

# 2009



**petroglobe**

**Consolidated Annual Financial Statements**

For the years ended December 31, 2009 and 2008

## Management's Report to Shareholders:

The management of PetroGlobe Inc. is responsible for the preparation and integrity of the accompanying consolidated financial statements and all other information contained in this report. The Consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada and include amounts that are based on management's informed judgments and estimates where necessary.

The Board of Directors, through its Audit Committee, monitors management's financial and accounting policies and practices and the preparation of these consolidated financial statements. The Audit committee meets periodically with external auditors and management to review the work of each and propriety of the discharge of their responsibilities.

The Audit Committee reviews the consolidated financial statements of the Company with management and the external auditors prior to submission to the Board of Directors for final approval. The external auditors and the Board of Directors also review the Financial Report before it is finalized. The auditors have free access to the Audit Committee to discuss auditing and financial reporting matters. The Audit Committee reviews the independence of the external auditors and pre-approves audit and permitted non-audit services. The Shareholders have appointed Deloitte and Touche LLP as the external auditors of the Company, and in that capacity, they have examined the consolidated financial statements for the years ended December 31, 2009 and 2008.

(signed) "Jason James"

Jason James, C.A.

CEO and Director

April 26, 2010

(signed) "J. Paul Lawrence"

J. Paul Lawrence, C.A.

Director and Audit Committee Chairman

# Auditors' Report

To the Shareholders of  
PetroGlobe Inc.

We have audited the consolidated balance sheets of PetroGlobe Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta  
April 26, 2010

(signed) "Deloitte & Touche LLP"  
Chartered Accountants

**PetroGlobe Inc.**  
**Consolidated Balance Sheets**

(in thousands of Canadian dollars)

As at December 31,	2009	2008
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	177	2,203
Accounts receivable and accrued receivables	1,200	1,071
Prepaid expenses and deposits	119	92
Future income tax asset (Note 8)	925	348
	2,421	3,714
<b>Future income tax asset (Note 8)</b>	-	1,756
<b>Property, plant and equipment (Note 5)</b>	9,441	9,109
	11,862	14,579
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	1,577	3,814
	1,577	3,814
<b>Asset retirement obligations (Note 7)</b>	1,043	900
	2,620	4,714
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	34,386	31,754
Warrants (Note 9)	-	502
Shares held for cancellation (Note 9)	-	(9)
Contributed surplus (Note 9)	3,404	2,511
Deficit	(28,548)	(24,893)
	9,242	9,865
	11,862	14,579

**Going concern and basis of presentation (Note 1)**

**Commitments and contingencies (Note 14)**

**Subsequent events (Note 15)**

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors:

(Signed) "Bill Powers"  
 Bill Powers  
 Chairman & Director

(Signed) "J. Paul Lawrence"  
 J. Paul Lawrence  
 Director

**PetroGlobe Inc.**  
**Consolidated Statements of Operations, Comprehensive**  
**Loss and Deficit**

(in thousands of Canadian dollars except per share information)

<b>Years ended December 31,</b>	<b>2009</b>	<b>2008</b>
<b>REVENUE</b>		
Oil and natural gas	2,608	3,378
Royalties	(694)	(788)
Other	121	158
	<b>2,035</b>	<b>2,748</b>
<b>EXPENSES</b>		
Operating	1,382	1,486
General and administrative	1,169	949
Short-term interest	56	7
Stock-based compensation (Note 10)	183	403
Depletion, depreciation and accretion	1,953	1,625
Property, plant and equipment impairment (Note 5)	-	14,578
Foreign exchange gain	(30)	(7)
Gain on sale of assets	(19)	-
	<b>4,694</b>	<b>19,041</b>
<b>Loss before income taxes from continuing operations</b>	<b>(2,659)</b>	<b>(16,293)</b>
<b>Income taxes</b>		
Future income tax (expense) recovery (Note 8)	(996)	2,104
<b>Net loss from continuing operations</b>	<b>(3,655)</b>	<b>(14,189)</b>
<b>Net income (loss) from discontinued operations (Note 3)</b>	<b>-</b>	<b>488</b>
<b>Net loss and comprehensive loss for the year</b>	<b>(3,655)</b>	<b>(13,701)</b>
Deficit, beginning of year	(24,893)	(11,192)
<b>Deficit, end of year</b>	<b>(28,548)</b>	<b>(24,893)</b>
<b>Loss per share (Note 9)</b>		
<b>Net loss from continuing operations per share</b>		
Basic and diluted	(0.07)	(0.31)
<b>Net income from discontinued operations per share</b>		
Basic and diluted	-	0.01
<b>Net loss per share</b>		
Basic and diluted	(0.07)	(0.30)

See accompanying notes to the consolidated financial statements.

