	\$ 7.35	\$ 30.33

During the third quarter of 2009, Painted Pony's per unit netback for crude oil was 72% of the gross sales price compared to 31% for gas and related products, or 65% overall.

Netbacks from crude oil production in southeast Saskatchewan were \$51.08/bbl and \$43.87/bbl respectively, for the three and nine months ended September 30, 2009. This compares to crude oil production netbacks of \$87.82/bbl and \$86.06/bbl for the three and nine months ended September 30, 2008. In comparison to the first three quarters of 2008, the decreased netback for crude oil in the first three quarters of 2009 is primarily due to per barrel oil prices being only 55% 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 \$6.44/boe and \$7.35/boe for the three and nine months ending September 30, 2009. This compares to \$24.68/boe and \$30.33/boe netbacks from gas and products during the third quarter and first nine months 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 increased primarily as a result of the increased weighting towards higher netback oil and lower operating and transportation costs. Royalties on a per unit basis have increased over the prior quarter when several prior period royalty adjustments were recorded.

General and Administrative

Net general and administrative expenses during the three and nine months ended September 30, 2009 were \$0.5 million and \$1.6 million, respectively, compared to \$0.2 million and \$0.7 million net general and administrative expenses incurred during the three and nine months ended September 30, 2008. Net general and administrative costs averaged \$3.35/boe in the three months ending September 30, 2009 compared to \$1.97/boe for the same period of 2008. For the nine month periods, the net per unit expense was \$4.14/ boe in 2009 compared to \$3.91/ boe in 2008.

Gross general and administrative costs for the three and nine months ended September 30, 2009 were 66% and 48% greater than the corresponding periods in 2008. Incremental costs have been incurred in 2009 for increased number of employees, increased rent expense, and the associated expenditures along with fees to professional service providers, costs associated with annual and interim reporting, and computer related charges. In the third quarter of 2009, Painted Pony paid a bonus to certain personnel; in 2008 bonuses were paid in the second quarter. The bonus (approximately \$200,000) as a percentage of salary was 21% in 2009 compared to 24% (2008: approximately \$164,000) in the previous year.

The Company's policy of allocating and capitalizing costs associated with new capital projects was unchanged in 2009 compared to 2008. During the three and nine months ended September 30, 2009, the Company allocated \$0.2 million and \$0.4 million, respectively, of administrative costs from operated activities compared to \$0.3 million and \$0.7 million during the three and nine months ended September 30, 2008. Capital allocations of costs in the first three quarters of 2009 reflect the reduced operated capital expenditure levels compared to the same 2008 period. General and administrative costs capitalized in the three and nine months ended September 30, 2009, were \$0.3 million and \$0.8 million, respectively, compared to \$0.2 million and \$0.4 million during the three and nine months ended September 30, 2008.

General and administrative costs for the fourth quarter of 2009, net of allocations and capitalization, are expected to be lower than the third quarter of 2009 reflecting an active operated capital program in the period.*

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Capital and Other Taxes

Capital and other taxes for the three and nine months ended September 30, 2009 were \$0.1 million and \$0.2 million, respectively, compared to \$0.1 million and \$0.3 million incurred during the three and nine months ended September 30, 2008. Saskatchewan capital taxes were \$0.2 million, for the first three quarters of 2009 and 2008, 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 \$0.1 million incurred in the nine months ended September 30, 2008 was 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 2009. As the gross oil sales increase in the fourth quarter of 2009, the Company anticipates the capital taxes to correspondingly increase.*

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Capital and Other Taxes

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Capital tax	\$ 109,150	\$ 88,101	\$ 207,909	\$ 167,831
Part XII.6 tax	-	3,925	-	135,710
	\$ 109,150	\$ 92,026	\$ 207,909	\$ 303,541

Interest and Other Income

Painted Pony invests cash in short-term term deposits, generating interest income. The reduced interest income in the first nine months 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, additional interest income was earned. During the last quarter of 2009, the additional funds from the issuance of shares in November will allow the Company to earn additional interest income. *

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Other income is primarily from processing, salt water disposal fees and rentals of tubular pipe for Company-operated fracs. In 2009, the increased Company working interest in operated capital expenditures has resulted in minimal related rentals to partners.

