

Bucking Horse Energy Inc.

Management's Discussion and Analysis
March 31, 2009

The following management's discussion and analysis ("**MD&A**") for Bucking Horse Energy Inc. was prepared by management based on information available as at May 15, 2009. It should be reviewed together with the unaudited interim financial statements for the period ended March 31, 2009 and the MD&A and audited consolidated financial statements for the year ended December 31, 2008. The Company's Annual Information Form, quarterly unaudited interim financial statements and year end audited annual financial statements are filed on SEDAR and are available for review at www.sedar.com.

As used in this MD&A, the terms "we", "us", "our", "Bucking Horse" and "the Company" mean Bucking Horse Energy Inc. and our subsidiaries, NRG Holdings Corp. (doing business as GRN Holdings Corp. in the province of British Columbia, Canada) ("**NRG Holdings**"), N Holdings Inc. ("**N Holdings**"), Gemini Energy Corp. ("**Gemini**") and Arrowhead Resources (U.S.A.) Ltd. ("**Arrowhead**").

Unless otherwise noted, all dollar amounts are expressed in US dollars ("**US\$**" or "**\$**") and any references to common shares are to common shares in the capital of Bucking Horse Energy Inc., unless the context clearly states otherwise.

Barrels of oil equivalent ("**boe**") and natural gas equivalent ("**Mcf**") amounts have been calculated using a conversion rate of six thousand cubic feet ("**Mcf**") of natural gas per barrel ("**bbbl**") of oil or natural gas liquids ("**6:1**"). A conversion ratio of six Mcf to one bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent equivalency at the wellhead. Boe and Mcfe disclosure may be misleading, particularly if used in isolation.

Forward-Looking Statements

This MD&A contains forward-looking statements. Forward-looking statements are statements that relate to future events or to our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including:

- the risks of the oil and gas industry, such as operational risks in exploring for, developing and producing oil and natural gas, and market demand;
- the risks and uncertainties involving geology of oil and gas deposits;
- the uncertainty of reserve estimates;
- the uncertainty of estimates and projections relating to exploration, development and production, costs and expenses;
- potential delays or changes in plans with respect to exploration or development projects or capital expenditures;
- fluctuations in oil and gas prices, foreign currency exchange rates and interest rates;
- health, safety and environmental risks;
- uncertainties as to the availability and cost of financing;
- risks in conducting foreign operations (for example, political and fiscal instability or the possibility of civil unrest);

- general economic conditions;
- the effect of acts of, or actions against, international terrorism;
- the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; and
- the risks enumerated in the section of this MD&A entitled "Risk Factors", beginning on page 15.

These risks may cause our actual results or the actual results in our industry, or our levels of activity, performance, or achievement, to be materially different from any projected future results, levels of activity, performance or achievements that are expressed or implied in these forward-looking statements.

These forward-looking statements are based on the estimates and opinions of our management at the time they are made. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Readers of this MD&A are cautioned not to rely on these forward-looking statements. Except as required by applicable law, we do not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

Overall Performance and Description of Business

The Company is engaged in the business of exploring, developing, and producing natural gas and natural gas liquids. The Company generates almost all of its consolidated revenues from the production and sales of natural gas and natural gas liquids from its Pinedale properties in southwest Wyoming. The Pinedale properties were acquired by way of Plan of Arrangement dated March 4, 2008 and are owned by the Company's wholly owned subsidiary, Arrowhead. The Company also has minor properties located in central Washington and eastern Alberta. The Company's properties are described as follows:

Pinedale Properties, Wyoming, USA

The Pinedale properties comprise three discrete leaseholds totaling 14,022 gross acres (4,034 net acres) situated in the Warbonnet, Mesa, and Bull Draw areas of Sublette County, southwest Wyoming. The Warbonnet property comprises 2,480 gross acres (1,032 net acres), the Mesa property comprises 9,512 gross acres (2,328 net acres), and the Bull Draw property 2,380 gross acres (674 net acres). The Company does not operate its properties; the properties are operated by the Company's operating partners.

The Warbonnet and Mesa properties host the Company's commercial reserves of natural gas and natural gas liquids that are produced from the Pinedale natural gas field. The Warbonnet and Mesa properties are located on or proximal to the Pinedale Anticline geological structure situated from six to thirty miles southwest of the town of Pinedale. As of March 31, 2009, the Company's interests includes 37 producing wells (12.2 net wells) that have been developed primarily on a combination of 80-acre and 40-acre spacing in the Warbonnet area (average working interest of 42%) and 40-acre and 20-acre spacing in the Mesa area (average working interest of 24%). Both the Warbonnet and Mesa properties are approved for 10-acre spacing and plan of well development. Management anticipates that current 5-acre pilot testing by area operator's peripheral to the Warbonnet and Mesa properties will ultimately support 5-acre development on Company lands.

At the Warbonnet property, one new well (0.425 net), the WB 7D1-24 delineation well, was completed and turned to sales in January 2009 with an initial production rate averaging 8,800 Mcf of natural gas per day. A second well (0.375 net), the Warbonnet 11B1-23D, was drilled and

cased in February 2009 and scheduled for completions and tie-in late in the second quarter of 2009.

Delineation drilling at Warbonnet is expected to add to the amount of the Company's acreage that falls within the productive area boundaries of the Pinedale natural gas field. Additional opportunities to expand natural gas reserves and resources include increased well density drilling and development of low quality pay zones.

The Company has been shipping its gas on the Rocky Mountain Express Pipeline ("**REX Pipeline**") since January 2008, when the REX Pipeline began shipping on the REX West Pipeline segment. The Company has a 10 year agreement to ship 10,000 million British thermal units ("**MMBTU**") of gas per day through the REX Pipeline. The REX Pipeline ships gas to Audrain County, Missouri, near the Panhandle Eastern ("**PEPL**") Gas Hub. Upon completion of the final phase of the REX Pipeline, estimated to be late 2009, gas will be shipped to Clarington, Ohio. Natural gas in the Clarington region is currently marketed at a premium to Henry Hub prices. Henry Hub is the pricing point for natural gas futures contracts traded on the New York Mercantile Exchange. Given the Company's long-term shipping contract on the REX Pipeline, the Company is positioned to benefit from potentially higher realized prices in the mid-continent and eastern regions of the United States upon full completion of the REX Pipeline.

Wainwright Property, Alberta, Canada

The Company owns a 68.75% working interest in oil and gas mineral rights associated with 640 gross developed acres (440 net developed acres) located in the Wainwright area of east central Alberta, Canada. The property hosts one producing natural gas well (0.6875 net wells) in which the Company owns a 68.75% working interest. Natural gas production is derived from the Colony Formation and the associated mineral rights are held by production.

Columbia River Basin Properties, Washington, USA

In October 2006, the Company acquired the Columbia River Basin ("**CRB**") properties located in Washington State. The CRB properties comprised a 100% interest in 68 individual undeveloped oil and gas leases totaling approximately 36,437 gross acres (36,437 net acres) held through the Company's wholly-owned subsidiary, N Holdings. The leases were issued by the Washington State Department of Natural Resources in February 2007, with seven-year terms and annual rental payment obligations. Effective February 1, 2009, the Company elected to reduce its CRB Property leasehold and paid rentals to preserve 30 leases totaling approximately 15,004 gross acres (15,004 net acres). No wells have been drilled or exist upon the leases and there are no reserves or resources attributable to the properties nor has there been any attempt to estimate any reserves or resources in relation to the properties.

