

Bucking Horse Energy Inc.

Management's Discussion and Analysis
September 30, 2011

The following management's discussion and analysis ("**MD&A**") for Bucking Horse Energy Inc. was prepared by management based on information available as at November 8, 2011. It should be reviewed together with the unaudited interim consolidated financial statements for the period ended September 30, 2011 and the MD&A and audited consolidated financial statements for the year ended December 31, 2010. Our Annual Information Form, quarterly unaudited interim consolidated financial statements and year-end audited annual consolidated 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.

Natural gas equivalent amounts have been calculated using a conversion rate of six thousand cubic feet ("**Mcf**") of natural gas per barrel ("**bbl**") of oil or natural gas liquids. 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. **Mcfe disclosure may be misleading, particularly if used in isolation.**

One million cubic feet equivalent is abbreviated "**MMcfe**". One thousand cubic feet equivalent is abbreviated "**Mcfe**". One million British thermal units, a unit of energy, is abbreviated "**MMBTU**".

Forward-Looking Statements

This MD&A and the documents incorporated by reference contain forward-looking statements within the meaning of applicable Canadian securities laws. Forward-looking statements are statements which relate to future events or our future performance, including 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", or "potential" 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 described in the section titled "Risk Factors" commencing on page 22 and "Risks Relating to the Industry" commencing on page 17 of this MD&A, that may cause the Company's or the industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. No assurance can be given that any of the events anticipated by the forward-looking information and statements will occur or, if they do occur, what benefits we will obtain from them. This MD&A contains forward-looking information and statements, which may include but are not limited to: statements with respect to the financial and operating performance of the Company and its subsidiaries; investment objectives and strategies; the business goals and strategies; forecast operating and financial results; planned capital expenditures; the estimated quantity of the drilling plans; the goal to sustain or grow production and reserves through prudent management and acquisitions; potential future market for our products; our plans for, and results of, exploration and development activities; our treatment under governmental regulatory and royalty regimes and tax laws; competitive advantages; business prospects and opportunities; costs and timing of development projects; our management's assessment of future plans and operations; our anticipated liquidity and various matters that may impact such liquidity; and requirements for additional capital.

While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgement regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this MD&A. These assumptions, which include management's current expectations, estimates and assumptions about certain projects and the markets we operate in, the global economic environment, interest rates, estimates of quantities of oil and natural gas from our properties and other sources not currently classified as proved; the successful and timely implementation of capital projects; our ability to generate sufficient cash flow from operations to meet our current and future obligations and other risks and uncertainties described from time to time in the filings we make with securities regulatory authorities; the impact of IFRS on our financial statements; our ability to satisfy covenants under our credit facilities; the timely receipt of any required regulatory approvals; the impact of increasing competition; our ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability of the operator of the projects in which we have an interest to operate the field in a safe, efficient and effective manner; the timing and costs of pipeline, storage and facility construction and expansion, and our ability to secure adequate product transportation; our continued ability to use the Rocky Mountain Express Pipeline; future natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which we operate may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking information and statements, including, but not limited to: the failure of the Company to execute our business plans; general economic conditions as they affect us; risks arising from our operations generally; competition; volatility of and assumptions regarding oil and gas prices; the effectiveness of our risk management program; accuracy of cost estimates; fluctuations in commodities prices; fluctuations in product supply and demand; risks inherent in our marketing operations; maintaining a desirable debt to cash flow ratio; our ability to access external source of debt and equity capital; accuracy of our reserves, resources and future production estimates; our ability to replace and expand oil and gas reserves; the reliability of our assets; risks associated with technology and its application to our business; changes in the applicable regulatory framework, including changes in regulatory approval process and land-use designations, royalty, tax, environmental, greenhouse gas, carbon and other laws or regulations, or changes to the associated with compliance; the loss of key management employees; our ability to control our operating costs, general administrative and other expenses; other factors beyond our control; insufficient investor interest in our securities which may impact on our ability to raise additional financing as required; and those factors described in the section titled "Risk Factors" in this MD&A.

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 securities law, we do not intend to update any of the forward-looking statements in this MD&A to conform these statements to actual results.

Conversion to IFRS

Effective January 1, 2011 Bucking Horse transitioned from Canadian Generally Accepted Accounting Principles ("**GAAP**") to International Financial Reporting Standards ("**IFRS**"). The interim financial statements at September 30, 2011 are the third interim statements prepared under IFRS in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, and with International Accounting Standards ("**IAS**") 34, *Interim Financial Reporting*. The disclosures concerning the transition from Canadian GAAP to IFRS are included in the notes to the interim financial statements for the nine months ended September

30, 2011 and 2010 and more fully in the first and second quarter unaudited financial statements filed on SEDAR.

Overall Performance and Description of Business

We are engaged in the business of developing, producing and exploring for natural gas and natural gas liquids. We generate almost all of our consolidated revenues from the production and sales of natural gas and natural gas liquids from our Pinedale properties in southwest Wyoming. The Pinedale properties were acquired by way of a plan of arrangement dated March 4, 2008 and are owned by our wholly-owned subsidiary, Arrowhead. Our properties are described as follows:

Pinedale Properties, Wyoming, USA

The Pinedale properties comprise two natural gas producing leasehold properties totalling 11,992 gross acres (3,360 net acres) situated in the Warbonnet and Mesa areas of Sublette County, southwest Wyoming. The Warbonnet property comprises approximately 2,480 gross acres (1,032 net acres), the Mesa property comprises approximately 9,512 gross acres (2,328 net acres). We do not operate our properties; the properties are operated by our operating partners.

The Warbonnet and Mesa properties host 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 September 30, 2011, our interests included 46 producing wells (14.5 net) 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 to 10-acre spacing in the Mesa area (average working interest of 24%). The Warbonnet property is currently approved for development of 16 wells per quarter section, or approximately one well per 10-acres. State approval for development of 32 wells per quarter section, or approximately one well per 5-acres, was authorized February 8, 2011 for lands that include our Mesa acreage under development. Management anticipates that 5-acre spaced well development on our Warbonnet property will ultimately be approved as area operators are currently developing infill spaced wells on approved 5-acre infill areas proximal to our acreage. The drilling of 5-acre infill wells on our Pinedale interest lands has potential to add significantly to our proved reserves inventory.