Interest and Other Income

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Interest income	\$ 7,653	\$ 262,849	\$ 47,601	\$ 693,076
Other income	4,087	85,458	58,387	276,900
	\$ 11,740	\$ 348,307	\$ 105,988	\$ 969,976

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense for operations during the three and nine months ended September 30, 2009 was \$4.6 million and \$11.0 million, respectively. For the three and nine months ended September 30, 2008, depletion, depreciation and accretion expense was \$2.6 million and \$5.4 million, respectively. In the third quarter of 2009, Painted Pony excluded \$11.1 million (September 30, 2008: \$nil) of undeveloped land from the depletion calculation.

Depletion, Depreciation and Accretion Costs

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Depletion	\$ 4,538,260	\$ 2,554,686	\$ 10,830,980	\$ 5,319,725
Depreciation	9,575	8,847	27,257	18,958
Accretion	43,656	39,354	116,973	78,016
Total	\$ 4,591,491	\$ 2,602,887	\$ 10,975,210	\$ 5,416,699
Per boe	\$ 30.16	\$ 30.53	\$ 28.74	\$ 31.76

Depletion rates reflect the combined effect of the asset purchases and drilling operations. Depreciation expense was recognized for office equipment, computer hardware and software, and office furniture being depreciated on a 20% per annum declining balance basis. Increased accretion costs reflect the higher future retirement liabilities incurred from drilling activities and property acquisitions.

Stock-Based Compensation

The stock-based compensation expense is a non-cash cost calculation of the 2,660,000 (2008: 2,765,000) options granted to purchase Class A shares at a weighted-average price of \$3.41 (2008: \$5.12) per share utilizing the Black-Scholes model. The options generally vest one-third immediately on granting, one-third on the one year anniversary of the grant, and the final one-third on the two year anniversary of the grant. This expense may not represent actual cash compensation realized by the recipients of the options.

In July, 2009, 1,389,000 options at a weighted average price of \$6.15 per share were surrendered by various employees, consultants, officers and directors and subsequently cancelled. The exercise prices associated with those options were significantly in excess of the trading price of the shares at that time. The decision to surrender the options was entirely voluntarily and no agreements or commitments were made to holders with respect to new options. In accordance with GAAP, all of the unamortized stock-based compensation relating to the options held by employees and directors that would have been recorded over the remaining vesting period was recorded in the period of cancellation. The effect of this cancellation required the recognition of \$1.1 million of additional expense in the third quarter of 2009, or \$0.03 per basic and diluted share. Options granted during the third quarter of 2009 required an additional expense charge of \$0.9 million as well as the cost of \$0.1 million for options granted previously.

Total stock-based compensation cost for the fourth quarter of 2009 is estimated to be approximately \$0.5 million, based on options currently issued.*

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Capital Expenditures

The Company incurred non-acquisition capital expenditures of \$12.1 million and \$24.1 million during the three and nine months ended September 30, 2009 compared to \$15.8 million in the third quarter of 2008 and \$35.3 million in the first nine months of 2008.

Painted Pony carried out an active third quarter 2009 horizontal Bakken development drilling program with the drilling of 7 (6.3 net) wells. In the first three quarters of 2009, Painted Pony participated in the drilling of 11 (10.3 net) horizontal Bakken oil wells in the Huntoon, Midale, and Weyburn areas of Saskatchewan and 1 (0.5 net) conventional gas well in the Cameron area of British Columbia targeting the Bluesky zone, at an overall net success rate of 97%.

During the third quarter of 2009, the Company completed four separate acquisitions of Bakken producing properties and undeveloped land primarily in the Company's core Midale/Huntoon area of Saskatchewan for estimated total costs of \$13.6 million, including closing costs and adjustments. In the first quarter of 2008, Painted Pony closed an acquisition of natural gas properties in British Columbia for a total cost of \$21.1 million (estimated at September 30, 2008), including closing costs and adjustments.