The current global economic crisis, which continued through the first quarter 2009, has had a significant negative impact on virtually every segment of the world economy due to many factors including the effects of the subprime lending and general credit market crises, volatile but generally declining energy costs, slower economic activity, decreased consumer confidence, decreased commodity prices, reduced corporate profits and capital spending, adverse business conditions, increased unemployment and liquidity concerns. Although prices for natural gas respond to seasonal pressures, the general economic conditions, both domestically and abroad, have had a very negative effect on the price for American natural gas. When prices are low as they have been during the period covered by this MD&A, it is less profitable to drill and financing for drilling operations is more difficult to obtain. Our business, financial condition and results of operations will likely not be materially and adversely affected by this trend for the duration of 2009, during which time the Company has existing commodity hedges that limits this risk. We cannot predict the timing or duration of the current economic slowdown or the timing or strength of a subsequent economic recovery, worldwide or in our industry, and cannot predict the extent to which the current economic slowdown will impact our business. However, the uncertainty regarding the financial markets and worldwide political and economic climates are expected to

affect the demand for natural gas during the coming months. This change in demand, unmitigated, would likely have a negative impact on our business, financial condition and results of operations.

Management Outlook

The Pinedale properties yielded a production compounded annual growth rate (“CAGR”) of 47% between years 2000 through 2004, however, in the three subsequent years through 2007, the properties experienced a decline in production with only six new gross wells drilled. Two wells were added to our producing Pinedale well inventory in 2008. A Supplemental Environmental Impact Statement Record of Decision issued by the Bureau of Land Management on September 12, 2008 allows for year round development drilling on lands previously subjected to seasonal drilling stipulations, including our Warbonnet and Mesa properties. Management anticipates working closely with its operators to increase the pace of development drilling in both the Mesa and the Warbonnet areas. During 2009 a total of two new wells are expected to be developed on our Pinedale properties which will elevate our producing well portfolio to 38 wells (12.6 net).

The Company's objective is to focus on the development of its Pinedale properties and increase the Company's cash flow and producing reserves base.

Selected Annual Financial Information

The following table sets forth a summary of our financial results for the three-month period ended March 31, 2009 and February 29, 2008:

(US\$)	Three months ended March 31, 2009	Three months ended February 29, 2008
Total Revenue	3,328,896	139,429
Net Income (Loss)	(394,953)	(117,815)
Basic Income (Loss) per Share	(0.02)	(0.01)
Diluted Income (Loss) per Share	(0.02)	(0.01)
Total Assets	163,971,964	11,179,439
Total long-term Financial Liabilities	86,566,013	9,562,930

Our revenue performance and the income that we realize will vary from period to period in relation to the number of wells that we have in production, our production volumes and the prices that we receive for our commodities from time-to-time. The number of successfully developed wells turned to sales, if any, varies from quarter to quarter. Historically, peak commodity pricing for natural gas produced occurs in the fourth and first quarter periods. The current economic downturn has resulted in decreased commodity demand with resultant lower realized commodity prices than normally anticipated. Our operations, if profitable, are also subject to taxes in the jurisdictions in which we conduct our business.

The discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Application of GAAP requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements as well as the revenues and expenses reported during the period. Changes in these estimates, judgments and assumptions will occur as a result of future events, and accordingly, actual results could differ from amounts estimated.

Results of Operations and First Quarter

Three-month period ended March 31, 2009 compared to the three-month period ended February 29, 2008:

The Company changed its financial year end from August 31 to December 31 as of December 31, 2008. The reason for the change was to allow Bucking Horse to be consistent with comparable companies operating in the oil and gas industry. Please note that as a result of changing our year end, the Company's first quarter ending March 31 will be compared to the three-month period ended February 29, 2008. Effective March 4, 2008, the Company acquired Gemini and its wholly owned subsidiary Arrowhead, which owned the Pinedale properties in Wyoming, USA, and comprise the majority of the Company's assets and current operations. Accordingly the comparative figures for the three-month period ended February 29, 2008 include only the results of its Wainwright production property in Alberta, Canada.

Net U.S. production from Arrowhead's interests incurred during the three-month period ended March 31, 2009 totaled approximately 844 million cubic feet ("MMcf") of natural gas and 7.5 thousand barrels of natural gas liquids, or 889 million cubic feet of natural gas equivalent ("MMcfe") averaging 9.9 MMcfe/day. The U.S. production is attributable to the Pinedale properties acquired under the Plan of Arrangement effective March 4, 2008 and the Company did not own any producing U.S. assets during the three months ended February 29, 2008. Physical prices realized by the Company in the U.S. averaged \$3.61 per Mcf of natural gas and \$28.76 per barrel of natural gas liquids.

Canadian production during the three-month period ended March 31, 2009 totaled approximately 16 MMcf of natural gas averaging 176 Mcf/day compared to 21 MMcf averaging 231 Mcf/day for the three months ended February 29, 2008. The decrease in production rates over the compared periods is due to the natural production rate decline associated with the Wainwright well. Natural gas prices realized from the Company's Canadian properties for the three-month period ended March 31, 2009 averaged C\$5.59 per Mcf compared to C\$6.34 per Mcf for the three months ended February 29, 2008.

Net income for the three months ended March 31, 2009 fell to a net loss of \$394,953 compared to a net loss of \$117,815 for the three months ended February 29, 2008. Operating income increased for the three months ended March 31, 2009 to \$1,365,289 compared to a loss of \$25,619 for the three months ended February 29, 2008.

Production revenues for the three-month period ended March 31, 2009 totaled \$3,328,896 compared to \$139,429 for the three-month period ended February 29, 2008. Of these revenues, \$3,262,264 were derived from the Company's U.S. properties and \$66,632 were derived from the Company's Canadian properties. The production revenue variance is due to the acquisition of Gemini.

Production expenses for the three-month period ended March 31, 2009 totaled \$1,963,607 consisting of \$447,438 in non-cash accretion and depletion costs, \$1,198,604 in direct operating expenses, \$307,690 in state resource taxes and \$9,875 in Canadian production royalties compared to production expenses for the three-month period ended February 29, 2008 of \$165,048, consisting of \$105,224 in non-cash accretion and depletion costs, \$32,343 in direct operating expenses, and \$27,481 in Canadian production royalties. The variance in production expenses is explainable by the addition of the US Pinedale properties in March, 2008.

Other expenses and income, including non-cash items for the three-month period ended March 31, 2009 resulted in other expenses of \$1,048,197 and consisted of general and administration expenses of \$134,783, professional fees of \$191,282, a realized gain on commodity derivative instruments of \$941,425, a non-cash gain on derivative instruments of \$283,214, non-cash accretion expense on the Company's debentures of \$230,224, interest expense of \$1,849,016 and interest income of \$300,337 compared to other expenses and income including non-cash

items for the three-month period ended February 29, 2008 of \$92,196, consisting of general and administration expenses of \$36,580, professional fees of \$34,903, interest expense of \$63,478 and interest income of \$50,370.