We have been shipping our gas on the Rocky Mountain Express Pipeline ("**REX Pipeline**") since January 2008, when the REX Pipeline began shipping on the REX West Pipeline segment. We have a 10 year firm transportation agreement to ship 10,000 MMBTU of gas per day through the REX Pipeline. Effective July 1, 2009, gas transportation service was extended on the REX East Pipeline segment to Lebanon, Ohio. The final segment of the REX Pipeline, from Lebanon, Ohio to Clarington, Ohio commenced full transport service effective November 12, 2009. Natural gas in the Clarington region is marketed on par or at a slight premium to Henry Hub prices. Henry Hub is the pricing point for natural gas futures contracts traded on the New York Mercantile Exchange. Our long-term shipping contract on the REX Pipeline provides us access to mid-continent and eastern region natural gas markets of the United States.

Columbia River Basin Properties, Washington, USA

In October 2006, we, through our wholly-owned subsidiary N Holdings, acquired a 100% interest certain undeveloped leases located in Columbia River Basin ("**CRB**") of Washington State at a public land sale auction. We elected to allow the CRB leases to lapse effective February 1, 2011 and as a result no longer own any leases or property in Washington. The Company did not incur any exploration or development costs on the former leases and there

were no reserves or resources attributable to the CRB properties. Our CRB properties were written down to \$99,000 from \$1,687,951 in 2009, due to negative drilling results announced by other third party companies active in the CRB at that time. In 2010, the carried value was further written down to to \$1. Effective February 1, 2011, we elected to allow our CRB leases to lapse by not paying annual rentals. As the CRB property was not a producing property, this disposition did not have any effect on our continuing operations.

Industry and Economic Factors

Ongoing global economic instability has had a significant negative impact on many segments of the world economy due to several factors including the effects of the subprime lending and general credit market crises, the European debt crisis, volatile energy costs, slower economic activity, decreased consumer confidence, reduced corporate profits and capital spending, adverse business conditions, high unemployment and liquidity concerns. Although prices for natural gas respond to seasonal pressures, the general economic conditions, both domestically and abroad, and the proliferation of unconventional shale gas development, have had and may continue to have a negative effect on the price for North American natural gas. When prices are relatively 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 continue to be materially and adversely affected by this trend for the duration of 2011. We have existing commodity hedges that mitigate, but do not eliminate, our risk to downward price exposure. We cannot predict the timing or duration of an economic slowdown or the strength of an economic recovery, worldwide or in our industry, and we cannot predict the extent to which the current economic situation 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 in the near future. This change in demand, unmitigated, would likely have a negative impact on our business, financial condition and results of operations.

Management Outlook

A Supplemental Environmental Impact Statement Record of Decision ("**SEIS ROD**") 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. The pace of development drilling in both the Mesa and the Warbonnet areas will be managed within the parameters of the SEIS ROD.

In November 2010, a 10 well (2.31 net) development program commenced at our Mesa acreage in the Pinedale field property and we committed to approximately \$11.3 million in total capital expenditures to fund our share of the 10 well program. Individual well costs were budgeted at \$4.9 million gross. As of September 30, 2011 eight of the ten wells had been developed and turned in line to sales and two wells were waiting on completion. An additional 18 well (4.16 net) infill program at Mesa has been scheduled for the fourth quarter 2011 and the 18 wells will be developed sequentially and turned in line to sales through the third quarter 2012. The 18 well program required a commitment from us to invest approximately \$20 million in capital expenditures.

Our objective is to focus on the development of our Pinedale properties and increase our producing reserves base and cash flow.

Selected Quarterly Financial Information

The following table sets forth a summary of our financial results for the three-month and nine-month periods ended September 30, 2011 and September 30, 2010:

(US \$)	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Total Revenue	3,985,090	3,363,345	11,108,366	10,767,704
Net Income (Loss)	(474,225)	(1,959,572)	(5,365,661)	(2,206,631)
Basic Income (Loss) per Share	(0.02)	(0.09)	(0.24)	(0.10)
Diluted Income (Loss) per Share	(0.02)	(0.09)	(0.24)	(0.10)
Total Assets	182,260,406	172,237,277	182,260,406	172,237,277
Total Non-current Liabilities	4,069,468	99,847,628	4,069,468	99,847,628

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. Our operations, if profitable, are also subject to taxes in the jurisdictions in which we conduct our business. The net income variance year to year is due to a number of factors, including changes in hedging valuations and operating income.

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 IFRS. Application of IFRS requires the use of estimates, judgements 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, judgements and assumptions will occur as a result of future events, and accordingly, actual results could differ from amounts estimated.

Discussion of Operations

Nine-month period ended September 30, 2011 compared to the nine-month period ended September 30, 2010:

During the nine-month period ended September 30, 2011, eight wells (1.85 net wells) of the current ten well Mesa drilling program were successfully developed and placed on sales increasing our producing well base at Mesa to 27 wells (6.38 net) with an additional inventory of undeveloped proved, probable and possible Mesa infill locations. At the Warbonnet property, our other significant Pinedale field producing property, we currently have 19 developed and producing wells (8.1 net) and an additional inventory of undeveloped proved, probable, and possible Warbonnet locations. Net production during the nine-month period ended September 30, 2011 totalled approximately 2,159 MMcf of natural gas and 17.5 thousand barrels of natural gas liquids, or 2,264 MMcfe averaging 8.3 MMcfe/day compared to 1,996 MMcf of natural gas and 17.2 thousand barrels of natural gas liquids, or 2,099 MMcfe averaging 7.7 MMcfe/day for the nine-month period ended September 30, 2010. As of September 30, 2011, two development wells (0.46 net) were waiting on completions.

Prices we realized in the US for the nine-month period ended September 30, 2011 averaged \$4.44 per Mcf of natural gas and \$85.00 per barrel of natural gas liquids compared to \$4.77 per Mcf of natural gas and \$67.40 per barrel of natural gas liquids for the nine-month period ended September 30, 2010.

We have existing commodity hedges that mitigate, but not eliminate, our risk exposure to downward price volatility. During the nine-month period ended September 30, 2011, the realized gain on commodity derivative instruments was \$3,081,777. Our derivative contracts are tabled on pages 8.

The net loss for the nine-month period ended September 30, 2011 increased to \$5,365,661 compared to a net loss of \$2,314,248 for the nine-month period ended September 30, 2010. The change is due to a number of factors, including an increase in finance charges to \$6,199,026 for the nine-month period ended September 30, 2011 compared to \$5,657,863 for the same period of 2010. This change is primarily due to increased interest expense incurred as a result of the increase in the amount drawn on our credit facility (described further on page 10) The foreign exchange loss was \$579,159 for the nine-month period ended September 30, 2011 compared to \$367,038 in 2010. Hedging activity produced a realized gain of \$3,081,777 and an unrealized gain of \$148,003 (overall gain of \$3,229,780) in the nine-month period ended September 30, 2011 versus a realized gain of \$1,874,010 and an unrealized gain of \$2,636,680 (overall gain of \$4,510,690) in the nine-month period ended September 30, 2010. Operating income increased for the nine-month period ended September 30, 2011 to \$1,569,336 compared to an operating income of \$1,326,368 for the nine-month period ended September 30, 2010. The operating income variance is primarily due to increased revenues.

