

*This prospectus constitutes a public offering of securities only in those jurisdictions where such securities may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended, and may not be offered or sold within the United States or to U.S. persons.*

Initial Public Offering

PROSPECTUS

May 8, 2007

## PAINTED PONY PETROLEUM LTD.

**Minimum Offering: 10,000 Units (\$10,000,000)**

**Maximum Offering: 12,000 Units (\$12,000,000)**

Painted Pony Petroleum Ltd. ("**Painted Pony**" or the "**Corporation**") hereby offers for sale a minimum of 10,000 units (the "**Units**") and a maximum of 12,000 Units at a price of \$1,000 per Unit (the "**Offering**"). The Offering is subject to minimum gross subscription proceeds in the amount of \$10,000,000 (the "**Minimum Offering**") and maximum gross subscription proceeds of \$12,000,000 (the "**Maximum Offering**"). Each Unit is comprised of 400 class A shares (the "**Class A Shares**") in the capital of the Corporation, issued on a "flow-through" basis under the *Income Tax Act* (Canada), at \$0.25 per Class A Share (\$100) and 90 class B shares (the "**Class B Shares**") in the capital of the Corporation, issued on a "flow-through" basis under the *Income Tax Act* (Canada), at \$10.00 per share (\$900). The aggregate price per Unit of \$1,000 will constitute the flow-through funds (the "**Flow-through Funds**").

Painted Pony will incur and renounce to subscribers Qualifying Expenditures (as defined herein) as to \$1,000 per Unit effective on or before December 31, 2007. Assuming completion of the Maximum Offering, approximately 83.3% of the Flow-through Funds will be expended on Canadian exploration expenses ("**CEE**") and 16.7% on Canadian development expenses ("**CDE**") which can be renounced to subscribers as CEE ("**Eligible CDE**"). Based on the current provisions of the *Income Tax Act* (Canada), estimated deductions to subscribers for income tax purposes based on the minimum subscription of five Units (\$5,000) will total \$5,000 in 2007. See "*Summary of the Prospectus - Estimated Expenditures and Income Tax Deductions*" and "*Canadian Federal Income Tax Considerations*".

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**Price: \$1,000 Per Unit - Minimum Subscription: Five Units (\$5,000)**

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	Price to the Public <sup>(1)(2)</sup>	Agents' Commission <sup>(3)</sup>	Net Proceeds to the Corporation <sup>(4)</sup>
Per Unit .....	\$1,000	\$60	\$940
Minimum Offering .....	\$10,000,000	\$600,000	\$9,400,000
Maximum Offering.....	\$12,000,000	\$720,000	\$11,280,000

**Notes:**

- (1) The proceeds from subscriptions will be held by the Agents (as defined herein) until subscriptions for a minimum of \$10,000,000 of Units offered pursuant to the Minimum Offering are received.
- (2) The price and terms of these securities were fixed by negotiation between the Corporation and the Agents.
- (3) The Agents will receive a fee of 6.0% of the gross amount raised pursuant to the Offering.
- (4) Prior to giving effect to the estimated expenses of the Offering of \$200,000.
- (5) This prospectus also qualifies for distribution up to 386,600 Class A Shares and 86,985 Class B Shares that may be issued to StoneBridge Merchant Capital Corp. ("**StoneBridge**") in satisfaction of \$966,500 of debt owed by the Corporation to StoneBridge. See "*Plan of Distribution*".

Blackmont Capital Inc., as lead agent, together with Cormark Securities Inc. and FirstEnergy Capital Corp. (collectively, the "**Agents**") conditionally offer the Units on a "commercially reasonable efforts" basis, subject to prior sale, if, as and when issued by the Corporation and accepted by the Agents in accordance with the conditions contained in the Agency Agreement referred to under "*Plan of Distribution*", subject to approval of legal matters on the Corporation's behalf by Burstall Winger LLP, of Calgary, Alberta and on the Agents' behalf by Burnet, Duckworth & Palmer LLP, of Calgary, Alberta.

The Corporation has applied to list the Class A Shares and Class B Shares distributed under this prospectus on the TSX Venture Exchange Inc. ("**TSXV**"). Listing will be subject to the Corporation fulfilling all of the requirements of the TSXV, including distribution of the Class A Shares and Class B Shares to a minimum number of public security holders. The Units will not be listed or traded on any exchange.

**The Units, Class A Shares and Class B Shares are considered to be highly speculative due to the nature of the Corporation's business and its formative stage of development. There is no market through which these securities may be sold and subscribers may not be able to resell securities purchased under this prospectus. An investment in Units is suitable for only those investors who are willing to risk a loss of their entire investment and who can afford to lose their entire investment. The Corporation was reorganized to pursue oil and natural gas exploration, development and production in the Western Canadian Sedimentary Basin, the success of which cannot be assured. The Corporation has no present intention to pay any dividends on its Class A Shares or its Class B Shares. The Corporation has no business oil and gas history or history of earnings. Subscribers must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Painted Pony. See "*Risk Factors*".**

Subscriptions for Units will be received subject to rejection or allotment, in whole or in part, and the right is reserved to close the subscription books at any time without notice.

Provided the Minimum Offering has been subscribed for, it is expected that the closing of the Offering (the "**Closing**") will take place on or about May 15, 2007, subject to postponement, as the Agents and the Corporation may agree, to not later than May 30, 2007. Notwithstanding the foregoing, the Offering will be discontinued in the event that a Closing in respect of the Minimum Offering has not occurred on or prior to the date which is 90 days from the issuance of a receipt for the final prospectus, unless each of the persons or companies who have subscribed within such period consent to the continuation of the Offering.

Until such time as a Closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held by the Agents pending Closing of the Minimum Offering. If the Minimum Offering has not been subscribed for prior to the expiry of the 90 day period described above, the Agents shall promptly return the proceeds of subscriptions to the subscribers without interest or deduction unless such subscribers have otherwise instructed the Agents.

Should Closing occur in respect of the Minimum Offering, one or more additional Closings, if necessary, may occur until the earlier of the Offering being fully subscribed and May 30, 2007.

Certificates for the 400 Class A Shares and 90 Class B Shares per Unit are expected to be available for delivery at the Closing. No Unit certificates will be issued.

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## FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and forward-looking information which are based on the Corporation's current internal expectations, estimates, projections, assumptions and beliefs. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "plan", "should", "believe" and similar expressions are intended to identify forward-looking statements and forward-looking information. These statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements or information. The Corporation believes that the expectations reflected in those forward-looking statements and information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements and information included in this prospectus should not be unduly relied upon. Such forward-looking statements and information speak only as of the date of this prospectus and the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or information, except as required by applicable laws.

In particular, this prospectus contains forward-looking statements and information pertaining to the following:

- commodity prices, foreign currency exchange rates and interest rates;
- capital expenditure programs and other expenditures;
- supply and demand for oil, natural gas liquids ("NGLs") and natural gas;
- expectations regarding the Corporation's ability to raise capital and to continually add to reserves through acquisitions and development;
- schedules and timing of certain projects and the Corporation's strategy for growth;
- the Corporation's future operating and financial results; and
- treatment under governmental and other regulatory regimes and tax, environmental and other laws.

The Corporation's actual results could differ materially from those anticipated in these forward-looking statements and information as a result of both known and unknown risks, including the risk factors set forth under "*Risk Factors*" in this prospectus and those set forth below:

- volatility in market prices for oil, NGLs and natural gas;
- changes or fluctuations in oil, NGLs and natural gas production levels;
- changes in foreign currency exchange rates and interest rates;
- changes in capital and other expenditure requirements and debt service requirements;
- liabilities and unexpected events inherent in oil and natural gas operations, including geological, technical, drilling and processing problems;
- uncertainties associated with estimating reserves;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions;
- the Corporation's success at acquisition, exploitation and development of reserves;
- changes in general economic, market and business conditions in Canada, North America, Europe and worldwide;
- actions by governmental or regulatory authorities including changes in income tax laws or changes in tax laws and incentive programs relating to the oil and natural gas industry; and
- changes in environmental or other legislation applicable to the Corporation's operations, and the Corporation's ability to comply with current and future environmental and other laws.

## SUMMARY OF THE PROSPECTUS

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Reference is made to the Glossary for the definitions of certain terms with initial capital letters used in this prospectus and in this summary.*

**The Offering** The Offering consists of a minimum of 10,000 Units and a maximum of 12,000 Units at a price of \$1,000 per Unit. Each Unit is comprised of 400 Class A Shares, issued on a "flow-through" basis, and 90 Class B Shares, issued on a "flow-through" basis. See "Details of the Offering" and "Plan of Distribution".

Allocation of Subscription Price	Number	Per Share Purchase Price	Allocation of Purchase Price
Per Unit			
Class A Shares	400	\$ 0.25	\$ 100
Class B Shares	90	\$10.00	900
			\$1,000

The allocation of the subscription price between the Class A Shares and Class B Shares was determined by negotiation between the Corporation and the Agents.

**Minimum Offering** The Offering is subject to minimum gross subscription proceeds in the amount of \$10,000,000. The proceeds from subscriptions will be held by the Agents until subscriptions representing a minimum of \$10,000,000 of Units offered hereby are received by the Agents.

**Minimum Subscription Per Subscriber** The minimum subscription per subscriber under the Offering is five Units (\$5,000). Additional purchases must be in multiples of one Unit (\$1,000).

**Price and Subscription Procedure** The subscription price of \$1,000 per Unit (minimum five Units for \$5,000) is payable at the time of Closing by cheque dated at the subscription date (or such other method of payment as is acceptable to the Agents).

**Closing** Provided the Minimum Offering has been subscribed for, the Closing will take place on or about May 15, 2007, subject to postponement, as the Agents and the Corporation may agree, to not later than May 30, 2007. One or more additional Closings may occur until the earlier of the Offering being fully subscribed and May 30, 2007. See "Plan of Distribution".

**The Corporation** Painted Pony was continued into Alberta from Ontario on February 13, 2007, and reorganized pursuant to the Financing Agreement (as defined herein). The Corporation intends to participate in oil and natural gas exploration, development and production in the Western Canadian Sedimentary Basin. Specifically, the Corporation intends to generate and develop its own prospects, acquire oil and natural gas properties directly and/or through farm-ins and participate with joint venturers and other industry partners in oil and natural gas exploration and development in the Western Canadian Sedimentary Basin. To date, the Corporation has entered into the Midale/Elcott Farmin Agreement, the Kisbey Farmin Agreement and the NE BC AMI agreement. See "General Development of the Business" and "Business of the Corporation - Developments to Date" and "Directors, Officers and Key Personnel of the Corporation".

**Directors, Officers and Key Personnel of the Corporation**

<b>Name</b>	<b>Position(s) Held</b>
Patrick R. Ward	President and Chief Executive Officer, Director and Promoter
Ronald R. Talbot	Director and Non-Executive Chairman
Glenn R. Carley	Director
Kevin Angus	Director
Allan K. Ashton	Director
Craig E. Reed	Director
Joan E. Dunne	Vice President, Finance and Chief Financial Officer
Donald J. Slater	Vice President, Geophysics
James S. Thomson	Vice President, Land
James French	Vice President, Engineering
Doug McCartney	Corporate Secretary

**Description of Share Capital**

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 Corporation, the Class B Shares will be converted into Class A Shares and the Class A Shares are entitled to receive, on a pro rata basis with the Common Voting and Common Non-Voting Shares, all assets of the Corporation as are distributable to the holders of shares.

The Class B Shares are convertible, at the option of the Corporation, at any time after June 30, 2010 and 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 Class B Share will be equal to \$10.00 divided by the greater of \$1.00 and the then Current Market Price of the Class A Shares. If the Corporation fails to exercise the conversion option 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 July 1, 2012 and before August 1, 2012 into Class A Shares pursuant to the conversion formula described above. Any Class B Shares not converted by 5:00 p.m. (Calgary time) on August 1, 2012 will be automatically converted into Class A Shares pursuant to the conversion formula described above. See "*Capitalization of the Corporation*" and "*Description of Securities of the Corporation – Class B Shares*".

**Use of Proceeds**

The gross proceeds to the Corporation from the Offering will be \$10,000,000 if the Minimum Offering is sold and \$12,000,000 if the Maximum Offering is sold. The net proceeds to the Corporation from the Offering after deducting the anticipated Agents' Commission but prior to deducting the estimated expenses of the Offering of \$200,000 are estimated to be \$9,400,000 if the Minimum Offering is sold and \$11,280,000 if the Maximum Offering is sold. The total funds available to the Corporation at Closing after deducting the estimated expenses of the Offering of \$200,000 and including the estimated working capital deficiency of the Corporation as at March 31, 2007 of \$70,100<sup>(1)</sup> and assuming estimated proceeds of the Private Placement of \$1,248,250 are received is estimated to be \$10,378,150 if the Minimum Offering is sold and the Private Placement is completed<sup>(3)</sup> and \$12,484,900 if the Maximum Offering is sold and the Private Placement is completed<sup>(3)</sup>. The Corporation intends to expend its allocated total funds from this Offering as follows:

<b>Use of Available Funds<sup>(1)(2)</sup></b>	<b>Minimum Offering</b>	<b>Maximum Offering<sup>(2)</sup></b>
To incur Qualifying Expenditures	\$ 10,000,000	\$12,000,000

**Notes:**

- (1) Estimated working capital deficiency as at March 31, 2007 of \$70,100 consists of start-up costs of \$40,600 and office furniture, equipment and computer hardware and software

costs of \$29,500.

- (2) Available Funds includes the net proceeds of the Offering after deducting expenses of the Offering of \$200,000 and includes the Corporation's estimated working capital deficiency as at March 31, 2007 of \$70,100 and the estimated proceeds of the Private Placement of \$1,248,250 if the Minimum Offering is sold and \$1,475,000 if the Maximum Offering is sold.
- (3) There is no assurance that the Private Placement will be completed. The Private Placement is estimated to be for 4,993,000 Class A Shares if the Minimum Offering is sold and for 5,900,000 Class A Shares if the Maximum Offering is sold.

See "Use of Proceeds".

**Estimated Expenditures and Income Tax Deductions**

The Corporation will cause the Flow-through Funds to be expended on Qualifying Expenditures which will be renounced by the Corporation to the subscribers effective on or before December 31, 2007 pursuant to the Tax Act. The following table has been compiled to reflect the estimated deductions for income tax purposes and the estimated net cost and money at risk based on the proposed issuance of Class A Shares and Class B Shares pursuant to the Offering and assumptions described in the footnotes to the table. Subscribers should consult their own professional advisors to assess the income tax, legal and other aspects of an investment in the Units. See "Canadian Federal Income Tax Considerations" and "Risk Factors – Tax Treatment of Class A Shares and Class B Shares Comprising the Units".

**TABLE 1**

	<b>Estimated Effective Net Cost And Money At Risk<sup>(4)</sup></b>				
	(Assuming Minimum Subscription of \$5,000)				
	<b>BC</b>	<b>AB</b>	<b>SK</b>	<b>ON</b>	<b>NS</b>
Top Marginal Tax Rate (Year 2007) <sup>(4)</sup>	43.70%	39.00%	44.00%	46.41%	48.25%
Minimum Subscription	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Less Estimated Tax Savings (Year 2007) <sup>(5)</sup>	\$2,185	\$1,950	\$2,200	\$2,321	\$2,413
Money at Risk <sup>(6)</sup>	\$2,815	\$3,050	\$2,800	\$2,679	\$2,587
% Money at Risk to Total Investment	56.3%	61.0%	56.0%	53.6%	51.8%
Money at Risk per Additional \$1,000 Unit <sup>(7)</sup>	\$563	\$610	\$560	\$536	\$518

**Notes:**

- (1) This table has been prepared on the basis that the Flow-through Funds of \$5,000 (per minimum subscription of \$5,000) paid for the Class A Shares and Class B Shares pursuant to the Offering will be expended on Qualifying Expenditures which will be renounced by the Corporation to the subscribers on or before December 31, 2007 pursuant to the Tax Act. Qualifying Expenditures will be incurred such that all of the Flow-through Funds will be expended on CEE or on CDE which can be renounced to subscribers as CEE.
- (2) Although a precise estimate as to the nature and timing of the expenditure of the Flow-through Funds cannot be provided, the tables summarize the estimated Qualifying Expenditures expected to be incurred by the Corporation.
- (3) The deductions for income tax purposes are based on 100% of CEE being deductible for the year renounced and assuming that CDE incurred by the Corporation and renounced to subscribers qualifies for CEE treatment in the hands of the subscribers and, accordingly, will be deductible as to 100% for the year renounced.
- (4) Each province has its own tax brackets and individuals should consult with their own tax advisors to determine the level of taxable income at which the top marginal tax rate applies. For the purposes of this table, all surtaxes and flat taxes, if any, have been included in these tax rates. No consideration has been given to the minimum tax. This

table is based on the current legislation and does not reflect any proposed changes.

- (5) The estimated tax savings for an individual in the highest marginal tax bracket are calculated by multiplying the estimated deductions by the top marginal tax rate.
- (6) Money at risk is the undiscounted after tax cost of a \$5,000 investment after giving effect to tax deductions to a subscriber who is an individual in the highest marginal tax bracket. The calculations assume the estimated expenditures are as set out in Table 1 and are not discounted as to present worth.
- (7) Money at risk per additional \$1,000 Unit is the undiscounted after tax cost of an additional \$1,000 investment after giving effect to tax deductions to a subscriber who is an individual in the highest marginal tax bracket. The calculations assume the estimated expenditures are as set out in Table 1 and are not discounted as to present worth.

**The Corporation agrees to renounce in favour of subscribers effective on or before December 31, 2007 an amount equal to \$1,000 per Unit subscribed for. To effect such renunciation, the Corporation must expend an amount equal to the Flow-through Funds so as to incur Qualifying Expenditures on or before December 31, 2008. If the Corporation fails to incur such Qualifying Expenditures, the Corporation will be required to restate the amount of expenses that it has renounced in favour of the subscribers, which will cause the subscribers to be reassessed and remit to the Canada Revenue Agency ("CRA") the tax benefits from which they would have benefited. In this event, the Corporation has agreed to indemnify subscribers for the amount of the tax benefits that they are required to remit to CRA. See "*Canadian Federal Income Tax Considerations*" and "*Risk Factors – Tax Treatment of Class A Shares and Class B Shares Comprising the Units*".**

**Eligibility for Investment**

In the opinion of Burstall Winger LLP, counsel to Painted Pony, and Burnet, Duckworth & Palmer LLP, counsel to the Agents, subject to the assumptions, restrictions and limitations set forth under the heading "*Canadian Federal Income Tax Considerations*", provided the Class A Shares and the Class B Shares are listed on a prescribed stock exchange at the relevant time, the Class A Shares and the Class B Shares when issued will be qualified investments, within the meaning of the Tax Act, for trusts governed by registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans (collectively, "**Exempt Plans**"). It is not anticipated that Exempt Plans will subscribe for Class A Shares or Class B Shares comprising the Units as Exempt Plans do not benefit from the deduction of Qualifying Expenditures.