During the second quarter of 2006, Arrowhead and other unrelated defendants were served with a lawsuit alleging that certain properties, including some of the properties owned by Arrowhead, are subject to a 5% net profits interest owned by the plaintiffs and that all of the defendants, including Arrowhead, are in default of their obligations under this 5% net profits interest to pay money to the plaintiffs. On May 25, 2007, Arrowhead obtained a declaratory order from the trial court quieting title with respect to some of the property owned by Arrowhead. After we obtained this order quieting title, Arrowhead leases that remain encumbered by this lawsuit consist of five Warbonnet leases totaling 2,040 gross acres (867 net acres) and at the time, 13 developed wells (5.5 net). On August 6, 2007, the trial court granted partial summary judgment in favor of the Plaintiffs, holding that the net profits contract did not terminate with the Pinedale Unit, a federal exploration unit formed in 1953 and terminated in 1981, and that the obligation to pay the net profits is a "lease based" obligation which runs with the land. On August 10, 2007, the trial court granted another partial summary judgment in favor of the plaintiffs, holding that they owned the net profits contract. Trial on the issue of whether the defendants owe any compensatory damages and on our affirmative defenses was held in October 2007. At trial, the Judge dismissed the plaintiffs' claim that the defendants, including Arrowhead, had breached any implied covenant of good faith and he dismissed the plaintiffs' claims against Arrowhead brought under the Wyoming Royalty Payment Act (a Wyoming statute providing for interest on unpaid royalty payments). The Court also dismissed the plaintiffs' claims before March of 2006, the month after the plaintiffs notified the operators of their claim. On April 14, 2008, the Judge entered a Judgment in the amount of \$4,896,589 against the Defendants, jointly and severally. The Judge denied the Defendants' Motions to Alter or Amend the Judgment on May 21, 2008. The Company filed its Notice of Appeal with the Wyoming Supreme Court on June 16, 2008. On July 1, 2008, the Judge issued an order granting the Plaintiffs' Motion for Attorney Fees and entered a judgment in the amount of \$3,917,289 against the operator Defendants. Arrowhead is not an operator and therefore not subject to this judgment. The Appeal was argued on May 14, 2009 and a decision is pending. We will continue to update our disclosure with respect to this lawsuit as events require.

On May 26, 2008, the TSX accepted Bucking Horse's Notice of Intention to Make a Normal Course Issuer Bid (the "**Notice**") pursuant to which the Company indicated that it intends to make a normal course issuer bid for certain of its outstanding common shares ("**Common Shares**") on the terms set forth in the Notice. At the time of filing the Notice, the Board of Directors of the Corporation was of the belief, and continues to be of the belief, that the purchase of Common shares from time to time at appropriate prices is an advantageous use of the Company's funds. As of May 22, 2008, 23,061,713 Common Shares were outstanding. Under the rules of the TSX, in the period commencing on May 28, 2008 and ending on May 27, 2009, the Company may acquire up to 1,153,086 Common Shares of the Company, being 5% of the Common Shares outstanding as at May 22, 2008. Any shares purchased pursuant to the Notice will be cancelled. Common Shares will be purchased at the market price of the shares at the time of purchase and will be purchased on behalf of the Company by a registered investment dealer through the facilities of the TSX. The funding for any purchase of Common Shares pursuant to the normal course issuer bid will be financed out of working capital of the Company. As of the date of this MD&A, the Company had purchased a total of 67,200 of its common shares on the open market pursuant to the Normal Course Issuer Bid. As of March 31, 2009, all shares had been returned to treasury and cancelled.

On January 1, 2009, the Company entered into a Management Services Agreement with a private management company wholly-owned John Hislop by a shareholder and Debenture Lender of our Company. This management company is to assist our Company in providing management, administration, compliance, accounting, and information services, as well as provide office space and utilities for our Company. The Management Services Agreement shall

continue on a month to month basis until terminated by one of the parties. For the three months ended March 31, 2009, Bucking Horse has paid the management company a total of \$108,011.

At the Warbonnet property, one new well (0.425 net), the WB 7D1-24 delineation well was completed and turned to sales on January 20, 2009 with an initial production rate averaging 8,800 Mcf of natural gas per day. A second well (0.375 net), the Warbonnet 11B1-23D was drilled and cased in February 2009 and is scheduled for completions and tie-in late in the second quarter of 2009.

Financial Derivative Contracts

The Company holds various financial derivative contracts. As at March 31, 2009, the unrealized gain on outstanding derivative financial contracts was \$4,616,711. The realized gain on settlement of derivative financial contracts during the period was \$941,425. The net gain on derivative financial contracts for the year of \$1,224,639 has been included in other expenses for the period.

(a) Commodity Hedge Contracts

On February 19, 2009, the Company entered into two new open commodity derivative financial contracts on a portion of its natural gas production. Commodity contracts now exist for the periods referenced as follows:

Type	Volume MMBTU/Day	Contract Period	Price \$/MMBTU
Swap ⁽¹⁾	2,500	January to December 2009	\$9.66 / MMBTU
Swap ⁽¹⁾	2,500	March to December 2009	\$3.62 / MMBTU
Swap ⁽²⁾	2,500	Calendar 2010	\$6.20 / MMBTU

⁽¹⁾ PEPL basis

⁽²⁾ Appalachia basis

(b) Foreign Exchange Contracts

On March 5, 2009, the Company contracted to purchase C\$4,584,600 during calendar 2010 at an exchange rate of C\$1.2735 per US\$. Foreign Exchange contracts now exist for the periods referenced as follows.

US\$ Sold	Contract Period	Exchange Rate
\$416,667 /month	January to December 2009	1.2226
\$300,000 /month	January to December 2010	1.2735

Summary of Quarterly Results

The following table presents selected audited and unaudited quarterly consolidated financial information for the last eight quarters:

	2009	2008					2007	
	Q1	Four Months Ended December 31, 2008	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	3,328,896	4,085,774	8,311,241	7,122,673	139,429	120,011	163,692	224,909
Net Income (Loss)	(394,953)	1,599,474	(5,832,117)	6,356,404	(117,815)	(251,647)	(483,516)	236,103
Basic Income (Loss) per Share	(0.02)	0.07	(0.25)	0.28	(0.01)	(0.03)	(0.06)	0.05
Diluted Income (Loss) per Share	((0.02)	0.07	(0.25)	0.28	(0.01)	(0.03)	(0.06)	0.05

Liquidity

Cash and cash equivalents at March 31, 2009 totaled \$3,814,739 compared to \$8,803,065 as at February 29, 2008.

As of March 31, 2009, working capital increased to \$12,632,167 from \$690,154 at the three months ended February 29, 2008. The increase was due to the acquisition of Gemini.

Our objective is to meet our operating and capital requirements by a combination of cash flow from current and future well production, and re-investment of current capital. However, production volumes and the market price that we receive for natural gas and natural gas liquids that we produce and sell, determine our revenue from operations. As a consequence, our ability to obtain additional capital is substantially dependent on the price of natural gas. Future cash flows and the continued availability of financing are subject to a number of uncertainties including, by way of example, production rates, the price of natural gas, the results of our drilling programs and the eventual outcome of the litigation described above.