Production revenues for the nine-month period ended September 30, 2011 totalled \$11,108,366 compared to \$10,767,704 for the nine-month period ended September 30, 2010. The production revenue variance is primarily due to increased production from new wells placed on line during the period.

Production expenses for the nine-month period ended September 30, 2011 totalled \$9,539,030 consisting of \$4,521,437 in non-cash depletion costs, \$3,994,752 in direct operating expenses, and \$1,022,841 in state resource taxes compared to production expenses for the nine-month period ended September 30, 2010 of \$9,441,336, consisting of \$4,373,462 in non-cash accretion and depletion costs, \$4,073,103 in direct operating expenses, and \$994,771 in state resource taxes. The variance in production expenses is largely due to an increase in the non-cash depletion expense.

Other expenses and income, including non-cash items, for the nine-month period ended September 30, 2011 totalling \$5,998,812, consisted primarily of general and administration expenses of \$522,971, professional fees of \$762,993, a realized gain on commodity derivative instruments of \$3,081,777, an unrealized gain on derivative instruments of \$148,003, non-cash accretion expense on the debentures of \$864,017, finance expenses of \$6,199,026, which includes accretion on decommissioning expenses and a foreign exchange loss of \$579,159. This is compared to other expenses, including non-cash items, for the nine-month period ended September 30, 2010 of \$3,815,584, consisting primarily of general and administration expenses of \$526,337, professional fees of \$631,171, a realized gain on commodity derivative instruments of \$1,874,010, a unrealized gain on derivative instruments of \$2,636,680, non-cash accretion expense on debentures of \$932,359, interest expense of \$5,657,863, and a foreign exchange loss of \$367,038.

Contingent Liability: In 2006, the Company's wholly-owned subsidiary, Arrowhead and seven other unrelated defendants were served with a lawsuit alleging that they were in default of a 5% net profits interest on certain properties. On March 23, 2010, judgement was found in favour of the plaintiffs. The Company's share of this judgement totalled \$58,234 and was paid. Management is of the opinion that the Company's share of the expenses for the years 2009 through to present are financially immaterial.

Normal Course Issuer Bid: In August 2010, the Toronto Stock Exchange (the "TSX") accepted our Notice of Intention to Make a Normal Course Issuer Bid (the "2010 Notice") pursuant to

which we indicated that we intended to make a normal course issuer bid (the "**2010 NCIB**") for certain of our outstanding Common Shares on the terms set forth in the 2010 Notice. As of August 4, 2010, we had 22,726,213 Common Shares outstanding. Under the rules of the TSX, in the period commencing on August 10, 2010 and ending on August 9, 2011, we were allowed to acquire up to 750,000 Common Shares, which represents 3.3% of the Common Shares outstanding as at August 4, 2010. The average daily trading volume for the prior six months to the acceptance of the 2010 Notice was 869 Common Shares. Pursuant to the 2010 NCIB, we were allowed to acquire a daily limit of 1,000 Common Shares. The Common Shares were purchased at market price of the shares at the time of purchase and were purchased on behalf of us by a registered investment dealer through the facilities of the TSX. The funding for any purchase of Common Shares pursuant to the 2010 NCIB will be financed out of our working capital. Effective August 9, 2011, the 2010 NCIB expired. A total of 44,700 Common Shares were purchased pursuant to the 2010 NCIB at an average purchase price of \$3.34. The purchased shares were returned to treasury and cancelled. The details of the 2011 NCIB are disclosed on Page 15 under "Third Quarter" heading.

Financial Advisory Agreement: On July 13, 2010, we entered into a Financial Advisory Agreement with BMO Capital Markets ("**BMOCM**") whereby BMOCM will act as our exclusive financial advisor. The Financial Advisory Agreement may be terminated by either party. Under the Financial Advisory Agreement, BMOCM, receives a monthly fee of \$20,000 plus any out-of-pocket expenses incurred during the engagement.

The Company held its Annual General Meeting of shareholders on June 8, 2011. All resolutions placed before the shareholders were voted in favour of management.

Effective August 24, 2011, Mr. Vinko (Victor) Barcot Jr. was appointed to the Company's Board of Directors and will serve as an independent Director.

As of September 30, 2011, the Company's Board of Directors and Officers comprised:

Board of Directors: Gordon Nielsen
 Michael Schoen
 Raymond Deere
 Lorne Hanson
 Victor Barcot Jr.

Officers: Gordon Nielsen – President, Chief Executive Officer and Chairman
 Dean Willows – Chief Financial Officer, Secretary and Treasurer

Financial Derivative Contracts

We hold various financial derivative contracts to manage price risk. The natural gas reference prices of our commodity derivative contracts are typically referenced to natural gas index prices as published by independent third parties. As at September 30, 2011, the unrealized gain on outstanding derivative financial contracts was \$148,003. The realized gain on settlement of derivative financial contracts during the period was \$3,081,777. Both amounts have been included in other expenses for the period.

(a) Commodity Hedge Contracts

At September 30, 2011, the Company had the following open commodity derivative financial contracts to manage price risk on a portion of its natural gas production for the periods referenced below:

Contract Type	Contract Volume (MMBTU/Day)	Active Period	Contract Price (US\$/MMBTU)
Swap ⁽¹⁾	3,000	Oct-Dec 2011	\$7.23
Swap ⁽¹⁾	1,000	Oct-Dec 2011	\$7.11
Swap ⁽¹⁾	1,500	Oct-Dec 2011	\$4.575
Swap ⁽¹⁾	500	Oct-Dec 2011	\$4.52
Swap ⁽¹⁾	500	Oct-Dec 2011	\$4.68
Swap ⁽¹⁾	500	Oct-Dec 2011	\$4.97
Swap ⁽¹⁾	3,500	Calendar 2012	\$7.22
Swap ⁽¹⁾	1,000	Calendar 2012	\$5.025
Swap ⁽¹⁾	500	Calendar 2012	\$5.075
Swap ⁽¹⁾	1,000	Jan-Aug 2012	\$5.095
Swap ⁽¹⁾	500	Sep-Dec 2012	\$5.15
Swap ⁽¹⁾	4,000	Jan-Mar 2013	\$5.44
Swap ⁽¹⁾	500	Jan-Mar 2013	\$5.48
Swap ⁽¹⁾	1,000	Jan-Mar 2013	\$5.41
Swap ⁽¹⁾	4,000	Apr-Jun 2013	\$5.06

- ⁽¹⁾ Commodity Swap Transaction; Dominion Appalachia reference price
⁽²⁾ Commodity Floor Transaction; Henry Hub reference price

(b) Foreign Exchange Contracts

In May 2010, we contracted to purchase a total of C\$2,138,564.76 with terms referenced as follows:

US\$ Sold	Contract Period	Exchange Rate
\$83,333/month	June 2010 to May 2011	1.0642
\$83,333/month	June 2010 to May 2011	1.0744

Derivative financial instruments are measured at fair value with gains and losses recorded in net earnings. Both of these foreign exchange contract terms expired in the second quarter of 2011.

