



To Our Shareholders

Painted Pony Petroleum Ltd. ("Painted Pony" or the "Company") is pleased to present its first quarter 2010 financial results together with an update of its operational activities to date. The Company has:

- Drilled and tested 3 (2.3 net) Montney wells on the Blair/Town block; a vertical which tested 1.5 MMcf/d and two horizontals which tested 3.9 MMcf/d and 5.0 MMcf/d.
- Generated funds flow from operations in the first quarter of 2010 of \$9.2 million (\$0.20 per diluted share), up 385% over Q1 2009.
- Grew daily production to average 2,322 boe/d (weighted 76% oil and liquids and 24% gas) for the quarter, up 90% over Q1 2009, and 16% over Q4 2009. Daily oil production increased 195% over Q1 2009.
- Exited the first quarter of 2010 with positive working capital of \$15.6 million and no debt.
- Increased available credit facilities to \$43 million.
- Realized first quarter 2010 field netbacks of \$58.71 per bbl for oil, on sales prices averaging \$79.58 per bbl.

MONTNEY DISCOVERY, BRITISH COLUMBIA

In the first quarter of 2010, Painted Pony successfully operated the drilling of 3 (2.3 net) gas wells targeting the Montney formation on the Blair/Town block. The first, a 100% working interest vertical well, tested 1.5 MMcf/d at 440 Psi after five days of flow-testing. The second, a 100% working interest horizontal well, tested 5.0 MMcf/d at 450 Psi after a total of 13 days of flow-testing. The third, a 30% working interest horizontal well, tested 3.9 MMcf/d at 640 Psi after a total of four days of flow-testing. All three wells tested sweet gas; the first two have been tied in to existing infrastructure. The third well is expected to be tied in before the end of the second quarter.

On the Cameron block, three horizontal wells (20% net working interest after completions) were drilled in the first quarter, with completions planned after spring breakup. Two of these wells were drilled for lower Montney, with the third drilled for upper Montney.

Effective May 20, 2010, Painted Pony holds 80,800 net acres of Montney rights in northeast British Columbia, of which 28,800 net acres are in the Blair/Town block and 19,200 net acres are in the Cameron block. The three discovery wells on the Blair/Town block were drilled approximately 17 miles northwest of the two previously announced discovery wells on the Cameron block (January 21, 2010 press release). As a result, the Company has identified approximately 400 net potential Montney locations, drillable from pads, within these two main contiguous land blocks. Further testing may increase this inventory as the Montney is approximately 1,000 feet thick in the area.

BLUESKY/ CADOMIN, BRITISH COLUMBIA

In the first quarter of 2010, Painted Pony drilled 2 (1.0 net) successful wells targeting the Bluesky and Cadomin formations at Cameron, of which 1 (0.5 net) well came on production during the quarter. Downspacing approval was received for a portion of this area in January 2010, which will allow the Company to drill up to 15 identified infill/development wells. The pace of this development will depend on commodity prices.

BUCKINGHORSE SHALE FORMATION, BRITISH COLUMBIA

In the Blair area, the Company plans to continue to pilot its Buckinghorse shale play with the drilling of 2 (1.0 net) wells in the third quarter of 2010.

LIGHT OIL OPERATIONS, SASKATCHEWAN

In Saskatchewan, Painted Pony carried out an active first quarter program with the drilling of 10 (9.3 net) wells, primarily in Midale and Huntoon. The Company drilled 8 (7.3 net) horizontal Bakken wells in the Huntoon, Midale and Weyburn areas, 1 (1.0 net) horizontal Mississippian well at Alameda and 1 (1.0 net) unsuccessful exploration well in Weyburn. All of the oil wells were on production by the end of the first quarter. During the remainder of this year, the Company currently expects to drill an additional 27 (22.8 net) wells, primarily targeting the Bakken formation.

In the first quarter of 2010, a multi-well oil battery and water disposal facility in the Huntoon area was placed on stream. Solution gas and liquids conservation facilities are currently under construction, with completion scheduled for mid year. The Huntoon oil sales line was completed during the second quarter of 2010.

Painted Pony has agreed to farm in on approximately 11,000 net acres of Bakken rights in the Wapella area, adding to the existing land base of over 25,000 net acres. The Company plans to drill two 100% exploratory Bakken wells on the Wapella prospect in 2010.

FINANCIAL RESOURCES

At March 31, 2010, Painted Pony had a positive working capital position of \$15.6 million and no debt. The Company's demand credit facilities from a Canadian chartered bank have been increased to \$43 million; a \$36 million revolving operating credit facility and a \$7 million for a non-revolving acquisition/development facility.

We thank you for your support.

On Behalf of the Board of Directors

Patrick R. Ward
President and Chief Executive Officer
May 20, 2010

Financial and Operational Highlights

(unaudited)

Three months ended March 31,	2010	2009
Financial (000's except per share)		
Petroleum and natural gas revenue (before royalties)	\$ 14,146	\$ 4,560
Funds flow from operations ⁽¹⁾	\$ 9,166	\$ 1,890
Per share – basic and diluted ⁽²⁾	\$ 0.20	\$ 0.05
Cash flow from operating activities	\$ 9,231	\$ 1,499
Net earnings (loss)	\$ 681	\$ (1,598)
Per share – basic and diluted ⁽²⁾	\$ 0.01	\$ (0.05)
Capital expenditures ⁽³⁾	\$ 35,243	\$ 7,530
Net working capital	\$ 15,639	\$ 6,407
Total assets	\$ 185,645	\$ 92,605
Shares outstanding		
Class A	44,136,700	28,222,700
Class B	1,173,600	1,173,600
Operational		
Daily sales volumes		
Oil	(bbls/d) 1,722	583
Condensate	(bbls/d) 27	26
NGL's	(bbls/d) 19	11
Gas	(mcf/d) 3,322	3,631
Total	(boe/d) 2,322	1,225
Realized prices		
Oil	(/bbl) \$ 79.58	\$ 51.51
Gas	(/mcf) \$ 5.21	\$ 5.30
Field operating netbacks		
Oil	(/bbl) \$ 58.71	\$ 32.10
Gas & associated liquids	(/boe) \$ 13.45	\$ 12.25
Company combined	(/boe) \$ 47.02	\$ 21.69
Wells drilled ⁽⁴⁾		
Gross	15	3
Net	12.6	2.5
Net success rate	92%	100%

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) does 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. Does not include wells drilled under farmout agreements.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") of the 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 and related notes for the three months ended March 31, 2010 and the consolidated financial statements and related notes for the year ended December 31, 2009. This commentary is dated May 19, 2010. The financial data presented is in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars, except where indicated otherwise. These documents, including the Annual Information Form, 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 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 shares, 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:

(000s)

Three months ended March 31,	2010	2009
Cash flow from operating activities	\$ 9,231	\$ 1,499
Changes in non-cash working capital	(65)	379
Asset retirement expenditures	-	12
Funds flow from operations	\$ 9,166	\$ 1,890

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 current 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:

- a) volumes in 2010 will be weighted approximately 30% towards gas sales, and success from operations targeting the Montney formation in British Columbia on lands farmed out could add incremental volumes;
- b) the average oil price in 2010 will be approximately 3% less than the Edmonton par reference price and the natural gas price received will be a premium to the AECO daily spot price;
- c) overall royalties in 2010 will approximate 14% of total revenues, assuming similar commodity prices;
- d) expected economic benefits from the multi-well oil battery facility and water disposal facility in the Huntoon area include reducing production disruptions caused by adverse weather, cost-effective water handling and disposal, reducing trucking costs and eliminating the capital investment of oil storage tanks at each well location;
- e) sales of solution gas and associated liquids from the Huntoon area are expected to occur during mid-year 2010;
- f) per unit transportation costs in British Columbia are anticipated to decrease in the last two months of 2010 when a firm-service contract term expires;
- g) oil operating costs savings in future months from the batteries and gathering systems may be mitigated if new wells are not able to be tied in;
- h) net general and administrative costs per barrel of oil equivalent will be higher during the first half of 2010 and less in the second half, reflecting the timing of costs associated with statutory annual shareholder and security reporting and expected production volume increases throughout 2010. In the second quarter of 2010, reduced capital expenditures compared to the first quarter is expected to reduce recoveries;
- i) as gross oil sales increase in 2010, the Saskatchewan resource surcharge is expected to correspondingly increase;
- j) three horizontal wells drilled in the first quarter of 2010 in the Cameron area pursuant to a farmout agreement will be completed after spring breakup;
- k) certain lands approaching expiry in British Columbia will be continued through execution of a work program, as a result of a number of continuation applications submitted in 2009;
- l) the work programs forming the basis of continuation applications for lands in British Columbia will be completed;
- m) the tax pools for which tax assets have been recorded will be utilized;

- n) available credit facilities may be utilized on a periodic basis in 2010;
- o) the risk of accounts receivables becoming uncollectible is mitigated by the financial position of the applicable entities; and
- p) 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) the Company's 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 \$9.2 million for the three months ended March 31, 2010, compared to \$1.9 million for the quarter ended March 31, 2009. On a basic and diluted per share basis, funds flow from operations for the quarter ended March 31, 2010 was \$0.20 compared to \$0.05 in the same period of 2009.

Cash flow from operating activities was \$9.2 million for the three months ended March 31, 2010, compared to \$1.5 million for the quarter ended March 31, 2009.

Painted Pony produced net earnings of \$0.7 million in the quarter ended March 31, 2010, compared to a net loss of \$1.6 million incurred during the three months ended March 31, 2009. Basic and diluted earnings per share is \$0.01 for the three months ended March 31, 2010, compared to a basic and diluted per share loss of \$0.05 for the three months ended March 31, 2009.

Sales Volumes

During the three months ended March 31, 2010, Painted Pony's sales volumes increased 90%, to average 2,322 boe per day compared to 1,225 boe per day for the quarter ended March 31, 2009. In the first quarter of 2010, 75% of total volumes were from Saskatchewan, compared to 48% in the first quarter of 2009, primarily from incremental oil sales. Sales volumes in the first quarter of 2010 were weighted 74% towards oil compared to 48% in the comparable 2009 period, reflecting the focus of the capital program towards oil producing assets. All of Painted Pony's light oil sales originate from Saskatchewan operations while 96% of the sales of gas, condensate, and NGL's are from British Columbia.

Average Daily Sales Volumes

Three months ended March 31,	2010	2009
Oil (bbls/d)	1,722	583
Condensate (bbls/d)	27	26
NGL's (bbls/d)	19	11
Gas (mcf/d)	3,322	3,631
Total (boe/d)	2,322	1,225

Daily oil sales volumes in the first quarter of 2010 grew by 195% compared to the same 2009 period, the result of third quarter 2009 asset acquisitions and a successful drilling program. Crude oil sales for the quarter ended March 31, 2010 were from 74 (49.1 net) wells in the Midale, Kisbey, Weyburn and Alameda areas, compared to 42 (15.0 net) wells during the three months ended March 31, 2009.

Natural gas daily sales volumes decreased by 9% in the three months ended March 31, 2010 compared to the quarter ended March 31, 2009 reflecting natural declines. Gas, condensate and liquids sales during the three months ended March 31, 2010 were primarily from 27 (12.5 net) wells in the Blair, Cypress and Cameron areas, compared to sales from 28 (13.6 net) wells during the three months ended March 31, 2009. Sales of gas and NGL products in the first quarter of 2010 from Saskatchewan averaged 27 boe/d, from gas conservation activity within the Kisbey and Weyburn areas.

The Company anticipates sales volumes in 2010 to be weighted approximately 30% towards gas sales. Success from operations targeting the Montney formation in British Columbia on lands farmed out could add incremental volumes.*

**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.*

Revenues

Petroleum and natural gas sales increased 210% to \$14.1 million in the quarter ending March 31, 2010, compared to \$4.6 million for the three months ended March 31, 2009. In the first quarter of 2010, oil sales revenues were 87% of total sales dollars compared to 59% in the first quarter of 2009, while oil volumes were 74% and 48% in the three months ended March 31, 2010 and 2009, respectively. In both periods, oil sales contributed disproportionately more to total sales dollars compared to volumes, reflecting the relative strength of crude oil prices compared to gas prices.

Sales by Product (000s)

Three months ended March 31,	2010	2009
Oil	\$ 12,336	\$ 2,702
Gas	1,556	1,732
Condensate	187	105
NGL and sulphur	67	21
Total	\$ 14,146	\$ 4,560

Crude oil revenue in the three months ended March 31, 2010 was \$12.3 million compared to \$2.7 million during the quarter ended March 31, 2009. Oil revenues increased 357% from the first quarter of 2009 to the first quarter of 2010. Daily oil production volumes for the three months ended March 31, 2010 increased by 195% over the same period of 2009, and the average first quarter 2010 oil price increased 54% over the same 2009 period. Oil prices averaged \$79.58 per bbl in the first quarter of 2010 compared to \$51.51 per bbl during the same 2009 quarter. Painted Pony received an average crude oil price approximately the same as the Edmonton light reference price in the first quarters of both 2010 and 2009. Painted Pony's light oil is a premium light crude with low sulphur content.

Revenue from gas, condensate, NGL and sulphur sales totaled \$1.8 million during the three months ended March 31, 2010, compared to \$1.9 million received during the three months ended March 31, 2009. The Company received an average gas price of \$5.21 per mcf in the quarter ended March 31, 2010, a premium to the AECO daily spot average gas reference price of \$4.93 per mcf. In the first quarter of 2009, the Company received an average gas price of \$5.30 per mcf.

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

The Company generally expects in 2010 to receive an average oil price approximately 3% less than the Edmonton par reference price, reflecting the prices currently paid for crude where the Company tends to deliver the bulk of the oil in Saskatchewan. The Company continues to expect to receive a natural gas price at a premium to the AECO daily spot price. The average prices reported for Painted Pony's sales is the weighted net price, which is reflective of month to month price and sales volume changes.*

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Average Benchmark Prices

Three months ended March 31,	2010	2009
Exchange rate (US\$/Cdn\$)	0.9618	0.8040
Oil - WTI (US\$/bbl)	78.88	42.86
- Edmonton par - light oil (\$/bbl)	80.59	50.15
Gas - AECO, daily spot (\$/mcf)	4.93	4.93

Painted Pony's Realized Prices

Three months ended March 31,	2010	2009
Oil (\$/bbl)	79.58	51.51
Gas (\$/mcf)	5.21	5.30
Condensate (\$/bbl)	77.78	44.36
NGL (\$/bbl)	38.13	19.68

Royalties

Royalties for the three months ended March 31, 2010 are higher on a percentage of sales and on a per boe basis in comparison to the three months ended March 31, 2009, reflecting higher commodity prices and higher crude oil volumes. In the quarter ended March 31, 2010, total royalties were \$2.0 million, or approximately 14.4% of total revenue. For the quarter ended March 31, 2009, total royalties were \$0.5 million, or approximately 10.0% of revenue. In the three months ended March 31, 2010, oil royalties averaged 15.0% of sales, while gas and associated product royalties averaged 10.8%.

