PAINTED PONY
PETROLEUM LTD.

ANNUAL INFORMATION FORM

For the year ended
December 31, 2010

Dated April 29, 2011

05/05/2011 8:21 AM AIF 2010 v6.doc

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ABBREVIATIONS

Crude Oil and Natural Gas Liquids ("NGLs")	
bbl	barrel
mbbls	thousand barrels
bbls/d	barrels per day
boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 bbl for 6 mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
mboe	thousand barrels of oil equivalent
boe/d	barrels of oil equivalent per day

Natural Gas	
mcf	thousand cubic feet
mmcf	million cubic feet
mcf/d	thousand cubic feet per day

Disclosure provided herein in respect of boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

CONVERSION

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

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

DEFINITIONS

In this Annual Information Form, the following words and phrases have the following meanings, unless the context otherwise requires:

"**ABCA**" means *Business Corporations Act* (Alberta);

"**AIF**" means this Annual Information Form;

"**Class A Shares**" means the Class A Shares in the capital of the Corporation;

"**Class B Shares**" means the Class B Shares in the capital of the Corporation;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"**Corporation**" or "**Painted Pony**" means Painted Pony Petroleum Ltd.;

"**Exchange**" or "**TSXV**" means the TSX Venture Exchange;

"**NI 51-101**" means National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities*; and

"**Sproule**" means Sproule Associates Limited.

CURRENCY

In this AIF, all dollar amounts are expressed in Canadian currency, unless otherwise noted.

FORWARD LOOKING STATEMENTS

This AIF contains forward-looking statements relating to future events. Forward-looking information is information that does not relate strictly to historical or current facts, and can be identified by words such as “anticipate”, “continue”, “estimate”, “expect”, “forecast”, “may”, “will”, “project”, “should”, “believe”, “intend”, or similar expressions. These statements represent management’s 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 AIF, which may cause actual performance and financial results to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements.

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

- volumes in 2011 will be become more weighted towards gas than in 2010;
- the average oil price expected to be received by the Corporation in 2011 will be approximately 3% less than the Edmonton par reference price and the natural gas price will be similar to the AECO daily spot price;
- overall royalties in 2011 will approximate 13% of total revenues, assuming similar commodity prices;
- net general and administrative costs are expected to inversely vary with capital expenditure levels in each fiscal quarter, reflecting the effect of cost recoveries from operated capital expenditures;
- as gross Saskatchewan revenues vary, the Saskatchewan resource surcharge tax is expected to correspondingly fluctuate;
- increased future accretion costs from higher future retirement liabilities are expected to be incurred from incremental wells added through drilling activities and asset acquisitions;
- the stock-based compensation expense calculation utilizes the Black-Scholes model to estimate option grant costs; however this expense may not represent the actual eventual cash compensation realized by the recipients;
- Montney gas operations are expected to be conducted on a pad-basis aimed to economize costs resulting in wells commencing production on a periodic schedule;
- certain lands approaching expiry in British Columbia are expected to be continued through execution of work programs and land continuation applications based on work programs will be completed as necessary to achieve the targeted objectives;
- investments made in batteries, gathering systems and water disposal facilities are expected to reduce costs incurred while mitigating production disruptions from inclement weather;
- the tax pools for which tax assets have been recorded will be utilized;
- available credit facility may be utilized on a periodic basis in 2011;
- the risk of accounts receivables becoming uncollectible is mitigated by the financial position of the applicable entities; and
- the Corporation 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:

- normal risks common to the oil and natural gas industry, including various operational risks in the carrying out of exploration, development and production operations;

- risks and uncertainty relating to the evaluation and estimation of oil and gas geological deposits;

- revisions, amendments or changes to capital expenditure plans including exploration, development and exploitation projects;

- risks as to the availability and pricing of appropriate financing alternatives on acceptable terms;

- potential changes in income tax regulations, governmental policies, rules, practices or approval process changes, or delays, or enhancements; and

- the Corporation's ability to attract and retain qualified professional employees.