Summary of Quarterly Results

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

(US \$)	2011			2010				2009
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total Revenue	3,985,090	4,060,217	3,063,059	3,084,300	3,363,345	3,356,863	4,047,496	3,339,296
Net Income (Loss)	(1,064,225)	(1,612,024)	(2,664,413)	(3,319,288)	(2,067,189)	(2,317,914)	2,406,061	(2,040,554)
Basic Income (Loss) per share	(0.05)	(0.07)	(0.12)	(0.15)	(0.09)	(0.10)	0.13	(0.09)
Diluted Income (Loss) per Share	(0.05)	(0.07)	(0.12)	(0.15)	(0.09)	(0.10)	0.13	(0.09)

The quarterly financial information for the 2011 and 2010 fiscal periods is presented in accordance with International Financial Reporting Standards. The quarterly information for the 2009 fiscal year is presented in accordance with Canadian Generally Accepted Accounting Principles.

Liquidity

Our cash and cash equivalents at September 30, 2011 totalled \$8,455,778 compared to \$5,670,112 at September 30, 2010.

As of September 30, 2011, our working capital increased to \$13,819,123 from \$11,244,470 at September 30, 2010 due to a draw on our long term credit facility in anticipation of capital expenditures on the Mesa drilling program.

Our objective is to meet our operating and capital requirements by a combination of cash flow from current and future well production, re-investment of current capital and utilization of our long-term credit facility with a borrowing base of \$38,000,000, of which, we have borrowed \$30,400,000 as of September 30, 2011. 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 and the results of our drilling programs.

The following are our contractual maturities and financial liabilities as of September 30, 2011:

Contractual Obligations (US\$)	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Debentures ⁽¹⁾	46,746,804			9,540,164	37,206,640
Accounts payable and accrued liabilities	3,943,763	3,943,763			
State resource taxes payable	504,209	48,245	455,964		
Other long-term obligations ⁽²⁾	1,828,640				1,828,640
Line of credit	30,400,000		30,400,000		
Development program	1,700,000	1,700,000			
Total contractual obligations	85,123,416	5,692,008	30,855,964	9,540,164	39,035,280

⁽¹⁾ Our debentures consists of six convertible debentures, as discussed in more detail below in the amount of C\$49,000,000 converted using the Bank of Canada closing exchange rate on September 30, 2011.

⁽²⁾ Our other long-term obligations consists of our decommissioning obligation.

Capital Resources

Bucking Horse and Gemini (Guarantors) and Arrowhead (Borrower) entered into a credit agreement dated March 4, 2008 (the Credit Agreement) for a five year senior revolving credit facility (the "Facility") in the aggregate principal amount of up to \$100,000,000, with an initial borrowing base of \$30,000,000, available pursuant to the terms set out in the Credit Agreement. The debt is secured by mortgages on the oil and gas properties of Arrowhead.

The Facility has an interest rate that floats, based on both the LIBOR rate and a spread, which increases based on the increased percentage of availability drawn, resulting in an interest rate of approximately 2.98% at September 30, 2011.

On August 23, 2010 the Credit Agreement was amended, increasing the borrowing base to \$38,000,000. At September 30, 2011, we had drawn \$30,400,000 from the Facility and had \$7,600,000 of available credit remaining.

We are required by certain Credit Agreement covenants to ensure that Arrowhead's interest coverage ratio is greater than 2.5 to 1.0, that Arrowhead's ratio of total indebtedness to earnings before interest income taxes, depletion, depreciation and accretion, and exploration expenses is less than 3.5 to 1.0, and that our current ratio is greater than 1.0 to 1.0. We were in compliance with all of these covenants at September 30, 2011.

Our long-term debt as at September 30, 2011 is comprised of six secured convertible debentures as described below:

On March 4, 2008, we issued two convertible debentures (the "**First Debentures**"), one to John Hislop and Bradley Windt (collectively, the "**Debenture Lenders**"). Each of the First Debentures is in the principal amount of \$9,063,156 (C\$9,500,000), has a term of ten years, earned interest initially at a rate of 10% during the first six years and 15% during the last four years. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the First Debentures at that time increased from 10% to 15%. The Debenture Lenders may elect to accelerate the maturity date to the sixth anniversary date at any time during the first five years. Each of the First Debentures 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 and one share purchase warrant, which entitles the holder to purchase one additional Common Share for C\$4.875 until the fifth anniversary of the date of issuance, at which date these share purchase warrants will expire.

On March 4, 2008, we issued two additional convertible debentures (the "**Second Debentures**") to each of the Debenture Lenders. Each of the Second Debentures is in the principal amount of \$4,770,082 (C\$5,000,000), will mature on August 4, 2014. Interest was initially 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. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the Second Debentures at that time increased from 10% to 15%. 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 and one share purchase warrant. The purchase warrant has expired with none of the warrants being exercised.

Also on March 4, 2008, we issued two additional convertible debentures (the "**Third Debentures**") to each of the Debenture Lenders. Each of the Third Debentures is in the principal amount of \$9,540,164 (C\$10,000,000), has a term of ten years, initially earned interest at a rate of 10% during the first six years and 15% during the last four years. Effective May 16, 2008, as a result of an interest rate acceleration provision, the interest rate applicable to the Third Debentures at that time increased from 10% to 15%. Each of the Third Debentures 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 and one share purchase warrant, which entitles the holder to purchase one additional Common Share for C\$4.875 until the fifth anniversary of the closing date, at which date the share purchase warrants will expire.