**PetroGlobe Inc.**  
**Consolidated Statements of Cash Flows**  
*(in thousands of Canadian dollars)*

Years ended December 31,	2009	2008
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss from continuing operations	(3,655)	(14,189)
Items not involving cash:		
Depletion, depreciation and accretion	1,953	1,625
Stock-based compensation (Note 10)	183	403
Property, plant and equipment impairment (Note 5)	-	14,578
Unrealized foreign currency (gain) loss	(12)	18
Future income tax expense (recovery) (Note 8)	996	(2,104)
Gain on sale of assets	(19)	-
	(554)	331
Change in non-cash working capital (Note 11)	(154)	882
Cash flows from (used in) continuing operations	(708)	1,213
Cash flows from (used in) discontinued operations (Note 3)	-	69
	(708)	1,282
<b>Financing activities</b>		
Decrease in bank line of credit	-	(50)
Issue of common shares, net of share issue costs (Note 9)	3,049	2,816
Repurchase of common shares (Note 9)	(15)	(9)
Cash received on exercise of stock options	-	72
Change in non-cash working capital (Note 11)	12	-
Cash flows from continuing financing activities	3,046	2,829
<b>Investing activities</b>		
Expenditures on property plant and equipment	(2,132)	(4,016)
Proceeds from disposition of property plant and equipment	19	797
Change in non-cash working capital (Note 11)	(2,251)	442
Cash flows used in continuing investing activities	(4,364)	(2,777)
Cash flows from discontinued investing activities (Note 3)	-	446
	(4,364)	(2,331)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,026)</b>	<b>1,780</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2,203</b>	<b>423</b>
<b>Cash and cash equivalents, end of year (Note 4)</b>	<b>177</b>	<b>2,203</b>
<b>Supplemental cash flow information (Note 11)</b>		
Cash interest received	2	24
Cash interest paid	56	7
Cash income taxes paid related to discontinued operations	-	399

See accompanying notes to the interim consolidated financial statements.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

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### 1. DESCRIPTION OF THE BUSINESS, GOING CONCERN AND BASIS OF PRESENTATION

The consolidated financial statements include the accounts of PetroGlobe Inc. and its subsidiaries (collectively "PetroGlobe" or the "Company"). PetroGlobe is a public company in the business of exploring, developing and producing oil and natural gas directly in Alberta, Canada and in Texas, United States through a wholly owned subsidiary.

The Company also provided national and international consulting services to the energy industry through a wholly owned subsidiary, PetroGlobe (Canada) Ltd., prior to its disposal on October 17, 2008 (see Note 3)

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles as applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. As at December 31, 2009, the Company had a net loss from continuing operations of \$3,655,000, accumulated deficit of \$28,548,000, negative cash flows from continuing operations of \$708,000 and working capital deficiency excluding future income tax assets of \$81,000.

The Company will continue to consider development projects as opportunities present themselves, which may require financing for both working capital and the exploration and development of such properties. The Company's long-term continuance as a going concern will be dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries PetroGlobe Energy USA Ltd. and PetroGlobe (Canada) Ltd. ("PGCL"). The results of PGCL prior to the effective date of disposition (see Note 3) on October 1, 2008 are included in the consolidated financial statements. Any reference to the "Company" throughout these consolidated financial statements refers to the Company and its subsidiaries. All inter-entity transactions have been eliminated.

#### b. Measurement uncertainty

The preparation of financial statements under Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. Accordingly, actual results may differ from estimated results.

While management believes that its estimates have been reasonable in the circumstances, the global credit market crisis, the volatility in the price of oil and natural gas, the recession in Canada and the slowdown of economic growth in the rest of the world has created a substantially more volatile business environment. These conditions will limit certain of the Company's previously planned business development activities and it will continue to provide risk for the Company's future. To prepare these consolidated financial statements, management has recorded adjustments and included disclosures based on their best estimates of projected business activity and future cash flows.

Amounts recorded from joint venture partners are based on the Company's interpretation of underlying agreement and may be subject to joint approval. The Company has recorded balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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### 2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

Any adjustment required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

The amounts recorded for depletion, depreciation and amortization of petroleum and natural gas properties and equipment, the liability for retirement obligations and the amount recorded for future income taxes are based on estimates. The impairment test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, estimates of reserves and the related future cash flows are subject to measurement uncertainty and the impact of differences between actual and estimated amounts on the consolidated financial statements of future periods could be material.

The calculation of asset retirement obligations includes estimates of the future costs to settle the asset retirement obligation, the timing of the settlement of the obligation and the future interest rates. The impact of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods could be material.

The Company estimates expected gas cost allowance ("GCA") credits based on actual costs and expected government credits. Due to the significant complexity of the GCA adjustment, which is calculated by well and facility, the estimate is subject to measurement uncertainty. Adjustments to accrued amounts, if required, will be recorded in the period that the related refunds are received.

The Black-Scholes option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Corporation's stock options and performance incentive warrants have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

The significant accounting policies used in the consolidated financial statements are as follows:

#### c. Joint Ventures

A substantial part of the Company's exploration and development activities are conducted jointly with others and accordingly, the consolidated financial statements reflect only the Company's proportionate interest in such activities.

#### d. Foreign Currency Translation

The Company's foreign subsidiaries are considered an integrated foreign operation and as such, their financial statements are translated using the temporal method. Under this method, monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date and non-monetary assets and liabilities and related depletion and depreciation are translated into Canadian dollars at historic rates. Revenues and expenses are translated at the average rate of exchange for the year. Any resulting foreign exchange gains or losses are included in earnings.

#### e. Cash and Cash Equivalents

Cash and cash equivalents are cash and short-term deposits with maturity dates less than 90 days from the date of purchase.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

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### 2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

#### f. Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized on a country cost centre basis.

Costs include geological and geophysical expenditures, costs of non-productive properties, the drilling of both productive and non-productive wells and related production equipment costs, and that portion of general and administrative expenses and interest directly attributable to exploration and development activities. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss unless the sales results in a 20% or more change in the Company's depletion rate.