**Risk Factors**

**These securities are considered to be highly speculative due to the nature of the Corporation's business and its formative stage of development.** The Corporation was continued into Alberta from Ontario on February 13, 2007, and reorganized pursuant to the Financing Agreement (as defined herein). The Corporation intends to participate in oil and natural gas exploration, development and production in the Western Canadian Sedimentary Basin. The Corporation plans to pursue these objectives by working with other industry partners through joint ventures and/or farm-ins and by exploring for oil and natural gas through internally generated prospects, the success of which cannot be assured. The Corporation currently has no working interests in oil and natural gas properties and no reserves. The Corporation has no business history nor history of earnings in the oil and natural gas industry. There are additional risks associated with the investment relating to Painted Pony's prospects for success, availability of subsequent financing, no market for the securities, competition in the industry, potential liability for damages arising during operations, governmental regulation, availability of oil and natural gas markets, fluctuating commodity prices and changes in income tax laws. In assessing the risks of an investment in the Class A Shares or Class B Shares, potential investors should realize that they are relying on the experience, judgment, discretion, integrity and good faith of the management of Painted Pony. There is no guarantee that an amount equal to the total proceeds for the sale of the Class A and Class B Shares comprising the Units will be expended on or prior to December 31, 2008 as Qualifying

Expenditures resulting in the deductions described under "*Canadian Federal Income Tax Considerations*". **An investment in Units is suitable for only those investors who are willing to risk a loss of their entire investment and who can afford to lose their entire investment. Subscribers should consult their own professional advisors to assess the income tax, legal and other aspects of an investment in Units. See "*Risk Factors*".**

**Summary Financial Information**

The following, which should be read in conjunction with the financial statements set forth herein, is a summary of selected financial information of the Corporation as at December 31, 2006.

Current Assets	\$ 1,103,342
Current Liabilities	\$ 2,039,251
Shareholders' Deficiency	\$ 935,909

The reader is specifically directed to the Subsequent Event note 10 in the December 31, 2006 audited financial statements.

After giving effect to events subsequent to December 31, 2006, selected unaudited financial information of the Corporation as at March 31, 2007<sup>(1)</sup> is as follows:

Current Assets	\$ -
Current Liabilities	\$ 619,000
Non- Current Liabilities	\$ 347,500
Shareholders' Deficiency	\$ 966,500

**Note:**

- (1) Prior to the estimated working capital deficiency as at March 31, 2007 of \$70,100 for start-up costs incurred by PrivateCo which are being transferred to the Corporation pursuant to the Financing Agreement whereby PrivateCo agreed to transfer all of its assets and liabilities to the Corporation.

## GLOSSARY

In this prospectus, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

"**764503**" means 764503 Alberta Ltd., a private company owned by Patrick Ward;

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including any regulations promulgated thereunder;

"**AEPEA**" means the *Alberta Environmental Protection and Enhancement Act*;

"**Agency Agreement**" means the agency agreement dated March 28, 2007 with respect to the Offering between the Corporation and the Agents as more particularly described under the heading "*Plan of Distribution*";

"**Agents**" means collectively, Blackmont Capital Inc, Cormark Securities Inc. and FirstEnergy Capital Corp. and "**Agent**" means any one of them;

"**Agents' Commission**" means the fee of 6.0% of the gross amount raised under the Offering, payable to the Agents pursuant to the Agency Agreement;

"**Area of Mutual Interest**" with respect to the NE BC AMI Agreement means any lands purchased at Crown sales, and by way of farm in/out, purchased, swap or otherwise where fifty percent (50%) or more of the land falls within 100 (one hundred) meters of the two dimensional or three dimensional surveyed seismic lines as outlined in the agreement;

"**CAPL**" means the Canadian Association of Petroleum Landmen;

"**Class A Share**" or "Class A Shares" means, respectively, one or more Class A Shares in the capital of Painted Pony;

"**Class B Share**" or "Class B Shares" means, respectively, one or more Class B Shares in the capital of Painted Pony;

"**Closing**" means the closing of the issue and sale of Units pursuant to the Offering;

"**Common Non-Voting Share**" means the common non-voting shares in the capital of Painted Pony;

"**Common Voting Share**" means the common voting shares in the capital of Painted Pony;

"**Continuance**" means the continuance of BFL Energy Ltd. into the Province of Alberta under the ABCA, which occurred on February 13, 2007, and pursuant to which the name of the Corporation was changed to 1300873 Alberta Ltd.;

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

"**CRA**" means the Canada Revenue Agency;

"**Current Market Price**" at any date shall mean the weighted average trading price per Class A Share for any 30 consecutive trading days selected by the Corporation and commencing not more than 45 days before such date on the TSXV, or, if the Class A Shares are not listed thereon, on such stock exchange on which the Class A Shares are listed as may be selected for such purpose by the directors of the Corporation, or if the 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, the Current Market Price shall be established by a qualified independent valuator approved by the board of directors of the Corporation;

**"Debt Satisfaction"** means the proposed satisfaction, following the closing of the Offering, of \$966,500 of debt owed by the Corporation to StoneBridge, in consideration for which StoneBridge may receive 386,600 Class A Shares and 86,985 Class B Shares;

**"Eligible CDE"** means CDE which can be renounced to subscribers as CEE;

**"Escrow Agent"** means Olympia Trust Company, the registrar and transfer agent for the Class A Shares and the Class B Shares;

**"Escrow Agreement"** means the agreement to be dated May 15, 2007 among the Corporation, Escrow Agent and certain shareholders of the Corporation, in respect of those Class A Shares to be escrowed in connection with the Offering pursuant to applicable regulatory requirements;

**"Etail"** means The Etail Factory, (U.S.), Inc., a shareholder of the Corporation;

**"Expenditure Period"** means the period commencing on the date of Closing and ending on the earlier of: (i) the date on which the Flow-through Funds have been fully expended in accordance with the terms hereof; and (ii) December 31, 2008;

**"Financing Agreement"** means the agreement between PrivateCo and the Corporation dated as of March 27, 2007 pursuant to which PrivateCo agreed to assist the Corporation with the Reorganization, and agreed to transfer all of its assets (including the Kisbey Farmin Agreement and the Midale/Elcott Farmin Agreement) as well as all of its liabilities (which consists of the working capital shortfall of \$70,100 as at March 31, 2007) immediately prior to the closing of the Offering;

**"Flow-through Funds"** means an amount equal to the aggregate gross proceeds of \$1,000 per Unit received by the Corporation from subscribers;

**"GORR"** means gross overriding royalty;

**"Kisbey Farmin Agreement"** means a Farmout and Participation Agreement dated January 2, 2007 between Medora Resources Inc., as farmor and PrivateCo, as farmee;

**"Maximum Offering"** means the maximum offering of 12,000 Units, resulting in gross proceeds of \$12,000,000, as described herein or in any amendment hereto;

**"Midale/Elcott Farmin Agreement"** means the Farmout Agreement dated March 16, 2007 between Advantage Oil and Gas Ltd., as farmor and PrivateCo, as farmee;

**"Minimum Offering"** means the minimum offering of 10,000 Units, resulting in gross proceeds of \$10,000,000, as described herein or in any amendment hereto;

**"NAFTA"** means the North American Free Trade Agreement;

**"NEB"** means the National Energy Board;

**"NE BC AMI Agreement"** means the Area of Mutual Interest Agreement dated October 26, 2006 between VGS Database International Inc. and 764503, a private company owned by Patrick Ward. 764503 intends to transfer the contract to the Corporation, with all terms and conditions remaining the same, prior to Closing.

**"Offering"** means the public offering of the Units, as described herein or in any amendment hereto;

**"Operating Procedure"** means the 1990 Canadian Association of Petroleum Landmen ("CAPL") Operating Procedure and the 1988 PASC Accounting Procedure;

**"PrivateCo"** means Painted Pony Petroleum Corporation, a private company controlled by Patrick Ward;

**"Private Escrow Agreement"** means the agreement to be dated May 15, 2007 among the Corporation, Escrow Agent and certain shareholders of the Corporation, in respect of those Class A Shares to be escrowed in connection with the Private Placement;

**"Private Placement"** means the private placement that the Corporation will endeavour to complete after Closing of up to 5,900,000 Class A Shares at a price of \$0.25 per Class A Share (issued on a non-flow-through basis), as more particularly described under the heading "*Business of the Corporation - Developments to Date - Private Placement*";

**"Qualifying Expenditures"** means those expenditures classified for tax purposes as expenses of the type described in:

- (a) the definition of "**Canadian exploration expense**" ("**CEE**") in subsection 66.1(6) of the Tax Act and when renounced under subsection 66(12.66) of the Tax Act, means Canadian exploration expense described in paragraph (a) or (d) of that definition or that would be described in paragraph (h) of that definition if the words "paragraphs (a) to (d) and (f) to (g.1)," were read as "paragraphs (a) and (d)", in all cases excluding amounts which are prescribed to constitute "Canadian exploration and development overhead expense" under the Tax Act, any amount of assistance described in paragraph 66(12.6)(a) of the Tax Act and any specified expenses described in paragraph 66(12.6)(b.1) of the Tax Act; and
- (b) paragraph (a) or (b) of the definition of "**Canadian development expense**" ("**CDE**") in subsection 66.2(5) of the Tax Act or that would be described in paragraph (f) of that definition if the words "any of paragraphs (a) to (e)" in that paragraph were read as "paragraph (a) or (b)", in all cases excluding amounts which are prescribed to constitute "Canadian exploration and development overhead expense" under the Tax Act and any amount of assistance described in paragraphs 66(12.62)(a) and 66(12.601)(c) of the Tax Act;

**"Reorganization"** means the filing of articles of amendment to change the name of 1300873 Alberta Ltd. to Painted Pony Petroleum Ltd., to create the Class A Shares, Class B Shares and a class of Preferred Shares issuable in series, to reconstitute each issued and outstanding Common Voting Share of Painted Pony for 150 Class A Shares and 33.75 Class B shares, and to remove the private company restrictions;

**"StoneBridge"** means StoneBridge Merchant Capital Corp.;

**"Subscription Agreement"** means the agreement to be executed by the Agents, or any sub-agents of the Agents, as agents for and on behalf of the subscribers of Units and accepted by the Corporation at or prior to Closing setting out, among other things, the contractual relationship between the Corporation and such subscribers relating to the Units, which agreement shall be in a form satisfactory to both the Corporation and the Agents;

**"Tax Act"** means the *Income Tax Act* (Canada), R.S.C. 1985, c.1 (5th Supp.) and the regulations thereunder, as amended;

**"TSXV"** means the TSX Venture Exchange Inc.;

**"Units"** means the units offered hereby, each unit consisting of 400 Class A Shares, issued on a "flow through" basis, and 90 Class B Shares, issued on a "flow through" basis; and

**"VGS"** means VGS Seismic Canada Inc.

## CONVENTIONS

Certain terms used herein are defined in the "Glossary". Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars. All financial information with respect to the Corporation has been presented in Canadian dollars in accordance with generally accepted accounting principles in Canada.

## ABBREVIATIONS

Crude Oil and Natural Gas Liquids		Natural Gas	
bbbl	barrel	Mcf	thousand cubic feet
bbbl/d	barrels per day	MMcf	million cubic feet
Mbbl	thousands of barrels	Bcf	billion cubic feet
boe	barrels of oil equivalent of natural gas and crude oil, unless otherwise indicated	Mcf/d	thousand cubic feet per day
boepd	barrels of oil equivalent per day	MMcf/d	million cubic feet per day
Mboe	thousand boe	GJ	gigajoule
NGL	natural gas liquids		
MMBtu	million British thermal units		

## CONVERSIONS

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

To Convert From	To	Multiply By
Mcf	Thousand cubic metres ("103m3")	0.0282
Thousand cubic metres	Mcf	35.494
bbbl	Cubic metres ("m3")	0.159
Cubic metres	bbbl	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

## PAINTED PONY PETROLEUM LTD.

Painted Pony Petroleum Ltd. 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 consolidate its issued Common Voting Shares on a 2,500 to 1 basis. On February 13, 2007, BFL was continued into the Province of Alberta under 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. 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 202, 1117 - 1st Street S.W., Calgary, Alberta, T2R 0T9. The Corporation does not have any subsidiaries.

## GENERAL DEVELOPMENT OF THE BUSINESS

Painted Pony was continued into Alberta from Ontario on February 13, 2007, and reorganized pursuant to the Financing Agreement. The Corporation intends to participate in oil and natural gas exploration, development and production in the Western Canadian Sedimentary Basin. As at the date hereof, the Corporation does not hold interests in oil and natural gas properties. See "*Business of the Corporation*". PrivateCo presently has six employees, and the Corporation expects to have a total nine employees at Closing. See "*Directors, Officers and Key Personnel of the Corporation*".

## BUSINESS OF THE CORPORATION

### General

The Corporation currently does not hold interests in oil and natural gas properties. The Corporation plans to acquire interests in oil and natural gas exploration and development prospects in Saskatchewan and Northeast British Columbia through: (i) the Midale/Elcott Farmin; (ii) the Kisbey Farmin; and (iii) the NE BC AMI Agreement and its own internally generated exploration and development activities, acquisitions and participation and farm-in agreements that the Corporation will endeavor to negotiate with third parties in other areas of Saskatchewan and Northeast British Columbia. Management of Painted Pony has experience in oil and natural gas exploration in these areas and in other areas of Alberta, Northeast British Columbia and Saskatchewan.

In selecting prospects for acquisition, management of Painted Pony will choose those prospects which, in its judgment, are consistent with a prudent combination of risk and economic potential, recognizing that all drilling involves substantial risk and that a high degree of competition exists for prospects. The principal focus of Painted Pony's exploration and development activities will be to pursue conventional drilling opportunities where geological features are similar to those of other proved producing lands. The risks of this type of exploration are generally considered by industry participants to be lower than the risks involved in drilling previously unexplored areas which are remote from proved productive lands or which are not geologically analogous to developed properties. No assurance can be given that drilling will prove successful in establishing commercially recoverable reserves. The Corporation's primary focus will be either oil or gas exploration targets with the capability of generating immediate cash flow and sustained production. To achieve sustainable and profitable growth, the Corporation believes in controlling the timing and costs of its projects whenever possible. Accordingly, the Corporation will seek to become the operator of its properties to the greatest extent possible.

Painted Pony intends to explore for oil and natural gas primarily in the Midale/Elcott Saskatchewan area and the Kisbey Saskatchewan area, through the Midale/Elcott Farmin and the Kisbey Farmin, respectively. The Corporation also intends to explore for oil and natural gas in Northeast British Columbia through the NE BC AMI agreement and in other areas known to management in Saskatchewan and Northeast British Columbia, through internally generated exploration and development activities, as well as potential acquisitions. See "*Business of the Corporation - Principal Exploration Properties*".

In order to focus its exploration and development drilling programs, the Corporation will consider 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 will attempt to minimize risk by initially participating in wells shallower than 2500m and not participating in critical sour wells;
- quality of the anticipated production and reserves. The Corporation's exploration efforts will be focused towards light oil and sweet gas with lower operating and development cost and high net back;
- favourable payout and return on investment. The Corporation will strive 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 will attempt to minimize risk by pursuing play types that are seismically supported;
- availability of operatorship or a good relationship with the operator in non-operated ventures;
- offset and trend land opportunities and the ability to expand the Corporation's holdings upon success; and
- target areas where infrastructure is available and accessible. The Corporation will target areas and opportunities where the time from drilling to production is realistically expected to be less than six months.

It is important to recognize that exploration drilling involves substantial risk and no assurance can be given that drilling will prove successful in establishing commercially recoverable reserves. While the Corporation believes that it has the skills and resources necessary to achieve its objectives, participation in the exploration for and development of oil and natural gas has a number of inherent risks. See "*Risk Factors*".

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

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

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

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

### **Oil and Natural Gas Reserves**

As at the date hereof, the Corporation has no oil or natural gas properties, plants or facilities, no oil or natural gas reserves and no production, nor has it drilled any wells. Therefore, the Corporation did not engage an independent evaluator to review its reserves or associated future net revenues as at the date hereof.

### **Three Year History**

The Corporation began operations in 1999 as a private venture capital funded software development company. The Corporation created a proprietary combination of web-based applications and operational support systems to allow U.S. e-commerce retailers seamless cross-border shipping and payment capabilities for serving Canadian buyers.

In 2003, the Corporation entered into a financial partnership with Canada Post Corporation ("**Canada Post**") to further expand its business. Operating as a partnership, the Corporation continued to develop its operational capabilities and further penetrate the U.S. e-commerce market with its services. The Corporation also focused on the integration and leverage of Canada Post products and services. In April 2005, Canada Post agreed to acquire the primary operating assets of the Corporation from the original venture capital investors and the partnership was dissolved.

During the term of the partnership, the Corporation also developed proprietary software for auction platforms. This software allowed U.S.-based eBay Inc. ("**eBay**") sellers to serve Canadian-based buyers with a combination of payment and logistics services. The intellectual property and operations developed for the auction business were excluded from the transaction with Canada Post. The Corporation continued to operate the auction business on the eBay platform until November 2005 when Pitney Bowes Cross Border Services Inc. agreed to acquire the remaining operating and intellectual property assets of the Corporation.

The Corporation has not conducted active business since November 2005. Since January 26, 2006 the Corporation has been working with StoneBridge, its primary creditor, on a plan to satisfy its debt. On January 31, 2007, the Corporation, StoneBridge and PrivateCo entered into a letter of intent whereby PrivateCo agreed to assist in the reorganization of the Corporation. On March 20, 2007, this letter was amended and StoneBridge was offered (upon the closing of the Offering) 386,600 Class A Shares and 86,985 Class B Shares in satisfaction of \$966,500 of debt owed to it by the Corporation. On March 27, 2007, the Corporation entered into the Financing Agreement (the "Financing Agreement") with PrivateCo, pursuant to which PrivateCo agreed to assist with, among other things, the reconstitution of the Corporation's board of directors, the reorganization of the share capital of the Corporation and the filing of articles of amendment to change the name of the Corporation to Painted Pony Petroleum Ltd., all of which were approved by the shareholders of the Corporation on March 27, 2007 and which were effected on April 3, 2007. Additionally, pursuant to the Financing Agreement, Private Co agreed to assist the Corporation with the Reorganization and agreed to transfer all of its assets (including the Kisbey Farmin Agreement and the Midale/Elcott Farmin Agreement) as well as all of its liabilities to the Corporation. Completion of the reorganization of the Corporation as contemplated in the Financing Agreement is conditional upon the Offering closing on or before May 30, 2007, subject to extension or waiver as agreed to by the parties.

## **Developments to Date**

### Midale/Elcott Farmin

PrivateCo entered into the Midale/Elcott Farmin Agreement involving certain of the farmor's interests in Southeast Saskatchewan crown, freehold and fee title lands. In total, the farmin block is comprised of 57,390 gross (51,230 net) acres. Following a 60 day review of farmor's seismic data, the agreement requires the drilling of three test wells at locations of PrivateCo's choice on the farmin block, with rig release of the last test well to occur on or before September 30, 2007. The agreement also requires a minimum of six square miles of 3-D seismic to be shot on or before September 30, 2007. With each test well, the agreement provides for the earning of 100% of farmor's working interest in two gross sections selected by the Corporation on as contiguous a basis as possible. Earning will comprise petroleum and natural gas rights in the Bakken formation in Crown and freehold lands other than within the Elcott and Alameda areas. Earning will comprise petroleum and natural gas rights from surface to the base of the deepest formation penetrated in fee title lands in the Elcott and Alameda areas, subject to the overriding royalties outlined below:

- Crown lands earning horizontal and vertical wells: 1/23.8365 of monthly production in cubic metres expressed as a sliding scale percentage (minimum 5% - maximum 12%) on oil and 15% on gas.
- Freehold lands earning horizontal wells: 1/23.8365 of monthly production in cubic metres expressed as a percentage (minimum 4% - maximum 7.5%) on oil and 15% on gas during recovery of the initial 20,000 bbls of production, increasing after that to an overriding royalty of 1/23.8365 of monthly production in cubic metres expressed as a percentage (minimum 5% - maximum 12%) on oil and 15% on gas.
- Freehold lands earning vertical wells: 1/23.8365 of monthly production in cubic metres expressed as a percentage (minimum 5% - maximum 12%) on oil and 15% on gas.