The rate acceleration provision included in the First Debentures, Second Debentures, and Third Debentures (collectively, the "**Debentures**") stipulates that in the event the indebtedness resulting from the Credit Agreement described below exceeds the aggregate amount of

\$12,000,000, the rate of interest payable on the principal amount of the 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 Credit Agreement indebtedness exceeds the sum of \$12,000,000. Effective May 16, 2008, the indebtedness exceeded \$12,000,000 and the new rate of interest for the Debentures of 15% per annum took effect.

Repayment of the Debentures is guaranteed by our subsidiary Arrowhead, which has provided a mortgage and security agreement to each of the Debenture Lenders which is subordinated to other debt under the Facility. The Debentures are redeemable by the Company upon thirty days written notice without penalty or bonus; however, the Debenture Lenders may elect to convert all or any of the Debentures in lieu of redemption during the thirty-day notice period.

We anticipate that we will 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 March 4, 2008, we issued six debentures to John Hislop and J. Bradley Windt in connection with our acquisition of Gemini. The debentures are described above in more detail above under the heading "Capital Resources".

On July 13, 2010, we entered into a revised management services agreement (the "MSA") effective January 1, 2010 with a private management company wholly-owned by John Hislop, a shareholder and one of the Debenture Lenders. Under the MSA, the management company is to assist us by providing management, administration, compliance, accounting, and information services, as well as provide office space and utilities for our Company. The MSA shall continue on a month-to-month basis until terminated by one of the parties. Pursuant to the MSA, a monthly administrative fee of C\$35,000 plus any out of pocket expenses and specialized management expenses incurred shall be paid to the management company. Fees incurred to date in 2011 amounted to \$308,101 (C\$315,000). Fees incurred for oil and gas consulting services provided by a company controlled by a Debenture Holder amounted to \$140,307.

Third Quarter

Three-month period ended September 30, 2011 compared to the three-month period ended September 30, 2010:

Net production during the three-month period ended September 30, 2011 totalled approximately 839 MMcf of natural gas and 6.5 thousand barrels of natural gas liquids, or 878 MMcfe averaging 9.5 MMcfe/day compared to 657 MMcf of natural gas and 5.9 thousand barrels of natural gas liquids, or 693 MMcfe averaging 7.5 MMcfe/day for the three-months period ended September 30, 2010. The increase in production rates over the periods compared is due to the new Mesa well production additions in 2011 offsetting natural production rate declines associated with the field while no new producing wells were developed in 2010. In the three months ended September 30, 2011, four new gas wells (0.92 net) were brought on production at our Mesa property.

Prices we realized in the US for the three-month period ended September 30, 2011 averaged \$4.13 per Mcf of natural gas and \$79.00 per barrel of natural gas liquids compared to \$4.47 per Mcf of natural gas and \$65.19 per barrel of natural gas liquids for the three months ended September 30, 2010.

We have existing commodity hedges that mitigate, but not eliminate, our risk exposure to price volatility. During the three-month period ended September 30, 2011, the realized gain on commodity derivative instruments was \$1,019,035. Our derivative contracts are tabled on page 8.

The net loss for the three months ended September 30, 2011 decreased to a net loss of \$474,225 compared to a net loss of \$2,415,707 for the three months ended September 30, 2010. The change is due to a number of factors, including changes in hedging valuations and operating income. Operating income increased for the three months ended September 30, 2011 to \$401,278 compared to \$303,238 for the three months ended September 30, 2010. Hedging activity produced a realized gain of \$1,019,035 and an unrealized gain of \$1,237,156 in the three-month period ended September 30, 2011 versus a realized gain of \$752,165 and an unrealized loss of \$636,346 in the three-month period ended September 30, 2010.

Production revenues for the three-month period ended September 30, 2011 totalled \$3,985,090 compared to \$3,363,345 for the three-month period ended September 30, 2010. The production revenue variance is primarily due to increased production from new wells placed on line during the period.

Production expenses for the three-month period ended September 30, 2011 totalled \$3,583,812 consisting of \$1,748,640 in non-cash accretion and depletion costs, \$1,462,506 in direct operating expenses, and \$372,666 in state resource taxes. compared to production expenses for the three-month period ended September 30, 2010 of \$3,060,107 consisting of \$1,347,545 in non-cash accretion and depletion costs, \$1,415,196 in direct operating expenses, \$297,366 in state resource taxes.

Other expenses and income, including non-cash items for the three-month period ended September 30, 2011 resulted in other expenses of \$1,553,501 and consisted of general and administration expenses of \$160,072, professional fees of \$279,024, a realized gain on commodity derivative instruments of \$1,019,035, a non-cash gain on derivative instruments of \$1,237,156, non-cash accretion expense on the Company's debentures of \$301,568, finance expense of \$2,065,482 and a foreign exchange loss of \$1,003,556, compared to other expenses including non-cash items for the three-month period ended September 30, 2010 of \$2,874,024, consisting of general and administration expenses of (\$7,431) professional fees of \$187,714, a realized gain on commodity derivative instruments of \$752,165, an unrealized loss on derivative instruments of \$638,346, non-cash accretion expense on the Company's debentures of \$273,906, interest expense of \$2,002,736 and a foreign exchange loss of \$463,837.

During the three-month period ended September 30, 2011, two Mesa development wells (0.46 net) were successfully developed bringing the total new wells developed during 2011 to eight gross wells. Two additional new wells (0.46 net) were waiting on completion.

Effective August 24, 2011, Mr. Vinko (Victor) Barcot Jr. was appointed to the Company's Board of Directors and will serve as an independent Director. Mr. Barcot is currently a Director within HSBC's Resources & Energy Group focused on strategic development and M&A advisory in the Americas. Victor has over 15 years of experience in the oil and gas industry providing investment banking services in both the upstream and downstream energy sectors.

In August 2011, the Company granted stock options (the "Options") to acquire 100,000 Common Shares of the Company at a price of C\$4.50 per Common Share. The Options will

expire 5 years from the date of grant. The grant of Options is subject to the Company's stock option plan and regulatory approval.