#### g. Depletion and Depreciation

Depletion and depreciation of oil and gas properties and equipment is computed using the unit-of-production method where the ratio of production to proved reserves, before royalties, determines the proportion of depletable costs to be expensed. For the purposes of the calculation, natural gas reserves and production are converted on to equivalent volumes of petroleum based on relative energy content where 6 Mcf of natural gas is equivalent to 1 barrel of oil equivalent. Undeveloped properties are excluded from the depletion calculation until quantities of proved reserves are found or impairment occurs. Pipeline costs are being amortized on a straight line method over its remaining useful life. Office furniture and equipment are recorded at cost and depreciated using declining balance method at rates ranging from 20-100%.

#### h. Ceiling Test

An impairment loss is recognized in net income if the carrying amount of a country (cost centre) is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying value is assessed to be recoverable when the sum of the undiscounted cash flows expected from production of proved reserves and the cost, less impairment, of unproved properties exceeds the carrying value. If the carrying value is assessed as not recoverable, the calculation compares the carrying value to the sum of discounted cash flows expected from the production of proved and probable reserves and the cost, less impairment, of unproved properties. Should the carrying value exceed this sum, an impairment loss is recognized.

#### i. Asset Retirement Obligations

The Company recognizes the fair value of an asset retirement obligation ("ARO") in the period in which it is incurred and reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of property, plant and equipment. A revision to the estimated undiscounted cost also increases or decreases the ARO. The increased asset value is amortized according to the Company's policies for property, plant and equipment and the future liability is accreted to expense until the future retirement obligation is settled. Gains or losses from settlement are recorded to income in the period during which the settlement occurs.

#### j. Revenue Recognition

##### *Resource*

Oil and gas revenue is recognized when title transfers at the time sales volumes are delivered to the purchasers.

##### *Consulting*

The Company previously recognized consulting revenues when a consultant's time was incurred. The revenue was recorded at the estimated realizable value of work completed to date. Consulting costs were comprised of payments to subcontractors, third party charges and employee compensation including out

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

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### 2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

of pocket costs incurred by them in the performance of their work. Revenues were earned in Canadian and United States dollars and the majority of the customers operating internationally were mainly subsidiaries of large integrated oil and gas companies, which minimized the risk to the Company of operating in foreign countries.

#### k. Stock-based Compensation

The Company has a stock option plan that is described in Note 10. The Company accounts for its stock based compensation using the fair value method, whereby the fair value of the award is determined at the date of the grant using a market based option value model. The fair value of the award is recorded as compensation expense over the vesting period, with a corresponding increase to contributed surplus. The Company estimates forfeitures at the grant date and revises the estimate as necessary if subsequent information indicates that the actual forfeitures differ significantly from the original estimate. Upon the exercise of a stock option by an option holder the cash paid and related amount of contributed surplus related to the option is recorded to share capital.

#### l. Income Taxes

The Company follows the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributed to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using substantively enacted income tax rates. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs. If the Company determines that it is more likely than not that a future income tax asset will not be realized it reduces the future income tax asset by a valuation allowance.

#### m. Flow-through Shares

The Company has issued flow-through shares and the resultant proceeds are used to fund exploration and development expenditures within a defined time period. The income tax deductions associated with the expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. A future income tax liability is recognized in the period when the Company files the renouncement with the appropriate tax authorities and share capital is reduced by the estimated costs of the renounced tax deductions.

#### n. Basic and Diluted per Share Calculations

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method on the basis of the weighted average number of shares outstanding during the year plus the additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

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### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **o. Financial Instruments**

All financial instruments, including derivatives, are recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in income. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to income when derecognized or impaired. Transaction costs attributable to financial instruments classified as other than held-for-trading are included in the recognized amount of the related financial instrument and recognized over the life of the resulting financial instrument using the effective interest method.

The Company may utilize financial derivatives and non-financial derivatives, such as commodity sales contracts requiring physical delivery, to manage the price risk attributable to the anticipated sale of oil and natural gas production. PetroGlobe does not enter into derivative financial instruments for trading or speculative purposes.

The derivative financial instruments are initiated within the guidelines of PetroGlobe's commodity price risk management policy. This includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions.

The Company accounts for its commodity sales and purchase contracts, which were entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts on an accrual basis rather than as derivatives. As such, physical sales and purchase and purchase contracts are not recorded at fair value on the balance sheet with changes in fair value included in earnings.

Subsequent changes in the fair value of derivatives that are not designated or do not qualify for hedge accounting or normal purchase, sale or usage contracts are recognized in net income as incurred.

Financial instruments measured at fair value on the balance sheet require classification into the following levels of the fair value hierarchy:

*Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.*

*Level 2 – Inputs other than quoted prices included in level 1 that are observable for the asset or liability, whether directly or indirectly.*

*Level 3 – Inputs for the asset or liability that are not based on observable market data.*

The fair value hierarchy level at which a fair value measurement is categorized is determined on the lowest level of input that is significant to the fair value measurement in its entity. The Company has categorized its financial instruments that are fair valued on the balance sheet according to the fair value hierarchy.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

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### 2. SIGNIFICANT ACCOUNTING POLICIES (*continued*)

#### CHANGES IN ACCOUNTING POLICIES

During 2009, PetroGlobe adopted the following new accounting standards

##### **Goodwill and Intangible Assets**

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3064 - *Goodwill and intangible assets*, replacing *Section 3062, Goodwill and other intangible assets* and *Section 3450, Research and development costs*. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. No changes were required to these financial statements as a result of the adoption of this standard.