In Saskatchewan, increased royalty rates reflect some recent drilling on lands with both freehold and overriding royalty obligations. Production from some wells has exceeded the provincial royalty holiday volumes. Through the balance of 2010, the Company anticipates overall royalty rates to continue at similar levels, reflecting the combined impact of newer drills enjoying royalty holidays with increased royalty rates from older wells, assuming similar commodity prices.*

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Painted Pony's producing properties in British Columbia are on crown lands, and in Saskatchewan are primarily on freehold lands. Despite this, approximately 40% of the crown royalty costs during the three months ended March 31, 2010 were from sales on Saskatchewan oil properties, reflecting low gas crown royalties attributed to low gas prices. Freehold royalties are from the sale of oil, gas, and liquids in Saskatchewan. Gross overriding royalties are mainly from oil sales on lands earned through farm-ins.

Royalties as a % of Revenue

Three months ended March 31,	2010	2009
Crown	2.0	0.6
Freehold	8.6	6.6
GOR	3.8	2.8
	14.4	10.0

Royalties by Type (000s)

Three months ended March 31,	2010	2009
Crown	\$ 284	\$ 28
Freehold	1,217	302
GOR	541	125
	\$ 2,042	\$ 455
Per boe (6 mcf:1 bbl)	\$ 9.77	\$ 4.13

Transportation Costs

Transportation costs were \$0.8 million for the three months ended March 31, 2010 and 2009.

Transportation by Commodity (000s)

Three months ended March 31,	2010	2009
Oil	\$ 205	\$ 162
Gas and associated liquids	600	614
Net	\$ 805	\$ 776
Oil (\$/bbl)	\$ 1.33	\$ 3.08
Gas and associated liquids (\$/boe)	11.11	10.62
Transportation cost (\$/boe)	\$ 3.85	\$ 7.04

Transportation costs in Saskatchewan reflect costs of trucking oil to various sales points, including related costs of addressing occasional capacity issues. In the latter half of 2009, per unit transportation costs began to decline as savings from newly installed gathering systems and facilities began to be realized. In the first quarter of 2010, oil transportation costs were 1.7% of gross oil revenues compared to 6.0% in the comparable 2009 period.

In the first quarter of 2009, additional wells were added to the Kisbey area gathering system. In the summer of 2009, construction of a multi-well oil battery and gathering system in the Midale area was completed and placed on-stream and a multi-well oil battery complete with a gas conservation facility was placed on-stream in the Weyburn area. In the first quarter of 2010, a multi-well oil battery facility and water disposal facility in the Huntoon area was placed on-stream. The Company continues the installation of electricity to numerous wells previously powered by gas engines. Expected economic benefits include reducing production disruptions caused by adverse weather, cost-effective water handling and disposal, reduced trucking costs and eliminating the capital investment of oil storage tanks at each well location. Solution gas and liquids conservation facilities are currently under construction in the Huntoon area, with sales of solution gas and associated liquids expected to occur by mid-year.*

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In British Columbia, gas gathering, processing and transmission services are generally 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. The Company is committed to a firm-service contract for the processing costs associated with the physical delivery of five mmcf per day 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 \$11.11 per boe in the quarter ended March 31, 2010 compared to \$10.62 per boe in the first quarter of 2009, including costs for excess capacity under the firm service contract. In 2010, with the firm-service contract ending, the Company expects the per unit transportation costs to decrease in the last two months of the year.*

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Operating Costs

Operating costs for the three months ended March 31, 2010 were \$1.5 million or \$7.05 per boe. This compares to \$0.9 million or \$8.50 per boe for the first quarter of 2009.

Operating Costs (000s, except per unit)

Three months ended March 31,	2010	2009
Oil	\$ 1,183	\$ 428
Gas and associated liquids	289	509
Production expenses	\$ 1,472	\$ 937
Oil (\$/bbl)	\$ 7.63	\$ 8.17
Gas and associated liquids (\$/boe)	5.36	8.81
Operating cost (\$/boe)	\$ 7.05	\$ 8.50

Both overall per unit operating costs and by product per unit operating costs decreased in the first quarter of 2010 compared to the same period of 2009, reflecting cost-saving measures implemented by the Company.

For the Company's oil producing properties, operating costs are primarily salt water disposal and hauling fees, equipment rentals for gas engines to run the pump jacks if not electrified, fuel and power expenditures, and contract operator fees. Throughout 2009, Painted Pony frequently rented rig mats to allow access to well sites experiencing wet road conditions, to help minimize production disruptions. Salt water disposal fees and rig mat rental fees diminished mid-way in the first quarter of 2010 with the start up of the Huntoon battery. The Company anticipates savings on wells tied into the gathering systems may be mitigated if newly drilled wells are in locations unable to be tied directly into the gathering systems.*

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Operating costs for gas and associated liquids properties are mainly compression fees, contract operating fees, fuel and power, equipment rentals, glycol and methanol costs, and routine repairs and maintenance expenditures on more mature properties. Per unit gas operating costs were lower in the first quarter of 2010 compared to the same period of 2009, primarily due to re-negotiated compression fees and the impact of voluntarily shutting in some high-operating cost wells mid-year 2009.

Operating Netbacks

For the three months ended March 31, 2010, field operating netbacks averaged \$47.02 per boe, compared to field operating netbacks of \$21.69 per boe during the quarter ended March 31, 2009.

Combined Field Operating Netback (\$/boe)

Three months ended March 31,	2010	2009
Sales	\$ 67.69	\$ 41.36
Transportation	(3.85)	(7.04)
Royalties	(9.77)	(4.13)
Operating costs	(7.05)	(8.50)
Field operating netback	\$ 47.02	\$ 21.69

Netbacks by Commodity

Three months ended March 31,	2010	2009
Crude oil (\$/bbl)	\$ 58.71	\$ 32.10
Gas and associated products (\$/boe)	\$ 13.45	\$ 12.25

During the first quarter of 2010, Painted Pony's per unit netback for crude oil was 74% of the gross sales price, compared to 40% for gas and related products, or 69% overall.

Netbacks from crude oil production in Saskatchewan were \$58.71 per bbl for the quarter ended March 31, 2010, compared to \$32.10 per bbl in the three months ended March 31, 2009. The increased per bbl netback for crude oil during the first quarter of 2010, reflects significantly higher prices and lower transportation costs somewhat offset by higher royalty rates when compared to the first quarter of 2009.