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

THE CORPORATION

General

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

The registered office of the Corporation is located at Suite 1600, 333 – 7th Avenue S.W., Calgary, Alberta, T2P 2Z1 and its head office is located at Suite 300, 602 – 12th Avenue S.W., Calgary, Alberta, T2R 1J3. The Corporation is a reporting issuer in all of the Provinces of Canada other than Québec. The Class A Shares are listed for trading on the TSXV under the symbol "PPY.A" and the Class B Shares are listed for trading on the TSXV under the symbol "PPY.B".

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

Intercorporate Relationships

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

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

GENERAL DEVELOPMENT OF THE BUSINESS

The following is a summary of the business operations of the Corporation for the periods shown.

2008

On March 31, 2008, Painted Pony issued 4.1 million Class A Shares at a deemed price of $4.33 per share as partial consideration for an acquisition of producing properties and undeveloped land located in northeastern British Columbia. The Class A Share holdings of the vendor, Crescent Point Energy Trust ("**Crescent Point**"), as of the date of the acquisition, represented approximately 20% of the total issued and outstanding voting shares of Painted Pony.

On April 30, 2008, Painted Pony completed a private placement of 8.8 million Class A Shares at a price of $4.35 per share on a bought deal private placement basis for total gross proceeds of $38.3 million.

2009

On June 30, 2009, Painted Pony completed a bought deal financing of 7.0 million Class A Shares at a price of $2.85 per Class A Share by way of a short form prospectus for total gross proceeds of $20.0 million.

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

On November 17, 2009, Painted Pony completed a bought deal financing of 8.8 million Class A Shares at a price of $5.88 per Class A Share by way of a short form prospectus for total gross proceeds of $51.7 million.

2010

On August 25, 2010, Painted Pony completed a bought deal financing of 6.8 million Class A Shares at a price of $6.48 per Class A Share by way of a short form prospectus for total gross proceeds of $44.1 million.

On October 26, 2010, Painted Pony closed a $10.6 million acquisition of light oil assets of a private company in southeast Saskatchewan. The assets are mostly operated with high working interest, and feature high quality, high netback, low decline production, with low risk developmental upside.

In November 2010, the Corporation's existing $46.0 million demand revolving credit facility and $10.0 million demand non-revolving acquisition/development credit facility were replaced by a $65.0 million demand revolving credit facility.

RECENT DEVELOPMENTS

On February 17, 2011 Painted Pony completed a bought deal financing of 7.6 million Class A Shares at a price of $10.50 per Class A Share by way of a short form prospectus for total gross proceeds of $80.0 million.

For 2011, Painted Pony has increased its capital budget from $95.0 million to $160.0 million. The 2011 capital budget is allocated approximately 47% to British Columbia targeting liquids-rich Montney gas and 53% towards Saskatchewan targeting Bakken and Mississippian light oil plays.

In March 2011, the Corporation's existing $65.0 million demand revolving credit facility was increased to $75.0 million.

DESCRIPTION OF THE BUSINESS

Overview

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

Corporate Strategy

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

- required capital and degree of risk relative to expected production rate and potential reserves volumes;
- multi-zone target reservoirs with higher deliverability formation characteristics;
- risk of drilling costs significantly exceeding expected amounts. The Corporation attempts to minimize risk by not intentionally participating in critical sour gas wells;
- quality of the anticipated production and reserves. The Corporation's exploration efforts are focused towards light oil and sweet gas with lower operating and development costs and high net backs;
- favourable payout and return on investment. The Corporation strives to identify projects which have the ability to achieve payout in less than three years and have the ability to generate a return on investment of at least 15% per annum;
- availability and application of seismic to reduce risk. The Corporation attempts to minimize risk of utilizing seismic on play types that are seismically supported, after weighing the potential costs and benefits;
- availability of operatorship or a good relationship with the operator in non-operated ventures;
- offset and trend land opportunities and the ability to expand the Corporation's holdings upon success; and
- target areas where infrastructure is available and accessible. The Corporation targets areas and opportunities where the elapsed time between drilling to production is expected to be less than six months.