##### **Financial Instruments Disclosures**

In June 2009, the CICA issued amendments to CICA Handbook Section 3862, Financial Instruments – Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendments were effective for annual financial statements for fiscal years ending after September 30, 2009 and are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards (IFRS). The additional disclosures have been provided in Note 12.

##### **Financial Instruments Recognition and Measurement**

Effective July 2009, the CICA amended Section 3855 – "Financial Instruments – Recognition and Measurement", to prohibit the reclassification of a financial asset out of the held-for-trading category when the fair value of the embedded derivative in a combined contract cannot be reasonably measured. Amendments to this section also include a revised definition of "loans and receivables" and provided that certain conditions have been met, permits reclassification of financial assets from held-for-trading and available-for-sale categories into the loans and receivables category. The amendments also provide one method of assessing impairment for all financial assets regardless of classification. The adoption of the amendments of this standard did not have any impact on the Company's financial statements.

Effective January 1, 2009, the Company adopted CICA Emerging Issues Committee ("EIC") Abstract No. 173 "Credit Risk and Fair Value of Financial Assets and Liabilities". The EIC provides guidance on the implications of credit risk in determining the fair value of an entity's financial assets and liabilities. The guidance clarifies that an entity's own credit risk and the risk of counterparties should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments, for presentation and disclosure purposes. Adoption of this statement did not have an impact on the Company's financial statements

#### NEW ACCOUNTING PRONOUNCEMENTS

##### **Business Combinations**

In January 2009, the AcSB issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Non-controlling Interests

In January 2009, the AcSB issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

#### International Financial Reporting Standards

On February 13 2008, the CICA Accounting Standards Board announced that Canadian public reporting issuers will be required to report under International Financial Reporting Standards ("IFRS") which will replace Canadian generally accepted accounting principles for years beginning on or after January 1, 2011. Currently, the Company is assessing the effect of adoption and developing a plan accordingly. We will continue to monitor any changes in the adoption of IFRS and will update our plans as required.

### 3. DISCONTINUED OPERATIONS

On October 17, 2008 PetroGlobe Inc. completed the sale of 100% of the common shares of PetroGlobe Canada Ltd. ("PGCL"), the wholly owned subsidiary of PetroGlobe Inc. which conducted the domestic and international consulting operations and presented the operations from these activities as discontinued operations. The sale of PGCL resulted in cash proceeds of \$446,000 and pre-tax loss of \$162,000. The sale of PGCL was completed with an effective date of October 1, 2008. For the purposes of the reporting of segmented information, the operations of PGCL were previously included in the consulting segment. Consequently, as a result of classification of the consulting activities as discontinued operations the Company now has one reportable segment.

A summary of discontinued operations is as follows:

	2009	2008
Revenues		
Consulting revenue	-	4,142
Interest and other income	-	3
	-	4,145
Expenses		
Operating	-	3,054
General and administrative	-	285
Depreciation	-	9
Foreign exchange loss (gain)	-	(38)
	-	3,310
Income from discontinued operations before taxes	-	835
Income taxes		
Current	-	(399)
Future recovery	-	214
	-	(185)
Income from discontinued operations after taxes	-	650
Loss on disposition	-	(162)
Net income (loss) from discontinued operations	-	488

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

### 4. CASH AND CASH EQUIVALENTS

	2009	2008
Cash	57	560
Treasury bills	120	1,643
	177	2,203

The average interest rate earned on treasury bills during 2009 was 1.25 percent (2008 – 2.1 percent).

### 5. PROPERTY, PLANT AND EQUIPMENT

2009			
	Cost	Accumulated Depletion, Depreciation and Impairment	Net book Value
Petroleum and natural gas properties and equipment	35,980	26,542	9,438
Office furniture and equipment	159	156	3
	36,139	26,698	9,441

2008			
	Cost	Accumulated Depletion, Depreciation and Impairment	Net book Value
Petroleum and natural gas properties and equipment	33,760	24,695	9,065
Office furniture and equipment	159	115	44
	33,919	24,810	9,109

#### Property, Plant and Equipment by Geographic Area

	2009	2008
Canada	9,441	9,109
United States	-	-
Total	9,441	9,109

On September 8, 2008 PetroGlobe completed the sale of certain petroleum and natural gas properties and equipment in the Company's Paulo Duro operating area of Texas. The company received \$797,000 (\$750,000 USD). This amount was credited against petroleum and natural gas properties and equipment in the United States cost centre. In addition, the sale of the assets stipulates that if certain production on the sold properties achieves a rate of four million cubic feet per day for a specified period of time PetroGlobe will be entitled to a bonus payment of \$500,000 USD.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated

### 5. PROPERTY, PLANT AND EQUIPMENT (continued)

During the third quarter of 2008 PetroGlobe determined that the unproved properties in the United States cost centre were impaired as the carrying value of the unproved properties exceeded the fair value. PetroGlobe recognized an impairment charge of \$14,578,000.