The Company monitors netbacks for gas inclusive of associated products. Approximately 71% of associated liquids volumes in the first quarter of 2010 are from British Columbia properties, which primarily produce gas. Gas and associated product netbacks averaged \$13.45 per boe in the three months ended March 31, 2010, compared to \$12.25 per boe in the first quarter of 2009, primarily as a result of higher commodity prices and lower operating costs, somewhat offset by higher transportation costs and royalties.

General and Administrative

Net general and administrative expenses during the three months ended March 31, 2010 and 2009 were \$0.5 million. On a per boe basis, net general and administrative costs were \$2.34 per boe in the first quarter of 2010, compared to \$4.73 per boe in the same period of 2009.

General and Administrative Costs

Three months ended March 31, (000s, except per boe)	2010	2009
Gross costs	\$ 1,276	\$ 866
Capitalized	(422)	(234)
Recoveries	(365)	(111)
Net costs	\$ 489	\$ 521
Net G&A, per BOE	\$ 2.34	\$ 4.73

Gross general and administrative costs in the first quarter of 2010 were 47% greater than in the first three months of 2009, primarily due to salaries, consulting costs, and associated administrative costs for eighteen people compared to sixteen people in the first quarter of 2009. Bonuses of \$0.2 million were paid in the first quarter of 2010, while last year, bonuses were paid in the third quarter of the year. In the first quarter of both years, major general and administrative costs include office rent and parking, fees to professional service providers, costs associated with annual reporting, and computer related charges.

The Company's policy of allocating and capitalizing costs associated with new capital projects was unchanged in the first quarter of 2010 compared to the same period of 2009. During the quarter ended March 31, 2010, the Company allocated \$0.4 million of administrative costs to capital projects and operating costs, compared to \$0.1 million during the same period of 2009. The portion allocated to capital projects was in accordance with common industry practice whereby an operator calculates and allocates overhead to each working interest partner in proportion to their ownership interest, based on 100% of the capital expenditures. Increased cost allocations in the first quarter of 2010 reflect the increased operated capital expenditure levels, compared to the first quarter of 2009. General and administrative costs capitalized in the three months ended March 31, 2010, was \$0.4 million, compared to \$0.2 million during the quarter ended March 31, 2009, directly reflecting increased exploration staff and activity.

In 2010, net general and administrative costs per boe are expected to be higher in the first half of 2010 than in the second half, reflecting the timing of year end costs and expected production volume increases. Capital expenditures are expected to be lower in the second quarter of 2010 than they were in the first quarter, and as a result, a lower level of general and administrative capitalization is expected.*

**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.*

Other Taxes

Other taxes, specifically the Saskatchewan resource surcharge was \$211,000 for the three months ended March 31, 2010 compared to \$46,000 in the first quarter of 2009. As gross Saskatchewan oil sales increase, other taxes are expected to correspondingly increase in 2010.*

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Other Income

Painted Pony invests cash in interest-bearing deposit accounts and short-term deposits, generating interest income. Interest income in the first quarters of 2010 and 2009 were minimal reflecting the low interest rates.

Other income was primarily from processing, salt water disposal fees and rentals of tubular pipe for Company-operated fracs. Other income during the first quarter of 2010 was negligible compared to the first quarter of 2009, when some of these costs were billable to non-owners of facilities or tubular pipe.

Other Income (000s)

Three months ended March 31,	2010	2009
Interest income	\$ 35	\$ 34
Other income	4	31
	\$ 39	\$ 65

Depletion, Depreciation and Accretion

Depletion, depreciation and accretion expense in the three months ended March 31, 2010 totaled \$6.7 million and \$3.0 million in the three months ended March 31, 2009. On a per boe basis, the charge increased in the first quarter of 2010 compared to the first quarter of 2009, reflecting the additional capital invested in facilities and gathering systems. In the first quarter of 2010, Painted Pony excluded \$20.7 million (three months ended March 31, 2009: \$12.2 million) of undeveloped land and \$1.0 million (three months ended March 31, 2009: \$nil) of seismic costs from the depletion calculation.

Depletion, Depreciation and Accretion Costs (000s, except per boe)

Three months ended March 31,	2010	2009
Depletion	\$ 6,586	\$ 2,984
Depreciation	11	9
Accretion	55	36
Total	\$ 6,652	\$ 3,029
Per BOE	\$ 31.83	\$ 27.48

Depletion rates reflect the all-in combined effect of the third quarter 2009 asset acquisitions, investments in facilities and gathering systems, plus 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 expected to be incurred from the incremental wells added through drilling activities and property acquisitions.

Stock-Based Compensation

Stock-based compensation costs were \$1.5 million in the three months ended March 31, 2010 and \$0.6 million in the first quarter of 2009. The Company capitalized \$0.3 million during the quarter ended March 31, 2010 and \$0.1 million during the three months ended March 31, 2009. The remainder of \$1.2 million for the first quarter of 2010 and \$0.5 million for the same period of 2009 was expensed. The stock-based compensation expense is a non-cash calculation utilizing the Black-Scholes model, of the estimated cost associated with options granted to purchase Class A shares. This expense may not represent actual cash compensation realized by the recipients of the options upon the eventual exercise and disposition of these options.

Capital Expenditures

In the first quarter of 2010, Painted Pony conducted an active drilling program with the drilling of 15 (12.6 net) wells at an overall net success rate of 92%, of which 10 (9.3 net) wells were targeting oil in Saskatchewan and 5 (3.3 net) wells were targeting gas in British Columbia. Exploration and development capital expenditures, including facilities and land costs totaled \$34.4 million in the first quarter of 2010 compared to \$7.3 million incurred in the first quarter of 2009. No acquisition costs were incurred in either period.

In Saskatchewan, the Company drilled 8 (7.3 net) horizontal Bakken oil wells in the Huntoon, Midale, and Weyburn areas, 1 (1.0 net) horizontal Mississippian well at Alameda and 1(1.0 net) unsuccessful exploration well in Weyburn. All the oil wells were on production by the end of the first quarter.

In British Columbia, Painted Pony participated in 2 (1.0 net) vertical Bluesky/Cadomin gas wells in the Cameron area and operated the drilling of 3 (2.3 net) gas wells targeting the Montney formation in the Blair area. Of the wells targeting the Montney formation, 1 (1.0 net) well was a vertical re-entry and 2 (1.3 net) wells were horizontally drilled. The Blair wells targeting the Montney formation were completed and two have been tied into existing infrastructure. The third well is expected to be tied in by the end of the second quarter of 2010. One (0.5 net) Bluesky well came on production during the first quarter of 2010.

Capital Expenditures (000s)

Three months ended March 31,	2010	2009 ⁽¹⁾
Lease acquisitions and retention	\$ 4,288	\$ 722
Seismic	181	-
Drilling and completions	24,578	5,528
Facilities and equipment	5,348	1,056
Exploration and development	34,395	7,306
Head office expenditures	29	-
	34,424	7,306
Stock-based compensation costs including tax effect	484	170
Asset retirement cost	335	54
Total expenditures	\$ 35,243	\$ 7,530

(1) For comparative purposes, 2009 data has been summarized to correspond to 2010 presentation.

Late in 2008, Painted Pony entered into two farm-out agreements with a senior oil and gas exploration and production company for portions of the Company's Montney rights within the Cypress and Cameron areas of British Columbia.