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

- the opportunity must present identifiable and measurable upside, either through drilling, completions, reservoir management and/or production/facility optimization;
- producing properties should exhibit lower decline and longer reserves life, typically greater than five years;
- operatorship or the possibility of becoming operator;
- complementary to existing exploration efforts;
- ensuring facilities and infrastructure provide near-term market access, with capability of expansion to accommodate increased activity;

- return on investment from acquired producing properties should be at least 10% per annum;

- all acquisitions, when fully exploited, should enhance the net asset value and cash flow per share of the Corporation; and

- commodity price and exchange rate assumptions from projections by major independent petroleum engineering firms and future contract pricing.

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

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

Employees

As at December 31, 2010, Painted Pony had 19 full-time employees and, as at the date hereof, Painted Pony has 24 full-time employees.

RISK FACTORS

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

Stage of Development

An investment in the Corporation is subject to certain risks related to its stage of development. There are numerous factors which may affect the success of the Corporation's business which are beyond the Corporation's control including local, national and international economic and political conditions. The Corporation's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome.

Commodity Prices

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

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

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

Exploration, Development and Production Risks

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

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

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

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions and global markets began to improve in 2010, these factors have negatively impacted company valuations and may impact the performance of the global economy going forward.

Variations in Foreign Exchange Rates and Interest Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Material increases in the value of the Canadian dollar negatively impact the Corporation's production revenues. Future Canadian/United States exchange rates could accordingly impact the future value of the Corporation's reserves as determined by independent evaluators.

To the extent that the Corporation engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which the Corporation may contract.

An increase in interest rates could result in a significant increase in the amount the Corporation pays to service debt, which could negatively impact the market price of the Class A Shares and Class B Shares of the Corporation.

Markets and Marketing

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

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of Painted Pony's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of its oil and gas and a reduction in the volumes of Painted Pony's reserves. Painted Pony might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Painted Pony's net production revenue causing a reduction in its oil and gas acquisition, development and exploration activities.

Project Risks

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

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

- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, the Corporation could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Reserve Replacement

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

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, the Corporation's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Corporation's oil and gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Corporation intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and has not been updated and thus does not reflect changes in the Corporation's reserves since that date.

Substantial Capital Requirements

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

Share Price Volatility

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

Availability of and Access to Drilling and Related Equipment

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

Assessments of Value of Acquisitions

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

Reliance on Operators and Key Personnel

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

Reliance on Industry Partners

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

Operational Dependence

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

Expiration of Leases or Licenses

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

Title to Properties

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's claim which may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Insurance

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

Issuance of Debt

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

Competition

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

Management of Growth

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

Environmental Risks and Regulations

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Corporation to incur costs to remedy such discharge. Although the Corporation believes that it will be in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

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

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

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

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

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

Conflicting Interests with Partners

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

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

Governmental Regulation

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

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

Aboriginal Claims

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

Seasonality

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

Climate Change

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". In 2009, representatives from approximately 170 countries met in Copenhagen, Denmark to attempt to negotiate a successor to the Kyoto Protocol. Pursuant to the resulting Copenhagen Accord, a non-binding political consensus rather than a binding international treaty such as the Kyoto Protocol, the Government of Canada revised its emissions reduction targets slightly. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. The Corporation's exploration and production facilities and other operations and activities emit greenhouse gases and require the Corporation to comply with Alberta's greenhouse gas emissions legislation contained in the *Climate Change and Emissions Management Act* and the *Specified Gas Emitters Regulation*. The Corporation may also be required to comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which is now expected to be modified to ensure consistency with the regulatory scheme for greenhouse gas emissions adopted by the United States. The direct or indirect costs of these regulations may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. The future implementation or modification of greenhouse gases regulations, whether to meet the limits required by the Kyoto Protocol, the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Corporation. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Corporation and its operations and financial condition.