- Fee title lands earning horizontal wells: lessor royalty of 15% and 1/23.8365 of monthly production in cubic metres expressed as a percentage (minimum 4% - maximum 7.5%) on oil and 15% on gas during recovery of the initial 20,000 bbls of production, increasing after that to an overriding royalty of 1/23.8365 of monthly production in cubic metres expressed as a percentage (minimum 5% - maximum 12%) on oil and 15% on gas.
- Fee title lands earning vertical wells: lessor royalty of 15% and 1/23.8365 of monthly production in cubic metres expressed as a percentage (minimum 5% - maximum 12%) on oil and 15% on gas.

The agreement provides for PrivateCo to have the option to continue drilling to earn on the basis set out above until all lands have been earned or until PrivateCo elects to terminate the option for further earning. PrivateCo has a right of first refusal with respect to third party offers, which will be put in place under certain terms and conditions. The option will terminate on November 30, 2008 unless otherwise agreed to be extended by both parties. The farmor will have the option to participate at 20% of its pre-farmout working interest in any well proposed by PrivateCo on unearned lands. The farmor will have the option to participate at 20% of its pre-farmout working interest for a period of 15 days from receipt of the drilling notice. With respect to earned lands, the farmor will retain the right to convert its overriding royalty interest to 25% of its pre-farmout working interest in undrilled spacing units in the earned block upon proposal of a second well within the earned block by PrivateCo. The farmor will have the right to convert its GORR interest to 25% of its pre-farmout working interest in un-drilled spacing units for a period of fifteen days from receipt of the drilling notice. An election not to convert will be deemed an election to retain the GORR interest in the earning block. An area of mutual interest will be established comprising lands within approximately one mile of earning blocks. Participation in the area of mutual interest will be 75% to PrivateCo and 25% to the farmor.

#### Kisbey Farmin

PrivateCo entered into the Kisbey Farmin Agreement with respect to the farmor's interest in the Kisbey Area of Southeast Saskatchewan effective January 7, 2007. Pursuant to the terms of the agreement, PrivateCo has agreed to the drilling of one test well to evaluate the Bakken formation at a location of its choice on a block of farmor's lands comprised of 5,764 gross (4,323 net) acres. PrivateCo will pay 75% of the cost of drilling, completing or abandoning the test well to earn a 52.5% working interest in petroleum and natural gas rights to the base of the Bakken formation in an earning block comprised of two gross sections of the farmor's lands.

Within 60 days of rig release of the test well PrivateCo may elect to drill a like well ("Option Well") at a location of its choice on the remaining farmout block lands to earn a like interest in a like earning block. If so elected, PrivateCo will spud the Option Well within 30 days. PrivateCo has a rolling option on a well by well basis, subject to like election and spud time commitments, to continue to earn lands until the entire farmout block has been earned or PrivateCo elects to terminate the option to earn.

In addition, following the drilling of the test well, PrivateCo may elect to re-enter an existing farmor well in order to establish production in paying quantities by conducting either a fracing operation or the drilling of an additional horizontal leg. PrivateCo will pay 75% of costs to earn a 45% working interest in petroleum and natural gas rights to the base of the Bakken formation in the existing well production spacing unit.

PrivateCo has also entered into an area of mutual interest with the farmor effective March 1, 2007 with participation rights at 70% to PrivateCo and 30% to the farmor.

#### NE BC AMI Agreement

On October 25, 2006, VGS and 764503 entered into an Area of Mutual Interest ("AMI") Agreement whereby 764503 has access to a non-exclusive licensed copy of all current and future (as mutually agreed to) two and three dimensional seismic 100% owned by VGS in the AMI. The data currently consists of approximately 1,000 square kilometers of three dimensional and 1,200 kilometers of two dimensional data. The data use is covered by a standard master license agreement.

The area covered by the agreement is in Northeast British Columbia. This agreement is for a period of five years from the date of the contract, and is renewable upon consent of both parties. VGS has not entered into any similar agreement with any other entity in the area.

Under the agreement, in return for the use of the data VGS will earn a GORR on all lands that 764803 acquires, where 50% or more of the lands fall within 100 meters of the data. The GORR is 3% of 764503's working interest on lands acquired at crown land sales and 2% for land acquired by any other means. The GORR will not apply to assets purchased nor any infill drilling of those assets, but may apply to further drilling opportunities therein. The GORR agreement will be governed by a standard CAPL royalty agreement.

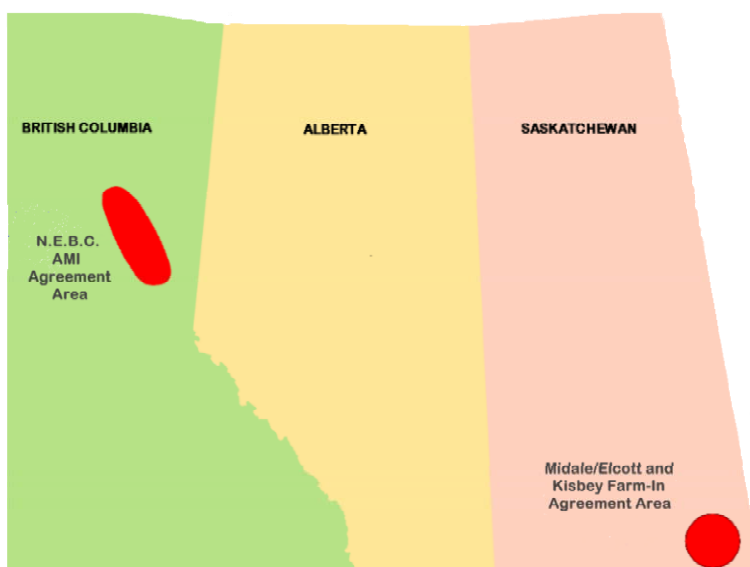
Management has significant experience in evaluating drilling opportunities in this area using a combination of geology and seismic to identify prospects. The management also believes that once drilling prospects are identified, farm-ins or purchases of land will be available.

### **Transfer of Agreements**

Pursuant to the Financing Agreement, PrivateCo has agreed to transfer its rights under Midale/Elcott Farmin and the Kisbey Farmin to the Corporation prior to Closing and 764503 will transfer its rights under the NE BC AMI Agreement to the Corporation prior to Closing.

### **Principal Exploration Properties and Areas of Interest**

The following map sets out the locations where the two farm-ins agreements are focused and the area covered under the area of mutual interest agreement. The Corporation does not have any exploration or development properties at this time.



### **Debt Satisfaction**

Following Closing, the Corporation may issue, on a non-flow-through basis, 386,600 Class A Shares and 86,985 Class B Shares to StoneBridge in satisfaction of \$966,500 of debt owed to it by the Corporation. See "*Plan of Distribution*".

### **Private Placements**

Following the closing of the Offering, the Corporation will endeavour to complete a non-brokered private placement of up to 5,900,000 Class A Shares at an issue price of \$0.25 per Class A Share (on a non-flow-through basis) for gross proceeds to the Corporation of up to \$1,475,000. The proceeds from the Private Placement, if completed, will be used to provide additional capital to the Corporation for use in its exploration and development program and for general and administrative expenses.

The purpose of the Private Placement is to provide the new directors, senior management team and employees of the Corporation with the opportunity to invest in the Corporation in a manner which encourages their continued involvement and aligns their interests with the interests of shareholders. The offers of Class A Shares by the Corporation to potential subscribers in the Private Placement will be determined following Closing and may, if required, result in offers being made to persons unrelated to the Corporation, its directors, officers and employees, if those persons are unable or unwilling to fully subscribe for the placement. There is no assurance that any offers will be accepted by any particular placee.

All of the Class A Shares that may be purchased under the Private Placement will be subject to a four month hold period in accordance with National Instrument 45-102 Resale of Securities. Further, all subscriptions under the Private Placement by the directors, senior management team and employees of the Corporation will also be subject to both the Escrow Agreement and the Private Escrow Agreement among those subscribers, the Corporation and the Escrow Agent, pursuant to which the Class A Shares subscribed for under the Private Placement will be placed in escrow and 10% will be released when the Class A Shares are listed for trading on the TSXV (the "TSXV Listing Date"). The remaining ninety percent (90%) of such Class A Shares will be released from escrow in fifteen percent (15%) tranches during consecutive six month intervals over a 36 month period following receipt of such notice.

There is no assurance that the Private Placement will be completed.

### **Milestones**

Under the Kisby Farmin Agreement, PrivateCo has committed to spud a well by June 1, 2007. The Corporation estimates the net cost to the Corporation of drilling such a well (prior to completion) to be \$700,000. Under the Midale/Elcott Farmin Agreement, PrivateCo must have three wells rig released by September 30, 2007. The Corporation estimates the total cost to the Corporation to drill these three wells (prior to completion) will be \$2,350,000.

### **USE OF PROCEEDS**

The net proceeds to the Corporation from the Offering, after deducting the anticipated Agents' Commission (but prior to deducting the estimated expenses of the Offering) are estimated to be \$9,400,000 if the Minimum Offering is sold and \$11,280,000 if the Maximum Offering is sold. Of the proceeds of the sale of each Unit, \$100 will be allocated to the purchase of 400 Class A Shares at \$0.25 per share and \$900 will be allocated to the purchase of 90 Class B Shares at \$10.00 per share.

The total funds available to the Corporation at Closing after deducting the estimated expenses of the Offering of \$200,000 and including the estimated working capital deficiency as at March 31, 2007 of \$70,100, and assuming estimated proceeds of the Private Placement of \$1,248,250 are received if the Minimum Offering is sold, is estimated to be \$10,378,150 (and if the Maximum Offering is sold and estimated proceeds from the Private Placement of \$1,475,000 are received, is estimated to be \$12,484,900).

The Corporation will use the Flow-through Funds to incur the Qualifying Expenditures as to \$1,000 per Unit, which Qualifying Expenditures will be renounced to subscribers effective on or before December 31, 2007. Assuming the Maximum Offering is completed, approximately 83% of the Flow-through Funds will be expended on CEE and 17% on CDE which can be renounced to subscribers as CEE.

The total funds available to the Corporation at the close of the Offering and the Private Placement<sup>(3)</sup> is estimated to be as follows:

	<u>Minimum Offering</u>	<u>Maximum Offering</u>
Net Proceeds <sup>(1)</sup>	\$9,400,000	\$11,280,000
Estimated Expenses of the Offering	(200,000)	(200,000)
Existing Working Capital Deficiency <sup>(2)</sup>	(70,100)	(70,100)
Private Placement Proceeds <sup>(3)</sup>	1,248,250	1,475,000
Total Funds Available	<u>\$10,378,150</u>	<u>\$12,484,900</u>

Notes:

- (1) Gross proceeds of \$10,000,000 if the Minimum Offering is sold and \$12,000,000 if the Maximum Offering is sold less the Agents' Commission of 6.0%.
- (2) Reflects the Corporation's estimated working capital deficiency as at March 31, 2007 of \$70,100 of start-up costs incurred by PrivateCo and which are being transferred to the Corporation pursuant to the Financing Agreement whereby PrivateCo agreed to transfer all of its assets and liabilities to the Corporation.
- (3) There is no assurance the Private Placement will be completed.

The proposed use of the Corporation's total funds available for allocation is anticipated to be as follows:

Use of Available Funds <sup>(1)(2)</sup>	Minimum Offering	Maximum Offering <sup>(2)</sup>
Midale/ Elcott Farmin	\$4,123,150	\$5,229,900
Kisbey Farmin	3,000,000	\$3,000,000
NE BC AMI	2,500,000	\$3,500,000
General and administrative expenses <sup>(3)</sup>	755,000	755,000
<b>TOTAL</b>	<b>\$10,378,150</b>	<b>\$12,484,900<sup>(2)</sup></b>

Notes:

- (1) Estimated working capital deficiency as at March 31, 2007 of \$70,100 consists of start-up costs of \$40,600 and office furniture and equipment and computer hardware and software of \$29,500.
- (2) Available Funds includes the net proceeds of the Offering after deducting expenses of the Offering of \$200,000 and includes the Corporation's estimated working capital deficiency as at March 31, 2007 of \$70,100 and the estimated proceeds of the Private Placement of \$1,248,250 if the Minimum Offering is sold and \$1,475,000 if the Maximum Offering is sold.
- (3) General and administrative expenses represent the estimated costs for the balance of 2007 for up to nine employees, office rent and supplies, professional fees and consulting services and costs related to quarterly, annual and related securities reporting and disclosure requirements, after potential recovery for allocation of costs to operations. Net general and administrative costs are for the period May to December, 2007 inclusive, with May budgeted at \$180,000 to provide for start-up costs, then ranging from \$74,000 to \$99,000 per month for the balance of the year.

Due to the nature of the oil and natural gas industry, budgets are regularly reviewed in light of the success of the expenditures and other opportunities that may become available to the Corporation. In addition, the ability of the Corporation to carry out operations will depend upon the decisions of other working interest owners in its properties. Accordingly, while the Corporation anticipates that it will have the ability to spend the funds available to it as stated in this prospectus, there may be circumstances where, for sound business reasons, a reallocation of funds may be prudent. The Corporation will use its reasonable commercial efforts to negotiate a majority of its projects in its defined exploration areas with other public companies. However, there is no assurance that the Corporation will be successful in doing so, given that any such arrangements will be negotiated with reference to the best interests of the Corporation in the circumstances. The factors that management will consider in assessing the Corporation's participation in acquisition or development opportunities are described under "*Business of the Corporation – General*".

## SELECTED FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

### Selected Financial Information

(\$, except per share amounts)	As at and for the period ended March 31, 2007	As at and for the year ended December 31, 2006
Total Revenues	-	50,000
Net Income (Loss)	-	(41,772)
Per share - basic and diluted	-	(\$417.72) <sup>(1)</sup>
Total assets	-	1,103,342
Long Term debt	347,500	-
Cash Dividends per Share	-	-

Note:

- (1) Per share amounts have been retroactively adjusted to reflect the share consolidation.

## Management's Discussion and Analysis

April 4, 2007: This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements for the years ended December 31, 2006 and the unaudited interim financial statements for the three months ended March 31, 2007. The MD&A may contain forward-looking statements. This commentary is based on information available to and is dated April 4, 2007. See "*Special Note Regarding Forward-Looking Statements*".

From incorporation on August 12, 1999, the Corporation was a provider of web, logistics, financial and marketing services to U.S. merchants servicing the international market. In October 2002, a partnership agreement was entered into with Canada Post to jointly operate the Company's merchant activities. This partnership interest was disposed of in 2005. In November 2005, the auction business was sold. Since then, the Corporation did not carry on active business as it was reorganizing its affairs. The Corporation, a private company, was not a reporting issuer and did not prepare quarterly financial statements; consequently quarterly information for the eight most recently completed quarters is not presented.

In February, 2007, the Corporation entered into a series of agreements whereby it reorganized itself. All of the assets and liabilities were sold or assigned, and a private placement consisting of 240,000 Common Voting Shares and a convertible debenture in the principal amount of \$347,500 was completed to StoneBridge. The convertible debenture is secured, bears interest at the rate of 5% per annum during the first two years of its term and at bank prime rate plus 3% thereafter and is convertible into Common Non-Voting Shares of the Corporation at a price of \$0.15625 per Common Non-Voting Share. Additionally, the Corporation was continued into Alberta under the ABCA, and articles of amendment were filed effecting name changes.

On March 27, 2007, the Corporation entered into a financing agreement with PrivateCo, pursuant to which PrivateCo agreed to assist with, among other things, the reconstitution of the Corporation's board of directors, the reorganization of the share capital of the Corporation and the filing of articles of amendment to change the name of the Corporation to Painted Pony Petroleum Ltd., all of which were approved by the shareholders of the Corporation on March 29, 2007 and which were effected on April 3, 2007. Completion of the reorganization of the Corporation as contemplated in the Financing Agreement is conditional upon the Offering closing on or before May 30, 2007, subject to extension or waiver as agreed to by the parties.

Subsequent to the sale of the Corporation's auction business in November, 2005, the Corporation had no continuing operations. For the year ended December 31, 2006, the Corporation recorded \$50,000 of revenue, being the contractual minimum amount pursuant to a sales contract. Expenses during the year were professional fees and general and administrative costs in the amount of \$91,772. Professional fee costs represented the costs incurred for legal, accounting and income tax service providers, pursuant to the reorganization. General and administrative costs were accounting services and minimal office charges. All of the property and equipment of the Corporation were sold in 2005.

### *Liquidity, Capital Resources and Transactions with Related Parties*

The Corporation does not currently generate sufficient cash flow to adequately finance its operations. The Corporation is depending upon the successful completion of the Financing Agreement to fund the operating and capital requirements under the Midale/Elcott Farmin Agreement and the Kisbey Farmin Agreement and other internally generated exploration and development projects.

As at March 31, 2007, estimated net working capital deficiency of \$70,100 consists of start-up costs of \$40,600 and office furniture and equipment and computer hardware and software of \$29,500. These costs will be assigned to the Corporation pursuant to the Financing Agreement whereby PrivateCo agreed to transfer all of its assets and liabilities to the Corporation immediately prior to the closing of the Offering. These costs were funded by advances of funds by the individuals who may participate in the Private Placement, in return for promissory notes in the amount of \$120,000. The promissory notes bear interest at a rate of 5% per annum beginning on the first anniversary of the date they were issued and are unsecured.

The difference between the net working capital deficiency of \$70,100 as at March 31, 2007 and the \$120,000 due to the individuals who may participate in the Private Placement, being \$49,900 is made up of cash, deposits and other net receivables.

After Closing of the Offering, the Corporation plans to expend an amount equal to the Flow-Through Funds on a combination of exploration projects and development projects sufficient to support the renunciation of CEE (and Eligible CDE) to the Unit purchasers prior to December 31, 2008. The proceeds from the Private Placement, if completed, will be used for general and administrative costs, working capital, exploration and development projects and general corporate purposes.

#### *Dividends*

The Corporation has not declared or paid any dividends since its incorporation. Any decision to pay dividends on its shares will be made by the board of directors on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time.

#### *Off Balance Sheet Arrangements*

As of the date hereof, the Corporation does not have any off balance sheet arrangements.

#### *Financial Instruments*

As of the date hereof, the Corporation does not have any outstanding financial instruments.

#### *Update on Regulatory and Financial Reporting Matters*

(a) New accounting policies:

In April 2005, a series of new accounting standards were released which established guidance for the recognition and measurement of financial instruments. These new standards include Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurements", and Section 3850 "Hedges". The new standards also resulted in a number of significant consequential amendments to other accounting standards to accommodate the new sections. The standards require all applicable financial instruments to be classified into one of several categories including: financial assets and financial liabilities held for trading, held-to-maturity investments, loans and receivables, available-for-sales financial assets, or other financial liabilities. The financial instruments are then included on a company's balance sheet and measured at fair value, cost or amortized value, depending on the classification. Subsequent measurement and recognition of changes in value of the financial instruments depends on the initial classification. These standards are effective for interim and annual financial statements for fiscal years beginning on or after October 5, 2006 and must be implemented simultaneously. The Corporation will assess the impact, if any, of these standards on the financial statements in preparation for adoption of the new standards in 2007.