On the Cypress lands, in the first quarter of 2010, Painted Pony elected to pay, in accordance with the terms of the farm-out agreement, 6% of the equipping and tie-in costs of a horizontal well drilled primarily in 2009. This well was subsequently placed on production in the first quarter of 2010. No additional wells have been elected by the farmee under the rolling option provisions of this farm-out agreement.

In the Cameron area, two vertical wells were completed by the end of the first quarter of 2010, with one of the wells placed on production in February 2010; the other is awaiting tie-in. Subsequently, three horizontal wells were drilled in the first quarter and are expected to be completed after spring break up. Painted Pony will retain a 20% working interest in the wells after electing to pay 20% of the equipping and tie-in costs.*

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Painted Pony's land position continues to grow. At March 31, 2010, the Company owned 60,478 net acres of land (97% undeveloped) in Saskatchewan and 110,759 net acres of land (80% undeveloped) in British Columbia. During the first quarter of 2010, the Company added lands in British Columbia through participation at provincial lands sales.

The Company continues to expect lands contained in 2009 continuation applications in British Columbia to be continued through execution of a work program.*

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Ceiling Test

The Company performed a ceiling test calculation at March 31, 2010, resulting in undiscounted future cash flows from proved reserves and unproved properties exceeding the carrying amount of oil and gas assets. Consequently, no impairment of oil and gas assets was identified.

At March 31, 2010, the Company calculated the ceiling test using weighted-average prices of \$93.76 per bbl for light gravity crude oil, \$5.88 per mcf for natural gas, \$89.88 per bbl for condensate, and \$57.56 per bbl for NGL's.

Capital Resources

The Company has a \$36 million demand revolving credit facility and a \$7 million demand non-revolving acquisition/development facility with a Canadian chartered bank.

Interest for the demand revolving credit facility is payable at a floating rate determined as the lender's prime rate plus between 0.75% and 2.5%, depending on the Company's debt to cash flow ratio, as defined by the lender. Interest on the demand non-revolving facility is payable at a floating rate determined as the lender's prime rate plus between 1.25% and 3.0%, as defined by the lender. A standby fee is charged on 0.20% to 0.45% of 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 \$100 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 September 30, 2010. At May 19, 2010, 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.

Liquidity

As at March 31, 2010, Painted Pony had current assets of \$44.9 million and current liabilities of \$29.3 million, resulting in a net working capital position of \$15.6 million. Available cash has been, and is currently, on deposit in a major Canadian financial institution or invested in term deposits. 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 believed 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.*

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Painted Pony has two bank credit facilities totaling \$43.0 million, on which no balance was owed at either March 31, 2010 or currently. In 2010, the Company may utilize available credit facilities on a periodic basis.*

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Commitments

At March 31, 2010, the Company is committed to the processing costs associated with the physical delivery of five mmcf per day of natural gas until October 31, 2010. The estimated remaining cost of the commitment is \$0.4 million.

At March 31, 2010, the Company is further committed to minimum tolls for transportation of oil through a major carrier system estimated to begin June 1, 2010 and ending in 2015. The total minimum cost of the commitment is estimated to be \$2.3 million.

At March 31, 2010, the Company was committed to future payments totaling \$1.2 million for office space rental and a proportionate share of operating costs through 2013.

Subsequent to March 31, 2010, the Company has entered into a farmout and option agreement covering the Wapella area of Saskatchewan, whereby the Company is committed to drill, on or before June 30, 2010, one well at an estimated net cost of \$0.5 million.

Share Capital

In 2009, the Company issued the following shares:

- 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; and
- 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 March 31, 2010 and May 19, 2010, 44,136,700 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 March 31, 2010 and May 19, 2010, 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, and 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 the first quarter of 2010, a total of 55,000 options were exercised and an additional 689,000 options were granted. The options are exercisable over a five year period at a weighted-average price of \$5.88 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 March 31, 2010 and May 19, 2010, 3,389,000 options were issued and outstanding at a weighted-average exercise price of \$4.00.

Income Taxes

The Company recognized a total future tax asset of \$3.1 million at the end of 2009 for the estimated future value of its tax pools. In the first quarter of 2010, the Company drew down \$0.8 million of the future tax asset and recognized a future income tax expense of \$0.6 million. The Company believes it is more likely than not that these pools will be utilized.*

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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.

Off Balance Sheet Arrangements

No off balance sheet arrangements existed as at March 31, 2010.

Related Party Transactions

The Company utilizes the services of a law firm in which the Corporate Secretary is a Partner. During the three months ended March 31, 2010, the Company incurred \$27,000 on services, of which \$12,000 were disbursements. During the first quarter of 2009, the Company incurred \$17,000 of non disbursement services.

All related party transactions 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 and 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.

Performance Compared to Guidance*

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. A comparison of performance in the first quarter of 2010 to previously announced guidance by the Company is as follows:

- The Company indicated it expected sales volumes in 2010 to be weighted approximately 30% towards gas sales. During the first quarter of 2010, gas sales averaged 24% of sales volumes, as all of the successful oil wells drilled during the first quarter of 2010 were on production by the end of the period, while of the 5 (3.3 net) gas wells drilled during the first quarter, only 1 (0.5 net) well supplemented by 1 (0.06 net) gas well from farm out lands came on production by the end of March 2010.
- The Company indicated it expected the average oil price in 2010 to be approximately 3% less than the reference price. In each month of the first quarter of 2010, the Company's price was between 1% and 2% less than the reference price.
- The Company indicated it expected to receive a natural gas price at a premium to the AECO daily spot price. During the first quarter of 2010, a premium of 5% to 7% over the reference price was received each month.
- The Company indicated it expected overall royalty rates to approximate 14% of total revenues. For the first three months of 2010, royalties averaged 14.4%.
- The Company indicated expected economic benefits from the multi-well oil battery facility and water disposal facility in the Huntoon area would include reducing production disruptions, cost-effective water handling and disposal, reduced trucking costs and eliminating the capital investment of oil storage tanks at each well location. The Company further indicated it expected reduced oil operating costs in future months from the various batteries and gathering systems and not needing to rent rig mats. Subsequent to the multi-well oil battery and water disposal facility being put on-stream during the first quarter of 2010, minimal production disruptions occurred and cost savings have been enjoyed.
- The Company indicated it expected capital taxes to correspondingly increase in 2010 as gross oil sales increase, which is consistent with first quarter 2010 costs.

**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.*

Future Accounting Policy Changes

The reader is directed to the Management's Discussion and Analysis for the year ended December 31, 2009.

International Financial Reporting Standards

On January 1, 2011, International Financial Reporting Standards (“IFRS”) will become the generally accepted accounting principles in Canada. The objective is to improve financial reporting by having one single set of accounting standards that are comparable with other entities on an international basis. The conversion to IFRS will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010.

During 2009, the Company commenced its IFRS conversion project, established an IFRS transition plan, completed the initial Planning phase of the transition plan, and commenced the other two phases of the transition plan – Analysis and Decision-Making and Implementation. The project is managed by accounting professionals, employed by the Company, who have attended IFRS educational programs and continue to develop the Company’s policies for adoption of IFRS. An external advisor is available to work with the internal accounting professionals to advise on decision-making and the conversion process. Additionally, the external auditors will review accounting policy determinations as they are assessed by the project team. Regular reporting is provided to the Board of Directors.