Capital Expenditures

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008 ¹	2009	2008 ¹
Lease acquisitions & retention	\$ 157,890	\$ 2,428,739	\$ 984,296	\$ 5,438,873
Seismic	804,234	196,256	804,303	376,172
Drilling & completions	7,753,897	10,707,409	17,000,433	24,996,722
Facilities & equipment	3,397,809	2,399,924	5,262,383	4,415,809
Head office expenditures	27,130	58,158	28,713	116,333
Exploration & development	12,140,960	15,790,486	24,080,128	35,343,909
Property acquisition	13,586,644	55,840	13,586,644	21,076,768
Stock-based compensation costs and tax effect	597,807	1,028,140	947,994	1,929,730
Asset retirement cost	304,219	122,915	395,810	1,825,912
Total expenditures	\$ 26,629,630	\$16,997,381	\$ 39,010,576	\$ 60,176,319

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

In the third quarter of 2009, operations resumed under two farm-out agreements, whereby a senior oil and gas exploration and production company has farmed-in on portions of Montney rights held by Painted Pony within the Cypress and Cameron areas of British Columbia.

On the Cameron lands, a second vertical well targeting the Montney formation which commenced drilling on July 29, 2009 is currently waiting on completion. A third well targeting the Montney formation committed to under the terms of the farm-out agreement on the Cameron lands is expected to commence being horizontally drilled in the fourth quarter of 2009. On the Cypress lands, a horizontal well targeting the Montney formation drilled primarily in the first quarter of 2009 is currently being flow tested.

The Company built its land position through farm-in agreements, freehold leasing, and acquisitions. At September 30, 2009, the Company owned 59,843 net acres of land (97% undeveloped) in Saskatchewan and 94,154 net acres of land (78% undeveloped) in British Columbia. The Company has submitted applications to BC MEMPR requesting continuation of approximately 2,300 net acres of land in British Columbia on the basis of a program of work intended to evaluate their potential productivity. An additional application for 6,345 net acres will be made prior to year end. The Company expects these lands to be continued and is in the process of submitting licenses for three potential Montney locations at Blair in preparation for the 2010 drilling program.*

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To date in the fourth quarter, Painted Pony has participated in the drilling of 8 (6.2 net) horizontal Bakken oil wells. During the remainder of this year, the Company expects to participate in the drilling of an additional 1 (0.13 net) well targeting the Bakken formation.*

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Ceiling Test

The Company performed a ceiling test calculation at September 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.

Capital Resources

At September 30, 2009, Painted Pony had a \$24 million demand revolving credit facility and a \$5 million demand non-revolving acquisition/development facility with a Canadian chartered bank. Subsequent to September 30, 2009, the availability under the demand revolving credit facility was increased to \$33 million and the non-revolving acquisition/development facility was increased to \$7 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, as defined by the lender, 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 by the lender. Security is provided by a first fixed and floating charge debenture of \$50 million on all of the Company's assets. 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 March 31, 2010. At November 25, 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.

On November 17, 2009, the Company completed a bought deal financing of 8,800,000 Class A Shares at a price of \$5.88 per share for total gross proceeds of \$51.7 million.

Liquidity

As at September 30, 2009, Painted Pony had current assets of \$13.4 million and current liabilities of \$12.3 million, resulting in a net working capital position of \$1.1 million. Available cash has been, and is currently, invested in term deposits or on deposit 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 September 30, 2009, the Company had a positive working capital position of \$1.1 million and nothing drawn on the two bank credit facilities totaling \$29.0 million. Subsequent to the end of the third quarter, the Company's credit facilities have been increased to total \$40 million and in November, 2009, a share issue was completed for \$51.7 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 no debt. In 2010, the Company may utilize available credit facilities on a periodic basis.*

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Commitments

At September 30, 2009, the Company is committed to the processing costs associated with the physical delivery of five MMcf per day of natural gas. The estimated cost of the commitment is:

	Amount
2009	\$ 170,200
2010	562,400

At September 30, 2009, the Company was committed to future payments totaling \$1.3 million for office space rental and a proportionate share of operating costs through 2013.

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 million.
- 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 \$20 million.

As at September 30, 2009, 35,237,700 Class A shares and 1,173,600 Class B shares were issued and outstanding.

- On November 17, 2009, the Company completed a bought deal financing of 8,800,000 Class A Shares at a price of \$5.88 per share for total gross proceeds of \$51.7 million.

As at November 25, 2009, 44,072,700 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 September 30, 2009 and November 25, 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.

- In July 2009, the Company cancelled 1,389,000 options and granted 1,283,000 options.

As at September 30, 2009, 2,660,000 options were issued and outstanding. The options are exercisable over a 5-year period at a weighted-average price of \$3.41 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.