(b) Internal control reporting:

(i) Multilateral Instrument 52-111-*Report on Internal Control over Financial Reporting (ICOFR)*.

This instrument amended the key provisions relating to the evaluation, assessment and certification of ICOFR by the management of the Corporation, and the audit by the Corporation's external auditors of management's assessment of ICOFR. The objective of the new rules is to improve the quality and reliability of financial reporting by requiring issuers to evaluate internal control over the preparation of the financial statements. The new rules are phased in with final implementation of the evaluation of the effectiveness by management and attestation by the external auditors of ICOFR for the Corporation's December 31, 2007 year-end. CSA Notice 52-313 amended these provisions to no longer require the attestation by the external auditors of the ICOFR. The Corporation is responsible for the design and implementation of internal controls over financial reporting by December 31, 2007.

- (ii) ICOFR and Multinational Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filing.*

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Corporation is accumulated and communicated to the management as appropriate to allow timely decisions regarding required disclosure. The Corporation will design and evaluate disclosure controls and procedures as of December 2007 to ensure the controls are effective to provide reasonable assurance that material information related to the Corporation is made known to them by others within those entities. Disclosure procedures during the period that the Corporation had ceased operations consisted primarily of review and discussion with personnel knowledgeable regarding the Corporation's transactions. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met.

#### DETAILS OF THE OFFERING

Each Unit consists of 400 Class A Shares and 90 Class B Shares. At Closing, each subscriber will be issued certificates representing 400 Class A Shares and 90 Class B Shares per Unit subscribed for. A minimum of five Units must be subscribed for pursuant to the Offering for a minimum aggregate purchase price of \$5,000. Additional purchases must be made in multiples of one Unit for consideration of \$1,000.

The following table describes the number of Class A Shares and Class B Shares to be issued per Unit and per minimum subscription for five Units (\$5,000):

	Number of Shares		Per Share Purchase Price	Allocation of Purchase Price	
	Per Unit	Per Five Units		Per Unit	Per Five Units
Class A Shares	400	2,000	\$ 0.25	\$ 100	\$ 500
Class B Shares	90	450	\$10.00	900	4,500
				\$1,000	\$5,000

#### PLAN OF DISTRIBUTION

Pursuant to the Agency Agreement, the Agents have agreed to act as agents for the Corporation to offer a minimum of 10,000 Units and a maximum of 12,000 Units for sale to the public, on a commercially reasonable efforts" basis, in the provinces of British Columbia, Alberta, Saskatchewan, Ontario and Nova Scotia. There is currently no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this prospectus.

The Corporation will be applying to list the Class A Shares and Class B Shares distributed under this prospectus on the TSXV. Listing will be subject to the Corporation fulfilling all of the requirements of the TSXV, including distribution of the Class A Shares and Class B Shares to a minimum number of public security holders. The Units will not be listed or traded on any exchange.

The minimum amount of funds to be raised under the Offering is \$10,000,000 and the maximum amount of funds to be raised under the Offering is \$12,000,000. The Units are being offered to the public at a price of \$1,000 per Unit. The Agents' Commission is \$60 per Unit, being an aggregate of \$600,000 if the Minimum Offering is sold and \$720,000 if the Maximum Offering is sold. The price of the Units was determined through negotiations between the Corporation and the Agents. The obligations of the Agents under the Agency Agreement may be terminated at any time in their sole discretion on the basis of their assessment of the state of the financial markets and on the occurrence of certain stated events. The Agents have reserved the right to offer selling group participation in the Offering to other registered investment dealers. Any fees payable to members of such selling group members, if any, will be paid by the Agents out of their fee.

Provided the Minimum Offering has been subscribed for, it is expected that the Closing will take place on or about May 15, 2007, subject to postponement, as the Agents and Corporation may agree, to not later than May 30,

2007. Notwithstanding the foregoing, the Offering will be discontinued in the event that a Closing in respect of the Minimum Offering has not occurred on or prior to the date which is 90 days from the date of issuance of a receipt for the final prospectus, unless each of the persons or companies who have subscribed within such period consent to the continuation of the Offering.

Until such time as a Closing has occurred in respect of the Minimum Offering, all subscription funds received by the Agents will be held by the Agents, pending Closing of the Minimum Offering. If the Minimum Offering has not been subscribed for prior to the expiry of the 90-day period described above, the Agents shall promptly return the proceeds of subscriptions to the subscribers without interest or deduction unless such subscribers have otherwise instructed the Agents.

Should Closing occur in respect of the Minimum Offering, one or more additional Closings, if necessary, may occur until the earlier of the Offering being fully subscribed and May 30, 2007.

Subscriptions for Units will be received subject to rejection or allotment, in whole or in part, and the right is reserved to close the subscription books at any time without notice.

This prospectus also qualifies for distribution up to 386,600 Class A Shares and 86,985 Class B Shares that may be issued to StoneBridge Merchant Capital Corp. in satisfaction of \$966,500 of debt owed by the Corporation to StoneBridge. The debt was originally incurred by the Corporation in favour of Etail, the sole shareholder of the Corporation until January 31, 2007. As noted below, a portion of this debt was advanced by Etail to fund the Corporation's ongoing operations. On January 31, 2007, StoneBridge participated in a private placement wherein it purchased 14,400 Class A Shares and 3,240 Class B Shares (pre-reorganization) for \$37,500 and a convertible debenture in the principal amount of \$347,500. Additionally, on January 31, 2007, StoneBridge acquired all amounts owing from the Corporation to Etail (\$593,409). Pursuant to the Debt Satisfaction, StoneBridge has proposed to accept 386,600 Class A Shares and 86,985 Class B Shares upon completion of the Offering in satisfaction of the convertible debenture and to settle all other debt in the amount of \$619,000, consisting of amounts owed by the Corporation to StoneBridge and a premium to the face value of the debt. See Note 8 to the March 31, 2007 unaudited financial statements of 1300873 Alberta Ltd. included in this prospectus.

#### **METHOD OF SUBSCRIPTION FOR UNITS**

Subscription for the Units will be made by the Agents, or any sub-agents of the Agents, as agents for and on behalf of all subscribers of Units. Subscribers who place an order to purchase Units will be deemed to have authorized the Agents, or any sub-agents of the Agents, to execute, on their behalf, the Subscription Agreement. The Subscription Agreement includes the following representations and warranties made by the subscriber to the Corporation, namely, that:

- (a) the subscription by the subscriber is subject to the acceptance of the Corporation and is effective only upon such acceptance;
- (b) each subscriber has received and reviewed a copy of this prospectus;
- (c) each subscriber waives any right he or she may have to any federal or provincial credits, grants or similar or like payments, other than as set out in this prospectus arising or resulting from the incurring of Qualifying Expenditures and acknowledges that such credits, grants and similar or like payments shall belong to, be vested in and accrue solely to the benefit of the Corporation;
- (d) the obligation of the Corporation to renounce Qualifying Expenditures shall be limited to the extent specifically stated in this prospectus;
- (e) each subscriber is not a "non-resident" of Canada for the purposes of the Tax Act;
- (f) each subscriber is of the full age of majority and has the legal capacity and competence to enter into and be bound by the Subscription Agreement; and
- (g) the subscribers presently deal, and will at all relevant times continue to deal, at arm's length with the Corporation for the purposes of the Tax Act.

Subscribers for Units must purchase a minimum of five Units (\$5,000). Additional purchases must be in multiples of one Unit (\$1,000).

All monies received by the Agents (or such other investment dealer as is authorized by the Agents) prior to the Closing will be held in trust pending the Closing.

### **DIRECTORS, OFFICERS AND KEY PERSONNEL OF THE CORPORATION**

The name, municipality of residence, age and positions held with the Corporation of each of the directors, officers and key consultants of the Corporation are as follows:

<b>Name and Municipality of Residence</b>	<b>Age</b>	<b>Position Held</b>	<b>Director Since</b>
Patrick R. Ward Calgary, Alberta	51	Director, President and Chief Executive Officer	April 3, 2007
Ronald R. Talbot <sup>(2),(4)</sup> Calgary, Alberta	55	Director and Non-Executive Chairman	April 3, 2007
Glenn R. Carley <sup>(1)(2)</sup> Calgary, Alberta	54	Director	April 3, 2007
Kevin Angus <sup>(1)(4)</sup> Calgary, Alberta	47	Director	April 3, 2007
Allan K. Ashton <sup>(1)(3)</sup> Calgary, Alberta	63	Director	April 3, 2007
Craig Reed Toronto, Ontario	38	Director	January 31, 2007
Joan E. Dunne Calgary, Alberta	48	Vice President, Finance and Chief Financial Officer	N/A
Donald J. Slater Calgary, Alberta	47	Vice President, Geophysics	N/A
James S. Thomson Calgary, Alberta	52	Vice President, Land	N/A
James French Calgary, Alberta	49	Vice President, Engineering	N/A
Doug McCartney Calgary, Alberta	37	Corporate Secretary	N/A

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Reserves Sub Committee of the Audit Committee.
- (4) Member of the Corporate Governance Committee.

The term of office of all directors will expire at the next annual meeting of the shareholders of the Corporation.

The officers and directors, as a group, currently hold, directly or indirectly, or exercise control or direction over no Class A Shares and no Class B Shares. Assuming they do not subscribe for any Units, the officers and directors, as a group, will hold, directly or indirectly none of the outstanding Class A Shares and Class B Shares.

The officers and directors and other founders, as a group, have expressed an interest in purchasing an aggregate of up to 5,900,000 Class A shares on a non-flow through basis pursuant to the Private Placement. Assuming that they do subscribe for 5,900,000 Class A Shares on a non-flow through basis and the Minimum Offering is sold and the Debt Satisfaction occurs, the officers and directors and other founders, as a group, will hold, directly or indirectly, 53% of the outstanding Class A Shares and 0% of the outstanding Class B Shares, or 48% of

the outstanding Class A Shares and Class B Shares if the Maximum Offering is sold and the Debt Satisfaction occurs (where the Class B Shares are calculated to be converted to Class A Shares at a Market Price of \$10 per share). If the Minimum Offering is sold, and the officers and directors and other founders, as a group do subscribe for 4,993,000 Class A shares on a non-flow through basis, and the Debt Satisfaction occurs, the officers and directors and other founders, will hold, directly or indirectly, 53% of the outstanding Class A Shares and 0% of the outstanding Class B Shares, or 48% of the outstanding Class A Shares and Class B Shares if the Minimum Offering is sold (where the Class B Shares are calculated to be converted to Class A Shares at a Market Price of \$10 per share). There is no assurance that the Private Placement will be completed.

All of the officers of the Corporation (other than Mr. McCartney) will be employees and will devote his or her full time and attention to the business and affairs of the Corporation. Other than Mr. Ward, who is also a member of management, the directors of the Corporation will devote time and attention to the affairs of the Corporation as required. No director or member of management of the Corporation has entered into a non-competition or non-disclosure agreement with the Corporation.

Profiles of the Corporation's directors and senior officers and the particulars of their respective principal occupations during the last five years are set forth below.

**Patrick R. Ward, P. Geol., President, Chief Executive Officer and Director**

Mr. Ward, P. Geol, who has more than 28 years of experience in the oil and natural gas industry, graduated from the University of Calgary in 1978 with an Honours Degree in Geology. Mr. Ward was Vice-President, Exploration of Innova Exploration from May 2004 to May 2006. Mr. Ward co-founded Chowade Energy Ltd. in 2003 which was 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, where he was a key member of the Petrofund Management team. Mr. Ward was Vice-President and Chief Operating Officer at Rockport Energy Corp. from 1998 to 1999 and from 1981 to 1997 he worked for Total Petroleum Canada, which became Rigel Oil & Gas where he was Exploration Manager for the last 7 years. Mr. Ward is a member of APEGGA and AAPG.

**Ronald R. Talbot, P. Geol., Non-Executive Chairman and Director**

Ronald R. Talbot, P. Geol., is currently an Exploration Consultant in the energy sector. Until 2002, Mr. Talbot was Dean of the Energy Department at the Southern Alberta Institute of Technology (SAIT). Prior to joining SAIT in January 2000, Mr. Talbot served in an executive capacity at Lexxor Energy Inc. commencing in 1995, including roles as founding President, Chief Executive Officer, and Chairman. From March 1990 to June 1995 Mr. Talbot served as President, Chief Executive Officer and Chairman of Quadron Resources Ltd., a company he co-founded (listed on the TSE in 1993). He left Quadron Resources Ltd. in 1995 when it merged with HCO Energy Ltd. He was at Westmin Resources Ltd. as Vice-President, Exploration (1986-1990). Mr. Talbot was a founding director of Baytex Energy Ltd. in 1993 and served on the Baytex Energy Ltd. board until 1995. He is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta (APEGGA).

**Glenn R. Carley, B.A., LLB, MBA, Director**

Mr. Carley has been involved in the oil and natural gas business for the past 29 years. He is currently Executive Chairman and Director of Flagship Energy. He is also the Executive Chairman and a Director of Galleon Energy Inc. He has been the Chairman of Culane Energy Corp., a public oil and natural gas company, since December 2002. Mr. Carley is also the President of Selinger Capital Inc., a private investment company. Mr. Carley was the Chairman of High Point Resources Inc., a public oil and natural gas company, from October 2001 to August 2005 and the co-founder, Chairman and Chief Executive Officer of Magin Energy Inc., an oil and natural gas exploration and production company that was listed for trading on the TSX, from January 1994 to June 2001 until they were sold. Magin Energy Inc. was a TSE 300 company prior to its sale. From 1988 to 1994, Mr. Carley was the Vice-President and Secretary of Wascana Energy Inc. (formerly Saskatchewan Oil and Gas Corporation), an oil and natural gas exploration and production company based in Regina, Saskatchewan that traded on the TSX and the Montreal Stock Exchange. Prior thereto, Mr. Carley was General Counsel and Secretary to Mark Resources Inc., the successor to Precambrian Shield Resources Limited, from 1987 to 1988, and General Counsel and Secretary to Canadian Roxy Petroleum Ltd. from 1981 to 1987.

**Kevin Angus, P. Geoph., Director**

Kevin Angus is a Professional Geophysicist with 23 years of exploration experience in broad areas of Western Canada. Mr. Angus was at Husky Oil Operations Ltd. for ten years where he worked on both Western Canadian and International exploration projects and spent two years as an economic/financial analyst. Thereafter, Mr. Angus formed and managed the geophysical departments at three junior oil and natural gas companies that concentrated their efforts in Western Canada. Mr. Angus spent five years as President of KD Angus & Associates Ltd., a private company providing exploration consulting services. Most recently Mr. Angus was Vice-President, Exploration at Mustang Resources Inc., until its sale to Thunder Energy Inc. in July 2005. Mr. Angus is currently Executive Vice-President of Pegasus Oil and Gas Inc., a TSXV listed company. Mr. Angus is a Member of APEGGA and CSEG.

**Allan K. Ashton, B.Sc., P. Eng., Director**

Mr. Ashton is Chairman of the Board of AJM Petroleum Consultants ("AJM"), a company he co-founded in 1999. Under his leadership, AJM has grown from 18 staff to more than 60 and is a tier 1 oil and natural gas consulting firm with a client base in North America and international. AJM specializes in the evaluation of corporate reserves, acquisitions and divestitures and unconventional reserves, such as coalbed methane and tight gas.

Mr. Ashton graduated from the University of Alberta in 1965 and has been involved in the oil and natural gas industry for the past 41 years. Following graduation, Mr. Ashton joined British American Oil (Gulf Canada) and for the next 18 years worked in positions of increasing responsibility from production operations (1967-1977) to corporate development with his final position as Manager of Reservoir Engineering (1978-1983). In 1983 he started his own consulting practice, Ashton Petroleum Consultants Ltd. (APCL). In 1986 Mr. Ashton formed AMH Group Ltd. with three partners. In 1999 AMH Group merged with Ashton Jenkins and Associates to form AJM. In 1987 he co-founded and was a director of Moreland Oil and Gas Ltd., a junior oil and natural gas company.

Mr. Ashton is a member of APEGGA and the Petroleum Society of CIM.

**Craig Reed, Director**

Craig Reed, a graduate of the University of Calgary Haskayne School of Business, is currently the Director of Cross Border Transaction Services with Pitney Bowes Inc. of Stamford, Connecticut. Between 1999 and 2005, Mr. Reed served first as vice president, then president, of Borderfree, Ltd., predecessor of the Corporation. Between 2003 and 2005, Mr. Reed managed all aspects of the operating activities of a Borderfree partnership with Canada Post relating to Canada Post's cross-border e-commerce business. Between 1996 and 1999, Mr. Reed was a senior management consultant with Monitor Company of Toronto, Ontario where his clients included several large telecommunication and transportation companies. At Pitney Bowes, Mr. Reed has managed the design, development and operation of new internet-based technology designed to facilitate international transactions and cross-border e-commerce. Mr. Reed has led several merger and acquisition transactions, managed the development of valuation merger models and supervised regulatory affairs. He also has extensive experience in venture capital financing.

**Joan E. Dunne, B.Comm., CA, Vice President, Finance and Chief Financial Officer**

Ms. Dunne brings 24 years of experience in the oil and natural gas industry, and has held senior management positions since 1984. Ms. Dunne was Vice President, Finance and Chief Financial Officer of True Energy Inc., and subsequently True Energy Trust from November 2002 until June 2006. From December 2000 to November 2002 Ms Dunne consulted for various petroleum companies in the areas of finance, tax, and investor relations. Prior thereto, Ms Dunne was Vice President, Finance and Chief Financial Officer of Ionic Energy Inc. since January 1998. From October 1996 until joining Ionic, Ms Dunne was Vice President Finance for Petrorep Resources Ltd. Prior thereto and from August 1994 to October 1996, Ms. Dunne held various positions with Barrington Petroleum Ltd, finally as Treasurer. Ms. Dunne graduated from the University of Calgary with a Bachelor of Commerce degree and joined the Canadian Institute of Chartered Accountants in 1983.

**Donald J. Slater, P. Geoph, Vice President, Geophysics**

Mr. Slater has 24 years of experience as a Geophysicist in the oil and natural gas industry and was most recently Chief Geophysicist for Prairie Schooner Petroleum, until September 2006. Prior thereto Mr. Slater was Senior Geophysicist at BG Oil & Gas (formerly El Paso Oil & Gas Inc., formerly Velvet Exploration Ltd.) from 1999 to 2002, working the Central/Southern Alberta area. From 1996 to 1999 Mr. Slater was with Beau Canada Exploration as Senior Geophysicist. Prior thereto Mr. Slater was with Canadian Forest Oil Ltd. (formerly Atcor) from 1993 to 1996, working Southern, Central, Northeast Alberta and Northwest Alberta on a mixture of exploration and development plays. From 1982 to 1993 Mr. Slater spent time with Imperial Oil, TransCanada Pipelines Limited and Gulf Canada acquiring an understanding of seismic processing techniques and Amplitude Versus Offset (AVO) direct hydrocarbon indicators.

Mr. Slater graduated from the University of Saskatchewan with a B.Sc. Geological Engineering (geophysical option) in 1982. He is a member of C.S.E.G., C.S.P.G. and APEGGA.