Contractual Obligations (US\$)	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long Term Debt ⁽¹⁾	38,848,807	nil	nil	nil	38,848,807
Accounts Payable and Accrued Liabilities	1,633,770	1,633,770	nil	nil	nil
State Resource Taxes Payable	1,276,614	1,053,328	223,286	nil	nil
Capital Lease Obligations	nil	nil	nil	nil	nil
Operating Leases	nil	nil	nil	nil	nil
Purchase Obligations	nil	nil	nil	nil	nil
Other Long Term Obligations ⁽²⁾	70,724	nil	nil	nil	70,724
Line of Credit	18,500,000	nil	nil	18,500,000	nil
Total Contractual Obligations	60,329,915	2,687,098	223,286	18,500,000	38,919,531

⁽¹⁾ First, Second, and Third Convertible Debentures

⁽²⁾ Asset retirement obligation

Capital Resources

Our long term debt as at March 31, 2009 is comprised of six secured convertible debentures as described below:

On March 4, 2008, two convertible debentures (the "**First Debentures**") were issued by the Company, one to each John Hislop and Bradley Windt ("**Hislop**" and "**Windt**", respectively; collectively, the "**Debenture Lenders**"). Each of the First Debentures is in the principal amount of \$8,940,335 (C\$9,500,000), has a term of ten years, earns interest at a rate of 10% during the first six years and 15% during the last four years and is convertible into units during the first five years at a conversion price of C\$4.875 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company for C\$4.875 until the fifth anniversary of the date of issuance, at which date these share purchase warrants will expire. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the First Debentures increased from 10% to 15%.

On March 4, 2008, two additional convertible debentures (the "**Second Debentures**") were issued by the Company, one to each of the Debenture Lenders. The Second Debentures have the same terms as the August Debentures held by Gemini prior to the closing of the Plan of Arrangement, except that they are convertible into units of the Company rather than Gemini. Each of the Second Debentures is in the principal amount of \$4,705,439 (C\$5,000,000), has a term of ten years from the Gemini date of issue being August 4, 2004 and carries interest. Interest is payable monthly at a rate of 10% per annum for the first six years of the term and at a rate of 15% during the last four years. All or any portion of the amount outstanding under these Second Debentures from time-to-time is convertible into units at the option of the holder at a price of C\$4.00 per unit. Upon conversion, each unit consists of one common share in the capital of the Company and one non-transferable share purchase warrant. Each of these share purchase warrants entitles the holder to purchase one additional common share of the Company at a price of C\$4.00 until the fifth anniversary of the Gemini date of issue, at which time these share purchase warrants, if issued, will expire. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the Second Debentures increased from 10% to 15%.

Also on March 4, 2008, two more convertible debentures (the "**Third Debentures**") were issued by the Company, one to each of the Debenture Lenders. Each of the Third Debentures is in the

principal amount of \$9,410,879 (C\$10,000,000), has a term of ten years, earns interest at a rate of 10% during the first six years and 15% during the last four years and is convertible into units of the Company during the first five years at a conversion price of C\$4.875 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company for C\$4.875 until the fifth anniversary of the closing date, at which date the share purchase warrants will expire. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the Third Debentures increased from 10% to 15%.

In the event that the indebtedness resulting from credit agreement described below exceeds the aggregate amount of \$12,000,000, the rate of interest payable on the principal amount of the First, Second and Third Debentures shall increase to a rate of interest equal to the then applicable rate of interest payable plus 5% per annum for the period of time that the indebtedness exceeds the sum of \$12,000,000. Effective May 16, 2008, the indebtedness exceeded \$12,000,000 and the new interest rate of 15% per annum took effect.

In connection with the Plan of Arrangement with Gemini, Arrowhead as "**Borrower**", the Company, as "**Guarantor**", and Gemini as "**Guarantor**", entered into a credit agreement (the "**Credit Agreement**") dated March 4, 2008 with a senior bank, as administrative agent, and each of the lenders from time to time party thereto (collectively, the "**Lenders**") whereby the Lenders have agreed to make a five year senior revolving credit facility in the aggregate principal amount of up to \$100,000,000, with an initial borrowing base of \$30,000,000 (the "**Facility**"), available to the Borrower pursuant to the terms set out in the Credit Agreement. The Facility will be made available to provide working capital to Arrowhead and to enable Arrowhead to make distributions to Gemini which may then be further distributed to the Company for general corporate purposes.

We have sufficient cash and financing available to pay for our capital commitments and consequently do not anticipate any problems meeting existing capital commitments as they become due.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet financing type arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Transactions with Related Parties

On August 31, 2006, the Company purchased petroleum and natural gas property assets in the Wainwright area of Alberta for the amount of C\$1,382,938 from Netco Energy Inc. ("**Netco**"), a non-arm's length party. At that time, Netco was considered a non-arm's length party as Hislop was a director, President and controlling shareholder of the Company and was also a control person of Netco. Currently, Netco is still considered a related party as Gordon Nielsen ("**Nielsen**"), President, Chief Executive Officer (effective December 31, 2008) and a director of the Company, is also President, Chief Executive Officer and a director of Netco.

On November 10, 2006, the Company entered into a Loan Agreement with Q Investments Ltd. ("**Q Investments**") pursuant to which Q Investments has provided the Company with a loan in the principal amount of \$1,327,434 (C\$1,500,000). On November 10, 2006, Hislop was, at the time, a director and a control person of Q Investments and the President, Chief Executive Officer and a director of the Company. As a condition to the closing of the Plan of Arrangement on March 4, 2008, Gemini sold 12,000,000 shares of the common stock of Exxel Energy Corp. (now known as XXL) to Q Investments, for total consideration of \$15,106,980 (C\$15,040,800). The purchase price was initially paid by Q Investment's issuance of a promissory note for the full amount of the purchase price, having a term of one year and bearing interest at the rate of 15% per annum. The note was reduced to the extent of \$9,537,381 (C\$9,495,600) by Q Investments delivering

2,373,900 common shares of Gemini at C\$4.00 per share pursuant to the Plan of Arrangement. The note was further reduced by Q Investments surrendering a promissory note that it held in the Company, in the principal sum of \$1,506,600 (C\$1,500,000) together with accrued interest.

On March 4, 2008, the Company issued six debentures to Hislop and Windt in connection with the acquisition of Gemini. The debentures are described above in more detail under the heading "Capital Resources".

On January 1, 2009, the Company entered into a Management Services Agreement with a private management company wholly-owned by John Hislop, a shareholder and Debenture Lender of our Company. This management company is to assist our Company in providing management, administration, compliance, accounting, and information services, as well as provide office space and utilities for our Company. The Management Services Agreement shall continue on a month to month basis until terminated by one of the parties.

Proposed Transactions and Subsequent Events

Currently, there are no proposed transactions that would have a material effect on the Company and its financial statements.

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Our management routinely makes judgments and estimates about the effects of matters that are inherently uncertain. As the number of variables and assumptions affecting the probable future resolution of the uncertainties increase, these judgments become even more subjective and complex. We have identified certain accounting policies that are the most important to the portrayal of our current financial condition and results of operations.

The key elements and assumptions that we have made under these principles and their impact on the amounts reported in the annual consolidated financial statements remain substantially unchanged from those described in our August 31, 2008 audited consolidated financial statements.

Please refer to Note 3 of our 2008 audited consolidated financial statements for our Significant Accounting Policies.

Significant Accounting Policies

The significant accounting policies used by the Company are disclosed in the notes to the Company's annual audited consolidated financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The following discussion outlines such accounting policies and is included in the MD&A to aid the reader in assessing the significant accounting policies and practices of the Company and the likelihood of materially different results being reported. The Company's management reviews its estimates regularly.

The following significant accounting policies outline the major policies involving critical estimates.