During 2009, the Company capitalized general and administrative expenditures of \$161,000 (2008 - \$80,000).

At December 31, 2009, the cost of unproved properties of \$nil (2008 - \$nil) and salvage values of \$525,000 (2008 - \$430,000) were excluded from petroleum and natural gas properties and equipment for the purposes of calculating depletion. Future development costs totaling \$1,590,000 (2008 - \$650,000) were included in the calculation of depletion for the respective periods.

The Corporation prepared a ceiling test at December 31, 2009 to assess the recoverability of costs recorded in respect of its Canadian petroleum and natural gas properties. As a result of the test, a ceiling test write-down was not required as at December 31, 2009 (2008 - \$nil).

The petroleum and natural gas prices are based on the December 31, 2009 commodity price forecast of the Corporation's independent reserve engineers. These prices have been adjusted for commodity price differentials specific to the Corporation. The following table summarizes the benchmark prices used in the ceiling test calculation:

Year	WTI Cushing Oklahoma (\$US/bbl)	Edmonton MSW 40 Deg. API (\$CDN/bbl)	Natural Gas AECO-C Price (\$CDN/MMBTU)	NGLs Edmonton Butanes Plant Gat (\$CDN/bbl)	NGLs Edmonton Pentanes Plant Gat (\$CDN/bbl)	Exchange Rate (\$US/\$CDN)
2010	80.00	83.72	5.21	68.11	87.49	0.95
2011	84.00	87.55	5.92	71.42	91.66	0.95
2012	86.00	89.47	5.92	73.07	93.74	0.95
2013	88.00	91.39	5.92	74.72	95.83	0.95
2014	90.00	93.31	6.39	76.38	97.91	0.95
2015	91.80	95.03	6.52	77.87	99.79	0.95
2016	93.64	96.79	6.65	79.39	101.70	0.95
2017	95.51	98.59	6.79	80.93	103.65	0.95

<sup>(1)</sup> Prices remain consistent for 2017 and increase at a rate of approximately 2.0% thereafter

### 6. BANK LINE OF CREDIT

	2009	2008
Bank line of credit	-	-

The Company has a demand revolving credit facility with an available limit of \$2,700,000 at December 31, 2009 of which none had been drawn down. This facility is secured by a general security agreement. Interest is payable at the bank prime rate plus 1.50%. The next annual review of the credit facilities is scheduled for May 31, 2010.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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### 7. ASSET RETIREMENT OBLIGATIONS

The following table summarizes changes in asset retirement obligations for the period:

	2009	2008
Asset retirement obligations, beginning of year	900	587
Changes in liabilities during the year related to:		
Acquisitions	-	17
Additions	88	174
Revisions	-	89
Liabilities disposed	-	(28)
Accretion expense	65	44
Foreign exchange	(10)	17
Asset retirement obligations, end of year	1,043	900

At December 31, 2009, management estimates that undiscounted expected cash flows required to settle the Corporation's asset retirement obligations will be incurred as follows:

2013	130
2014	947
2015	411
	1,488

The undiscounted amount of the estimated future cash flows required to settle the obligations as at December 31, 2009 was \$1,488,000 (2008 - \$1,358,000). These obligations will be settled at the end of the useful lives of the underlying assets, which currently average 5.1 years (2008 - 6.5 years). The liability for the estimated future cash flows has been calculated using a weighted average inflation rate of 1.8% and discounted at a weighted average credit-adjusted risk-free rate of 7.2% (2008 - 7.1%).

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 8. INCOME TAXES

The income tax provision is calculated by applying the applicable combined Canadian federal and provincial statutory tax rate to pre-tax income (loss) from Canadian entities and the applicable combined U.S federal and state statutory tax rate to pre-tax income (loss) from U.S. entities with adjustments as set out in the following table:

	2009	2008
Loss before income taxes from continuing operations	(2,659)	(16,293)
Average combined federal and provincial tax rate	28.97%	32.49%
Computed income tax provision	(770)	(5,292)
Increase (decrease) in income taxes resulting from:		
Stock-based compensation	53	119
Change in statutory tax rates	107	191
Other	(1)	-
Change in valuation allowance	1,607	2,878
Income tax expense (recovery)	996	(2,104)

The components of the net future income tax asset were as follows:

	2009	2008
Non-capital loss carry-forwards	4,286	3,568
Asset retirement obligations	272	237
Share issue costs	78	43
Tax bases of property plant, and equipment in excess of carrying amount	3,104	3,464
	7,740	7,312
Valuation allowance	(6,815)	(5,208)
Net future income tax asset	925	2,104
Net future income tax asset - current	925	348
Net future income tax asset – long-term	-	1,756
	925	2,104

The Company has Canadian non-capital losses of approximately \$2.9 million (2008 – \$2.2 million) and United States operating losses of approximately \$9.1 million USD (2008- \$9.1 million) available to be carried forward for tax purposes. The financial statements do not reflect the full potential tax benefit of the United States losses. The full benefit of the Canadian non-capital tax losses have been recognized since they will be used to offset the future tax liability related to the flow-through share issuance described in Note 9. Canadian non-capital loss carry forwards expire between 2012 and 2027 and United States operating loss carry forwards expire between 2017 and 2028.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 9. SHARE CAPITAL

#### (a) Authorized share capital

The Company is authorized to issue an unlimited number of common shares of no par value and an unlimited number of preferred shares.