**James S. Thomson, P. Land, Vice President, Land**

Mr. Thomson has more than 29 years of experience as a Landman in the oil and natural gas industry and was most recently Vice-President, Land for Dyno Energy Ltd., a startup private oil and natural gas company. Prior to Dyno he was a District Landman and Senior Negotiator in the A&D Group for Talisman Energy Inc. with main responsibilities including Northeast British Columbia and Saskatchewan. During 1994 and 1995 Mr. Thomson consulted for various companies including Chipman Energy Inc., Flatland Resources Ltd., Startech Energy Inc., Mobil Oil Canada and Talisman Energy Inc. Prior thereto Mr. Thomson was Manager of Land at Jordan Petroleum Ltd. and Senior Landman for DeKalb Energy Canada Ltd. and Petro Canada Inc. Mr. Thomson started his career as a Surface Landman for Tri-West Consultants Ltd.

Mr. Thomson holds a BA from the University of Calgary and has a P. Land designation from the CAPL.

**James French, P. Eng, Vice President, Engineering**

Mr. French was Senior/Operations Engineer, Trident Exploration from 2005 to 2007, and prior to that Production Manager with Viking Energy Royalty Trust from 1999 to 2005. Mr. French's expertise is in production completion and reservoir optimization. Prior to 1999, he spent 14 years at Gulf Canada, two years with Silver Bay Resources and two years consulting to a variety of clients. Mr. French is a member of APPEGA, APEGS and SPE.

**Doug McCartney, Corporate Secretary**

Mr. McCartney is an associate with Burstall Winger LLP, where he has practiced since July 2005 with a focus on securities and corporate law. From November 2003 to July, 2005, he was an associate of Eeson & Woolstencroft LLP and prior thereto he was an associate at Gowling Lafleur Henderson LLP and its predecessor firm Code Hunter Wittman. He advises both underwriters and issuers in respect of public and private securities financings, as well as mergers, corporate reorganizations and general corporate matters. Mr. McCartney obtained a Bachelor of Arts degree from the University of Calgary in 1995 and a Bachelor of Law degree from the University of Saskatchewan in 1998. He is the Corporate Secretary of Phoenix Oilfield Hauling Inc. and PanTerra Resource Corp., both of which are publicly traded companies listed on the TSX Venture Exchange and the Corporate Secretary of Canadian Sub-Surface Energy Services Corp., an oil and gas service company listed on the TSX.

**CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

No Director or Officer of the Corporation is, or has been, within the past ten years, a director or officer of any other issuer, who while the individual was acting in that capacity: (i) become subject to a cease trade or similar order or an order that denied that other issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days; (ii) 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 or receiver manager or trustee appointed to hold its assets; (iii) was 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 (iv) was 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.

## **EXECUTIVE COMPENSATION**

No remuneration has been paid by the Corporation to the officers or directors of the Corporation in their capacities as such since the date of incorporation. No pension or retirement benefits are payable to officers or directors. The Corporation's Compensation Committee is currently reviewing the issue of executive compensation and will provide a report to the board of directors in due course. It is intended that management of the Corporation shall be compensated in accordance with industry standards. See "*Options to Purchase Securities*".

## **OPTIONS TO PURCHASE SECURITIES**

The Corporation 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 Corporation. 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. All options granted will be in compliance with the requirements of the TSXV. Options granted under the Plan will have an exercise price which is not less than the price allowed by regulatory authorities, will be non-transferable and will be exercisable for a period not to exceed five years. The aggregate number of Class A Shares subject to options granted under the Plan, from time to time, cannot exceed 10% of the aggregate number of Class A Shares and Class B Shares outstanding at any time, after giving effect to this Offering and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the issued and outstanding Class A Shares. As at the date hereof, no options are issued and outstanding.

Options granted under the Plan will terminate upon the date which is 90 days from the termination of an optionee's employment or, from the date such optionee ceased to be an officer, director or consultant of the Corporation, unless the board of directors of the Corporation otherwise determine, or, provided the optionee has died and was an officer, director, employee or consultant of the Corporation for at least one year following the grant of the options, shall terminate 12 months following the death of the optionee.

It is anticipated that options equal to approximately 10% of the aggregate number of Class A Shares and Class B Shares then outstanding will be granted to directors, officers, employees of and consultants to the Corporation at a future time. Options, once granted, will vest as to one-third immediately and one-third on each of the first and second anniversaries of the date of grant. At this time, the Corporation does not plan to grant options immediately following the Closing.

## **PROMOTERS OF THE CORPORATION**

Patrick Ward may be considered to be a promoter of the Corporation in that he took the initiative in reorganizing the Corporation. Mr. Ward currently holds no Class A Shares or Class B Shares. After completion of the Offering, it is anticipated that Mr. Ward will hold no Class A Shares and no Class B Shares representing 0% of the outstanding Class A Shares and 0% of the outstanding Class B Shares assuming the Maximum Offering (0% of the outstanding Class A Shares and 0% of the outstanding Class B Shares assuming the Minimum Offering).

Prior to Closing, 765403, a private corporation owned by Patrick Ward, will be assigning the NE BC AMI Agreement to the Corporation for nominal consideration.

If the Private Placement and the Debt Satisfaction are completed, it is anticipated that Mr. Ward will hold 998,000 Class A Shares and no Class B Shares representing 10.6% of the outstanding Class A Shares and 0% of the outstanding Class B Shares assuming the Minimum Offering (and 1,150,000 Class A Shares and no Class B shares representing 10.3% of the outstanding Class A Shares and 0% of the outstanding Class B Shares assuming the Maximum Offering). Mr. Ward is the controlling shareholder of 764503. The Corporation will pay 764503 \$1.00 for the assignment by 764503 of its rights under the NE BC AMI Agreement to the Corporation

PrivateCo may be considered to be a promoter of the Corporation in that it took the initiative in reorganizing the Corporation. PrivateCo currently holds no Class A Shares or Class B Shares. After completion of the Offering, PrivateCo will hold no Class A Shares and no Class B Shares representing 0% of the outstanding Class

A Shares and 0% of the outstanding Class B Shares assuming the Maximum Offering (0% of the outstanding Class A Shares and 0% of the outstanding Class B Shares assuming the Minimum Offering). The Corporation will pay PrivateCo \$1.00 for the assignment by PrivateCo of all of its assets and liabilities to the Corporation.

### INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

There exists no indebtedness of the directors or executive officers of the Corporation, or any of their associates, to the Corporation.

### CAPITALIZATION OF THE CORPORATION

The following table sets forth the capitalization of the Corporation as at the dates indicated:

	Authorized	Outstanding as at March 31, 2007 <sup>(1)</sup> (unaudited)	Outstanding as at March 31, 2007 after giving effect to the Offering <sup>(1)(2)(3)</sup>		Outstanding as at March 31, 2007 after giving effect to the Offering, the Debt Satisfaction and Private Placement <sup>(1)(2)(3)(4)</sup>	
			Minimum Offering (unaudited)	Maximum Offering (unaudited)	Minimum Offering (unaudited)	Maximum Offering (unaudited)
Class A Shares <sup>(1)</sup>	Unlimited	\$3,750 (29,400 shares)	\$823,350 (4,029,400 shares)	\$1,011,350 (4,829,400 shares)	\$2,168,250 (9,409,000 shares)	\$2,583,000 (11,116,000 shares)
Class B Shares <sup>(1)</sup>	Unlimited	\$33,750 (6,615 shares)	\$7,410,150 (906,615 shares)	\$9,102,150 (1,086,615 shares)	\$8,280,000 (993,600 shares)	\$9,972,000 (1,173,600 shares)
Common Voting Shares <sup>(1)</sup>	Unlimited	Nil	Nil	Nil	Nil	Nil
Common Non-Voting Shares <sup>(1)</sup>	Unlimited	Nil	Nil	Nil	Nil	Nil
Preferred Shares <sup>(1)</sup>	Unlimited	Nil	Nil	Nil	Nil	Nil
Current and Long Term Debt		966,500	966,500	966,500	Nil	Nil

Notes:

- (1) This reflects the reorganization of share capital that occurred on April 3, 2007 whereby each Common Voting Share was reorganized into 150 Class A Shares and 33.75 Class B Shares.
- (2) This reflects Class A Shares and Class B Shares to be issued at Closing. Class A Share amounts and Class B Share amounts are after deducting issue costs of \$200,000 and Agents' Commission. The costs were prorated on a dollar basis and allocated to each of the Class A Shares and the Class B Shares. It has been assumed that the estimated unrecorded future income tax assets of the Corporation exceed the future income tax effect of share issue costs and the tax effect in respect of the issuance of flow-through shares.
- (3) As at March 31, 2007, PrivateCo had estimated working capital deficiency of approximately \$70,100 of start-up costs and which are being transferred to the Corporation, consisting of start-up costs of \$40,600 and office furniture and equipment and computer hardware and software of \$29,500 pursuant to the Financing Agreement whereby PrivateCo agreed to transfer all of its assets and liabilities to the Corporation.
- (4) There is no assurance that the Private Placement will be completed.
- (5) Following Closing, the Debt Satisfaction and the Private Placement, the Corporation does not intend to immediately grant options to purchase 10% of the outstanding Class A Shares.

### DESCRIPTION OF SECURITIES OF THE CORPORATION

The Corporation is authorized to issue an unlimited number of Class A Shares, an unlimited number of Class B Shares, an unlimited number of preferred shares, issuable in series, an unlimited number of Common Voting Shares and an unlimited number of Common Non-Voting 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**

The Corporation is authorized to issue an unlimited number of Class A Shares. As at the date hereof, there are 29,400 Class A Shares issued and outstanding. All Class A Shares to be issued pursuant to this Offering shall be issued as fully paid and non-assessable shares. The holders of Class A Shares are entitled to dividends if, as and when declared by the board of directors of the Corporation pro-rata with the Class B Shares, Common Voting Shares and Common Non-Voting Shares; to one vote per share at any meeting of the shareholders of the Corporation; and upon liquidation to receive, pro-rata with the Common Voting Shares and the Common Non-Voting Shares, all assets of the Corporation as are distributable to the holders of shares.

### **Class B Shares**

The Corporation is authorized to issue an unlimited number of Class B Shares. As of the date hereof, there are 6,615 Class B shares outstanding. All Class B Shares when issued pursuant to this Offering will be issued as fully paid and non-assessable shares. The holders of Class B Shares are entitled to dividends, if, as and when declared by the board of directors of the Corporation, pro-rata with the Class A Shares and Common Non-Voting Shares; to one vote per share at any meeting of the shareholders of the Corporation; and upon liquidation to be converted into Class A Shares.

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 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.

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

### **Common Voting**

The Corporation is authorized to issue an unlimited number of Common Voting Shares. As at the date hereof, there are no Common Voting Shares issued and outstanding. The holders of Common Voting Shares are entitled to dividends if, as and when declared by the board of directors of the Corporation pro-rata with the common non-voting Class A and B Shares; to one vote per share at any meeting of the shareholders of the Corporation; and upon liquidation to receive, pro-rata with the Class A and Common Non-Voting Shares, all assets of the Corporation as are distributable to the holders of shares.

### **Common Non-Voting**

The Corporation is authorized to issue an unlimited number of Common Non-Voting Shares. As at the date hereof, there are no Common Non-Voting Shares issued and outstanding. The holders of Common Non-Voting Shares are entitled to dividends if, as and when declared by the board of directors of the Corporation; are non-voting; and upon liquidation to receive, pro rata with the Class A and Common Voting Shares, all assets of the Corporation as are distributable to the holders of shares.

## 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 shall rank senior to the Class A Shares and Class B Shares, Common Voting Shares and Common Non-Voting Shares with respect to the payment of dividends or distributions of assets or return of capital of the Corporation in the event of a dissolution, liquidation or winding-up of the Corporation. No preferred shares are presently issued and outstanding.

## CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Burnet, Duckworth & Palmer LLP, special tax counsel to the Corporation ("**Counsel**"), the following is, as of the date hereof, a fair and adequate summary of the principal Canadian federal income tax considerations applicable to an investment in the Units, to subscribers who at all relevant times are individuals or corporations resident in Canada, deal at arm's length, and are not affiliated with the Corporation, and who hold the Class A Shares or the Class B Shares acquired hereunder as capital property, all within the meaning of the Tax Act. The Class A Shares and the Class B Shares will each generally constitute capital property to a holder thereof unless the holder holds such securities in the course of carrying on a business or has acquired such securities in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to subscribers who are "principal-business corporations" within the meaning of the Tax Act, whose business includes trading or dealing in rights, licenses or privileges to explore for, drill or take minerals, oil, natural gas or other related hydrocarbons, who, at any time, have an "at-risk adjustment" as defined in the Tax Act, or who are subject to the "mark-to-market" provisions of the Tax Act, who are partnerships or trusts or who are "financial institutions" for purposes of the Tax Act.

This summary is based on the Tax Act and the regulations enacted thereunder (the "**Regulations**") taking into account all published proposals for the amendment thereof to the date hereof (the "**Proposed Amendments**") and upon Counsel's understanding of the current administrative practices of the Canada Revenue Agency ("**CRA**"). This summary does not otherwise take into account or anticipate any change in law or administrative practice, nor does it take into account provincial or territorial tax laws of Canada or tax laws of any foreign country. No assurances can be given that the Proposed Amendments to the Tax Act and the Regulations will be enacted as proposed or at all or that legislative, judicial or regulatory changes will not modify or change the statements expressed herein.

**This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular subscriber. Accordingly, potential subscribers should consult their own tax advisors for advice with respect to the income tax consequences of investing in Units.**

This summary assumes that the Corporation will incur Qualifying Expenditures during the Expenditure Period in an amount not less than the Flow-through Funds so as to enable the Corporation to renounce Qualifying Expenditures equal to the amount of the Flow-through Funds to subscribers effective on or before December 31, 2007. This summary also assumes that the Corporation will make all filings in respect of the issue of the Class A Shares and the Class B Shares and the renunciation of Qualifying Expenditures in the manner and within the time required by the Tax Act and the Regulations and that all renunciations will be validly made. In addition, while the Corporation will furnish each subscriber with information with respect to renounced Qualifying Expenditures for purposes of filing income tax returns, the preparation and filing of returns will remain the responsibility of each subscriber. This summary is based upon the representation of the Corporation that it will be a "principal-business corporation" at all material times and that its Class A Shares and Class B Shares, when issued, will not be prescribed shares, all within the meaning of the Tax Act. The purpose of the prescribed share rules is to prevent the renunciation of resource expenses where an investor's risk of loss in respect of the share may be limited in any manner. Generally, the prescribed share rules prevent the issuance of preferred or guaranteed shares as flow-through shares. However, the Regulations defining prescribed shares are broadly worded and could be interpreted as encompassing some types of common shares. Although Counsel is of the view that neither the Class A Shares nor the Class B Shares are prescribed shares, there is no assurance that the CRA or a court would agree with Counsel's view. If any of the above assumptions are incorrect, the Corporation may be unable to renounce some or all of the Qualifying Expenditures which it has agreed to renounce hereunder.

The federal income tax consequences to a particular subscriber of an investment in Units hereunder will vary according to a number of factors, including the particular province in which the subscriber resides, carries on business or has a permanent establishment, the legal characterization of the subscriber as an individual or corporation, the amount that would be the subscriber's taxable income but for the investment in the Units and the manner in which the proceeds for the Class A Shares and the Class B Shares are expended.

### **Allocation of Unit Price**

Subscribers will be required to allocate the price paid for each such Unit on a reasonable basis between the Class A Shares and the Class B Shares in order to determine their respective costs for tax purposes. The Corporation believes that the price per Unit of \$1,000 should be allocated as to \$100 for the Class A Shares and as to \$900 for the Class B Shares. Such allocation will not be binding on the CRA or subscribers.

### **Qualifying Expenditures**

The Corporation will be entitled to renounce Qualifying Expenditures incurred by it during the Expenditure Period to the extent of the portion of the Unit subscription price which is properly allocable to Class A Shares and Class B Shares, as the case may be, as permitted by and in accordance with Tax Act. Such Qualifying Expenditures as are properly renounced to a subscriber will be deemed to have been incurred by that subscriber on the effective date of the renunciation.

Special rules in the Tax Act provide that corporations that have a "taxable capital amount" (within the meaning of the Tax Act) of not more than \$15,000,000 at the time consideration for the Units is given may renounce up to \$1,000,000 of certain CDE ("**Eligible CDE**") incurred in a calendar year to subscribers and have the Eligible CDE deemed to constitute CEE to the subscriber. The Corporation intends to incur Eligible CDE so that the renounced Eligible CDE will be considered to be CEE to the subscriber in accordance with the above rules. CEE and Eligible CDE that is considered to have been incurred by a subscriber will be added to such subscriber's cumulative CEE ("**CCEE**") account.

The Tax Act contains a one year "look-back" rule which, if certain conditions are satisfied, entitles the Corporation to have CEE or Eligible CDE incurred by it in 2008 renounced to subscribers effective on December 31, 2007. In other words, the subscribers are deemed to have incurred the CEE and Eligible CDE on December 31, 2007 even though the Corporation may not incur the expenditures until 2008. For this rule to apply in respect of a share, the subscriber must have paid the consideration in money for the share, and the Subscription Agreement must have been entered into, on or prior to December 31, 2007. In the event that the Corporation does not fully expend the amounts renounced under the one year "look-back" rule by the end of 2008, the Corporation will be required to reduce the amount of Qualifying Expenditures renounced to the subscribers and the subscribers' income tax returns for the years in which the Qualifying Expenditures were claimed will be reassessed accordingly.

A subscriber may deduct in computing such subscriber's income from all sources for a taxation year an amount not exceeding 100% of the balance of such subscriber's CCEE account, at the end of that taxation year. Deductions claimed by a subscriber reduce the CCEE account in the year deductions are claimed. The right to deduct CCEE accrues to the initial purchaser of Units and is not transferable. To the extent that a subscriber does not deduct the balance of such subscriber's CCEE account at the end of the taxation year, the balance may be carried forward and deducted in subsequent taxation years in accordance with the provisions of the Tax Act.

Certain restrictions apply in respect of the deduction of CCEE following an acquisition of control and on certain reorganizations of a corporate subscriber. Corporate subscribers should consult their own independent tax advisors for advice with respect to the potential application of these rules to them having regard to their own particular circumstances.

### **Disposition of Shares**

A disposition or deemed disposition of a Class A Share or a Class B Share (other than to the Corporation) will result in the realization of a capital gain or capital loss in the taxation year of the disposition equal to the amount by which the proceeds of disposition exceed, or are less than, respectively, the adjusted cost base of such share and reasonable expenses incurred by the subscriber for the purposes of making such disposition. One-half of any capital gain (a taxable capital gain) must be included in computing the income of a taxpayer for the year in which the

disposition takes place, while one-half of any capital loss (an allowable capital loss) will be required to be deducted against taxable capital gains realized by the subscriber in the same taxation year. Allowable capital losses not deducted in the year in which they arise may be deducted by a taxpayer from taxable capital gains realized in any of the three preceding years, or any subsequent year, subject to the detailed provisions of the Tax Act in that regard.

The Class A Shares and the Class B Shares comprising the Unit will be deemed to have been acquired by the subscriber for an initial cost of nil. The adjusted cost base to a holder of a Class A Share or a Class B Share will generally be the average cost of all Class A Shares or Class B Shares, as the case may be, held by such subscriber as capital property at a particular time. Any tax consequences arising from a subsequent disposition of Class A Shares or Class B Shares will be measured by reference to the adjusted cost base for Class A Shares or Class B Shares, respectively.

A subscriber that is a "Canadian-controlled private corporation" (as defined in the Tax Act) will be liable to pay an additional 6% refundable tax on its "aggregate investment income" for the year, which is defined to include an amount in respect of taxable capital gains.

