

2009



**petroglobe**

2009 Annual Management's Discussion and Analysis



## MANAGEMENT'S DISCUSSION AND ANALYSIS

April 27, 2010 - This Management's Discussion and Analysis ("MD&A") of financial condition and results of operations of PetroGlobe Inc. ("PetroGlobe" or the "Company") should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2009 and 2008. The information contained in the MD&A is based on information available to, and is dated as of, April 27, 2010. The financial data presented in accordance with Canadian generally accepted accounting principles ("GAAP") in Canadian dollars, except where indicated otherwise.

### Non-GAAP Measures

The terms "funds from operations" and "funds from operations per share" are non-GAAP measures, in that such measures do not have a standardized meaning under Canadian GAAP, and should not be considered an alternative to, or more meaningful than, cash provided by operating activities as determined in accordance with Canadian GAAP as an indicator of the Company's performance. Management believes that in addition to net income (loss) and cash provided by operating activities, funds from operations information is a useful supplemental measure as it provides an indication of the results generated by the Company's principal business activities before consideration of how those activities are financed or how the results will be taxed.

Funds from operations per share is calculated using the same weighted average basic and diluted number of shares outstanding used in the calculation of net income (loss) per share. All references to funds from operations throughout this MD&A are based on cash flow before changes in non-cash working capital. See the "Funds from operations" section for a reconciliation of "funds from operations" to "cash provided by operating activities", the nearest GAAP measure.

This MD&A also contains the term operating netbacks, which is not a recognized measure under Canadian GAAP. Operating netbacks are calculated by subtracting royalties and operating expenses from revenues. Management believes this measure is a useful supplemental measure of the amount of revenues received after royalties and operating expenses. Readers are cautioned that this measure should not be construed as an alternative to other terms such as net income determined in accordance with GAAP as measure of performance. PetroGlobe's method of calculating this measure may differ from other entities, and accordingly may be comparable to measures used by other entities.

### Forward Looking Statements

This MD&A contains certain forward looking statements including management's assessment of future plans and operations, drilling and tie-in plans and timing thereof, plans regarding wells to be drilled, expected and anticipated production rates, methods of funding, anticipated liquidity of the Company and various matters that may impact such liquidity, timing of production increases and decreases related to operations, planned reductions in operating expenses in 2009 and expected operating expenses, expected production, royalties and operating expenses and general and administrative expenses, expected levels of revenues and operating netbacks in 2009 compared to 2008, maintenance of productive capacity and capital expenditures and nature of capital expenditures and the timing and method of financing thereof, may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environment risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain regulatory approvals and ability to access sufficient capital from internal and external sources. The recovery and reserve estimates of PetroGlobe's reserves provided herein are estimates only and there is no guarantee that the estimates reserves will be recovered. Events or circumstances may cause actual results to differ materially from those predicted, as a result of the risk factors set out and other known and unknown risks, uncertainties, and other factors, many of which are beyond the control of PetroGlobe. In addition, forward-looking statements or information are based on a number of factors, many of which have been used to develop such statements and information, but which may prove to be incorrect. Although, PetroGlobe believes that expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified herein, assumptions been made regarding, among other things: the impact of increasing competition, the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator to of the projects in which the Company has an interest to operate the field in a safe, efficient, and effective manner; the ability of the Company to obtain financing on acceptable terms; field production and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing of and costs of pipeline, storage and facility construction and



expansion and the ability of the Company to secure adequate production transportation, future commodity gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environment matters in the jurisdictions in which the Company operates; and the ability of the Company to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list is not an exhaustive of all factors and assumptions which have been used. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Additional information on these and other factors that could affect PetroGlobe's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) and PetroGlobe's website ([www.petroglobe.com](http://www.petroglobe.com)). Furthermore, the forward-looking statements contained herein are made as at the date hereof and PetroGlobe does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

The continuous disclosure materials of the Company, including its annual audited consolidated financial statements and related MD&A and material change reports and press releases issued by the Company are available through the SEDAR system at [www.sedar.com](http://www.sedar.com).