#### (b) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2007	36,018,354	28,800
Issued pursuant to private placement (i)	10,000,000	2,000
Issued pursuant to private placement (ii)	3,564,000	891
Share issue costs (net of tax) (i)(ii)	-	(53)
Issued upon exercise of stock options	216,666	116
Balance, December 31, 2008	49,799,020	31,754
Issued pursuant to private placement (iii)	24,010,468	3,308
Share issue costs (net of tax) (iii)	-	(184)
Cancellation of shares (iv)	(367,000)	(234)
Tax effect of flow-through shares (ii)	-	(258)
Balance, December 31, 2009	73,442,488	34,386

- (i) In March 2008, the Company completed a private placement of 10,000,000 common shares at a price of \$0.20 per common share for gross proceeds of \$2,000,000. Total costs related to the private placement were \$15,000. A future income tax benefit of \$4,000 was recognized as an increase to future income tax asset and a corresponding increase to share capital.
- (ii) On August 21, 2008 the Company completed a private placement of 3,564,000 common shares issued on a flow-through basis eligible for renunciation of Canadian Exploration Expenses ("CEE") at a price of \$0.25 per common share for gross proceeds of \$891,000. Total costs related to the private placement were \$60,000. A future income tax benefit of \$18,000 was recognized as an increase to future income tax asset and a corresponding increase to share capital. In February 2009, the Company filed the renouncement of the CEE expenditures with an effective renouncement date of December 31, 2008.
- (iii) In November 2009, the Company completed a private placement of 5,384,615 common shares at a price of \$0.13 per common share and 18,625,853 common shares at a price of \$0.14 per common share for gross proceeds of \$3,307,620. The shares were issued on a flow-through basis eligible for renunciation of CEE. Total costs related to the private placement were \$259,000. A future income tax benefit of \$75,000 was recognized as an increase to future income tax asset and a corresponding increase to share capital. In February 2010, the Company filed the renouncement of the CEE expenditures with an effective renouncement date of December 31, 2009.
- (iv) PetroGlobe received approval on December 15, 2008 from the TSX Venture Exchange to commence a normal course issuer bid. At PetroGlobe's discretion, the Company can purchase up to 4,979,902 (approximately 10% of its issued and outstanding common shares) of its common shares through the facilities of the Exchange at the prevailing market price during a twelve month period commencing on December 18, 2008. During December 2008, PetroGlobe purchased 150,000 shares at an average price of \$0.06 per common share which were held for cancellation as at December 31, 2008. During January and February 2009, PetroGlobe purchased 217,000 shares at an average price of \$0.07 per common share. In February 2009, PetroGlobe cancelled and returned to treasury 367,000 common shares.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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### 9. SHARE CAPITAL (continued)

#### (c) Issued and outstanding common share purchase warrants

	Number of shares	Amount
Balance, December 31, 2007	3,733,721	1178
Expired	(983,721)	(325)
Forfeited	(1,133,333)	(351)
Balance, December 31, 2008	1,616,667	502
Expired	(1,616,667)	(502)
<b>Balance, December 31, 2009</b>	<b>-</b>	<b>-</b>

#### Common share purchase warrants

Common share stock warrants Issued on August 8, 2007			
	Number of warrants	Weighted average exercise price (\$/warrant)	Weighted average remaining contractual life (years)
Outstanding, December 31, 2008	1,616,667	0.95	1.61
Expired	(1,616,667)	(0.95)	(1.61)
<b>Outstanding, December 31, 2009</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### (d) Contributed surplus

	2009	2008
Contributed surplus balance, beginning of year	2,511	1,476
Stock-based compensation	183	403
Common shares purchased below assigned value	208	-
Transferred from share capital on expiry of warrants	502	325
Transferred from share capital on forfeiture of warrants	-	351
Transferred to share capital on exercise of options	-	(44)
<b>Contributed surplus, end of year</b>	<b>3,404</b>	<b>2,511</b>

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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### 9. SHARE CAPITAL (continued)

#### (d) Per share amounts

In calculating the net income per share

	2009	2008
Weighted average common shares outstanding - basic	52,594,588	45,419,627
Dilutive effect of options and stock purchase warrants	-	1,157
Weighted average common shares outstanding - diluted	52,594,588	45,420,784

In calculating the weighted average number of diluted common shares outstanding for the year ended December 31, 2009, the Company excluded 3,075,000 options (2008 – 2,665,000) and no common share purchase warrants (2008 – 2,750,000) because they were expired or determined to be anti-dilutive.

### 10. STOCK-BASED COMPENSATION

The Company has a stock option plan under which it grants to directors, officers, consultants and employees of the Company. Under this plan, the Company may grant total options to a maximum of 10% of the issued and outstanding common shares of the Company. Options granted under this plan have an exercise price equal to the quoted market closing price of the Company's common shares on the date of grant. Option terms to maturity range from three to five years. All options granted under this plan subsequent to February 2006 vest one-third immediately on granting and one-third on each of the first and second anniversaries from the date of grant. Options granted prior to February 2006 had vesting rates which varied from immediate upon granting to vesting over a maximum period of three years.