A subscriber who disposes of Class A Shares or Class B Shares will retain the entitlement to the renunciation of Qualifying Expenditures from the Corporation as described above as well as the ability to deduct any CEE not previously deducted, and a subsequent purchaser of such shares will not be entitled to any renunciations of CEE.

### **Conversion of Class B Shares**

The conversion of the Class B Shares into Class A Shares will not constitute a disposition to the holder thereof. The cost of the Class A Shares acquired on the conversion from Class B Shares will be the adjusted cost base to the holder of the Class B Shares immediately before the conversion and the adjusted cost base of such shares will be determined by averaging the cost of the Class A Shares acquired on the conversion with the adjusted cost base of all other Class A Shares owned by the holder at that time and held as capital property.

### **Minimum Tax**

Under the Tax Act a minimum tax is payable by an individual other than certain trusts equal to the amount by which the minimum tax exceeds the tax otherwise payable. In calculating adjusted taxable income for the purpose of determining minimum tax, certain deductions and credits otherwise available such as the deduction for CEE (including Eligible CDE) not used to reduce resource income, are disallowed and certain amounts not otherwise taxable are included in income, such as 80% of net capital gains. The Tax Act disallows the deduction of certain carrying charges for purposes of computing adjusted taxable income for minimum tax purposes that relate to an investment in flow-through shares to the extent that the deduction for such carrying charges exceeds the individual's resource income after deductions for resource expenses, including CEE (including Eligible CDE). In computing adjusted taxable income for minimum tax purposes, a \$40,000 exemption is provided for individuals other than inter vivos trusts. The federal rate of minimum tax is 15.5% for 2007 and later years. Whether and to what extent the tax liability of a particular subscriber will be increased by the minimum tax will depend upon the amount of such subscriber's income, the sources from which it is derived and the nature and amounts of any deductions that such subscriber claims. Any additional tax payable for a year from the application of the minimum tax provisions is recoverable in subsequent years to the extent that tax otherwise determined exceeds the minimum tax for any of the following seven taxation years. Subscribers should consult their own independent tax advisors with respect to the potential minimum tax consequences to them having regard to their own particular tax circumstances.

### **Cumulative Net Investment Loss**

One-half of the amount the CEE (including Eligible CDE) renounced to a subscriber will be added to the subscriber's cumulative net investment loss ("CNIL") account, as defined in the Tax Act. A subscriber's CNIL account may impact a subscriber's ability to access the \$500,000 (\$750,000 under the Proposed Amendments) lifetime capital gains exemption available on the disposition of certain qualified small business corporation shares and farm property.

## Eligibility for Investment

Provided that either the Class A Shares or the Class B Shares are listed on a prescribed stock exchange at the relevant time, the Class A Shares and the Class B Shares when issued will constitute qualified investments, within the meaning of the Tax Act, for trusts governed by registered retirement savings plans ("RRSPs"), registered education savings plans, registered retirement income funds and deferred profit sharing plans (collectively "Exempt Plans"). It is not anticipated that Exempt Plans will subscribe for the Class A Shares or Class B Shares comprising the Units as Exempt Plans do not benefit from the deduction of Qualifying Expenditures as described above.

An individual subscriber could contribute all or a portion of his or her Class A Shares or Class B Shares which constitute qualified investments for RRSPs (collectively referred to as the "Qualifying Securities") to his or her RRSP or to a spousal RRSP and thereby become entitled to a deduction in computing income equal to the fair market value of the Qualifying Securities at the time they are so contributed within the limits set out in the Tax Act for deductions for contributions to RRSPs. A subscriber that contributes the Qualifying Securities to an RRSP will be deemed to have disposed of such Qualifying Securities for proceeds of disposition equal to the fair market value thereof at that time. Subscribers that contribute all or a portion of these securities to an RRSP should consult their own tax advisors as to the tax consequences of such a contribution having regard to their own particular circumstances.

## PRINCIPAL SHAREHOLDERS

The only shareholder who owns, or is known by management of the Corporation to own, of record or beneficially, either directly or indirectly, or exercise control over more than 10% of the issued and outstanding, voting shares of the Corporation as at the date hereof is as follows:

<b>Principal Shareholder</b>	<b>Designation of Class</b>	<b>Type of Ownership</b>	<b>Number of Shares<sup>(1)</sup></b>	<b>Percentage of Class</b>	<b>Percentage of Class after Giving Effect to Maximum Offering<sup>(1)(2)</sup></b>	<b>Percentage of Class after Giving Effect to Maximum Offering, the Debt Satisfaction and the Private Placement<sup>(1)(2)(3)</sup></b>
The Etail Factory (U.S.), Inc.	Class A	Direct	15,000	51.0%	0.3%	0.1%
	Class B	Direct	3,375	51.0%	0.3%	0.3%
StoneBridge Merchant Capital Corp.	Class A	Direct	14,400	49.0%	0.3%	3.6%
	Class B	Direct	3,240	49.0%	0.3%	8.6%

Notes:

- (1) Does not include any securities that may be acquired pursuant to this Offering by Stonebridge.
- (2) Pursuant to the Debt Satisfaction, StoneBridge may be issued 386,600 Class A Shares and 86,985 Class B Shares on a non-"flow-through" basis.
- (3) If the Private Placement occurs, up to 5,900,000 Class A Shares may be issued.

## PRIOR SALES

The Corporation has issued and presently has outstanding an aggregate of 29,400 Class A, 6,615 Class B Shares, no Common Voting Shares, no Common Non-Voting Shares and no Preferred Shares. The specifics of the issuances in the past 12 months are set forth below:

Date	Number and Class of Shares <sup>(1) (2) (3)(4)</sup>	Price <sup>(1)</sup>	Proceeds <sup>(1)</sup>
January 31, 2007 <sup>(1)</sup>	Common Voting 240,000	\$0.156250	\$37,500
February 2, 2007 <sup>(2)</sup>	Common Voting 196		
April 3, 2007 <sup>(3)</sup>	Class A 29,400		
	Class B 6,615		

Notes:

- (1) On January 31, 2007, StoneBridge subscribed for 240,000 Common Voting Shares of the Corporation.
- (2) On February 2, 2007, under Articles of Amendment, each share consolidated on a 2,500 Share to 1 Share basis.
- (3) On April 3, 2007, pursuant to the Financing Agreement, each outstanding Common Voting Share converted to 150 Class A Shares and 33.75 Class B Shares.
- (4) On February 14, 2000, Etail purchased 250,000 common shares of the Corporation. The shares have a deemed issuance price of \$0.02 per share and through a series of transactions were converted into 15,000 Class A Shares and 3,375 Class B Shares.

## ESCROWED SECURITIES

Pursuant to the policies of the TSXV, any Class A Shares which may be acquired pursuant to the Private Placement, will be placed in escrow. Pursuant to an agreement (the "**Escrow Agreement**") to be dated May 15, 2007 among the Corporation, the Escrow Agent and certain principals (as defined in National Policy 46-201 - Escrow for Initial Public Offerings ("NP 46-201"), the following securities of the Corporation are held in escrow:

Designation of Class Held in Escrow	Number of Securities	Percentage of Class			
		Prior to the Offering	After Giving Effect to the Minimum Offering	After Giving Effect to the Maximum Offering	After Giving Effect to the Maximum Offering, the Debt Satisfaction and the Private Placement
Class A	5,900,000	nil%	nil%	nil%	53%
Class B	nil	nil%	nil%	nil%	nil%

Pursuant to the terms of the Escrow Agreement, ten percent (10%) of such Class A Shares will be released from escrow upon receipt of notice from the TSXV confirming the listing of the Class A Shares on the TSXV (the "**Listing Notice**"). The remaining ninety percent (90%) of such Class A Shares will be released from escrow in fifteen percent (15%) tranches during consecutive six month intervals over a 36 month period following receipt of such notice. The above escrow release schedule is subject to acceleration in accordance with NP 46-201 *Escrow for Initial Public Offerings* and the policies of the TSXV in the event that the Corporation subsequently meets certain listing requirements.

## DIVIDENDS

The Corporation has not declared or paid any dividends since its incorporation and while it may pay dividends in the future, the Corporation does not anticipate the declaration or payment of dividends in the foreseeable future. Any decision to pay dividends on its shares will be made by the board of directors on the basis of the Corporation's earnings, financial requirements and other conditions existing at such future time.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as disclosed elsewhere herein, none of the directors, officers or principal shareholders of the Corporation, and no associate or affiliate of any of them, has or has had any material interest in any transaction which materially affects the Corporation other than as follows.

Patrick Ward, President and Chief Executive Officer of the Corporation, is the President and controlling shareholder of PrivateCo, which entered into the Financing Agreement with the Corporation on March 29, 2007 and agreed to assign the Midale/Elcott Farmin Agreement and the Kisbey Farmin Agreement to the Corporation. Mr. Ward is the President and Sole Shareholder of 764503 Alberta Ltd, which will transfer the NE BC AMI Agreement to the Corporation prior to Closing. Pursuant to the Financing Agreement, PrivateCo agreed to assist with, among other things, the reconstitution of the Corporation's board of directors, the reorganization of the Corporation's share capital and the filing of articles of amendment to change the Corporation's name to Painted Pony Petroleum Ltd. and to remove the private company restrictions, all of which were approved by the shareholders on March 29 and which was effected on April 3, 2007. Completion of the reorganization of the Corporation as contemplated in the Financing Agreement is conditional upon the completion of the Offering on or before May 30, 2007, subject to extension or waiver as agreed between the parties. PrivateCo also incurred start-up costs totalling approximately \$70,100 as at March 31, 2007. See "*Promoters of the Corporations*".

There are potential conflicts of interest to which the directors and officers of the Corporation will be subject in connection with the operations of the Corporation. In particular, certain of the directors and officers of the Corporation are involved in managerial and/or director positions with other oil and natural gas companies whose operations may, from time to time, be in direct competition with those of the Corporation or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of the Corporation. See "*Directors, Officers and Key Personnel of the Corporation*". 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.

## MATERIAL CONTRACTS

The only material contracts entered into or proposed to be entered into by the Corporation, or on its behalf, since incorporation, other than contracts in the ordinary course of business, are as follows:

1. the Financing Agreement;
2. the Agency Agreement among the Corporation and the Agents, as more particularly described under "*Plan of Distribution*";
3. the Escrow Agreement among the Corporation, Olympia and certain shareholders of the Corporation, as more particularly described under "*Escrowed Securities*"; and
4. the Registrar and Transfer Agency Agreement dated effective May 8, 2007, between the Corporation and Olympia.

Copies of these agreements may be inspected at the head office of the Corporation at Suite 202, 1117 - 1st Street S.W., Calgary, Alberta T2R 0T9, or at the offices of Burstall Winger LLP, legal counsel to the Corporation, at Suite 1600, 333 - 7th Avenue S.W., Calgary, Alberta T2P 2Z1, or at the offices of the Alberta Securities Commission at 4th Floor, 300 - 5th Avenue S.W., Calgary, Alberta T2P 3C4, during normal business hours during the course of distribution of the Units. Copies of these agreements can also be viewed at [www.sedar.com](http://www.sedar.com).

## RISK FACTORS

The securities offered hereby should be considered highly speculative due to the nature of the Corporation's business and the present stage of its development. A prospective investor should consider carefully the risk factors set out below. In addition, prospective investors should carefully review and consider all other information contained in this prospectus and in the Corporation's other public filings before making an investment decision. An investment in securities of the Corporation should only be made by persons who can afford a significant or total loss of their investment. There is no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this prospectus.

### Exploration, Development and Production Risks

An investment in the Units is speculative due to the nature of the Corporation's involvement in the exploration, development and production of oil and natural gas and its present stage of development.

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Corporation will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressurized zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Corporation currently has a limited number of specific identified exploration or development prospects. Management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and their past practices. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Corporation will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. While the Corporation has established a set of criteria with respect to participations and acquisitions (see "*Business of the Corporation – General*"), investors are advised that a substantial amount of the proceeds to be raised herein may be spent on properties which are not yet identified. In this regard, the Corporation has not entered into any contracts relating to the acquisition or participation in any properties other than as set forth herein, nor have any letters of intent been executed.

Future oil and natural gas exploration 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 connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

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 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.

### **Insurance**

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

### **Geo-Political Risks**

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 political events throughout the world that cause disruptions in the supply of oil. Conflicts or conversely peaceful developments, arising in the Middle-East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Corporation's net production revenue.

In addition, the Corporation's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of the Corporation's properties, wells or facilities are the subject of terrorist attack it could have a material adverse effect on the Corporation. The Corporation will not have insurance to protect against the risk from terrorism.

### **Prices, Markets and Marketing of Crude Oil and Natural Gas**

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.

The exchange rate between the Canadian and the U.S. dollar also affects the profitability of the Corporation and the Canadian dollar has strengthened recently against the U.S. dollar.

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 the Corporation's bank debt be repaid.

Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Corporation's oil and natural gas reserves. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Corporation's future net production revenue, causing a reduction in its oil and natural gas acquisition and development activities.

In addition to establishing markets for its oil and natural gas, the Corporation must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Corporation. The ability of the Corporation to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Corporation will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Corporation has limited direct experience in the marketing of oil and natural gas.

### **Absence of Prior Public Market**

Prior to this Offering, there has been no public market for the Class A Shares or the Class B Shares. The issue price of the Class A Shares and Class B Shares was determined by negotiation between the Agents and the Corporation and may bear no relationship to the price of which the Class A Shares and Class B Shares will trade in the public market subsequent to this Offering.

### **Substantial Capital Requirements and Liquidity**

The Corporation anticipates that it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If the Corporation is unable to successfully acquire or develop revenues or reserves, or if future revenues or reserves decline, the Corporation 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 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, results of operations or prospects.

### **Failure to Realize Anticipated Benefits of Acquisitions and Dispositions**

The Corporation makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Corporation's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Corporation. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that the Corporation can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Corporation, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Corporation.

### **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.

## **Regulatory**

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "*Industry Conditions*". 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. At this time the Alberta Government is in the process of examining the royalty and tax regime applicable to oil, gas and oil sands - see "*Industry Conditions - Provincial Royalties and Incentives*". The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase the Corporation's costs, any of which may have a material adverse effect on the Corporation's intended business, financial condition and results of operations. In order to conduct oil and natural gas operations, the Corporation will require licenses from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

## **Competition**

The Corporation actively competes for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and natural gas companies, many of which have significantly greater financial resources than the Corporation. The Corporation's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and natural gas industry is highly competitive. The Corporation's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Corporation.

Certain of the Corporation's potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect the Corporation's ability to sell or supply oil or gas to these customers in the future. The Corporation's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

## **Dividends**

The Corporation has not paid any dividends on its outstanding shares. Payment of dividends in the future will be dependent on, among other things, the cash flow, results of operations and financial condition of the Corporation, the need for funds to finance ongoing operations and other business considerations as the board of directors of the Corporation considers relevant.

## **Aboriginal Claims**

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

## **Seasonality**

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

## **Environmental Risks**

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 international conventions and federal, provincial and municipal 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 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 foreign 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 adversely affect the Corporation's financial condition, results of operations or prospects. 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. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Kyoto Protocol 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 either the nature of those requirements or the impact on the Corporation and its operations and financial condition. See "*Industry Conditions - Environmental Regulation*".

## **Kyoto Protocol**

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

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

### **Reserve Estimates**

The Corporation currently does not have any reserves.

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

### **Reserve Replacement**

The Corporation's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Corporation successfully acquiring or discovering 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.

### **Title to Assets**

While title reviews will generally be conducted prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the Corporation's claim which could result in a reduction of the revenue received by the Corporation.

### **Reliance on Operators and Key Consultants**

The Corporation may not be the operator of certain assets in which it has an interest. To the extent the Corporation is not the operator of its oil and natural gas properties, the Corporation will have 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 will therefore depend 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. In addition, the success of the Corporation will be largely dependent upon the performance of its management and key consultants. The contributions of the existing management team to the immediate and near-term operations of the Corporation are likely to be of central importance. The Corporation does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key consultant could have a material adverse effect on the Corporation. 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 on the ability, expertise, judgment, discretion, integrity and good faith of the management of the Corporation.

### **Conflicts of Interest**

The directors or officers of the Corporation may also be directors or officers of other oil and natural gas companies or otherwise involved in natural resource exploration and development and situations may arise where they are in a conflict of interest with the Corporation. Conflicts of interest, if any, which arise will be subject to and governed by procedures prescribed by the *Business Corporations Act* (Alberta) (the "ABCA") which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Corporation disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

### **Corporate Matters**

To date, the Corporation has not paid any dividends on its outstanding Class A Shares and does not anticipate the payment of any dividends on its Class A Shares or its Class B Shares for the foreseeable future. Certain of the directors and officers of the Corporation are also directors and officers of other oil and natural gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the ABCA.

### **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.

### **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 could have a material adverse impact on its business, operations and prospects.

### **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 results of operations and business.

### **Additional Funding Requirements and Dilution of Investment**

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 natural gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's 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 is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms. The terms of any such equity financing may be dilutive to holders of

Class A Shares and Class B Shares. Subscribers for Units will experience dilution based on the subscription price of the Units and the net tangible assets of the Corporation per Class A Share prior to the Offering.

### **Issuance of Debt**

From time to time, the Corporation may enter into transactions to acquire assets or the shares of other entities. 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 to take advantage of business opportunities that may arise.

### **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.

### **Third Party Credit Risk**

The Corporation is or may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its 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 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.

### **Availability of Drilling Equipment and Access**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) 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. To the extent the Corporation is not the operator of its oil and natural gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

### **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 crude 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.

### **Changes to Royalty Regime**

There can be no assurance that the Government of Alberta or the Canadian Federal Government 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. In February 2007, the Government of Alberta announced the creation

of an independent Royalty Review Panel formed to examine the province's royalty and tax regimes relating to oil sands, convention oil and natural gas, and coal bed methane. It is scheduled to conduct a series of public meetings in Calgary, Edmonton, Fort McMurray and Grande Prairie beginning in April 2007 and is to present its final report with recommendations to the Minister of Finance by August 31, 2007.

### **Tax Treatment of Class A Shares and Class B Shares Comprising the Units**

The tax treatment applicable with respect to oil and natural gas activities and flow-through shares constitutes a major factor when considering an investment in the Units. There is no guarantee that the taxation laws and regulations and the current administrative practices of both the federal and provincial tax authorities will not be amended or construed in such a way that the tax considerations for a subscriber holding Class A Shares or Class B Shares comprising the Units will not be altered, and moreover there is no guarantee that there will not be any differences of opinion between the federal and provincial tax authorities with respect to the tax treatment of the Class A Shares or Class B Shares comprising the Units, the status of such Class A Shares or Class B Shares and the activities contemplated by the Corporation's exploration and development programs. See "*Canadian Federal Income Tax Considerations*".

The Class A Shares and Class B Shares comprising the Units are designed for investors whose income is subject to high marginal tax rates. The right to deduct CEE accrues to the initial purchaser of Units and is not transferable. No guarantee can be given that Canadian tax laws will not be amended, that the amendments announced with respect to such laws will be adopted or that the current administrative practices of the tax authorities will not be modified. In addition, there is no guarantee that the projected tax deductions will be accepted by the CRA. Consequently, the tax considerations for subscribers holding or selling Class A Shares or Class B Shares comprising the Units may be fundamentally altered. See "*Canadian Federal Income Tax Considerations*".