Also in August 2011, the Toronto Stock Exchange (the "TSX") accepted our Notice of Intention to Make a Normal Course Issuer Bid (the "2011 Notice") pursuant to which we indicated that we intend to make a normal course issuer bid (the "2011 NCIB") for certain of our outstanding Common Shares on the terms set forth in the 2011 Notice. At the time of filing the 2011 Notice, our Board of Directors 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 our funds. In the period commencing on September 1, 2011 and ending on August 31, 2012, the Company intends to acquire up to 700,000 Common Shares, which represents 3.09% of the Common Shares outstanding as of August 25, 2011, pursuant to the Notice and rules of the TSX. As of August 25, 2011, we had 22,681,513 Common Shares outstanding. The Company intends to purchase the Common shares through the facilities of the Exchange, Pure Trading Triact (Matchnow Ats), CHI-X ATS, Omega ATS, Alpha Trading Systems and Alpha Venture Trading Systems. Pursuant to the normal course issuer bid, the Company may acquire a daily limit of 1,000 Common Shares subject to certain exceptions in the TSX rules. Any Common Shares purchased pursuant to the 2011 Notice will be returned to treasury and cancelled. Common Shares will be purchased at the market price of the Common 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 and through other facilities listed above. The funding for any purchase of Common Shares pursuant to the 2011 NCIB will be financed out of working capital of the Company.

As of September 30, 2011, 21,600 Common Shares were purchased pursuant to the 2011 NCIB at an average purchase price of C\$4.36 of which none have been returned to treasury and cancelled.

Proposed Transactions and Subsequent Events

In October 2011, two Mesa wells (0.46 net) that had been waiting on completion were successfully turned in line to sales for a total of 10 new infill wells developed in 2011. Drilling operations associated with the 18 well infill program forecast to be executed through 2012 have commenced.

Effective October 31, 2011, Mr. Lorne Hanson has resigned as Director of Bucking Horse. The Board of Directors thanks Mr. Hanson for his contributions during his tenure and wishes him success in his future endeavours.

As of November 8, 2011, a total of 41,600 Common Shares were purchased pursuant to the 2011 NCIB at an average purchase price of C\$4.25 of which 23,800 have been returned to treasury and cancelled on October 18, 2011.

Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS 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 judgements 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 judgements 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 September 30, 2011 unaudited interim consolidated financial statements remain substantially unchanged from those described in our September 30, 2010 unaudited interim consolidated financial statements.

Significant Accounting Policies

The significant accounting policies used by us are disclosed in Note 3 of our unaudited interim consolidated financial statements for the period ended September 30, 2011. 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 our Company and the likelihood of materially different results being reported. Our 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 differ from 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 our plans. The effect of changes in proved oil and gas reserves on our financial position is described under the headings "Depletion Expense" and "Impairment of Long Lived Assets".

Depletion Expense

We use 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

We are 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 our 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.

Decommissioning Obligation

Decommissioning 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 our 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 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 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 our stock.

Legal Environmental Remediation and Other Contingent Matters

We are required to both determine whether a loss is probable based on judgement 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. Our management must continually monitor known and potential contingent matters and make appropriate provisions by charges to earnings when warranted by circumstance.

Changes in Accounting Policies Including Initial Adoption

Pending Accounting Pronouncements

The International Accounting Standards Board ("**IASB**") and International Financial Reporting Interpretations Committee ("**IFRIC**") have issued the following new accounting standards or amendments to standards which are applicable beginning after April 1, 2011 or later periods:

IFRS 9 – Financial Instruments

In an effort to reduce the complexity of accounting for financial instruments, the IASB is engaged in a project to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities, which may affect the Company's accounting for its financial assets. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to a company's own credit risk out of earnings and recognized the change in other comprehensive income. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company has yet to assess the full impact of IFRS 9.

IFRS 10 – Consolidation

IFRS 10 was issued on May 12, 2011. This standard requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under

existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC12, Consolidation – Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company has yet to assess the full impact of IFRS 10.

IFRS 13 – Fair Value Measurement

IFRS 13 was issued on May 12, 2011. This is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company has yet to assess the full impact of IFRS13.

Transition to International Financial Reporting Standards

Commencing on January 1, 2011, IFRS are the generally accepted accounting principles in Canada. The changeover date of January 1, 2011 required the restatement, for comparative purposes, of amounts reported by us for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. Please refer to our unaudited first and second quarter financial statements of 2011 filed on SEDAR.

Summary of Exemptions Available

In July 2009, the International Accounting Standards Board approved amendments and released 'Additional Exemptions for First-time Adopters' which prescribes transitional exemptions for oil and gas companies following full cost accounting. These amendments allow an entity that used full cost accounting under Canadian GAAP to elect, at its time of adoption, to measure exploration and evaluation assets at the amount determined under the Canadian GAAP and to measure oil and natural gas assets in the development or production phases by allocating the amount determined under Canadian GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of the date of transition (January 1, 2010), subject to an impairment test as prescribed under IFRS. The Company has applied this exemption. As part of the election, the assets were tested for impairment and there was no impairment found.

IFRS 1 also provides a number of other optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application which include the following:

Business Combinations – The Company elected not to retrospectively apply IFRS 3, *Business Combinations* to business combinations that occurred prior to the transition date and such business combinations have not been restated.

There are several key differences in the transition from Canadian GAAP to IFRS identified by the Company that impacted the financial statements and those items are noted as follows:

Debentures – Under Canadian GAAP, the Company's convertible debentures were accounted for as a compound instrument with both a debt and equity component. The fair value of the equity component was determined with the balance of the total debenture value being assigned to the debt component. The treatment under IFRS also requires the convertible debentures to be bifurcated into its debt and equity components; however, IFRS requires the

fair value of the debt component to be based on a similar stand-alone instrument with the difference between the face value and the fair value of the debt component being allocated to the equity component. Consequently, the amount allocated to debt has been determined to be \$40,607,760 with the balance of \$8,152,140 allocated to equity at the inception of the debentures on March 4, 2008. The debt component is being accreted to the face value of the convertible debentures over their term.

Deferred income taxes – The bifurcation of the convertible debentures above results in a temporary difference between the tax basis of the debt component of the debentures and its accounting basis for IFRS purposes. Under Canadian GAAP, the tax basis of the debt component was considered to be the same as its carrying amount and therefore no deferred tax was recognized.

Property, plant and equipment (“**PP&E**”) – This includes oil and gas assets in the development and production phases. As of January 1, 2011, all of our oil and gas assets are in the development and production phases, the full amount is included in PP&E and allocated to one cash generating unit (“**CGU**”).

Depletion expense – On transition to IFRS, we have the option to use either proved reserves or proved plus probable reserves in the depletion calculation. Our Company is using proved reserves in determining depletion expense.

Decommissioning obligations – Under Canadian GAAP, asset retirement obligations were discounted at a credit adjusted risk free rate of ten percent. Under IFRS, the estimated cash flows to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at the risk free rate in effect at the end of each reporting period. The change in the decommissioning obligations each period as a result of changes in the discount rate will result in an offsetting charge to natural gas properties.