Absence of Cash Dividends

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

Additional Financing Requirements

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the Corporation. Continued uncertainty in domestic and international credit markets could materially affect the Corporation's ability to access sufficient capital for its capital expenditures and acquisitions, and as a result, may have a material adverse effect on the Corporation's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Dilution

The Corporation may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Corporation which may be dilutive.

Hedging

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

Borrowing

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

Third Party Credit Risk

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

Expiration of Licences and Leases

The Corporation's properties are held in the form of licences and leases and working interests in licences and leases. If the Corporation or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of the Corporation's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Delays in Business Operations

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

Alternatives to and Changing Demand for Petroleum Products

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

Adoption of International Financial Reporting Standards

The requirement for the Corporation, in accordance with Canadian Securities laws, to implement international financial reporting standards ("**IFRS**") to replace Canadian GAAP effective January 1, 2011 may materially affect the Corporation's financial results as reported in its financial statements. The transition to IFRS will cause reported results to be different than reported in the past and these changes may not be fully understood and may cause confusion in the marketplace.

Income Taxes

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

Changes in Legislation

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

Changes to Royalty Regime

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

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

Litigation Matters

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

Conflicts of Interest

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

RESERVES DATA AND OTHER INFORMATION

Reference is made to the Corporation's Statement of Reserves Data and Other Oil & Gas Information dated effective December 31, 2010, the Report on Reserves Data by Qualified Reserves Evaluator dated March 15, 2011, prepared by Sproule, independent petroleum reservoir engineers, and the Report of Management and Directors dated April 27, 2011, all of which were prepared pursuant to NI 51-101 and filed on SEDAR on April 28, 2011, and which are available on the SEDAR website at www.sedar.com and are incorporated by reference herein.

DIVIDENDS

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

DESCRIPTION OF CAPITAL STRUCTURE

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

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

Class A Shares

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

Class B Shares

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

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

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

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

Preferred Shares

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

MARKET FOR SECURITIES

Trading Price and Volume

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

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

Class A Shares

	Price Range ($)		
	High	**Low**	**Trading Volume**
2010			
January	7.36	5.70	3,575,533
February	7.75	6.83	2,218,643
March	8.19	6.00	1,872,194
April	7.65	6.65	1,660,482
May	6.90	5.26	2,800,652
June	6.95	5.85	1,318,286
July	7.00	5.76	1,154,490
August	6.76	6.38	923,291
September	6.74	5.90	1,545,850
October	7.20	5.77	5,149,041
November	7.70	6.76	3,417,579
December	9.10	7.55	3,013,149

Class B Shares

	Price Range ($)		
	High	**Low**	**Trading Volume**
2010			
January	8.50	7.81	49,715
February	8.50	8.07	9,380
March	8.50	8.00	106,240
April	8.75	8.20	36,210
May	8.50	8.15	20,605
June	8.60	8.17	22,410
July	8.40	8.32	3,875
August	8.60	8.40	12,800
September	8.58	8.36	45,550
October	9.00	8.46	23,317
November	9.25	9.00	40,680
December	9.25	9.11	34,050