There can be no assurance that the Class A Shares or Class B Shares comprising the Units will not be viewed by the CRA or a court as constituting prescribed shares for the purposes of the Tax Act. If the Class A Shares or Class B Shares comprising the Units are prescribed shares, such shares will not be considered flow-through shares and subscribers will not be entitled to any renunciations of Qualifying Expenditures from the Corporation. However, in such circumstances, the shares will not be governed by the rules in the Tax Act deeming flow-through shares to have a cost of nil.

There is no guarantee that an amount equal to the total proceeds for the sale of the Class A Shares and Class B Shares comprising the Units will be expended on or prior to December 31, 2008 as Qualifying Expenditures resulting in the deductions described under "*Canadian Federal Income Tax Considerations*". **If the Corporation does not expend an amount equal to the proceeds from the sale of the Class A Shares and Class B Shares comprising the Units so as to incur Qualifying Expenditures prior to December 31, 2008, the Corporation shall restate the amount of expenses that it has renounced in favour of the investors and the investors will be reassessed and will remit the tax benefits from which they would have benefited.** Subscribers will not be subject to penalties for any such reassessment and no interest will be payable on such additional tax if such tax is paid by April 30, 2008.

### **INDUSTRY CONDITIONS**

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation, and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, British Columbia and Saskatchewan, all of which should be carefully considered by investors in the oil and natural gas industry. It is not expected that any of these controls or regulations will affect the Corporation's operations in a manner materially different than they would affect other oil and natural gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and natural gas industry.

#### **Canadian Government Regulation**

The oil and natural gas industry is subject to extensive controls and regulations imposed by various levels of government. It is not expected that any of these controls or regulations will affect the operations of the

Corporation in a manner materially different than they would affect other oil and natural gas companies of similar size.

### **Pricing and Marketing - Oil and Natural Gas**

In Canada, producers of oil negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. The price depends in part on oil quality, prices of competing fuels, distance to market, the value of refined products and the supply/demand balance. Oil exports may be made pursuant to export contracts with terms not exceeding one year in the case of light crude, and not exceeding two years in the case of heavy crude, provided that an order approving any such export has been obtained from the NEB. Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export license from the NEB and the issue of such a license requires the approval of the Governor in Council.

In Canada, the price of natural gas sold in interprovincial and international trade is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain criteria prescribed by the NEB and the Government of Canada. Natural gas exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m<sup>3</sup>/day), must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export license from the NEB and the issue of such a license requires the approval of the Governor in Council.

The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas which may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements and market considerations.

### **Pipeline Capacity**

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

### **The North American Free Trade Agreement**

On January 1, 1994, NAFTA became effective among the governments of Canada, the United States of America and Mexico. NAFTA carries forward most of the material energy terms contained in the Canada-U.S. Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports to the United States of America or Mexico will be allowed provided that any export restrictions do not: (i) reduce the proportion of energy resource exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period), (ii) impose an export price higher than the domestic price, and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum export or import price requirements.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes. NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements, which is important for Canadian natural gas exports.

### **Royalties and Incentives**

#### *General*

In addition to federal regulation, 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 oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production, and the rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical

location, field discovery date and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

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 natural gas producers to the provincial governments and would increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to eliminate, amend or allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

The Canadian federal corporate income tax rate levied on taxable income is 22.1% effective January 1, 2007 for active business income including resource income. With the elimination of the corporate surtax effective January 1, 2008 and other rate reductions introduced in the 2006 Federal Budget, the federal corporate income tax rate will decrease to 19% in three steps: 20.5% on January 1, 2008, 20% on January 1, 2009 and 19% on January 1, 2010.

### *Alberta*

In Alberta, companies are granted the right to explore, produce and develop petroleum and natural gas resources in exchange for royalties, bonus bid payments and rents. Currently, the amount of royalties that are payable is influenced by the oil production, diversity of the oil, and the vintage of the oil. Originally, the vintage classified oil in "new oil" and "old oil" depending on when the oil pools were discovered. If prior to March 31, 1974 is considered "old oil", if after March 31, 1974 and before September 1, 1992, is considered "new oil". The Alberta government introduced in 1992 a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 1, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

The royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new natural gas, and between 15% and 35%, in the case of old natural gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 metres is also subject to a royalty exemption, the amount of which depends on the depth of the well.

Oil sands projects are subject to a specific regulation made effective July 1, 1997, and expiring June 30, 2007, which, among other things, determines the Crown's share of crude and processed oil sands products.

Regulations made pursuant to the *Mines and Minerals Act* (Alberta) provided various incentives for exploring and developing oil reserves in Alberta. However, the Alberta Government announced in August of 2006 that four royalty programs were to be amended, a new program was to be introduced and the Alberta Royalty Tax Credit Program ("**ARTC**") was to be eliminated, effective January 1, 2007. The programs affected by this announcement are: (i) Deep Gas Royalty Holiday; (ii) Low Productivity Well Royalty Reduction; (iii) Reactivated Well Royalty Exemption; and (iv) Horizontal Re-Entry Royalty Reduction. The program being introduced is the Innovative Energy Technologies Program (the "**IETP**") which is intended to promote the producers' investment in research, technology and innovation for the purposes of improving environmental performance whilst creating commercial value. The IETP provides royalty reductions which are presumed to reduce financial risk. Alberta Energy will be the one to decide which projects qualify and the level of support that will be provided. The deadline for the IETP's third round of applications is May 31, 2007.

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil, gas and oil sands will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The purpose of this process is to ensure that Albertans are receiving a fair share from energy development through royalties, taxes and fees. The issues to be reviewed during this examination process are: (i) undertaking a comparison of Alberta's royalty system to other oil and natural gas producing jurisdictions, taking into account investment economics and industry returns

and risks in Alberta; (ii) whether Alberta's royalty system is sufficiently sensitive to market conditions; (iii) whether the current revenue minus cost system for oil sands royalties is optimal; (iv) which programs built into the existing royalty system should be retained or strengthened, and which should be adapted or eliminated; (v) how the tax treatment of the oil and natural gas sector compares to other sectors and jurisdictions; (vi) the economic and fiscal impacts of any possible changes to the royalty and corporate tax structures; and (vii) how existing resource development should be treated if changes are to be made to the fiscal regime. The review panel is to produce a final report that will be presented to the Minister of Finance by August 31, 2007.

### *British Columbia*

Producers of oil and natural gas in the Province of British Columbia are required to pay annual rental payments with respect to the Crown leases and royalties and freehold production taxes in respect of oil and natural gas produced from Crown and freehold lands. The amount payable as a royalty in respect of oil depends on the type of oil, the value of the oil, the quantity of oil produced in a month, and the vintage of the oil. Generally, the vintage of oil is based on the determination of whether the oil is produced from a pool discovered before October 31, 1975 (old oil), between October 31, 1975, and June 1, 1998 (new oil, or after June 1, 1998 (third-tier oil). The royalty rates are calculated in three stages, which take into account the vintage of the oil, if the oil produced has already been sold and any royalty exempt value applicable (exempt wells). Oil produced from newly discovered pools may be exempt from the payment of a royalty for the first 36 months of production or 11,450m<sup>3</sup> produced, whichever comes first; and the royalties for third tier oil are the lowest reflecting the higher costs of exploration and extraction that the producers would incur. The royalty payable on natural gas is determined by a sliding scale based on a reference price, which is the greater of the price obtained by the producer, and a prescribed minimum price. However, when the reference price is below the select price (a parameter used in the royalty rate formula), the royalty rate is fixed. As an incentive for the production and marketing of natural gas, which may have been flared, natural gas produced in association with oil has a lower royalty than the royalty payable on non-conservation gas.

On May 30, 2003, the Ministry of Energy and Mines for the Province of British Columbia announced an Oil and Gas Development Strategy for the Heartlands ("**Strategy**"). The Strategy is a comprehensive program to address road infrastructure, targeted royalties and regulatory reduction, and British Columbia service sector opportunities. In addition, the Strategy will result in economic and employment opportunities for communities in British Columbia's heartlands.

Some of the financial incentives in the Strategy include:

- Royalty credits of up to \$30 million annually towards the construction, upgrading and maintenance of road infrastructure in support of resource exploration and development. Funding will be contingent upon an equal contribution from industry.
- Changes to provincial royalties: new royalty rates for low productivity natural gas to enhance marginally economic resources plays, royalty credits for deep gas exploration to locate new sources of natural gas, and royalty credits for summer drilling to expand the drilling season.

### *Saskatchewan*

In Saskatchewan, the amount payable as a royalty in respect of oil depends on the vintage of the oil, the type of oil, the quantity of oil produced in a month, and the value of the oil. For Crown royalty and freehold production tax purposes, crude oil is considered "heavy oil", "southwest designated oil", or "non-heavy oil other than southwest designated oil". The conventional royalty and production tax classifications ("fourth tier oil" introduced October 1, 2002, "third tier oil", "new oil", or "old oil") of oil production are applicable to each of the three crude oil types. The Crown royalty and freehold production tax structure for crude oil is price sensitive and varies between the base royalty rates of 5% for all "fourth tier oil" to 20% for "old oil". Marginal royalty rates are 30% for all "fourth tier oil" to 45% for "old oil".

The amount payable as a royalty in respect of natural gas is determined by a sliding scale based on a reference price (which is the greater of the amount obtained by the producer and a prescribed minimum price), the quantity produced in a given month, the type of natural gas, and the vintage of the natural gas. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than on non-associated natural gas. The royalty and production tax classifications of gas

production are "fourth tier gas" introduced October 1, 2002, "third tier gas", "new gas", and "old gas". The Crown royalty and freehold production tax for gas is price sensitive and varies between the base royalty rate of 5% for "fourth tier gas" and 20% for "old gas". The marginal royalty rates are between 30% for "fourth tier gas" and 45% for "old gas".

On October 1, 2002, the following changes were made to the royalty and tax regime in Saskatchewan:

- A new Crown royalty and freehold production tax regime applicable to associated natural gas (gas produced from oil wells) that is gathered for use or sale. The royalty/tax will be payable on associated natural gas produced from an oil well that exceeds approximately 65 thousand cubic metres in a month.
- A modified system of incentive volumes and maximum royalty/tax rates applicable to the initial production from oil wells and gas wells with a finished drilling date on or after October 1, 2002, was introduced. The incentive volumes are applicable to various well types and are subject to a maximum royalty rate of 2.5% and a freehold production tax rate of zero per cent.
- The elimination of the re-entry and short section horizontal oil well royalty/tax categories. All horizontal oil wells with a finished drilling date on or after October 1, 2002, will receive the "fourth tier" royalty/tax rates and new incentive volumes.

In 1975 the Government of Saskatchewan introduced a Royalty Tax Rebate ("RTR") as a response to the Federal Government disallowing Crown royalties and similar taxes to be deducted as a business expense for income tax purposes. As of January 1, 2007 the RTR will be allowed to wind down since the Federal Government had the initiative to reintroduce the full deduction of provincial resource royalties from federal and provincial income tax.

## **Land Tenure**

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licenses and permits for varying terms from two years and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

## **Environmental Regulation**

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and natural gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

Environmental legislation in the Province of Alberta has been consolidated into the *Environmental Protection and Enhancement Act* (Alberta) (the "EPEA"), which came into force on September 1, 1993, and the *Oil and Gas Conservation Act* (Alberta) (the "OGCA"). The EPEA and OGCA impose stricter environmental standards, require more stringent compliance, reporting and monitoring obligations, and significantly increased penalties. In 2006, the Alberta Government enacted regulations pursuant to the EPEA to specifically target sulphur oxide and nitrous oxide emissions from industrial operations including the oil and natural gas industry. No additional expenses are foreseen that are associated with complying with the new regulations. The Corporation will be committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment, and will be taking such steps as required to ensure compliance with the EPEA and similar legislation in other jurisdictions in which it operates. The Corporation believes that it will be in material compliance with applicable environmental laws and regulations. The Corporation also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

British Columbia's *Environmental Assessment Act* became effective June 30, 1995. This legislation rolls the previous processes for the review of major energy projects into a single environmental assessment process with public participation in the environmental review process.

In December, 2002, the Government of Canada ratified the Kyoto Protocol ("**Protocol**"). The Protocol calls for Canada to reduce its greenhouse gas emissions to 6% below 1990 "business-as-usual" levels between 2008 and 2012. Given revised estimates of Canada's normal emissions levels, this target translates into an approximately 40% gross reduction in Canada's current emissions. It remains uncertain whether the Kyoto target of 6% below 1990 emission levels will be enforced in Canada. The Federal Government has introduced legislation aimed at reducing greenhouse gas emissions using a "intensity based" approach, the specifics of which have yet to be determined. Bill C-288, which is intended to ensure that Canada meets its global climate change obligations under the Kyoto Protocol, was passed by the House of Commons on February 14, 2007.

## **Trends**

There are a number of trends that have been developing in the oil and natural gas industry during the past several years that appear to be shaping the near future of the business.

The first trend is the volatility of commodity prices. Natural gas is a commodity influenced by factors within North America. A tight supply-demand balance for natural gas causes significant elasticity in pricing, whereas higher than average storage levels tend to depress natural gas pricing. Drilling activity, weather, fuel switching and demand for electrical generation are all factors that affect the supply-demand balance. Changes to any of these or other factors create price volatility.

Crude oil is influenced by the world economy, Organization of the Petroleum Exporting Countries' ability to adjust supply to world demand and weather. Crude oil prices have been kept high by political events causing disruptions in the supply of oil and concern over potential supply disruptions triggered by unrest in the Middle East and more recently have been impacted by weather and increased storage levels. Political events trigger large fluctuations in price levels.

The impact on the oil and natural gas industry from commodity price volatility is significant. During periods of high prices, producers generate sufficient cash flows to conduct active exploration programs without external capital. Increased commodity prices frequently translate into very busy periods for service suppliers triggering premium costs for their services. Purchasing land and properties similarly increase in price during these periods. During low commodity price periods, acquisition costs drop, as do internally generated funds to spend on exploration and development activities. With decreased demand, the prices charged by the various service suppliers also decline.

A second trend within the Canadian oil and natural gas industry is the fairly consistent "renewal" of private and small junior oil and natural gas companies starting up business. These companies often have experienced management teams from previous industry organizations that have disappeared as a part of the ongoing industry consolidation. Many are able to raise capital and recruit well qualified personnel. The Corporation will have to compete with these companies and others to attract qualified personnel.

A third trend currently affecting the oil and natural gas industry is the impact on capital markets caused by investor uncertainty in the North American economy. The capital market volatility in Canada has also been affected by uncertainties surrounding the economic impact that the Protocol, and other environmental initiatives, will have on the sector and, in more recent times, by the October 31, 2006 proposals of the Federal Government of Canada (the "October 31, 2006 Proposals") relating to income trusts and other "specified investment flow-through" entities ("SIFTs"). Pursuant to the existing provisions of the *Income Tax Act* (Canada), to the extent that a SIFT has any income for a taxation year after certain inclusions and deductions, the SIFT will be permitted to deduct all amounts of income which are paid or become payable by it to unitholders in the year. Under the October 31, 2006 Proposals, SIFTs will be liable for tax at a rate consistent with the taxes currently imposed on corporations commencing in January 2011, provided that the SIFT experiences only "normal growth" and no "undue expansion" before then, in which case the tax could be imposed prior to the January 2011 deadline. Although the October 31, 2006 Proposals will not affect the method in which the Corporation will be taxed, they may have an impact on the ability of a SIFT to purchase producing assets from junior oil and natural gas companies (as well as the price that a SIFT is willing to pay for such an acquisition) thereby affecting exploration and production companies' ability to be sold to a SIFT

which has been a key "exit strategy" in recent years for small to mid-sized oil and natural gas companies. This may be a benefit for the Corporation as it will compete with SIFTs for the acquisition of oil and natural gas properties from junior producers. However, it may also limit the Corporation's ability to sell producing properties or pursue an exit strategy.

Generally during the past year, the economic recovery combined with increased commodity prices has caused an increase in new equity financings in the oil and natural gas industry, although the level of same was negatively impacted by the October 31, 2006 Proposals. The Corporation will compete with numerous new companies and their new management teams and development plans in its access to capital. The competitive nature of the oil and natural gas industry will cause opportunities for equity financings to be selective. The Corporation may have to rely on internally generated funds to conduct their exploration and developmental programs.

#### **EXPERTS**

Certain legal matters in connection with the Offering are being reviewed on behalf of Painted Pony by Burstall Winger LLP, Calgary, Alberta and on behalf of the Agents by Burnet, Duckworth & Palmer LLP, Calgary, Alberta. In addition, Burnet, Duckworth & Palmer LLP is the special tax advisor to the Corporation. **Subscribers should consult their own professional advisors to assess the income tax, legal and other aspects of an investment in the Units.**

#### **AUDITORS, REGISTRAR AND TRANSFER AGENT**

The auditors of the Corporation are Soberman LLP, Chartered Accountants, Toronto, Ontario. It is the intention of the Corporation to change the auditors to KPMG LLP in Calgary, Alberta subsequent to completion of this initial public offering.

Olympia Trust Company, at its principal offices in Calgary, Alberta will be registrar and transfer agent for the Class A Shares and Class B Shares.

#### **INTEREST OF EXPERTS**

Except as disclosed herein, none of Burstall Winger LLP, Burnet, Duckworth & Palmer LLP or any director, officer, partner, associate or employee thereof received or will receive a direct or indirect interest in the property of the Corporation or of any associate or affiliate of the Corporation. No partners, associates or employees of the aforementioned partnerships beneficially own, directly or indirectly, any securities of the Corporation.

#### **STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus or any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. **The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.**

## AUDITOR'S CONSENT

We have read the prospectus of Painted Pony Petroleum Ltd. (the "Corporation") dated May 8, 2007 relating to the offering of a minimum of 10,000 Units of the Corporation and a maximum of 12,000 Units of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the use in the above-mentioned prospectus of our report to the directors of the Corporation on the balance sheet of the Corporation (formerly 1369127 Ontario Inc.) as at December 31, 2006, and the statements of earnings, deficit, and cash flows for the year then ended. Our report is dated March 8, 2007 (except as to Note 11 which is as of May 8, 2007).