As at November 25, 2009, 2,625,000 options were issued and outstanding at an average exercise price of \$3.40.

Income Taxes

The Company recognized a future tax asset of \$0.9 million 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 \$4.4 million 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 November 17, 2009, the Company issued 8,800,000 Class A shares at a price of \$5.88 per share for gross proceeds of \$51.7 million by way of a bought-deal financing. On October 30, 2009, 35,000 options priced at \$3.97 were exercised to acquire an equal number of Class A shares of the Company.

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.

Performance Compared to Guidance and Outlook*

Readers are reminded that 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. Previously announced guidance by the Company as compared to the performance is as follows:

- a) The Company guided it expected oil sales in the second half of 2009 to increase while gas sales would decline, reflecting the focus of operations on crude oil. In the third quarter, sales averaged 1,655 boe/d, weighted 64% oil and liquids and 36% natural gas. Sales of crude oil averaged 1,008 bbls/d in the third quarter compared to 543 bbls/d in the second quarter. Natural gas sales averaged 3.6 MMcf/d in the third quarter compared to 4.4 MMcf/d in the second quarter. Painted Pony expects the fourth quarter of 2009 to see further increases in oil sales from drilling operations and decreases from gas due to natural declines.
- b) The Company's expectation that it would receive an average oil price which approximated the Edmonton par reference price and a natural gas price which approximated the AECO daily spot price was realized in the third quarter.
- c) Painted Pony indicated it expected royalties for the second half of 2009 to approximate 14% of total revenues. In the third quarter, the actual royalty rate was 12.1% of total royalties, the result of lower commodity prices. Fourth quarter royalty rates are expected to average 14%, reflecting higher oil prices and an increased overall production weighting towards oil.
- d) As indicated, the investments in facilities in Saskatchewan caused reduced per unit operating and transportation costs. In British Columbia, the Company indicated it expected the per unit transportation costs to increase in the second half of 2009 as production volumes decline. In the third quarter, the impact of this was mitigated by savings from the voluntary production curtailment of lower netback gas wells in the Cypress area.
- e) As guided by the Company, seasonal weather did cause some production disruptions in 2009. In the first week of October 2009, the Company experienced a temporary reduction of approximately a quarter of the daily oil sales volumes due to excessively wet surface conditions.
- f) The Company had indicated that increased capital expenditures during the third quarter of 2009 could result in lower net general and administrative costs due to additional costs being allocated to operated capital projects. This was partially offset by the payment of a bonus in the third quarter.
- g) Consistent with the guidance given, the third quarter capital tax cost increased reflecting the increase of gross oil sales in Saskatchewan. The Company expects capital tax costs will increase in the fourth quarter, reflecting increased gross oil sales.
- h) 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 was expected to increase. This did not happen, reflecting the low interest rate and the rate the additional funds were employed in the drilling and acquisition program carried out during the third quarter of the year.
- i) Processing income and salt water disposal income increased during the third quarter of 2009, consistent with the Company's expectation of increases in the second half of 2009.
- j) As guided, the third quarter expense for stock-based compensation increased, reflecting the costs of options cancelled and granted. Painted Pony recorded \$2.1 million of non-cash stock based compensation expenses, of which \$1.1 million was for share options surrendered for cancellation in the quarter.

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Off Balance Sheet Arrangements

No off balance sheet arrangements existed as at September 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 nine months ended September 30, 2009, the Company incurred \$29,241 and \$199,985, respectively, on services obtained from the firm. During the same periods of 2008, the Company incurred \$7,842 and \$138,460, 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 cash and cash equivalents, 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 risk management contracts 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.

Financial Instruments Disclosures

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.

Future Accounting Policy Changes

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. The newly issued Sections 1600 and 1601, Consolidated Financial Statements is required to be adopted at the same time as Section 1582.

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 continue during the last quarter of 2009, the Company continue the 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 into 2010 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, many of which 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 third quarter of 2009.