Proved Oil and Gas Reserves

Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. The estimated quantities of proved crude oil, natural gas liquids and natural gas are derived from geological and engineering data that demonstrate with reasonable certainty the amounts that can be recovered in future years from known reservoirs under existing economic and operating conditions. Reserves are considered proved if they can be produced economically as demonstrated by either actual production or conclusive formation tests. The oil and gas reserve estimates are made using all available geological and reservoir data as well as historical production data. Estimates are reviewed and revised as appropriate. Revisions occur as a result of changes in prices, costs, fiscal regimes, reservoir performance or a change in the Company's plans. The effect of changes in proved oil and gas reserves on the financial position of the Company is described under the headings "Depletion Expense" and "Impairment of Long Lived Assets".

Depletion Expense

The Company uses the full cost method of accounting for exploration and development activities. In accordance with this method of accounting, all costs associated with exploration and development, are capitalized whether successful or not. The aggregate of net capitalized costs and estimated future development costs less estimated salvage values is amortized using the units-of-production method based upon proved oil and gas reserves. With all other factors remaining constant, an increase in estimated proved oil and gas reserves would result in a corresponding reduction in depletion expense. With all other factors remaining constant, a decrease in estimated future development costs would result in a corresponding reduction in depletion expense.

Impairment of Long Lived Assets

The Company is required to review the carrying value of all property, plant and equipment including the carrying value of oil and gas assets, for potential impairment. The carrying value of the Company's petroleum and natural gas properties must not exceed their fair value. The fair value is equal to the estimated future cash flows from proved and probable reserves using future price forecasts and costs discounted at a risk-free rate.

If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long lived asset is charged to income.

Asset Retirement Obligation

Asset retirement obligations are initially measured at fair value when they are incurred, which is the discounted future value of the estimated liability. This requires an estimate to be made of the future costs of retiring the asset at the point in time the asset is acquired.

Income Tax Accounting

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded by management.

Stock-based Compensation

The Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, Stock-Based Compensation and Other Stock-Based Payments using the fair value method. The fair value of stock options is determined by the Black-Scholes Option Pricing Model

with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stocks is determined by the quoted market price of the Company's stock.

Legal, Environmental Remediation and Other Contingent Matters

The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can reasonably be estimated. When the loss is determined it is charged to earnings. The Company's management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

Financial Instruments

On September 1, 2007, the Company adopted the CICA Handbook Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation*, and Section 3865, *Hedges*. These accounting standards provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. These new standards were adopted on a prospective basis and, accordingly, the comparative amounts for prior periods have not been restated.

(i) Section 1530 Comprehensive Income

Section 1530 introduces comprehensive income, which consists of net income and other comprehensive income. Other comprehensive income represents changes in shareholders' equity during a period arising from transactions and other events and circumstances from non-owner sources and includes the tax effected amount of unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

(ii) Section 3251, Equity

Section 3251 replaces Section 3250, "Surplus" and describes standards for the presentation of equity and changes in equity for reporting periods as a result of the application of Section 1530, *Comprehensive Income*.

(iii) Section 3855, Financial Instruments - Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and derivatives, including derivatives embedded in non-financial contracts. Under Section 3855, financial instruments must be classified into one of five categories and, depending on the category, will either be measured at amortized cost or fair value on the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost. Held for trading financial assets and liabilities and available for sale financial assets are measured on the balance sheet at fair value. Changes in fair value of held-for-trading financial assets and liabilities are recognized in earnings while changes in fair value of available-for-sale financial assets are recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in earnings.

Derivative financial instruments are classified as held for trading and are recorded on the balance sheet at fair value unless exempted as a normal purchase and sale arrangement. Derivatives embedded in non-derivative host contracts are recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivatives are the same as those of a freestanding derivative and the combined contract is not held for trading or designated at fair value.

The Company has classified its cash and cash equivalents as held-for-trading measured at fair value, accounts receivable as loans and receivables measured at amortized cost, accounts payable and accrued liabilities as other financial liabilities measured at amortized cost and long-term debt as other financial liabilities measured at amortized cost.

(iv) Section 3855, *Hedges*

Section 3865 specifies the criteria for hedge accounting, which is an optional treatment that is used to correct a mismatch in timing of recognition of gains and losses on either the hedged item or the hedging instrument. The Company does not apply hedge accounting. The change in fair value of the hedge derivative is recognized in net income in the current period.

Changes in Accounting Policies Including Initial Adoption

Effective March 4, 2008, the Company changed its reporting currency to the US dollar. This change in reporting currency has been adopted due to the Company's primary focus on acquisition, exploration, development and production of natural gas and oil interest in the United States. The majority of the Company's oil and natural gas property assets are in the United States. Prior to March 4, 2008, the Company reported its annual and quarterly consolidated financial statements in Canadian dollars. In making this change in reporting currency, the Company followed the recommendations of the Emerging Issues Committee ("EIC") of the CICA, set out in EIC-130, *Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency*.

Effective September 1, 2008, the Company adopted the following new CICA accounting standards:

i) CICA Handbook Section 1535, *Capital Disclosures*:

This section requires additional disclosures of:

- an equity's objectives, policies and processes for managing capital;
- quantitative data about what the entity regards as capital;
- whether the entity has complied with any capital requirements; and
- if it has not complied, the consequences of such non-compliance.

ii) CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*:

This section requires management to assess and disclose an entity's ability to continue as a going concern.

iii) CICA Handbook Section 3862, *Financial Instruments - Disclosure*, and CICA Handbook Section 3863, *Financial Instruments - Presentation*:

These new sections revise and enhance the disclosure and presentation requirements for financial instruments (replaces CICA Section 3861, *Financial Instruments – Disclosure and Presentation*). The significance of financial instruments for the entity's financial position and performance, the nature and extent of the risks arising from financial instruments and how these risks are managed are emphasized.

Recent Accounting Pronouncements

The Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may affect the financial disclosures and results of operations of the Company:

i) International Financial Reporting Standards:

In January 2006, the CICA Accounting Standards Board (“**AcSB**”) adopted a strategic plan for the direction of accounting standards in Canada and the expected convergence with International Financial Reporting Standards (“**IFRS**”) by the end of 2011. On February 13, 2008, the Canadian Accounting Standards Board confirmed 2011 as the official changeover date for publicly listed Canadian companies to start using IFRS. The transition will affect interim and annual financial statements relating to years beginning on or after January 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

Staff education has already begun and will continue into mid 2009, at which time an analysis of the differences between Canadian GAAP and IFRS for the company will be made.

The transition plan is estimated to be completed by early fall of 2009 and will be presented to management and the audit committee at that time.

Beginning January 1, 2010, the company will be using both Canadian GAAP and IFRS in its accounting records. The Company will report in GAAP for the year ended December 31, 2010. For the fiscal year ended December 31, 2011, the Company will report 2010 financial statements in IFRS for comparative purposes.

Risk Factors

Exploration, Development and Production Risks: Oil and natural gas exploration involves a high degree of risk. There is no assurance that expenditures made on exploration by the Company 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 associated with drilling in unknown formations, and other factors such as the costs associated with encountering various drilling conditions for example: drilling over pressured zones, tools lost in the hole, and changes in drilling plans and locations.

The long-term commercial success of the Company as an oil and gas producer depends largely on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation, that the Company will be able to obtain financing for further exploration and development, or that the Company will find oil or natural gas on its properties.

The Company currently has no specific exploration or development plans for the Wainwright Property or the Columbia Basin Properties. Management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and corporate policies. The long-term commercial success of the Company as a junior oil and gas producer depends on, among other things, its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that the Company will be able to obtain financing for further exploration and development, if at all. In this regard, the Company 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.