A summary of the status of the plan is presented as follows:

	December 31, 2009		December 31, 2008	
	Number of options	Weighted average exercise price (\$/option)	Number of options	Weighted average exercise price (\$/option)
Balance, beginning of year	2,720,000	0.70	3,487,500	0.20
Granted	2,435,000	0.11	685,000	0.80
Exercised	-	-	(216,666)	(0.32)
Expired	(190,000)	(1.65)	-	-
Forfeited	(1,890,000)	(0.40)	(1,235,834)	(0.82)
Balance, end of year	3,075,000	0.36	2,720,000	0.70
Exercisable, end of year	1,741,667	0.54	1,381,667	0.91

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2009 and 2008

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### 10. STOCK-BASED COMPENSATION (continued)

A summary of the outstanding stock options as at December 31, 2009 is as follows:

Exercise Price (\$/option)	Options Outstanding		Options Exercisable	
	Number outstanding at December 31, 2009	Weighted average remaining contractual life (years)	Number exercisable at December 31, 2009	Weighted Average Exercise Price (\$/option)
0.095 – 0.50	2,425,000	4.27	1,091,667	0.20
0.51 – 1.00	450,000	2.59	450,000	0.80
1.50 – 2.95	200,000	2.00	200,000	1.85
<b>0.095 - 2.95</b>	<b>3,075,000</b>	<b>3.88</b>	<b>1,741,667</b>	<b>0.54</b>

The fair value of each option granted was estimated on the date of grant using the Black-Scholes Option Pricing Model to calculate stock-based compensation expense for the options granted during the years ended December 31, 2009 and 2008. The weighted average fair value of the options granted and assumptions used in the model were as follows:

	2009	2008
Weighted-average fair value of options granted	<b>\$0.08</b>	<b>\$0.18</b>
Risk-free interest rate (%)	<b>2.3</b>	<b>3.3</b>
Expected hold period (years)	<b>5</b>	<b>5</b>
Expected volatility (%)	<b>81</b>	<b>76</b>
Expected dividend yield (%)	<b>nil</b>	<b>nil</b>

### 11. SUPPLEMENTARY CASHFLOW INFORMATION

	2009	2008
Changes in non-cash working capital:		
Accounts receivable and accrued receivables	(129)	965
Prepaid expenses and deposits	(27)	193
Accounts payable and accrued liabilities	(2,237)	166
	<b>(2,393)</b>	1,324
Changes in non-cash working capital:		
Operating	(154)	882
Financing	12	-
Investing	(2,251)	442
	<b>(2,393)</b>	1,324

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 12. FINANCIAL INSTRUMENTS

#### Carrying Values and Estimated Fair Values

The Company has the following classifications:

<b>Financial assets and liabilities</b>	<b>Category</b>
Cash and cash equivalents	Held-for-trading
Accounts receivable and accrued receivables	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities

The carrying value and fair value of financial assets and liabilities are summarized as follows:

Classification	December 31, 2009	
	Carrying Value	Fair Value
Financial assets held-for-trading	177	177
Loans and receivables	1,200	1,200
Other liabilities	1,577	1,596

All financial instruments held at fair value on the balance sheet have been categorized as Level 1 financial instruments.

#### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint interest parties and oil and natural gas marketers.

Most of the Company's accounts receivable relate to oil and natural gas sales and are exposed to typical industry credit risks. The Company manages this credit risk by entering into sales contracts with only credit worthy entities and reviewing its exposure to individual entities on a regular basis. The book value of the accounts receivable reflects management's assessment of the maximum credit risk. At December 31, 2009, the Company was exposed to credit concentration risk with four customers totaling \$1,036,000 or 86% (2008- 1 customer \$514,000 or 48%) of the total accounts receivable outstanding.

Customer	Amount
A	526
B	265
C	140
D	105
Total	1,036

# PetroGlobe Inc.

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### 12. FINANCIAL INSTRUMENTS (continued)

The Company's receivables from oil and gas marketers are typically collected on the 25<sup>th</sup> of the month following production. At December 31, 2009 PetroGlobe's production was marketed by two marketers; however the marketers are large entities with AAA credit ratings.

Receivables related to joint venture partners are typically collected one to three months after the joint venture billing has been issued to the partner. The Company mitigates credit risk by getting partner approval on capital expenditures and by issuing cash calls where possible prior the commencement of projects. Where the Company is exposed to unpaid joint venture receivables, the Company as operator has the ability to withhold production to realize collection on joint venture receivables.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in 90 days or less. The Company manages credit exposure related to short-term investments by selecting counter parties based on credit ratings.

Trade and accrued receivables are summarized in the table below. With respect to the trade and accrued receivables that are not impaired and past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

Trade and accrued receivables at December 31, 2009	
Neither impaired nor past due	803
Impaired (net of valuation allowance)	-
Not impaired and past due in the following periods:	
Within 30 days	108
31-60 days	8
61-90 days	27
Over 90 days	254
	<u>1,200</u>

#### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. PetroGlobe's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses.

The Company prepares annual capital and operation budgets which are regularly monitored and updated as considered necessary. To facilitate capital expenditure programs the Company has a revolving credit facility (see Note 6 Bank Line of Credit) which is reviewed by the lender annually with interim reviews generally scheduled.