Quarter ended (unaudited) (\$)	March 31, 2009	June 30, 2009	September 30, 2009
Gross revenues ⁽¹⁾	4,559,432	4,889,384	7,833,928
Funds flow from operations	1,890,014	1,825,515	4,513,191
Basic, per share	0.05	0.06	0.12
Diluted, per share	0.05	0.06	0.12
Cash flow from operating activities	1,499,253	530,563	4,273,094
Net loss	(1,597,149)	(1,964,686)	(2,046,483)
Basic and diluted, per share	(0.05)	(0.06)	(0.05)
Capital expenditures, net	7,305,781	4,633,387	12,140,960
Capital acquisitions, net	-	-	13,586,644
Total assets	92,605,471	108,308,456	112,861,191
Long-term liabilities (ARO) ⁽²⁾	1,843,678	1,930,537	2,278,412

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

(2) Asset retirement obligations.

Quarter ended (unaudited) (\$)	March 31, 2008	June 30, 2008	September 30, 2008	December 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	8,894,378	10,659,045	15,790,486	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 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 obligations.

Quarter ended (unaudited) (\$)	December 31, 2007
Gross revenues ⁽¹⁾	744,092
Funds flow from operations	575,864
Basic and diluted, per share	0.04
Cash flow from operating activities	367,763
Net earnings	164,855
Basic and diluted, per share	0.01
Capital expenditures, net	2,532,377
Capital acquisitions, net	-
Total assets	26,194,023
Long-term liabilities (ARO) ⁽²⁾	92,340

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

(2) Asset retirement obligations.

Significant factors and trends that have affected the Company's results during the above periods are as follows:

- a) Gross revenues are impacted by both production volumes, that have steadily increased over the quarters as a result of drilling and acquisition activities, and volatile commodity pricing. The Company's capital program has positively impacted production volumes, partially offset by normal production declines. The sales prices realized by the Company have generally approximated the Edmonton par light oil prices and AECO daily spot gas prices throughout the above periods. The reference prices have responded both positively and negatively to various international and domestic factors.
- b) Funds flow from operations have increased and decreased over time reflecting primarily the impact of commodity prices, as well as steadily increasing production levels, per BOE operating and transportation costs that have responded to seasonal weather-related issues, and sliding-scale royalties that respond to both prices and production levels.
- c) Cash flow from operating activities has increased or decreased in concert with funds flow from operations and is further impacted by the timing of related accounts payable and receivable settlements.
- d) Net earnings throughout 2008 were achieved as a result of relatively strong commodity prices and, in the first quarter of 2008, the recording of a \$4.4 million future income tax reduction, primarily from the income tax effect of recognizing an offsetting, previously recorded liability for flow-through shares issued. Throughout 2009, commodity prices have been substantially weaker than during 2008, contributing to the net losses recorded. Furthermore, in the third quarter of 2009, the Company recorded \$2.1 million of non-cash stock-based compensation expenses, of which \$1.1 million was for share options surrendered for cancellation in the quarter.
- e) Net capital expenditures have reflected both available capital resources and intentional capital spending restraint during less favorable economic periods.
- f) Net capital acquisitions occurred in the first quarter of 2008 and the third quarter of 2009 when strategic opportunities were identified and completed.
- g) Total assets and long-term liabilities (asset retirement obligations) have generally increased quarter over quarter since 2007 reflecting the execution of the Company's capital program, somewhat offset by depletion.

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

As at	September 30, 2009	December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,386,179	\$ 19,792,514
Accounts receivable	3,670,815	5,822,755
Prepaid expenses and deposits	388,639	364,629
	<u>13,445,633</u>	<u>25,979,898</u>
Long-term assets		
Property and equipment (<i>notes 4 & 5</i>)	98,468,016	70,266,506
Future income tax	947,542	947,542
	<u>\$ 112,861,191</u>	<u>\$ 97,193,946</u>
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,349,879	\$ 14,145,283
Long-term liabilities		
Asset retirement obligations (<i>note 7</i>)	2,278,412	1,765,629
	<u>14,628,291</u>	<u>15,910,912</u>
Shareholders' equity		
Capital stock (<i>note 8</i>)	89,431,875	70,644,240
Contributed surplus (<i>note 9</i>)	9,802,749	6,032,200
Retained earnings (deficit)	(1,001,724)	4,606,594
	<u>98,232,900</u>	<u>81,283,034</u>
	<u>\$ 112,861,191</u>	<u>\$ 97,193,946</u>
Commitments (<i>note 13</i>)		
Subsequent Events (<i>notes 6 and 16</i>)		
See accompanying notes to the interim consolidated financial statements.		