The Company also faces the risk of engaging in unprofitable efforts, as it may drill wells which are productive, but do not produce sufficient net revenues to return a profit after drilling, operating and other costs and it may also drill dry wells. The cost of operations may also be increased by drilling hazards, environmental damages and various field operating conditions. 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.

In addition, oil and gas operations are subject to inherent risks associated with the exploration, development and production of oil and natural gas properties. Such risk include encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, sour gas releases, fires, spills, power outages, labour disruptions and inability to obtain suitable or adequate machinery, equipment or labour. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition of the Company.

Prices, Markets and Marketing of Crude Oil and Natural Gas: The Company's financial position and prospects are affected by, among other things, the price of oil and gas, which is determined largely by global supply and demand. A material decline in oil and gas prices could result in a reduction of net production revenue for the Company at which point one or more of its projects could become uneconomic, possibly leading to a reduction in volume of the Company's oil and gas reserves. The Company may also elect not to produce from certain wells at lower prices. This could result in a material decrease in the Company's future net production revenue, causing a reduction in the Company's oil and gas acquisition and/or development activities. A substantial material decline in oil and gas prices could limit or reduce the Company's borrowing base, reducing the bank credit available to the Company and possibly requiring it to repay a portion or all of any existing bank debt.

The Company is also affected by its ability to market its oil and natural gas to prospective buyers. Marketability is affected by numerous factors beyond the Company's control. The marketability and price of oil and natural gas which may be acquired or discovered by the Company will be affected by numerous factors beyond its control. The Company will be affected by the differential between the price paid by refiners for light quality oil and the grades of any oil produced by the Company. The Company's ability to market any natural gas it produces may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Company may also be affected by deliverability uncertainties related to the proximity of the Company's reserves to pipelines and processing facilities, and also 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 Company has limited direct experience in the marketing of oil and natural gas.

Substantial Capital Requirements and Liquidity: The Company anticipates substantial future capital expenditures for the exploration, development and production of oil and natural gas reserves. The Company may not be able to secure the required capital 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 the Company's capital requirements or to fund its ongoing activities at all times, which could have a potential material adverse effect on the Company's financial condition, results of operations and prospects. The Company may require additional financing from time to time to carry out its oil and gas

acquisitions, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. The Company may choose to sell additional securities in its capital stock to finance proposed operations. If this occurs, existing shareholders will experience a dilution of their equity interest in the Company.

Risk of Foreign Operations: Presently, the Company's key oil and gas producing operations and assets are located in the United States. As a result, they are subject to political, economic and other uncertainties for reasons, including, but not limited to:

- (a) changes in energy policies or the personnel administering them;
- (b) expropriation of property without fair compensation;
- (c) cancellation or modification of contract rights;
- (d) foreign exchange restrictions;
- (e) currency fluctuations;
- (f) royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted; as well as
- (g) risks of loss due to civil strife and acts of war.

Certain of the Company's operations may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. In the event of a dispute arising in connection with its foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or, in the alternative, the Company may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or enforcing Canadian judgments in such other jurisdictions. The Company may also be hindered or prevented from enforcing its rights with respect to a governmental instrumentality because of the doctrine of sovereign immunity. In addition, the Company's existing enterprises were formed pursuant to, and its operations are governed by, a number of legal and contractual relationships. The effectiveness of, and enforcement of the Company's contracts and relationships with parties in these jurisdictions cannot be assured. Consequently, the Company's foreign exploration, development and production activities could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company and its business.

Property Defects: Although we have obtained title reports with respect to some of our properties, we have not obtained title reports with respect to all of our current properties. In addition, the title reports that the Company has obtained are many years old. Title reports are not title insurance and they do not act as a guarantee of title. Our properties may be subject to encumbrances such as prior unregistered agreements, native land claims or transfers which have not been recorded or detected through title research or which have been asserted since the date the research was completed. Additionally, the land upon which we hold leases may not have been surveyed; therefore, the precise area and location of such interests may be subject to challenge.

In addition to the foregoing, the Company holds title to all of its U.S. properties in the name of its subsidiaries.

During the second quarter of 2006, Arrowhead and other unrelated defendants were served with a lawsuit alleging that certain properties, including some of the properties owned by Arrowhead, are subject to a 5% net profits interest owned by the plaintiffs and that all of the defendants, including Arrowhead, are in default of their obligations under this 5% net profits interest to pay money to the plaintiffs. On May 25, 2007, Arrowhead obtained a declaratory order from the trial court quieting title with respect to some of the property owned by Arrowhead. After we obtained this order quieting title, Arrowhead leases that remain encumbered by this lawsuit consist of five Warbonnet leases totaling 2,040 gross acres (867 net acres) and at the time 13 developed wells (5.5 net). On August 6, 2007, the trial court granted partial summary judgment in favor of the Plaintiffs, holding that the net profits contract did not terminate with the Pinedale Unit, a federal exploration unit formed in 1953 and terminated in 1981, and that the obligation to pay the net profits is a "lease based" obligation which runs with the land. On August 10, 2007, the

trial court granted another partial summary judgment in favor of the plaintiffs, holding that they owned the net profits contract. Trial on the issue of whether the defendants owe any compensatory damages and on our affirmative defenses was held in October 2007. At trial, the Judge dismissed the plaintiffs' claim that the defendants, including Arrowhead, had breached any implied covenant of good faith and he dismissed the plaintiffs' claims against Arrowhead brought under the Wyoming Royalty Payment Act (a Wyoming statute providing for interest on unpaid royalty payments). The Court also dismissed the plaintiffs' claims before March of 2006, the month after the plaintiffs notified the operators of their claim. On April 14, 2008, the Judge entered a Judgment in the amount of \$4,896,589 against the Defendants, jointly and severally. The Judge denied the Defendants' Motions to Alter or Amend the Judgment on May 21, 2008. The Company filed its Notice of Appeal with the Wyoming Supreme Court on June 16, 2008. On July 1, 2008, the Judge issued an order granting the Plaintiffs' Motion for Attorney Fees and entered a judgment in the amount of \$3,917,289 against the operator Defendants. Arrowhead is not an operator and therefore not subject to this judgment. The Appeal was argued on May 14, 2009 and a decision is pending. We will continue to update our disclosure with respect to this lawsuit as events require.

Financial Considerations: The Company will require substantial funds to bring any oil and gas deposits contained on its properties into production. The decision to move into production will involve consideration and evaluation of several significant factors including but not limited to: (1) results of exploration programs; (2) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies, and construction of production facilities; (3) availability and costs of financing; (4) ongoing costs of production; (5) market prices for the oil and gas to be produced; (6) environmental compliance regulations and restraints; and (7) political climate, governmental regulation and control. Many of the factors taken into consideration are beyond the Company's control and may have a material effect on the outcome of our decision.

Environmental Risks and Permits and Licenses: 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 domestic and international laws. Compliance with applicable environmental legislation may require significant expenditures and a breach of such legislation may result in the imposition of fines and penalties, some of which may be material. The Company may also incur remediation costs. The trend in environmental legislation is toward the application of stricter standards and enforcement, and larger fines and liability, resulting in potentially increased capital expenditures and operating costs to the Company. 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 Company's financial condition, results of operations or prospects.

The Company's operations may require permits and licenses, including environmental permits and licenses, from various governmental and regulatory authorities. There can be no assurance that the Company will be able to obtain all necessary permits and licenses for its projects.