Throughout the first quarter of 2010, the IFRS conversion project has focused on implementing information systems changes required to address the Company’s ability to produce a parallel IFRS accounting data base throughout 2010. The IFRS data base will be used to assemble comparative IFRS financial statements and reconciliations. The information system changes will also assist the Company in generating opening IFRS balances for January 1, 2010.

Throughout the remainder of 2010, the Company will be finalizing accounting policy determinations and reviewing these selections with the Audit Committee and the external auditors. The Company will also be finalizing and initiating IFRS internal business processes and will be designing IFRS disclosure templates. The Company anticipates that the external auditors will begin auditing the IFRS opening balances for January 1, 2010 during 2010.

Given the progress of the project and outcomes identified, the Company may revise its intentions between the time of communicating these key milestones and the changeover date. Further, changes in regulation or economic conditions at the date of the changeover or throughout the project could result in changes to the transition plan being communicated here.

The transition from Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company’s reported financial position and results of operations. The Company continues to monitor standards development as issued by the International Accounting Standards Board (“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 the 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 2009 annual Management’s Discussion and Analysis on SEDAR. The Company’s management reviews its estimates regularly.*

**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.*

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, and changes to commodity prices and interest and foreign exchange rates. 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.

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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 makes 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), 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 first quarter of 2010.

Quarter ended (unaudited) (\$000s except volumes and per share)	March 31, 2010
Gross revenues ⁽¹⁾	14,146
Funds flow from operations	9,166
Basic and diluted, per share	0.20
Cash flow from operating activities	9,231
Net earnings	681
Basic and diluted, per share	0.01
Capital expenditures, net	34,424
Total assets	185,645
Long-term liabilities (ARO) ⁽²⁾	2,829
Average daily sales volumes (boe per day)	2,322

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

(2) Asset retirement obligations.

Quarter ended (unaudited) (\$000s except volumes and per share)	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009
Gross revenues ⁽¹⁾	4,560	4,889	7,834	11,612
Funds flow from operations	1,890	1,826	4,513	6,981
Basic, per share	0.05	0.06	0.12	0.17
Diluted, per share	0.05	0.06	0.12	0.16
Cash flow from operating activities	1,499	531	4,273	6,157
Net earnings (loss)	(1,598)	(1,965)	(2,046)	1,953
Basic and diluted, per share	(0.05)	(0.06)	(0.05)	0.05
Capital expenditures, net	7,306	4,633	12,141	16,483
Capital acquisitions, net	-	-	13,587	1
Total assets	92,605	108,308	112,861	164,907
Long-term liabilities (ARO) ⁽²⁾	1,844	1,931	2,278	2,439
Average daily sales volumes (boe per day)	1,225	1,313	1,655	2,006

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

(2) Asset retirement obligations.

Quarter ended (unaudited) <i>(\$000s except volumes and per share)</i>	June 30, 2008	Sept. 30, 2008	Dec. 31, 2008
Gross revenues ⁽¹⁾	6,436	7,189	5,656
Funds flow from operations	3,947	4,846	2,892
Basic, per share	0.15	0.16	0.08
Diluted, per share	0.14	0.16	0.08
Cash flow from operating activities	2,949	5,756	3,579
Net earnings	1,526	328	254
Basic and diluted, per share	0.06	0.01	0.01
Capital expenditures, net	10,659	15,790	12,245
Capital acquisitions, net	1,605	56	14
Total assets	96,362	100,934	97,194
Long-term liabilities (ARO) ⁽²⁾	1,834	1,996	1,766
Average daily sales volumes (boe per day)	789	925	1,173

(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 quarterly periods are as follows:

- a) Gross revenues are impacted by both volatile commodity pricing and production volumes, which have steadily increased over the quarters from drilling and acquisition activities. The Company's successful capital program has generated incremental 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 price fluctuations reflect changes in supply and demand by commodity, both internationally and domestically.
- b) Funds flow from operations have both increased and decreased over time, reflecting primarily the impact of fluctuating commodity prices on a growing production base. Per production unit operating and transportation costs variations track seasonal weather-related issues combined with fixed commitments. Throughout 2009, commodity prices were substantially weaker than during 2008, reducing funds flow from operations. Oil and liquids commodity prices began recovering late in 2009, contributing to increasing funds flow from operations. In 2010, continued improvements in oil and liquids prices continued to bolster funds flow from operations. Royalty changes vary due to commodity prices, production levels and the status of the different provincial royalty holiday incentive programs. As the production base in Saskatchewan matures, incremental royalties occur on wells as the maximum volumes provided for under the provincial incentive programs are attained.
- 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) The net losses in the first three quarters of 2009 were significantly impacted by the non-cash charges from stock-based compensation. As the Company's share trading price increased, the related stock-based compensation charge for options granted also increased, as the trading price as at the date of grant directly impacts the calculation. In the fourth quarter of 2009 a future tax asset was recognized. In the third quarter of 2009, the Company recorded a \$1.1 million of non-cash stock-based compensation expense for share options surrendered for cancellation. Throughout 2008, net earnings reflect relatively strong commodity prices, lower option grant prices and, in the first quarter of 2008, recording of a \$4.4 million future income tax reduction, primarily from the income tax effects of recognizing an offsetting, previously recorded liability for flow-through shares issued.

- e) Net capital expenditures fluctuations have reflected both available capital resources and intentional capital spending restraint during weaker 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, reflecting the execution of the Company's capital program, somewhat offset by depletion.
- h) Overall daily production has steadily increased since the inception of the Company reflecting the execution of the Company's strategic plan to grow its reserve and production base.

PAINTED PONY PETROLEUM LTD.
INTERIM CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(\$000s)

As at	March 31, 2010	December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 36,740	\$ 46,575
Accounts receivable	7,944	5,198
Prepaid expenses and deposits	283	324
	<u>44,967</u>	<u>52,097</u>
Long-term assets		
Property and equipment (note 3)	138,371	109,725
Future income tax	2,307	3,085
	<u>\$ 185,645</u>	<u>\$ 164,907</u>
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 29,328	\$ 11,418
Long-term liabilities		
Asset retirement obligations (note 5)	2,829	2,439
	<u>32,157</u>	<u>13,857</u>
Shareholders' equity		
Capital stock (note 6)	140,065	139,739
Contributed surplus (note 7)	11,791	10,360
Retained earnings	1,632	951
	<u>153,488</u>	<u>151,050</u>
	<u>\$ 185,645</u>	<u>\$ 164,907</u>

Basis of Presentation (note 2)

Commitments (note 11)

Subsequent Event (note 11)

See accompanying notes to the interim consolidated financial statements.

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

(\$000s, except per share amounts)

Three months ended March 31, (Unaudited)	2010	2009
Revenue		
Petroleum and natural gas	\$ 14,146	\$ 4,560
Royalties	(2,042)	(455)
Other	39	65
	<u>12,143</u>	<u>4,170</u>
Expenses		
Operating	1,472	937
Transportation	805	776
General and administrative	489	521
Other taxes	211	46
Stock-based compensation (note 6d)	1,195	527
Depletion, depreciation and accretion	6,652	3,029
	<u>10,824</u>	<u>5,836</u>
Income (loss) before income taxes	1,319	(1,666)
Future income tax expense (reduction)	638	(68)
Net income (loss) and comprehensive income (loss) for the period	681	(1,598)
Retained earnings, beginning of period	951	4,607
Retained earnings, end of period	\$ 1,632	\$ 3,009
Net income (loss) per share (note 8)		
Basic and diluted	\$ 0.01	\$ (0.05)

See accompanying notes to the interim consolidated financial statements.