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenue				
Petroleum and natural gas	\$ 7,833,928	\$ 7,188,501	\$ 17,282,744	\$ 14,979,157
Royalties	(946,812)	(1,194,242)	(1,872,314)	(2,483,994)
Interest	7,653	262,849	47,601	693,076
Other	4,087	85,458	58,387	276,900
	6,898,856	6,342,566	15,516,418	13,465,139
Expenses				
Operating	1,087,105	710,687	3,231,586	1,413,232
Transportation	679,968	524,047	2,266,820	1,211,691
General and administrative	509,442	170,073	1,581,383	670,259
Capital and other taxes	109,150	92,026	207,909	303,541
Stock-based compensation (<i>note 8(d)</i>)	2,111,642	2,243,618	3,127,538	3,647,903
Depletion, depreciation and accretion	4,591,491	2,602,887	10,975,210	5,416,699
	9,088,798	6,343,338	21,390,446	12,663,325
Income (loss) before income taxes	(2,189,942)	(772)	(5,874,028)	801,814
Future income tax reduction	143,459	329,005	265,710	4,397,514
Net income (loss) and comprehensive income (loss) for the period	(2,046,483)	328,233	(5,608,318)	5,199,328
Retained earnings (deficit), beginning of period	1,044,759	4,024,543	4,606,594	(846,552)
Retained earnings (deficit), end of period	\$ (1,001,724)	\$ 4,352,776	\$ (1,001,724)	\$ 4,352,776
Net income (loss) per share (<i>note 10</i>)				
Basic and diluted	\$ (0.05)	\$ 0.01	\$ (0.17)	\$ 0.20

See accompanying notes to the interim consolidated financial statements.

PAINTED PONY PETROLEUM LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating activities				
Net income (loss) for the period	\$ (2,046,483)	\$ 328,233	\$ (5,608,318)	\$ 5,199,328
Items not affecting cash:				
Stock-based compensation	2,111,642	2,243,618	3,127,538	3,647,903
Depletion, depreciation, and accretion	4,591,491	2,602,887	10,975,210	5,416,699
Future income tax reduction	(143,459)	(329,005)	(265,710)	(4,397,514)
Asset retirement expenditures	(7,710)	-	(49,171)	-
Change in non-cash working capital (note 11)	(232,387)	910,379	(1,876,639)	153,517
	4,273,094	5,756,112	6,302,910	10,019,933
Financing activities				
Issuance of share capital	59,550	-	20,009,550	38,399,100
Share issuance costs	(31,771)	-	(1,261,188)	(2,500,855)
Change in non-cash working capital (note 11)	(176,259)	(81,359)	(105,099)	5,000
	(148,480)	(81,359)	18,643,263	35,903,245
Investing activities				
Expenditures on property and equipment additions	(12,140,960)	(15,790,486)	(24,080,128)	(35,343,909)
Property and equipment acquisitions (note 4)	(13,586,644)	(55,840)	(13,586,644)	(5,335,468)
Change in non-cash working capital (note 11)	3,714,194	561,520	2,314,264	8,047,258
	(22,013,410)	(15,284,806)	(35,352,508)	(32,632,119)
Change in cash and cash equivalents	(17,888,796)	(9,610,053)	(10,406,335)	13,291,059
Cash and cash equivalents, beginning of period	27,274,975	40,250,357	19,792,514	17,349,245
Cash and cash equivalents, end of period	\$ 9,386,179	\$ 30,640,304	\$ 9,386,179	\$ 30,640,304
Cash and cash equivalents is comprised of:				
Bank balance	\$ 2,033,679	\$ 2,140,304	\$ 2,033,679	\$ 2,140,304
Short term deposits	7,352,500	28,500,000	7,352,500	28,500,000
	\$ 9,386,179	\$ 30,640,304	\$ 9,386,179	\$ 30,640,304

See accompanying notes to the interim consolidated financial statements.

PAINTED PONY PETROLEUM LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
Three and nine months ended September 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 Corp. 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.

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.

e) 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 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.

4. Property Acquisitions

- a) During the third quarter of 2009, the Company completed four separate acquisitions of certain crude oil properties (the “Q3 2009 Assets”). The acquisitions were accounted for at an estimated total cost of \$13.6 million, including transaction costs and adjustments.