Reliance on Operators and Key Employees: The Company is not the operator of its current oil and gas properties and may not be the operator of future oil and gas properties. To the extent the Company is not the operator, it will be dependent on others for the timing of activities related to such properties. The Company is largely unable to direct or control the activities of the operators.

The Company's success is also largely dependent upon the performance of management and the hired management consulting company. The Company does not have any 'key man' insurance. The loss of service of any director or officer, as well as the hired management consultant company could have a materially adverse effect on the Company.

Management: The Company's success is currently largely dependent on the performance of its directors and officers. The loss of services of any of these persons could have a materially

adverse effect on its business and prospects. There is no assurance the Company can maintain the services of its directors, officers or other qualified personnel required to operate its business.

Additional Funding Requirements: The Company's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Company's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Company's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Company's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms.

Insurance: The Company may be subject to liability as a result of its involvement in the oil and gas exploration and development of its daily operations. Although the Company may 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 Company 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 Company. The Company could face material adverse effects on its financial position, results of operations or prospects if an event occurs which could expose the Company to significant liability.

Reserve Replacement: The Company's future oil and natural gas reserves, production, and cash flows are highly dependent on the successful acquisition or discovering new reserves, as the Company's existing reserves will decline over time as they are exploited. Without the continual addition of new reserves, the Company may be adversely affected. A future increase in the Company's reserves will depend not only on the Company'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 Company's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Currency Fluctuations: The Company is subject to currency fluctuations as it maintains its deposit accounts in US and Canadian currencies and maintains operations mainly in the USA. Currency fluctuations could materially affect the Company's financial position and results. The Company has engaged in currency hedging activities and on November 24, 2008, contracted to purchase C\$6,113,000 during calendar 2009 at a exchange rate of C\$1.2226 per US\$. On March 5, 2009, the Company contracted to purchase C\$4,584,600 during calendar 2010 at an exchange rate of C\$1.2735 per US\$.

Growth Management: The Company could experience rapid growth in production, revenues, personnel, complexity of administration and in other areas. There can be no assurance that the Company will be able to manage the impact that future growth could place on its administrative infrastructure, systems, finances and internal controls. If the Company fails to manage growth effectively, it may have a material adverse effect on its business, operation results and financial condition.

Corporate Matters: To date, the Company has not paid any dividends on its outstanding common shares. Certain of its directors and officers are involved in managerial and/or director positions of other oil and gas companies, partnerships or other entities involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers, managers or directors of the Company and as officers and directors of these other companies, partnerships or other entities. Conflicts must be disclosed in accordance with, and are subject to

such other procedures and remedies as apply under the British Columbia *Business Corporations Act*.

Conflicts of Interest: Some of the directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other corporations, and situations may arise where these directors and officers will be in direct competition with the Company. Conflicts, if any, will be dealt with in accordance with the relevant provisions of the British Columbia *Business Corporations Act*. Some of the directors and officers of the Company are or may become directors or officers of other companies engaged in other business ventures. In order to avoid the possible conflict of interest which may arise between the directors' duties to the Company and their duties to the other companies on whose boards they serve, the directors and officers of the Company have agreed to the following:

1. participation in other business ventures offered to the directors will be allocated between the various companies and on the basis of prudent business judgment and the relative financial abilities and needs of the companies to participate;
2. no commissions or other extraordinary consideration will be paid to such directors and officers; and
3. business opportunities formulated by or through other companies in which the directors and officers are involved will not be offered to the Company except on the same or better terms than the basis on which they are offered to third party participants.

Issuance of Debt: From time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Company's debt levels above industry standards. The Company's articles do not limit the amount of indebtedness that the Company may incur. The level of the Company's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions: The Company's exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted and the proximity of pipelines or other transmission facilities. Demand for such limited equipment or access restrictions may affect the availability of such equipment and facilities to the Company and may delay exploration and development activities.

Risks Relating to the Industry

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. Outlined below are some of the more significant aspects of the legislation, regulations and agreements governing the oil and gas industry. All current legislation is a matter of public record and the Company is unable to predict what additional legislation or amendments may be enacted.

Potential Profitability of Oil and Gas Ventures Depends upon Factors beyond our Control: The potential profitability of oil and gas properties is dependent upon many factors that are beyond the Company's control. World prices and markets for oil and gas are unpredictable, highly volatile, potentially subject to governmental fixing, pegging, controls, or any combination of these and other factors, and respond to changes in domestic, international, political, social, and economic environments. Additionally, due to worldwide economic uncertainty, the availability and cost of funds for production and other expenses have become increasingly difficult, if not impossible, to project. These changes and events may materially affect our financial performance.

A productive well may become uneconomic or unmarketable in the event water or other deleterious substances are encountered which impair or prevent the production of oil and/or gas from the well. The marketability of oil and gas that we may acquire or discover could be affected by numerous factors beyond the Company's control. These factors include the proximity and

capacity of pipelines and processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production, adverse weather conditions and environmental protection. The extent of these factors cannot be accurately predicted and the combination of these factors may result in our Company not receiving an adequate return on invested capital.

Competition in the Oil and Gas Industry: The Company will actively compete for reserve acquisitions, exploration leases, licenses and concessions and skilled industry personnel with a substantial number of other oil and gas companies, some of which may have significantly greater technical, financial, operational resources and personnel. The Company's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

Certain of the Company's natural gas customers and potential customers may themselves be exploring for oil and natural gas, and the results of these exploration efforts could affect the Company's ability to sell or supply oil or gas to these customers in the future. The Company'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 industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Fluctuating Price and Demand: The marketability of natural resources that we may acquire or discover may be affected by numerous factors beyond our control. These factors include market fluctuations in oil and gas pricing and demand, the proximity and capacity of natural resource markets and processing equipment, governmental regulations, land tenure, land use, regulation concerning the importing and exporting of oil and natural gas and environmental protection regulations. The impact of these factors cannot be accurately predicted, but the combination of these factors could have an adverse impact on our business.

Comprehensive Regulation of the Oil and Gas Industry: Our operations are subject to federal, provincial or state and local laws relating to the protection of the environment, including laws regulating removal of natural resources from the ground and the discharge of materials into the environment. Our operations are also subject to federal, provincial or state and local laws and regulations that seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment. Various permits from government bodies are required for drilling operations to be conducted; no assurance can be given that such permits will be received. We can give no assurance that environmental standards imposed by federal, provincial, state or local authorities will not be changed or that any such changes would not have materially adverse effects on our activities. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on our business and our Company. Additionally, we may be subject to liability for pollution or other environmental damages, which we may elect not to insure against due to, among other reasons, prohibitive premium costs.

Environmental Regulations: In general, our exploration, development and production activities are subject to certain federal, provincial or state and local laws and regulations relating to environmental quality and pollution control. These laws and regulations increase the costs of these activities and may prevent or delay the commencement or continuance of a given operation. Specifically, we are subject to legislation regarding emissions into the environment, water discharges and storage and disposition of hazardous wastes. In addition, legislation has been enacted which requires well and facility sites to be abandoned and reclaimed to the satisfaction of state authorities. However, such laws and regulations are frequently changed and we are unable to predict the ultimate cost of compliance. Our operating partners maintain insurance coverage customary to the industry; however, we are not fully insured against all environmental risks.