PAINTED PONY PETROLEUM LTD.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(\$000s)

Three months ended March 31, (Unaudited)	2010	2009
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	\$ 681	\$ (1,598)
Items not affecting cash:		
Stock-based compensation	1,195	527
Depletion, depreciation and accretion	6,652	3,029
Future income tax expense (reduction)	638	(68)
Asset retirement expenditures	-	(12)
Change in non-cash working capital (note 9)	65	(379)
	<u>9,231</u>	<u>1,499</u>
Financing activities		
Issuance of share capital	218	-
Change in non-cash working capital (note 9)	(64)	(105)
	<u>154</u>	<u>(105)</u>
Investing activities		
Expenditures on property and equipment	(34,424)	(7,306)
Change in non-cash working capital (note 9)	15,204	(2,175)
	<u>(19,220)</u>	<u>(9,481)</u>
Change in cash and cash equivalents	(9,835)	(8,087)
Cash and cash equivalents, beginning of period	46,575	19,793
Cash and cash equivalents, end of period	\$ 36,740	\$ 11,706
Cash and cash equivalents is comprised of:		
Balances with banks	\$ 36,740	\$ (1,694)
Short term deposits	-	13,400
	<u>\$ 36,740</u>	<u>\$ 11,706</u>

See accompanying notes to the interim consolidated financial statements.

PAINTED PONY PETROLEUM LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Three months ended March 31, 2010 and 2009

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, 2009. The disclosures which follow are incremental to the disclosures included in the December 31, 2009 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, 2009. 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. All intercompany transactions have been eliminated.

3. Property and Equipment

March 31, 2010 (000s)	Cost	Accumulated depletion & depreciation	Net book value
Petroleum properties, including exploration and development thereon	\$ 169,806	\$ 31,651	\$ 138,155
Other	301	85	216
	\$ 170,107	\$ 31,736	\$ 138,371

December 31, 2009 (000s)	Cost	Accumulated depletion & depreciation	Net book value
Petroleum properties, including exploration and development thereon	\$ 134,592	\$ 25,065	\$ 109,527
Other	272	74	198
	\$ 134,864	\$ 25,139	\$ 109,725

The Company has included \$26.7 million (December 31, 2009: \$27.6 million) for future development costs and has excluded \$20.7 million (December 31, 2009: \$16.4 million) for undeveloped land and \$1.0 million (December 31, 2009: \$0.8 million) for seismic costs from the depletion calculation and the ceiling test.

For the three months ended March 31, 2010 and 2009, the Company capitalized general and administrative expenses and stock-based compensation as follows:

Three months ended March 31, (000s)	2010	2009
General and administrative	\$ 422	\$ 234
Stock-based compensation	344	102
Total	\$ 766	\$ 336

4. Bank Debt

At March 31, 2010 and December 31, 2009, the Company had no bank debt. The Company has available a \$36 million demand revolving credit facility and a \$7 million demand non-revolving acquisition/development facility with a Canadian chartered bank. Security is provided by a first fixed and floating charge demand debenture of \$100 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 0.75% and 2.5%, depending on the Company's debt to cash flow ratio, as defined by the lender. Interest on the non-revolving facility is payable at the lender's prime rate plus between 1.25% and 3.0%, depending on the Company's debt to cash flow ratio, as defined by the lender. A standby fee is charged on 0.20% to 0.45% 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 September 30, 2010.

5. 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 \$9.7 million as at March 31, 2010 (December 31, 2009: \$8.5 million). These payments are expected to be made over the next 28 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:

<i>(000s)</i>	Three months ended March 31, 2010	Year ended December 31, 2009
Obligations, beginning of period	\$ 2,439	\$ 1,766
Liabilities incurred	335	352
Abandonments	-	(50)
Liabilities acquired	-	206
Accretion expense	55	165
Obligations, end of period	\$ 2,829	\$ 2,439

6. Capital Stock

a) Authorized

Unlimited Class A shares
Unlimited Class B shares
Unlimited Preferred shares, none outstanding as at March 31, 2010

The Class A Shares and the Class B Shares are voting on the basis of one vote per share. There are no fixed dividends payable on either the Class A Shares or the Class B Shares. In the event of the liquidation or dissolution of the Company, the Class B Shares will be converted at the conversion rate (further discussed under "Class B Shares") into Class A Shares and the Class A Shares are entitled to receive, on a pro rata basis, all assets of the Company as are distributable to the holders of shares.

The Class B Shares will be convertible, at the option of the Company, at any time after June 30, 2010 and on or before June 30, 2012 into Class A Shares. The number of Class A Shares obtained upon conversion of each Class B Share will be equal to \$10.00 divided by the greater of \$1.00 and the Current Trading Price (as defined – see note 8) of the Class A Shares.

If the conversion has not occurred by the close of business on June 30, 2012, the Class B Shares become convertible, at the option of the shareholder, into Class A Shares on the same basis. Any Class B Shares outstanding at the close of business on August 1, 2012 shall be automatically converted into Class A Shares on the same basis.

b) Issued and Outstanding

Class A and Class B Shares

	Class A Shares		Class B Shares	
	Number of Shares	Amount (000s)	Number of Shares	Amount (000s)
Balance, December 31, 2008	28,222,700	\$ 63,284	1,173,600	\$ 7,360
Issuance of shares	15,800,000	71,694	-	-
Options exercised	59,000	226	-	-
Transfer from contributed surplus on exercise of options	-	150	-	-
Share issuance costs	-	(4,086)	-	-
Tax effect of share issuance costs	-	1,111	-	-
Balance, December 31, 2009	44,081,700	\$ 132,379	1,173,600	\$ 7,360
Options exercised	55,000	218	-	-
Transfer from contributed surplus on exercise of options	-	108	-	-
Balance, March 31, 2010	44,136,700	\$ 132,705	1,173,600	\$ 7,360

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 March 31, 2010, 3,389,000 options (December 31, 2009: 2,755,000) are issued and outstanding, at an average exercise price of \$4.00 per option (December 31, 2009: \$3.53) and with a weighted-average life of 3.9 years. A total of 1,956,667 of the options granted are vested and the remainder generally vest in equal tranches on the first and second anniversaries of the date of grant. The options generally expire five years from the date of grant.