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

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

Name, Residence and Position	
Patrick R. Ward Calgary, Alberta, Canada • *President and Chief Executive Officer* • *Director*	**Director Since April 3, 2007** President of the Corporation since May 6, 2007. Mr. Ward has been President of 764503 Alberta Ltd. (a private company) since 1997. Mr. Ward was Vice-President, Exploration of Innova Exploration (a public oil and gas company) from May 2004 to May 2006. Mr. Ward co-founded Chowade Energy Ltd. (a private oil and gas company) in 2003 which merged into Innova Exploration in 2004. From 1999 to 2003 Mr. Ward was Manager, Geology & Geophysics with the NCE Resources Group and Petrofund Energy Trust (a public oil and gas energy trust). Mr. Ward was Vice-President and Chief Operating Officer at Rockport Energy Corp. (a public oil and gas company) from 1998 to 1999. Mr. Ward held various positions, lastly as Exploration Manager from 1981 to 1997 for Total Petroleum Canada (subsequently Rigel Oil & Gas, both public oil and gas companies). Mr. Ward, *P. Geol.*, graduated from the University of Calgary in 1978 with an Honours Degree in Geology. Mr. Ward is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta ("APEGGA").
Ronald R. Talbot Calgary, Alberta, Canada • *Non-Executive Chairman* • *Director* • *Chairman, Compensation Committee* • *Corporate Governance Committee* • *Reserves Sub Committee* • *Audit Committee*	**Director Since April 3, 2007** President of 557146 Alberta Inc. (a private investment company) since 1993. Mr. Talbot was an energy industry consultant focusing on exploration strategies from 2003 to 2008. Prior to that, Mr. Talbot was Dean of the Energy Department at the Southern Alberta Institute of Technology (SAIT) from January 2000 to 2002. Mr. Talbot served in an executive capacity at Lexxor Energy Inc. (a public oil and gas company) commencing in 1995, including roles as founding President, Chief Executive Officer, and Chairman. Mr. Talbot was co-founder, President, Chief Executive Officer and Chairman of Quadron Resources Ltd. (a public oil and gas company) from March 1990 to June 1995. Mr. Talbot was Vice-President, Exploration at Westmin Resources Ltd. (a public oil and gas company) from 1986 to 1990. Mr. Talbot was a founding director of Baytex Energy Ltd. (a public oil and gas company) from 1993 to 1995. Mr. Talbot, *P. Geol.,* graduated from the University of Calgary in 1974 with a Bachelor of Science in Geology and is a member of APEGGA.
Arthur J. G. Madden Calgary, Alberta, Canada • *Director* • *Chairman, Audit Committee* • *Chairman, Corporate Governance Committee*	**Director Since August 27, 2008** Chief Financial Officer of Crown Point Ventures Ltd. (a public oil and gas company) since October 2009. President of 554492 Alberta Ltd. (a private company providing consulting services to the energy sector) since 1993. Mr. Madden was Vice-President Finance, Chief Financial Officer, and Director of Adamant Energy Inc. (a private oil and gas company) from July 2004 to May 2008. Mr. Madden was Vice-President, Finance, and Chief Financial Officer of Cavell Energy Corporation (a public oil and gas company) from June 1994 to July 2004. Mr. Madden, *C.M.A., M.B.A., ICD.D* has a Certified Management Accountant designation, a Masters of Business Administration from Queens University as well as certification from the Institute of Corporate Directors. Mr. Madden is a member of Financial Executives International.