As a result of the change in the discount rate, the decommissioning obligation accretion expense increased by \$6,502 during the nine months ended September 30, 2010 as the lower discount rate largely offset the impact of the higher obligation. In addition, under the previous GAAP accretion of the discount was included in depletion and depreciation. Under IFRS it is included in finance expense.

Financial Instruments and Other Instruments

Our Company is exposed in varying degrees to a number of risks arising from financial instruments. The Board of Directors has overall responsibility for the establishment and oversight of our Company's risk management framework. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The Board approves and monitors the risk management process.

Please refer to Note 4 and 5 of our 2011 unaudited interim consolidated financial statements for additional details on our Financial Instruments and Other Instruments.

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 us 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 our Company as an oil and gas producer depends largely on our ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that we will be able to locate satisfactory properties for acquisition or participation, that we will be able to obtain financing for further exploration and development, or that we will find oil or natural gas on our properties.

Our business plan is to generate profitable growth, measured by growth in production, proved reserves, and cash flow from operations. To accomplish this, we plan to focus on development of our Pinedale property assets, specifically the Mesa and Warbonnet 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 our Company as a junior oil and gas producer depends on, among other things, our ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that we will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, we may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that we will be able to obtain financing for further exploration and development, if at all. In this regard, we have 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.

We also face the risk of engaging in unprofitable efforts, as we may drill wells which are productive, but do not produce sufficient net revenues to return a profit after drilling, operating and other costs and we 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 or mechanical conditions in the wellbore, low commodity prices, and scheduled and unscheduled maintenance. 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 risks 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 our Company.

Prices, Markets and Marketing of Crude Oil, Natural Gas and Natural Gas Liquids: Our financial position and prospects are affected by, among other things, the price of energy commodity products which are determined largely by global and domestic supply and demand relationships that respond to market economies. A material decline in natural gas and natural gas liquid prices could result in a reduction of net production revenue for our Company, at which point one or more of our projects could become uneconomic, possibly leading to a reduction in volume of our natural gas and natural gas liquid reserves. We may also elect not to produce from certain wells at lower prices. This could result in a material decrease in our future net production revenue, causing a reduction in our natural gas and natural gas liquids acquisition and/or development activities. A substantial material decline in natural gas and

natural gas liquids prices could limit or reduce our borrowing base, reducing the bank credit available to us and possibly requiring us to repay a portion or all of any existing bank debt.

We are also affected by our ability to market our natural gas and natural gas liquids to prospective buyers. Marketability is affected by numerous factors beyond our control. The marketability and price of oil, natural gas and natural gas liquids which may be acquired or discovered by us will be affected by numerous factors beyond our control. We could be affected by the differential between the price paid by refiners for light quality oil and the grades of any oil produced by us. Our ability to market any natural gas we produce may depend upon our ability to acquire space on pipelines which deliver natural gas to commercial markets. We may also be affected by deliverability uncertainties related to the proximity of our 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, natural gas and natural gas liquids and many other aspects of the oil and natural gas business. We have limited direct experience in the marketing of oil, natural gas and natural gas liquids.

Substantial Capital Requirements and Liquidity: We anticipate substantial future capital expenditures for the exploration, development and production of oil and natural gas reserves. We 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 our capital requirements or to fund our ongoing activities at all times, which could have a potential material adverse effect on our financial condition, results of operations and prospects. We may require additional financing from time-to-time to carry out our oil and gas acquisitions, exploration and development activities. It is possible that such financing will not be available or, if available, will not be available on favourable terms. Failure to obtain such financing on a timely basis could cause us to forfeit our interest in certain properties, miss certain acquisition opportunities and reduce or terminate our operations. We may choose to sell additional securities in our capital stock to finance proposed operations. If this occurs, existing shareholders will experience a dilution of their equity interest in our Company.

Risk of Foreign Operations: Our key natural gas and natural gas liquid 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: (1) changes in energy policies or the personnel administering them; (2) expropriation of property without fair compensation; (3) cancellation or modification of contract rights; (4) foreign exchange restrictions; (5) currency fluctuations; (6) royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which our operations are conducted; and (7) risks of loss due to civil strife and acts of war.

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

Financial Considerations: We will require substantial funds to bring any oil and gas deposits contained on our 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 our 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. We 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 our 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 our financial condition, results of operations or prospects.

Our operations may require permits and licenses, including environmental permits and licenses, from various governmental and regulatory authorities. There can be no assurance that we will be able to obtain all necessary permits and licenses for our projects.

Reliance on Operators and Key Employees: We are not the operator of our current natural gas and natural gas liquid properties and may not be the operator of future oil, natural gas and natural gas liquid properties. To the extent that we are not the operator, we are dependent on others for the timing of activities related to such properties. We are largely unable to direct or control the activities of the operators.

Our success is also largely dependent upon the performance of management and the hired management consulting company. We do 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 us.

Management: Our success is currently largely dependent on the performance of our directors and officers. The loss of services of any of these persons could have a materially adverse effect on our business and prospects. There is no assurance we can maintain the services of our directors, officers or other qualified personnel required to operate our business.

Additional Funding Requirements: Our cash flow from our reserves may not be sufficient to fund our ongoing activities at all times. From time-to-time, we may require additional financing in order to carry out our oil and gas acquisition, exploration and development activities. Failure

to obtain such financing on a timely basis could cause us to forfeit our interests in certain properties, miss certain acquisition opportunities and reduce or terminate our operations. If our revenues from our reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect our ability to expend the necessary capital to replace our reserves or to maintain our production. If our cash flow from operations is not sufficient to satisfy our 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: We may be subject to liability as a result of our involvement in the oil and gas exploration and development of our daily operations. Although we may obtain insurance in accordance with industry standards to address such risks, such insurance has limitations on liability and 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, we 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 us. We could face material adverse effects on our financial position, results of operations or prospects if an event occurs which could expose us to significant liability.

Reserve Replacement: Our future oil and natural gas reserves, production, and cash flows are highly dependent on the successful acquisition, discovery and development of new reserves, as our existing reserves will decline over time as they are exploited. Without the continual addition of new reserves, we may be adversely affected. A future increase in our reserves will depend not only on our ability to develop any properties we may have from time-to-time, but also on our ability to select and acquire suitable producing properties or prospects. There can be no assurance that our future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Currency Fluctuations: We are subject to currency fluctuations as we maintain our deposit accounts in US and Canadian currencies and maintain operations mainly in the USA. Currency fluctuations could materially affect our financial position and results.