The following table summarizes the fair value of the Q3 2009 Assets acquired at the dates of acquisition.

Consideration:	
Cash	\$ 13,528,084
Transaction costs	58,560
Total consideration	\$ 13,586,644
Allocated to:	
Property and equipment	\$ 13,792,269
Asset retirement obligations	(205,625)
	\$ 13,586,644

- b) On March 31, 2008, the Company completed the acquisition of certain natural gas properties in British Columbia (the "March 31, 2008 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 and transaction costs, for a total purchase price of \$21.2 million.

The following table summarizes the fair value of the March 31, 2008 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

September 30, 2009	Cost	Accumulated depletion & depreciation	Net book value
Petroleum properties, including exploration and development thereon	\$ 117,675,999	\$ 19,389,908	\$ 98,286,091
Other	245,221	63,296	181,925
	\$ 117,921,220	\$ 19,453,204	\$ 98,468,016

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 \$29,441,000 (December 31, 2008: \$12,925,000) for future development costs and excluded \$11,093,000 (December 31, 2008: \$11,641,000) for undeveloped land from the depletion calculation.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
General and administrative	\$ 290,242	\$ 170,875	\$ 744,995	\$ 439,135
Stock-based compensation	454,348	699,135	682,284	1,312,216
Total	\$ 744,590	\$ 870,010	\$ 1,427,279	\$ 1,751,351

6. Bank Debt

At September 30, 2009 and December 31, 2008, the Company had no bank debt. At September 30, 2009, the Company has available a \$24 million demand revolving credit facility and a \$5 million demand non-revolving acquisition/development facility with a Canadian chartered bank.

Subsequent to September 30, 2009, the availability under the demand revolving credit facility was increased to \$33 million and the non-revolving acquisition/development facility was increased to \$7 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, as defined by the lender. The facilities are subject to a review on or before March 31, 2010.

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 \$8.0 million as at September 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:

	Nine months ended September 30, 2009	Year ended December 31, 2008
Obligations, beginning of period	\$ 1,765,629	\$ 92,340
Liabilities incurred	239,356	362,175
Revisions	-	(235,306)
Abandonments	(49,171)	(130,515)
Liabilities acquired on property acquisition (see note 4)	205,625	1,564,106
Accretion expensed	116,973	112,829
Obligations, end of period	\$ 2,278,412	\$ 1,765,629

8. Capital Stock

a) Authorized

Unlimited Class A shares
 Unlimited Class B shares
 Unlimited Preferred shares, none outstanding as at September 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	-	-
Options exercised	15,000	59,550	-	-
Transfer from contributed surplus on exercise of options	-	39,273	-	-
Share issuance costs	-	(1,261,188)	-	-
Balance, September 30, 2009	35,237,700	\$ 82,072,165	1,173,600	\$ 7,359,710

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 September 30, 2009, 2,660,000 options are issued and outstanding with a weighted-average life of 4.1 years (December 31, 2008: 4.3 years). A total of 1,360,667 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 five years from date of grant.

The following tables summarize information regarding stock options for the nine months ended September 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
Granted	\$ 2.96	1,283,000
Exercised	\$ 3.97	(15,000)
Cancelled/ expired	\$ 6.17	(1,448,000)
Balance, September 30, 2009	\$ 3.41	2,660,000

Stock Options, September 30, 2009

Number of Options Outstanding	Exercise Price	Weighted Average Remaining Life (yrs)	Exercisable Options
1,302,000	\$ 3.97	3.3	908,000
75,000	\$ 1.40	4.2	25,000
804,500	\$ 2.85	4.8	268,167
478,500	\$ 3.15	4.8	159,500
2,660,000	\$ 3.41	4.1	1,360,667

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:

	Nine months ended September 30, 2009	Year ended December 31, 2008
Risk free rate (%)	0.59	3.13
Expected life (years)	5	5
Expected volatility (%)	80	80
Expected dividends	-	-
Fair value per option (weighted average)	\$1.97	\$ 3.17

Stock-Based Compensation

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Expensed	\$ 2,111,642	\$ 2,243,618	\$ 3,127,538	\$ 3,647,903
Capitalized (note 5)	454,348	699,135	682,284	1,312,216
Total cost	\$ 2,565,990	\$ 2,942,753	\$ 3,809,822	\$ 4,960,119