The Company actively maintains credit facilities to ensure that it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost. The following are the contractual maturities of financial liabilities at December 31, 2009.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 12. FINANCIAL INSTRUMENTS (continued)

	Recognized in Financial Statements	Payments Due by Period		
		Contractual Cash Flows	Less than 1 year	1-3 years
Accounts payable and accrued liabilities and other	Yes - Liability	1,577	1,577	-
Office lease	No	67	67	-
Equipment lease	No	30	30	-
Total		1,674	1,674	-

#### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

#### (a) Foreign currency exchange risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's oil and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for oil and natural gas could be impacted by changes in the exchange rate between the Canadian and United States dollar. Due to oil and gas operations conducted in the United States the Company is also directly impacted by the Canadian/ United States currency exchange rate in relation to revenues, operating expenses and expenditures incurred in the United States. In addition, the consulting segment of the Company generated revenues and expenses denominated in foreign currencies such as the United States dollar and the Euro. The indirect exposure to foreign currency exchange rate risk cannot be accurately quantified.

The Company has no forward foreign exchange contracts in place as at December 31, 2009.

#### (b) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by the relationship between the Canadian and United States dollar, as well as, global economic events that dictate the levels of supply and demand. The Company has attempted to mitigate a portion of the commodity price risk through the use of commodity price contracts. The Company's policy is to enter into commodity price contracts when considered appropriate.

The Company had the following physical delivery contract outstanding as at December 31, 2009:

Commodity Sold	Type of Contract	Notional Volume	Remaining Term	Pricing
Natural Gas	Collar	1000 GJ/d	Nov 1, 2009 – Mar 31, 2010	\$4.30/GJ to \$5.11/GJ

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 12. FINANCIAL INSTRUMENTS (continued)

#### (c) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. The Company has no interest rate swaps or related financial contracts in place as at December 31, 2009.

### 13. CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so that PetroGlobe can ensure that the Company will have the financial capacity, liquidity and flexibility to maintain investor, creditor and market confidence as well as sustaining the future development of the business. PetroGlobe manages its capital structure and makes adjustments to it in anticipation and response to economic conditions and risks of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, PetroGlobe may from time to time issue common shares, adjust its capital spending, and/or dispose of certain assets to manage current and projected debt levels.

The Company monitors capital based on the level of working capital (current assets less current future income tax assets less current liabilities), lines of credit and unused lines of credit levels; future commitments and funds flow from operations (cash provided by (used in) operating activities before adjustments for changes in non-working capital) generated by PetroGlobe. In addition, the Company monitors its ability to raise funds through share and debt issuances.

Due to the uncertain economic conditions experienced in 2009, the Company revised its budget for capital expenditures and closed an equity financing in November 2009 (Note 9) in order to increase PetroGlobe's financial flexibility. In addition, subsequent to December 31, 2009, the Company closed an equity financing for gross proceeds of \$1,882,140 (Note 15). PetroGlobe plans to continue to monitor funds flow from operations, working capital and debt levels. The Company will continue to monitor developments within the global economic environment to consider the impacts on the current and future capital management policies.

The Company defines and computes its capital as follows:

	2009	2008
Shareholders' equity	9,242	9,865
Bank line of credit	-	-
Working capital	81	448
Total capital	9,323	10,313

The Company is also subject to financial covenants in its bank line of credit agreement. The key financial covenant is as follows:

- A working capital ratio of not less than 1.0 to 1.0 as calculated by the lender (the lender calculates the working capital ratio as current assets plus undrawn availability under facilities divided by current liabilities less any amounts drawn under facilities).

The Company is in compliance with all financial covenants as at December 31, 2009.

# **PetroGlobe Inc.**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended December 31, 2009 and 2008

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### **14. COMMITMENTS AND CONTINGENCIES**

- (a) The Company is committed to payments under an operating lease for office premises that expires December 31, 2010 and an operating lease for compressor equipment that expires October 1, 2010. The remaining contractual commitments of the Company are disclosed in Note 12.
- (b) Pursuant to the private placement on November 13, 2009, PetroGlobe was committed to spend \$3,308,000 by December 31, 2010 on expenditures that qualified as CEE.
- (c) The Company has outstanding letters of guarantee in the amount of \$100,000 issued to industry partners and municipal jurisdictions.
- (d) The Company has a firm service commitment to supply 900 gigajoules per day of natural gas at designated recipient points from November 1, 2009 to October 31, 2010. PetroGlobe is committed to paying the pipeline tolls and tariffs for these volumes for the duration of the contract. The estimated commitment for 2010 is \$29,000.
- (e) PetroGlobe is involved in litigation and claims arising in the normal course of operations. Management is of the opinion that pending litigation will not have a material adverse impact on the Company's financial position or results of operations and therefore the financial statements do not include any commitments for outstanding litigation and claims.

### **15. SUBSEQUENT EVENTS**

- (a) In February 2010, PetroGlobe completed the acquisition of an additional 40 percent after pay-out working interest in certain Cardium lands in exchange for 2,000,000 common shares and \$60,000.
- (b) In March 2010, the Company completed a private placement of 3,575,389 common shares on a flow-through basis at a price of \$0.36 per common share and 2,125,000 common shares at a price of \$0.28 per common share for gross proceeds of \$1,882,140. In addition, the Company granted a broker 390,000 common share purchase warrants in connection with the private placement. These warrants have an exercise price of \$0.28 per warrant and expire March 11, 2011.