Government Regulation/Administrative Practice: There is no assurance that the laws, regulations, policies or current administrative practices of any government body, organization or regulatory agency in Canada, the United States or any other applicable jurisdiction will not be changed, applied or interpreted in a manner which will fundamentally alter our ability to develop, operate, export or market our products. The actions, policies or regulations, or changes thereto, of any government body or regulatory agency, or other special interest groups, may have a detrimental effect on our Company. Any or all of these situations may have a negative impact on our ability to operate and make a profit.

Future Sales of Common Shares by Existing Shareholders: Sales of a large number of common shares in the public markets, or the potential for such sales, could decrease the trading price of the common shares and could impair the Company's ability to raise capital through future sales of common shares. Accordingly, certain shareholders of the Company have an investment profit in the common shares that they may seek to liquidate.

Uncertainty of Estimates of Reserves

Under applicable regulatory requirements, we will be required to identify and disclose as proved oil and gas reserves, estimated quantities of crude oil, natural gas and natural gas liquids. This geological and engineering data demonstrates with reasonable certainty the estimated quantities of crude oil, natural gas and natural gas liquids, which will be recoverable in future years from known reservoirs under existing economic and operating conditions. However, the process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir, and as a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially from our estimations from year to year. Any significant variance in the assumptions could materially affect the estimated quantities and present values of reserves. For example, a material drop in oil and gas prices, or a material increase in applicable taxes, will require management to reassess whether known reservoirs can continue to be reasonably judged as economically productive from one year to the next. In addition, the reserves may be subject to downward or upward revisions based upon production history, results of future exploration and development, prevailing oil and gas prices and other factors, many of which are beyond our Company's control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to the reserves will likely vary from the estimates presented herein, and such variances may be material.

Declining Reserves

In general, production rates from oil and gas properties decline as reserves are depleted. The decline rates depend on reservoir characteristics and vary from steep declines to the relatively slow declines characteristic of long-lived fields in other regions. Should one or more of the above risks materialize or should Bucking Horse's underlying assumptions prove incorrect, their actual results may materially differ from its current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause the Company's actual results to materially differ from such forward-looking statements.

Reserves Data and Other Oil and Gas Information

Our independently prepared reserves assessment and evaluation of oil and gas properties effective December 31, 2008 have been prepared in accordance with mandated National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities of Canadian Securities Administrators. A summary of our reports is available on SEDAR at www.sedar.com.

Outstanding Share Data

Bucking Horse is a publicly traded company and our common shares are listed for trading on the TSX under the symbol BUC.

As of March 31, 2009 and the date of this MD&A, the Company has the following securities outstanding:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	22,994,513

Security Type	Number Outstanding	Exercise/Conversion Price	Conversion/Expiry Date
Convertible Debenture ⁽¹⁾	2 ⁽¹⁾	C\$4.875 per unit ⁽¹⁾	N/A
Convertible Debenture ⁽²⁾	2 ⁽²⁾	C\$4.000 per unit ⁽²⁾	N/A
Convertible Debenture ⁽³⁾	2 ⁽³⁾	C\$4.875 per unit ⁽³⁾	N/A

⁽¹⁾ On March 4, 2008, the First Debentures were issued by the Company, one to each of the Debenture Lenders. Each of the First Debentures is in the principal amount of \$8,940,335 (C\$9,500,000), has a term of ten years, earns interest at a rate of 10% during the first six years and 15% during the last four years and is convertible into units during the first five years at a conversion price of C\$4.875 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company for C\$4.875 until the fifth anniversary of the date of issuance, at which date these share purchase warrants will expire. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the First Debentures increased from 10% to 15%.

⁽²⁾ On March 4, 2008, the Second Debentures were issued by the Company, one to each of the Debenture Lenders. The Second Debentures have the same terms as the August Debentures held by Gemini prior to the closing of the Plan of Arrangement, except that they will be convertible into units of the Company rather than Gemini. Each of the Second Debentures is in the principal amount of \$4,705,439 (C\$5,000,000), has a term of ten years from the Gemini date of issue being August 4, 2004 and carries interest. Interest is payable monthly at a rate of 10% per annum for the first six years of the term and at a rate of 15% during the last four years. All or any portion of the amount outstanding under these Second Debentures from time-to-time is convertible into units at the option of the holder at a price of C\$4.00 per unit. Upon conversion, each unit consists of one common share in the capital of the Company and one non-transferable share purchase warrant. Each of these share purchase warrants entitles the holder to purchase one additional common share of the Company at a price of C\$4.00 until the fifth anniversary of the Gemini date of issue, at which time these share purchase warrants, if issued, will expire. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the Second Debentures increased from 10% to 15%.

⁽³⁾ On March 4, 2008, the Third Debentures were issued by the Company, one to each of the Debenture Lenders. Each of the Third Debentures is in the principal amount of \$9,410,879 (C\$10,000,000), has a term of ten years, earns interest at a rate of 10% during the first six years and 15% during the last four years and is convertible into units of the Company during the first five years at a conversion price of C\$4.875 per unit. Each unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share of the Company for C\$4.875 until the fifth anniversary of the closing date, at which date the share purchase warrants will expire. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the Third Debentures increased from 10% to 15%.

There are no common shares held in escrow and no common shares are subject to pooling.

Additional Information

Disclosure Controls and Procedures:

The Company's Chief Executive Officer and Chief Financial Officer (the "**Responsible Officers**") are responsible for establishing and maintaining disclosure controls and procedures for the Company, designed to provide reasonable assurance that material information relating to the Company and its subsidiaries is made known to the Responsible Officers by others within the organization, particularly during the period in which the Company's quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instrument 52-109 as at March 31, 2009. Based on this evaluation, except for the control weakness described below, they have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the Company's size, structure and stage of development. Management is currently in the process of formalizing the disclosure controls and procedures. These controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives are met.

Internal Controls Over Financial Reporting:

The Company's Responsible Officers are responsible for establishing and maintaining internal controls and procedures for the Company, designed to provide reasonable assurance that material information relating to the Company and its subsidiaries is made known to the Responsible Officers by others within the organization, particularly during the period in which the Company's quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of the Company's internal controls and procedures as defined in Multilateral Instrument 52-109 as at March 31, 2009. Based on this evaluation, except for the control weakness described above, they have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the Company's size, structure and stage of development. Management is currently in the process of formalizing the internal controls and procedures. These internal controls and procedures, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives are met. Management is aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company utilizes outside assistance and advice on complex financial, taxation and reporting issues, which is common with companies of a similar size. We have assessed the design of our internal control over financial reporting and during this process we identified potential weaknesses in internal controls over financial reporting which are as follows:

- Due to the limited number of staff at the Company it is not feasible to achieve complete segregation of incompatible duties. The Company has mitigated this weakness in controls by adding management review procedures over the areas where segregation is an issue.
- The Company does not retain staff with specialized and current income tax, financial reporting and complex accounting expertise. The Company reports current and future income tax expenses and liabilities and other complex accounting calculations based on management's estimates and relies on reviews by management, external consultants and audit committee for quality assurance.

There have been no significant changes to the internal controls in this period. As a result of our assessment of the design of our internal control over financial reporting, we conclude that there is only a remote likelihood that a material misstatement would not be prevented or detected. Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Additional information relating to our Company, including periodic quarterly and audited financial reports are available on SEDAR at www.sedar.com. We also maintain a website at www.buckinghorseenergy.com. Information can also be obtained by contacting the Company by mail at #1100 – 609 West Hastings Street, Vancouver, British Columbia, V6B 4W4 or by telephone at (604) 331-3398.