Name, Residence and Position	
Glenn R. Carley Calgary, Alberta, Canada • *Director* • *Compensation Committee* • *Audit Committee*	**Director Since April 3, 2007** Executive Chairman and Director of Galleon Energy Inc. (a public oil and gas company) since January 2003. Chairman of Culane Energy Corp. (a public oil and gas company) from December 2002 to February 2011. Chairman of High Point Resources Inc. from October 2001 to August 2005. Mr. Carley has also been the President of Selinger Capital Inc., a private investment company for more than the last five years. He was the Chairman and Chief Executive Officer of Venture Energy Inc. (a private oil and gas company) from December 2002 to December 2004. Mr. Carley was Executive Chairman of Flagship Energy Inc. (a public oil and gas company) from January 2005 to September 2008. Mr. Carley was the Chairman and Chief Executive of New Venture Energy Inc. (a private oil and gas company) from December 2004 to December 2005. Mr. Carley was co-founder, Chairman and Chief Executive Officer of Magin Energy Inc. (a public oil and gas company) from January 1995 to June 2001. Mr. Carley, *B.A., J.D., M.B.A, ICD.D.,* holds a Masters of Business Administration, a Doctor of Laws degree and a Bachelor of Arts degree.
Kevin D. Angus Calgary, Alberta, Canada • *Director* • *Compensation Committee* • *Corporate Governance Committee*	**Director Since April 3, 2007** Vice-President, Exploration of Surge Energy Inc. (a public oil and gas company) since April 2010 and President of KD Angus & Associates Ltd. (a private company providing exploration consulting services) since September 2009. Mr. Angus was Executive Vice-President and Director of Pegasus Oil and Gas Inc. (a public oil and gas company) from June 2006 to August 2009. Prior to that, Mr. Angus was Vice-President, Exploration at Mustang Resources Inc. (a public oil and gas company) from June 2003 to July 2005. Mr. Angus was at Husky Oil Operations Ltd. (a public oil and gas company) from 1983 to 1994. Thereafter, Mr. Angus worked in senior geophysical positions at three junior oil and natural gas companies, Petrorep Resources Inc. (1994 to 1995), Ulster Petroleums Ltd., (1995 to 1996) and Archean Energy Ltd. (1997). Mr. Angus was President of KD Angus & Associates Ltd. (a private company providing exploration consulting services) from 1997 to 2002. Mr. Angus, *P. Geoph.,* graduated in 1983 with a Bachelors of Science degree. Mr. Angus is registered as a Professional Geologist with APEGGA and is a member of the CSEG and the SEG.
Allan K. Ashton Priddis, Alberta, Canada • *Director* • *Chairman, Reserves Sub Committee* • *Audit Committee*	**Director Since April 3, 2007** President of Ashton Petroleum Consultants Ltd. (a private company providing consulting services to the energy sector) since 1985. Mr. Ashton served on the Board of Directors of Cobalt Energy Ltd., (a public oil and gas company) from June 2007 to July 2009. Mr. Ashton was Chairman of the Board and co-founder of AJM Petroleum Consultants ("AJM") since co-founding it in 1999 until March 2009. AJM specializes in the evaluation of corporate reserves, acquisitions and divestitures and unconventional reserves, such as coalbed methane and tight gas. Mr. Ashton joined British American Oil (subsequently Gulf Canada, a public oil and gas company) in 1965, holding various positions lastly as Manager of Reservoir Engineering until 1983. In 1986 Mr. Ashton co-founded AMH Group Ltd., which subsequently merged with Ashton Jenkins and Associates to form AJM. Mr. Ashton co-founded and was a director of Moreland Oil and Gas Ltd., (a public oil and natural gas company) from 1987 to 1990. Mr. Ashton, *P. Eng.,* graduated from the University of Alberta in 1965 with a Bachelor of Science degree in Chemical Engineering. Mr. Ashton is a life member of APEGGA and was a member of the Petroleum Society of CIM.
Joan E. Dunne Calgary, Alberta, Canada • *Vice President, Finance and Chief Financial Officer*	Ms. Dunne has been the Vice-President, Finance and Chief Financial Officer of the Corporation since inception. She was Vice President, Finance and Chief Financial Officer of True Energy Inc., and subsequently True Energy Trust from November 2002 until June 2006.