The following tables summarize information regarding stock options for the three months ended March 31, 2010 and the year ended December 31, 2009:

	Weighted Average Exercise Price	Number
Balance, December 31, 2008	\$ 5.03	2,840,000
Granted	3.25	1,422,000
Exercised	3.84	(59,000)
Forfeited and cancelled	6.17	(1,448,000)
Balance, December 31, 2009	\$ 3.53	2,755,000
Granted	5.88	689,000
Exercised	3.97	(55,000)
Balance, March 31, 2010	\$ 4.00	3,389,000

Stock Options, March 31, 2010

Number of Options Outstanding	Exercise Price	Weighted Average Remaining Life (yrs)	Exercisable Options	Exercise Price
1,212,000	\$ 3.97	2.8	1,212,000	\$ 3.97
75,000	\$ 1.40	3.7	50,000	\$ 1.40
804,500	\$ 2.85	4.3	268,167	\$ 2.85
469,500	\$ 3.15	4.3	150,500	\$ 3.15
139,000	\$ 5.88	4.7	46,333	\$ 5.88
689,000	\$ 5.88	4.8	229,667	\$ 5.88
3,389,000	\$ 4.00	3.9	1,956,667	\$ 3.96

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:

	Three months ended March 31, 2010	Year ended December 31, 2009
Fair value per option (weighted average)	\$ 3.87	\$ 2.12
Risk free rate (%)	1.88	1.98
Expected life (years)	5	5
Expected volatility (%)	80	80
Expected dividends	-	-

7. Contributed Surplus

<i>(000s)</i>	
Balance, December 31, 2008	\$ 6,032
Stock-based compensation (note 6(d))	4,478
Transfer to share capital on exercise of options	(150)
Balance, December 31, 2009	\$ 10,360
Stock-based compensation (note 6(d))	1,539
Transfer to share capital on exercise of options	(108)
Balance, March 31, 2010	\$ 11,791

For the three months ended March 31, 2010, the Company recorded \$1.5 million (three months ended March 31, 2009: \$0.6 million) of compensation cost related to stock options issued during the period. During the three months ended March 31, 2010, \$0.3 million (three months ended March 31, 2009: \$0.1 million) was capitalized to petroleum properties and \$1.2 million (three months ended March 31, 2009: \$0.5 million) was expensed.

8. Per Share Amounts

The weighted average number of Class A and Class B shares outstanding during the three months ended March 31, 2010 and 2009 was as follows:

Three months ended March 31,		
Weighted Average Shares	2010	2009
Class A – basic	44,128,088	28,222,700
Class A – diluted	45,183,322	28,222,700
Class B – basic	1,173,600	1,173,600
Class B – deemed conversion to Class A	1,569,788	6,653,118
Class A & B - basic	45,697,876	34,875,818
Class A & B - diluted	46,753,110	34,875,818

During the three months ended March 31, 2010, 30,622 (three months ended March 31, 2009: 2,790,000) options were excluded in the weighted-average diluted share calculation of Class A shares. Class B shares are converted into Class A shares at \$10 divided by the greater of \$1.00 and the Current Trading Price, defined as being the weighted-average trading price per share of Class A shares for the last 30 consecutive trading days.

9. Changes in Non-Cash Working Capital

<i>(000s)</i>		
Three months ended March 31,	2010	2009
Accounts receivable	\$ (2,746)	\$ 1,008
Prepaid expenses and deposits	41	31
Accounts payable and accrued liabilities	17,910	(3,698)
	\$ 15,205	\$ (2,659)

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

Three months ended March 31, (000s)	2010	2009
Operating	\$ 65	\$ (379)
Financing	(64)	(105)
Investing	15,204	(2,175)
	\$ 15,205	\$ (2,659)

10. Related Party Transactions

The Company utilizes the services of a law firm in which the Corporate Secretary is a Partner. During the three months ended March 31, 2010, the Company incurred \$27,000 (three months ended March 31, 2009: \$17,000) on services, of which \$12,000 (three months ended March 31, 2009: \$nil) were disbursements, obtained from the firm. As at March 31, 2010, the Company owes this related party \$21,207.

All related party transactions are recorded at the agreed to terms and exchange values, being the consideration established and agreed to by the parties.

11. Commitments

- a) At March 31, 2010, the Company is committed to the physical delivery of five mmcf per day of natural gas production until October 31, 2010. The estimated remaining cost of the commitment is \$396,000 for the balance of the year.
- b) At March 31, 2010, the Company is further committed to a minimum toll for transportation of oil through a major carrier system, estimated to begin June 1, 2010 and ending in 2015 as follows:

<i>(000s)</i>	Amount
2010	\$ 401
2011	644
2012	528
2013	369
2014	253
2015	91
Total	\$ 2,286

- c) At March 31, 2010, the Company was committed to future payments for office space rental and a proportionate share of operating costs through 2013 as follows:

<i>(000s)</i>	Amount
2010	\$ 270
2011	360
2012	360
2013	180
Total	\$ 1,170

- d) Subsequent to March 31, 2010, the Company has entered into a farmout and option agreement covering the Wapella area of Saskatchewan, whereby the Company is committed to drill, on or before June 30, 2010, one well at an estimated net cost of \$0.5 million.

12. Capital Disclosures

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 acquisition, a change in economic circumstances outside the control of the Company, and success or failure of capital deployed. Each of the annual budgets and periodic updates are reviewed and generally approved by the Board of Directors. As at March 31, 2010, the Company had no debt and had positive working capital of \$15.6 million as detailed below:

<i>(000s)</i>	As at March 31, 2010
Current assets	\$ 44,967
Current liabilities	(29,328)
Net working capital	\$ 15,639

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 March 31, 2010, the Company had a working capital ratio of 3:1, which is greater than the minimum ratio required.

There have been no changes to the way the Company manages capital during the period.

13. Financial Instruments

Management has primary responsibility for monitoring and managing financial instrument risks, under direction from the Board of Directors who have the overall responsibility for establishing the Company's risk management framework. For example, when extending credit to purchasers of the Company's products, the Board has delegated responsibility for credit assessment to management, receiving frequent financial and operating reports.

- 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 the 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 March 31, 2010, accounts receivable was comprised of the following:

<i>(000s)</i>	
Sales revenue	\$ 5,828
Joint interest	1,626
Accrued and other	490
Total accounts receivable	\$ 7,944

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 March 31, 2010. As at March 31, 2010, the Company estimates its trade accounts receivable to be aged as follows:

Aging (000s)	
Not past due (less than 30 days)	\$ 7,922
Past due 31-60 days	3
Past due 61-90 days	3
Past due more than 90 days	16
Total	\$ 7,944

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

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 March 31, 2010, and has had no interest rate swaps or similar contracts. The Company invests available cash in short-term term deposits or interest bearing accounts from which interest income will vary with changes in prime rates.

For the three months ended March 31, 2010, if interest rates had been 0.5% lower than the weighted-average rate of 0.5%, with all other variables held constant, after tax net earnings for the period would have been \$35,000 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 March 31, 2010, the Company had no contracts in place to manage foreign exchange risk.

Corporate Information

BOARD OF DIRECTORS

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

Kevin D. Angus
Vice President, Exploration
Zapata Energy Corporation
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.
Calgary, Alberta

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EXCHANGE LISTING

The TSX Venture Exchange
PPY.A
PPY.B

OFFICERS

Patrick R. Ward
President and Chief Executive Officer

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

James H. French
Vice President, Engineering

Bruce M. Mezei
Vice President, Exploration South

James S. Thomson
Vice President, Land

Donald J. Slater
Vice President, Exploration North

Michael E. Belenkie
Vice President, Corporate Development

Mary Kay Axford
Controller

Douglas T. McCartney
Partner, Burstall Winger LLP
Corporate Secretary

LEGAL COUNSEL

Burstall Winger LLP

AUDITORS

KPMG LLP

BANKERS

National Bank of Canada

EVALUATION ENGINEERS

Sroule Associates Limited

REGISTRAR AND TRANSFER AGENT

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