*"Soberman LLP"*

Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
May 8, 2007

## FINANCIALS

**1300873 ALBERTA LTD.**

**(Formerly 1369127 Ontario Inc.)**

**INTERIM FINANCIAL STATEMENTS**

**(UNAUDITED)**

**MARCH 31, 2007**

**1300873 ALBERTA LTD.**

**(Formerly 1369127 Ontario Inc.)**

**INTERIM FINANCIAL STATEMENTS**

**(UNAUDITED)**

**MARCH 31, 2007**

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Interim Statement of Earnings	3
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**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**INTERIM BALANCE SHEET**

(UNAUDITED)

At	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ -	\$ 51,470
Holdback receivable	-	1,051,872
	<b>\$ -</b>	<b>\$ 1,103,342</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Due to StoneBridge Merchant Capital Corp. (Notes 4 and 8)	\$ 619,000	\$ -
Accounts payable and accrued charges	-	261,510
Due to parent company	-	1,777,741
	<b>619,000</b>	<b>2,039,251</b>
<b>Convertible debentures (Notes 5 and 8)</b>	<b>347,500</b>	<b>-</b>
	<b>966,500</b>	<b>2,039,251</b>
<b>Going concern (Note 2)</b>		
<b>Subsequent events (Note 9)</b>		
<b>SHAREHOLDERS' DEFICIENCY</b>		
Capital stock (Note 6)	37,500	5,000
Contributed surplus	-	15,690,266
Deficit	(1,004,000)	(16,631,175)
	<b>(966,500)</b>	<b>(935,909)</b>
	<b>\$ -</b>	<b>\$ 1,103,342</b>

*The accompanying notes are an integral part of the financial statements*

On behalf of the Board

*"Ronald R. Talbot"*  
Ronald R. Talbot, Director

*"Glenn R. Carley"*  
Glenn R. Carley, Director

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**INTERIM STATEMENT OF DEFICIT**  
**(UNAUDITED)**

**Three months ended March 31**

**2007**

Balance, beginning of period	\$ (16,631,175)
Net loss	-
	<b>(16,631,175)</b>
Reorganization adjustment <i>(Note 7)</i>	<b>15,627,175</b>
Balance, end of period	<b>\$ (1,004,000)</b>

*The accompanying notes are an integral part of the financial statements*

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**INTERIM STATEMENT OF EARNINGS**  
**(UNAUDITED)**

**Three months ended March 31**

**2007**

<b>Revenue</b>	\$	-
<b>Expenses</b>		-
<b>Net earnings</b>	\$	-
<b>Net earnings per share</b>	\$	-

*The accompanying notes are an integral part of the financial statements*

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**INTERIM STATEMENT OF CASH FLOWS**  
**(UNAUDITED)**

**Three months ended March 31**

**2007**

**SOURCES (USES) OF CASH**

**Operating activities**

Net earnings \$ -

**Cash provided by operating activities**

**-**

**Financing activities**

Due to parent company (393,970)

Due to Stonebridge Merchant Capital Corp. (42,500)

Proceeds from issue of common shares 37,500

Proceeds from issue of convertible debentures 347,500

**Cash used in financing activities**

**(51,470)**

**Net decrease in cash**

**(51,470)**

**Cash, beginning of period**

**51,470**

**Cash, end of period**

**\$ -**

**Other cash flow information:**

Net assets transferred to parent company \$ 790,362

Due to parent company acquired by StoneBridge  
Merchant Capital Corp. 593,409

*The accompanying notes are an integral part of the financial statements*

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**March 31, 2007**

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**1. Nature of operations**

1300873 Alberta Ltd. (“the Company”) has had no continuing operations since November 2005. The statements of earnings, deficit and cash flows have been prepared on a non-comparative basis as the prior period’s amounts and note disclosure are not meaningful.

The Company changed its name from 1369127 Ontario Inc. (formerly Borderfree Ltd.) to BFL Energy Ltd. on February 2, 2007 by Articles of Amendment.

On February 13, 2007, by Certificate of Continuance, the Company changed its name from BFL Energy Ltd. to 1300873 Alberta Ltd. and was continued as an Alberta Corporation.

**2. Going concern**

These financial statements have been prepared on the basis of accounting principles applicable to a “going concern,” which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

If the “going concern” assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

The Company has incurred significant operating losses over the past three fiscal years and has had a significant working capital deficiency. The Company is dependent on the continued financial support of its debt and equity holders.

**3. Significant accounting policies**

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**March 31, 2007**

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**3. Significant accounting policies** *(continued)*

**Financial instruments**

The carrying amount of the Company's financial instrument, consisting of convertible debentures approximates its fair value. The fair value estimates for amounts due to StoneBridge Merchant Capital Corp. cannot be reasonably determined as no liquid and active market exists for such related party instruments.

**Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

**4. Due to StoneBridge Merchant Capital Corp.**

Amounts due to StoneBridge Merchant Capital Corp. are non-interest bearing and have no stated terms of repayment.

Refer to Note 8.

**5. Convertible debentures**

The subordinated debentures are convertible into non-voting common shares at the price of \$0.15625 per share, are secured by a general security agreement, have a maturity date of January 31, 2012 and bear interest at 5% per annum for the first two years, then bear interest at bank prime + 3% per annum.

The debenture is allocated between debt and equity in accordance with the substance of the instrument. Under this method the debt component is measured at its fair value, discounted at the interest rate that would be payable on a non-convertible debenture, at the time of issue, with the remaining proceeds received being assigned to the equity component. The debt component is valued at \$347,500 and the equity component at \$Nil.

Refer to Note 8.

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**March 31, 2007**

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**6. Capital stock**

Authorized  
 Unlimited Common shares  
 Unlimited Non-voting common shares

Issued	March 31, 2007		December 31, 2006	
	Number of Shares	Amount	Number of Shares	Amount
Common Shares				
Balance, beginning of period	100	\$ 5,000	100	\$ 5,000
Shares issued <sup>(a)</sup>	96	37,500	-	-
Financial reorganization <sup>(b)</sup>	-	(5,000)	-	-
Balance, end of period	196	\$ 37,500	100	\$ 5,000

On February 2, 2007, by Articles of Amendment, the Company created an unlimited number of non-voting common shares and consolidated the issued common shares on the basis that up to 2,500 of such shares shall become one common share. All share and per share amounts have been retroactively adjusted to reflect this share consolidation.

(a) On January 31, 2007, 96 post-consolidation common shares were issued for cash consideration of \$37,500 pursuant to a private placement with StoneBridge Merchant Capital Corp.

(b) Refer to Note 7.

Also refer to Note 9.

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**March 31, 2007**

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**7. Financial reorganization**

Effective March 20, 2007, the Company's debt and equity holders approved a financial reorganization, as part of an overall restructuring of the Company to enable it to issue securities to the public.

The Company's assets and liabilities have been adjusted to reflect the values established during the financial reorganization and the application of fresh start accounting. The contributed surplus and the original share capital have been reclassified to deficit, and the Company commenced accounting as of the date after the financial reorganization on a fresh start basis. The effect of the financial reorganization on the balance sheet accounts is as follows:

	March 20, 2007 prior to financial reorganization	Reorganization adjustments	March 20, 2007 after financial reorganization
<b>ASSETS</b>	\$ -	\$ -	\$ -
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Due to StoneBridge Merchant			
Capital Corp.	550,909	68,091 <sup>(a)</sup>	619,000
Convertible debentures	347,500	-	347,500
Common shares	42,500	(5,000) <sup>(b)</sup>	37,500
Contributed surplus	15,690,266	(15,690,266) <sup>(c)</sup>	-
Deficit	(16,631,175)	15,627,175 <sup>(c)</sup>	(1,004,000)
	\$ -	\$ -	\$ -

(a) To reflect the agreed upon fair value of the debt.

(b) To eliminate share capital attributable to previously issued common shares.

(c) Reclassification of contributed surplus to deficit to reflect fresh start accounting as of the date of the financial reorganization.

**1300873 ALBERTA LTD.**  
**(Formerly 1369127 Ontario Inc.)**  
**NOTES TO INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**  
**March 31, 2007**

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**8. Debt satisfaction**

Following the closing of the offering (Refer to Note 9(b)) the Company may issue, on a non-flow through basis, 386,600 Class A shares and 86,985 Class B shares to StoneBridge Merchant Capital Corp. in satisfaction of the convertible debenture in the amount of \$347,500 and other debt in the amount of \$619,000.

**9. Subsequent events**

**(a) Certificate of Amendment**

On April 3, 2007 by Certificate of Amendment and Registration of Restated Articles, the Company:

- changed its name from 1300873 Alberta Ltd. to Painted Pony Petroleum Ltd.;
- authorized an unlimited number of Class A shares;
- authorized an unlimited number of Class B shares convertible at the option of the Company at anytime after June 30, 2010 and before June 30, 2012, and convertible at the option of the holder after July 1, 2012 and before August 1, 2012, into Class A shares. Any outstanding Class B shares at August 1, 2012 shall be automatically converted into Class A shares;
- authorized an unlimited number of common voting shares;
- authorized an unlimited number of common non-voting shares, redeemable at the option of the holder;
- authorized an unlimited number of preferred shares issuable in series from time to time to be determined by the directors; and
- changed the 196 issued and outstanding common voting shares into:
  - (i) 29,400 issued and outstanding Class A shares on the basis of 150 Class A shares for each existing common voting shares, and
  - (ii) 6,615 issued and outstanding Class B shares on the basis of 3,375 Class B shares for each existing common voting share.

**(b) Prospectus**

On May 8, 2007, the Company filed a prospectus on a best effort basis for an offering of a minimum of 10,000 units and a maximum of 12,000 units at a price of \$1,000 per unit for minimum gross proceeds of \$10,000,000 and maximum gross proceeds of \$12,000,000. Each unit is comprised of 400 Class A shares and 90 Class B shares issued on a “flow-through” basis.

**1369127 ONTARIO INC.**

**(Formerly Borderfree Ltd.)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

**1369127 ONTARIO INC.**

**(Formerly Borderfree Ltd.)**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2006**

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## AUDITORS' REPORT

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To the Directors of  
1369127 Ontario Inc.  
(Formerly Borderfree Ltd.)

We have audited the balance sheet of 1369127 Ontario Inc. (Formerly Borderfree Ltd.) as at December 31, 2006 and the statements of earnings, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*“Soberman LLP”*

Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
March 8, 2007  
(except for Note 11, which is dated May 8, 2007)

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**BALANCE SHEET**  
**At December 31, 2006**

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**ASSETS**

**Current**

Cash	\$ 51,470
Holdback receivable (Note 4)	1,051,872

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**\$ 1,103,342**

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**LIABILITIES**

**Current**

Accounts payable and accrued charges	\$ 261,510
Due to parent company (Note 5)	1,777,741

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**2,039,251**

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**Going concern (Note 2)**

**Subsequent events (Notes 10 and 11)**

**SHAREHOLDER'S DEFICIENCY**

Capital stock (Note 6)	5,000
Contributed surplus	15,690,266
Deficit	(16,631,175)

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**(935,909)**

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**\$ 1,103,342**

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*The accompanying notes are an integral part of the financial statements*

On behalf of the Board

*"Ronald R. Talbot"*  
Ronald R. Talbot, Director

*"Glenn R. Carley"*  
Glenn R. Carley, Director

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**STATEMENT OF DEFICIT**  
**Year ended December 31, 2006**

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Balance, beginning of year	<b>\$ (16,589,403)</b>
Net loss	<b>(41,772)</b>
<hr/>	
Balance, end of year	<b>\$ (16,631,175)</b>

*The accompanying notes are an integral part of the financial statements*

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**STATEMENT OF EARNINGS**  
**Year ended December 31, 2006**

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<b>Revenue</b>	<b>\$ 50,000</b>
<hr/>	
<b>Expenses</b>	
Professional fees	73,519
General and administrative	18,253
<hr/>	
	91,772
<hr/>	
<b>Net loss</b>	<b>\$ (41,772)</b>
<hr/>	
<b>Net loss per share (Note 8)</b>	
<b>Basic and diluted</b>	<b>\$ (417.72)</b>
<hr/>	

*The accompanying notes are an integral part of the financial statements*

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**STATEMENT OF CASH FLOWS**  
**Year ended December 31, 2006**

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**SOURCES (USES) OF CASH**

**Operating activities**

Net loss \$ (41,772)

**Changes in non-cash working capital items**

Accounts payable and accrued charges (151,802)

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**Cash used in operating activities** (193,574)

---

**Financing activities**

Due to parent company (7,461)

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**Cash used in financing activities** (7,461)

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**Net decrease in cash** (201,035)

**Cash, beginning of year** 252,505

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**Cash, end of year** \$ 51,470

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*The accompanying notes are an integral part of the financial statements*

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

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**1. Nature of operations**

1369127 Ontario Inc. (the "Company") has had no continuing operations since November 2005. These financial statements have been prepared on a non-comparative basis as the prior year's amounts and note disclosure are not meaningful.

On April 28, 2006, by Articles of Amendment, the Company changed its name from Borderfree Ltd. to 1369127 Ontario Inc.

Refer to Note 10.

**2. Going concern**

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern," which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

If the "going concern" assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

The Company has incurred significant operating losses over the past three fiscal years and has had a significant working capital deficiency. The Company is dependent on the continued financial support of its parent and related entities.

**3. Significant accounting policies**

**Use of estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Financial instruments**

The carrying amounts of the Company's financial instruments, consisting of cash, holdback receivable, and accounts payable and accrued charges, approximate their fair values unless otherwise disclosed. The fair value estimates for amounts due to parent company cannot be reasonably determined as no liquid and active market exists for such related party instruments.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks.

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

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**3. Significant accounting policies** *(continued)*

**Revenue recognition**

Royalty revenue is recognized based upon the terms of the agreements.

**Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

**Translation of foreign currencies**

The monetary assets and liabilities of the Company denominated in foreign currencies are translated at the rates of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the year. Exchange gains or losses are included in the consolidated results of operations.

**4. Holdback receivable**

The holdback receivable is due on May, 2007.

Subsequent to year end this amount was transferred to the parent company with a corresponding reduction in the amount due to parent company. Refer to Note 10.

**5. Due to parent company**

Amounts due to the parent company are non-interest bearing and have no stated terms of repayment.

Refer to Note 10.

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

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**6. Capital stock**

Authorized  
 Unlimited Common shares

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Issued and outstanding			
100	Common shares	\$	<b>5,000</b>

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The number of issued common shares have been retroactively adjusted to reflect the share consolidation which occurred on February 2, 2007.

Refer to Notes 10 and 11.

**7. Future income taxes**

The Company has operating losses available to reduce taxable income in future years of approximately \$19,452,000, which expire as follows:

Year ending December 31, 2007	\$	5,564,154
2008		10,067,789
2009		815,237
2010		1,229,333
2011		1,733,742
2016		41,772
	\$	<u>19,452,027</u>

The future income tax asset benefit resulting from these losses amounts to approximately \$7,003,000 at year end. Since it is not more likely than not that the Company will be able to realize the benefit of the unused tax losses, a valuation allowance in respect of future income taxes of \$7,003,000 has been provided.

Future income taxes consist of the following:

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Basic rates applied to unused non-capital losses carried forward	\$	<b>7,003,000</b>
Valuation allowance		<b>(7,003,000)</b>
Net future income tax asset	\$	-

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**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

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**8. Net loss per share**

Basic net loss per share is computed using the weighted average number of 100 outstanding common shares. All share and per share amounts have been retroactively adjusted to reflect the share consolidation. Refer to Note 6.

**9. Concentration of risk**

**Foreign currency risk**

The Company is exposed to currency risk as the amount due to parent company is denominated in U.S. dollars. Unfavourable changes in the applicable exchange rate may impact earnings and due to parent company.

At year end, the amount due to parent company denominated in U.S. dollars was \$1,566,664.

**10. Subsequent events**

**Stock option plan**

On January 31, 2007, by a resolution of the sole shareholder, the Company created a stock option plan for certain key employees, officers and directors of the Company with an aggregate of 10% of the common shares allocated and made available for the participants of the plan.

**Private placement**

On January 31, 2007, the Company completed a private placement with StoneBridge Merchant Capital Corp. ("StoneBridge") for the issuance of 240,000 common shares at an issue price of \$0.15625 per share for proceeds of \$37,500 and for the issuance of \$347,500 of convertible secured subordinated debentures.

The subordinated debentures are convertible into non-voting common shares at the price of \$0.15625 per share, are secured by a general security agreement, have a maturity date of January 31, 2012 and bear interest at 5% per annum for the first two years, then bear interest at bank prime + 3% per annum.

**Asset sale**

On January 31, 2007, the Company entered into an agreement with its parent company to transfer substantially all of the assets and liabilities of the Company to the parent company in partial repayment of the amount due to the parent company (refer to Note 5). After the transfer, the Company owed the parent company approximately \$600,000.

On January 31, 2007, the Company and the parent company entered into an agreement with StoneBridge whereby StoneBridge acquired the amount owed by the Company to the parent company.

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

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**10. Subsequent events** *(continued)*

**Articles of Amendment**

On February 2, 2007, by Articles of Amendment, the Company:

- changes its name from 1369127 Ontario Inc. to BFL Energy Ltd.;
- created an unlimited number of non-voting common shares; and
- consolidated the issued common shares of the Company on the basis that up to 2,500 of such shares shall become one common share.

**Certificate of Continuance**

On February 13, 2007, by Certificate of Continuance, the Company changed its name from BFL Energy Ltd. to 1300873 Alberta Ltd. and was continued as an Alberta Corporation.

**11. Additional subsequent events**

**Certificate of Amendment**

On April 3, 2007 by Certificate of Amendment and Registration of Restated Articles, the Company:

- changed its name from 1300873 Alberta Ltd. to Painted Pony Petroleum Ltd.;
- authorized an unlimited number of Class A shares;
- authorized an unlimited number of Class B shares convertible at the option of the Company at anytime after June 30, 2010 and before June 30, 2012, and convertible at the option of the holder after July 1, 2012 and before August 1, 2012, into Class A shares. Any outstanding Class B shares at August 1, 2012 shall be automatically converted into Class A shares;
- authorized an unlimited number of common voting shares;
- authorized an unlimited number of common non-voting shares, redeemable at the option of the holder;
- authorized an unlimited number of preferred shares issuable in series from time to time to be determined by the directors; and
- changed the 196 issued and outstanding common voting shares into:
  - (a) 29,400 issued and outstanding Class A shares on the basis of 150 Class A shares for each existing common voting shares, and
  - (b) 6,615 issued and outstanding Class B shares on the basis of 3,375 Class B shares for each existing common voting share.

**1369127 ONTARIO INC.**  
**(Formerly Borderfree Ltd.)**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

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**11. Additional subsequent events** *(continued)*

**Prospectus**

On May 8, 2007, the Company filed a prospectus on a best efforts basis for an offering of a minimum of 10,000 units and a maximum of 12,000 units at a price of \$1,000 per unit for minimum gross proceeds of \$10,000,000 and maximum gross proceeds of \$12,000,000. Each unit is comprised of 400 Class A shares and 90 Class B shares issued on a “flow-through” basis.

## CERTIFICATE OF THE CORPORATION

**DATED:** May 8, 2007

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part XV of the *Securities Act* (Ontario) and Section 63 of the *Securities Act* (Nova Scotia), and by the respective regulations made thereunder.

(signed) "Patrick R. Ward"  
Patrick R. Ward  
President and Chief Executive Officer

(signed) "Joan E. Dunne"  
Joan E. Dunne  
Vice President, Finance and  
Chief Financial Officer

On behalf of the Board of Directors

(signed) "Ronald R. Talbot"  
Ronald R. Talbot  
Director

(signed) "Glenn R. Carley"  
Glenn R. Carley  
Director

## CERTIFICATE OF THE PROMOTERS

**DATED:** May 8, 2007

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part XV of the *Securities Act* (Ontario) and Section 63 of the *Securities Act* (Nova Scotia), and by the respective regulations made thereunder.

(signed) "Patrick R. Ward"  
Patrick R. Ward  
Promoter

PAINTED PONY PETROLEUM CORPORATION  
(signed) "Patrick R. Ward"  
Patrick R. Ward, President

## CERTIFICATE OF THE AGENTS

**DATED:** May 8, 2007

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), Part 9 of the *Securities Act* (Alberta), Part XI of *The Securities Act, 1988* (Saskatchewan), Part XV of the *Securities Act* (Ontario) and Section 64 of the *Securities Act* (Nova Scotia), and by the respective regulations made thereunder.

BLACKMONT CAPITAL INC.

(signed) "John M. Peltier"  
John M. Peltier  
Director, Investment Banking

CORMARK SECURITIES INC.

(signed) "Ronald A. MacMicken"  
Ronald A. MacMicken  
Director, Investment Banking

FIRSTENERGY CAPITAL CORP.

(signed) "Erik B. Bakke"  
Erik B. Bakke  
Vice-President, Corporate Finance