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

Dividends: We intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our Common Shares in the near future. The declaration, payment and amount of any future dividends will be made at the discretion of the board of directors, and will depend upon, among other things, the results of operations, cash flows and financial condition, operating and capital requirements, and other factors as the board of directors considers relevant. There is no assurance that future dividends will be paid, and if dividends are paid, there is no assurance with respect to the amount of any such dividend. Unless we pay dividends, our shareholders will not be able to receive a return on their shares unless they sell them.

Corporate Matters: Certain of our 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 our 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* and applicable securities law.

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 us. Conflicts, if any, will be dealt with in accordance with the relevant provisions of the British Columbia *Business Corporations Act* and applicable securities law. In order to avoid any possible conflict of interest which may arise between our directors' duties to our Company and their duties to the other companies on whose boards they serve, our directors and officers 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 judgement 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 us except on the same or better terms than the basis on which they are offered to third party participants.

Issuance of Debt: We 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 our debt levels above industry standards. Our articles do not limit the amount of indebtedness that we may incur; however, any secured debt in excess of C\$49,000,000 must be approved by the Debenture Holders. The level of our indebtedness could impair our ability to obtain additional financing in the future or on a timely basis necessary to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions: Our exploration and development activities are dependent on the availability of drilling and completions related equipment and crews in the particular areas where such activities will be conducted and the proximity of pipelines or other transmission facilities. Demand for such specialized equipment and personnel or access restrictions may affect the availability of such equipment and facilities to us 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 we are 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 our 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 will likely 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 our 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: We 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. Our 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 our natural gas customers and potential customers may themselves be exploring for oil and natural gas, and the results of these exploration efforts could affect our ability to sell or supply oil or gas to these customers in the future. Our 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 our industry partners and joint operators and our 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 our ability to raise capital through future sales of Common Shares.

Other MD&A Requirements

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 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 our current expectations. Therefore, in evaluating forward-looking statements, readers should specifically consider the various factors that could cause our 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, 2010 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

We are a publicly traded company and our Common Shares are listed for trading on the TSX under the symbol BUC.

As of September 30, 2011, we had the following securities outstanding:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	22,683,513

Security Type	Number Outstanding	Exercise/Conversion Price	Expiry Date
Convertible Debenture ⁽¹⁾	2 ⁽¹⁾	C\$4.875 per unit ⁽¹⁾	March 14, 2018
Convertible Debenture ⁽²⁾	2 ⁽²⁾	C\$4.000 per unit ⁽²⁾	August 4, 2014
Convertible Debenture ⁽³⁾	2 ⁽³⁾	C\$4.875 per unit ⁽³⁾	March 14, 2018
Stock Options	300,000	C\$4.00	April 4, 2016
Stock Options	100,000	C\$4.50	August 24, 2016

As of the date of this MD&A, we had the following securities outstanding:

Class of Shares	Par Value	Number Authorized	Number Issued
Common	Nil	Unlimited	22,657,713

Security Type	Number Outstanding	Exercise/Conversion Price	Expiry Date
Convertible Debenture ⁽¹⁾	2 ⁽¹⁾	C\$4.875 per unit ⁽¹⁾	March 14, 2018
Convertible Debenture ⁽²⁾	2 ⁽²⁾	C\$4.000 per unit ⁽²⁾	August 4, 2014
Convertible Debenture ⁽³⁾	2 ⁽³⁾	C\$4.875 per unit ⁽³⁾	March 14, 2018
Stock Options	300,000	C\$4.00	April 4, 2016
Stock Options	100,000	C\$4.50	August 24, 2016

Please see "Capital Resources" section (Page 9) for terms of the Debentures. As at September 30, 2011, the principal amount of the debentures outstanding amounted to \$46,746,804 (C\$49,000,000).

- (1) On March 4, 2008, we issued the First Debentures to each of the Debenture Lenders. Each of the First Debentures is in the principal amount of \$9,063,156 (C\$9,500,000), has a term of ten years, earns interest initially at a rate of 10% during the first six years and 15% 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 one share purchase warrant, which entitled the holder to purchase one additional Common Share 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, we issued the Second Debentures to each of the Debenture Lenders. Each of the Second Debentures is in the principal amount of \$4,770,082 (C\$5,000,000), has a term of ten years from August 4, 2004. Interest is payable monthly at a rate initially 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 and one non-transferable share purchase warrant, which has expired with no warrants being exercised. 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, we issued the Third Debentures to each of the Debenture Lenders. Each of the Third Debentures is in the principal amount of \$9,540,164 (C\$10,000,000), has a term of ten years, earns interest at a rate initially 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 and one share purchase warrant, which entitled the holder to purchase one additional Common Share 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 that are subject to pooling.

Disclosure Controls and Procedures and Internal Control over Financial Report

Disclosure Controls and Procedures: Our Chief Executive Officer and Chief Financial Officer (the "**Responsible Officers**") are responsible for establishing and maintaining disclosure controls and procedures for our Company, designed to provide reasonable assurance that material information relating to our Company and our subsidiaries is made known to the Responsible Officers by others within the organization, particularly during the period in which our quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of our disclosure controls and procedures as defined in National Instrument 52-109 - *Certification of Disclosure In Issuers' Annual and Interim Filings* ("**NI 52-109**") as at September 30, 2011. Based on this evaluation, they have concluded that such controls and procedures are effective in conveying the required information to the Responsible Officers, particularly in light of the our size, structure and stage of development. 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: Our Responsible Officers are responsible for establishing and maintaining internal controls and procedures for us, designed to provide reasonable assurance that material information relating to our Company and our subsidiaries is made known to the Responsible Officers by others within the organization, particularly during the period in which our quarterly and year-end financial statements and MD&A are being prepared. The Responsible Officers have evaluated the effectiveness of our internal controls and procedures as defined in NI 52-109 as at September 30, 2011. 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 our 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. We utilize 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 our Company it is not feasible to achieve complete segregation of incompatible duties. We have mitigated this weakness in controls by adding management review procedures over the areas where segregation is an issue.
- We do not retain staff with specialized and current income tax, financial reporting and complex accounting expertise. We report current and future income tax expenses and liabilities and other complex accounting calculations based on management's

estimates and rely 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

Additional information relating to our Company, including periodic quarterly unaudited consolidated financial statements, audited annual consolidated financial statements and the annual information form for the fiscal year ended December 31, 2010, is available on SEDAR at www.sedar.com. We also maintain a website at www.buckinghorsenergy.com. Information can also be obtained by contacting us by mail at #900 – 609 West Hastings Street, Vancouver, British Columbia, V6B 4W4 or by telephone at (604) 331-3398.