9. Contributed Surplus

	Nine months ended September 30, 2009	Year ended December 31, 2008
Balance, beginning of period	\$ 6,032,200	\$ -
Stock-based compensation, net (see note 8(d))	3,809,822	6,110,746
Transfer to share capital on exercise of options	(39,273)	(78,546)
Balance, end of period	\$ 9,802,749	\$ 6,032,200

10. Per Share Amounts

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

Weighted Average Shares

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Class A – basic	35,228,243	28,222,700	30,609,183	23,001,331
Class A – diluted	35,228,243	28,222,700	30,609,183	23,131,010
Class B – basic	1,173,600	1,173,600	1,173,600	1,173,600
Class B – deemed conversion to Class A	2,790,033	2,863,307	2,790,033	2,863,307
Class A & B - basic	38,018,276	31,086,007	33,399,216	25,864,638
Class A & B - diluted	38,018,276	31,086,007	33,399,216	25,994,317

During the three and nine months ended September 30, 2009, all options were excluded in the weighted-average diluted share calculation of Class A shares. During the three and nine months ended September 30, 2008, 2,765,000 and 1,448,000 options, respectively, 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 September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Accounts receivable	\$ (1,260,479)	\$ 388,355	\$ 2,151,940	\$ (6,269,402)
Prepaid expenses and deposits	908,453	(136,053)	(24,010)	(341,401)
Accounts payable and accrued liabilities	3,657,574	1,138,238	(1,795,404)	14,816,578
	\$ 3,305,548	\$ 1,390,540	\$ 332,526	\$ 8,205,775

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Operating	\$ (232,387)	\$ 910,379	\$ (1,876,639)	\$ 153,517
Financing	(176,259)	(81,359)	(105,099)	5,000
Investing	3,714,194	561,520	2,314,264	8,047,258
	\$ 3,305,548	\$ 1,390,540	\$ 332,526	\$ 8,205,775

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 nine months ended September 30, 2009, the Company incurred \$29,241 and \$199,985, respectively (three and nine months ended September 30, 2008: \$7,842 and \$138,460) on services obtained from the firm. As at September 30, 2009, the Company owes this related party \$1,183.

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 September 30, 2009, the Company is committed to the processing costs associated with the physical delivery of five MMcf per day of natural gas. The estimated remaining cost of the commitment is:

	Amount
2009	\$ 170,200
2010	562,400

- b) At September 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	\$ 89,962
2010	359,847
2011	359,847
2012	359,847
2013	179,924
Total	\$ 1,349,427

14. Capital Disclosures

At September 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 from operations, being cash flow from operating activities adjusted for changes in non-cash working capital and asset retirement expenditures.

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

- Create and maintain flexibility to enable the Company to continue to meet its financial obligations; and
- 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 1:1 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 acquisitions, 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 September 30, 2009, the Company had no debt and had positive working capital of \$1.1 million as detailed below:

	As at September 30, 2009
Current assets	\$ 13,445,633
Current liabilities	(12,349,879)
Net working capital	\$ 1,095,754

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 September 30, 2009, the Company had a working capital ratio of 3:1, 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 September 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 September 30, 2009, accounts receivable was comprised of the following (\$000):

Sales revenue	\$ 3,093
Joint interest	383
Accrued and other	195
Total accounts receivable	\$ 3,671

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 September 30, 2009. As at September 30, 2009, the Company estimates its trade accounts receivable to be aged as follows:

Aging (\$000)	
Not past due (less than 30 days)	\$ 3,394
Past due 31-60 days	233
Past due 61-90 days	-
Past due more than 90 days	44
Total	\$ 3,671

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 risk management 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 September 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 September 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 nine months ended September 30, 2009, if interest rates had been 0.5% lower than the nine month 2009 weighted average rate of 0.68%, with all other variables held constant, after tax net earnings for the period would have been \$35,046 lower, due to lower interest income. An equal and opposite impact would have occurred to net earnings had interest rates been 0.5% 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 September 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 Event

On November 17, 2009, the Company issued 8,800,000 Class A shares at a price of \$5.88 per share for gross proceeds of \$51,744,000 by way of a bought-deal financing.

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
Chief Financial Officer
Crown Point Ventures Ltd.
Calgary, Alberta

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

Michael Belenkie
Vice President, Corporate Development

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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