Name, Residence and Position	
James H. French Cochrane, Alberta, Canada • *Vice President, Engineering*	Mr. French has been the Vice-President Engineering of the Corporation since inception. He was Senior Operations Engineer, Trident Exploration from May 2005 to January 2007. Mr. French's expertise is in production completion and reservoir optimization. Mr. French is a member of APPEGA, APEGS and SPE.
James S. Thomson Calgary, Alberta, Canada • *Vice President, Land*	Mr. Thomson has been the Vice-President Land of the Corporation since inception. He was Vice-President, Land for Dyno Energy Ltd., a startup private oil and natural gas company from December 2004 to August 2006. Prior thereto, he was a District Landman and Senior Negotiator in the A&D Group for Talisman Energy Inc. since 1995.
Michael E. Belenkie Calgary, Alberta, Canada • *Vice President, Corporate Development*	Mr. Belenkie was appointed Vice-President, Corporate Development for the Corporation in November 2009 after joining Painted Pony in September 2008 as Manager, Corporate Development. Previously, Mr. Belenkie was Montney Development Team Lead at Talisman Energy. During 2006 and 2007 Mr. Belenkie was a management consultant with the firm RLG International. Prior to that, Mr. Belenkie held various roles at Talisman Energy including reservoir, development and production engineering.
Mary Kay Axford Calgary, Alberta, Canada • *Controller*	Ms Axford has been the Controller of the Corporation since January 2008. She was most recently Controller for Redcliffe Exploration Inc. from April 2007 until February 2008. From March 2002 to December 2006, Ms Axford was Controller for True Energy Inc./True Energy Trust.
Douglas T. McCartney Calgary, Alberta, Canada • *Corporate Secretary*	Partner of Burstall Winger LLP, a law firm, since January 1, 2008. He was an associate with Burstall Winger LLP from July, 2005 to December, 2007.

Ownership of Shares

As at the date hereof, the directors and officers of the Corporation and its subsidiaries, as a group, own or control, directly or indirectly, an aggregate of 3,395,788 Class A Shares representing 5.7% of the issued and outstanding Class A Shares and 1,300 Class B Shares representing less than 0.1% of the issued and outstanding Class B Shares.

Cease Trade Orders

To the knowledge of management, no director or executive officer of Painted Pony is, as of the date of this AIF, or was, within the 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including Painted Pony) that was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the company access to any exemption under securities legislation that was in effect for a period of more than 30 consecutive days, that was issued (i) while such person was acting in that capacity, or (ii) after such person was acting in such capacity and which resulted from an event that occurred while that person was acting in such capacity.

Bankruptcies

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

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

Penalties or Sanctions

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

Conflicts of Interest

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

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

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of Painted Pony is not aware of any existing or contemplated legal proceedings material to Painted Pony, to which Painted Pony is, or during the financial year ended December 31, 2010 was, a party or of which any of its property is, or during the financing year ended December 31, 2010 was, subject.

Management of Painted Pony is not aware of any penalties or sanctions imposed against Painted Pony by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2010 or any other penalties or sanctions imposed by a court or regulatory body against Painted Pony that would likely be considered important to a reasonable investor in making an investment decision.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

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

AUDITORS, REGISTRAR AND TRANSFER AGENT

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

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

MATERIAL CONTRACTS

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

INTERESTS OF EXPERTS

The Corporation's auditors are KPMG LLP, Chartered Accountants, who have prepared an independent auditors' report dated March 28, 2011 in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the year ended December 31, 2010. KPMG LLP has advised that they are independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

Sproule prepared the independent report filed with the Form 51-101F1 – *Statement of Reserves Data and Other Oil & Gas Information* in which it evaluated as at December 31, 2010 the oil and natural gas reserves attributable to the principal properties of the Corporation. The partners, employees and consultants of Sproule hold, directly or indirectly, in aggregate, less than 1% of any securities or other property of the Corporation or of one of its associates or affiliates either at the time of such reports or since that time.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

ADDITIONAL INFORMATION

Additional information regarding the Corporation may be found on SEDAR. Additional information, including directors' and officers' remuneration and indebtedness to the Corporation, principal holders of securities of the Corporation and securities authorized for issuance under equity compensation plans is contained in the Corporation's Information Circular dated April 20, 2011, prepared in connection with the annual and special meeting of shareholders to be held June 6, 2011. Additional financial information is provided in the Corporation's comparative consolidated financial statements for its financial year ended December 31, 2010, together with the accompanying report of the auditor and management's discussion & analysis filed on SEDAR.