### Conversion

Volumes reflected in this MD&A have been converted to an equivalent measurement basis referred to as a "barrel of oil equivalent" ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil ("6:1"). This boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation.

### THE COMPANY

PetroGlobe Inc. is a Calgary-based, emerging upstream energy company active in the exploration and production of oil and natural gas in North America. Where feasible, PetroGlobe Inc. seeks to control its own destiny through direct operatorship while pursuing joint ventures on those prospects where benefit can be derived through strategic alliances with viable co-venturers.

### OUTLOOK

This section of the MD&A presents plans and expectations of the Company shaped by Management's view of how future events may unfold. Please refer to the disclaimer Advisories – Forward Looking Statements located at the beginning of this MD&A.

PetroGlobe made the strategic initiative in 2009 to build inventory of oil plays and diversify the Company's previous 100% focus on natural gas to reduce its exposure to weak natural gas prices. This past year was one of transition where the Company began to execute on those initiatives through light oil plays in the Cardium formation at Pembina in Central Alberta and the Sawtooth formations at Taber in Southern Alberta.

The result of the shift in strategic focus is evident in the final year over year proved plus probable reserves value. At December 31, 2009 the Company's proved plus probable reserves were \$28.1 million with 77% of value derived from oil properties compared to \$11.5 million at December 31, 2008 with 100% of value derived from natural gas properties representing a 143% year over year value increase. December 31, 2009 proved plus probable reserve volumes were 1,497 MBOE with a 60% oil weighting compared to December 31, 2008 proved plus probable reserve volumes of 784 MBOE with a 100% natural gas weighting representing a 91% year over year increase in volumes.

The capital markets reacted favorably allowing the Company to raise a total of \$3.3 million in 2009 and a subsequent equity offering in 2010 in which \$1.8 million was raised.

In Pembina the Company acquired 2,720 net acres of prospective Cardium light oil and gas rights. These rights are in the heart of the emerging Pembina Cardium resource play and largely focused around PetroGlobe's existing infrastructure. Immediately following up on the 2009 Cardium land acquisitions, PetroGlobe participated in the successful drilling and completion of two Cardium horizontal wells with both wells on production by the first quarter of 2010. Subsequent to the year end PetroGlobe has continued to expand its Cardium holdings through the acquisition of an additional 3,296 net acres in the Pembina area.

In Taber the Company successfully drilled and completed a successful Sawtooth oil well. Through earning and



subsequent land acquisitions the Company has secured 1,600 acres of lands around the play with an option to earn an additional 800 acres through drilling by September 2010.

As a result of the change in strategic focus to oil, PetroGlobe limited 2009 capital expenditures its shallow gas play in Pembina to the drilling of two wells to complete earning commitments and well tie-ins.

In 2010 the Company plans to continue to execute on its commodity diversification strategy and balance oil focused exploration plays with development drilling on its Cardium oil resource locations. The Company plans do participate in several wells with partners during the year to capitalize on existing infrastructure followed with drilling on 100% PetroGlobe lands.

## OPERATIONAL AND FINANCIAL RESULTS

Sales Volumes	Quarter ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
<b>Average daily sales volumes</b>				
Natural gas (Mcf/d)	1,121	1,273	1,666	1,096
NGLs (bbls/d)	2	9	8	3
Oil (bbls/d)	11		6	
Total (boe/d)	200	221	292	186

PetroGlobe's fourth quarter 2009 sales volumes decreased 21 boe/d or 10 percent and averaged 200 boe/d compared to the fourth quarter 2008 average of 221 boe/d. The decrease in 2009 is primarily the result of curtailment of two of the Companies wells due to third party gas plant turnarounds completed during the fourth quarter of 2009.

For the year ended December 31, 2009 average sales volumes increased 106 boe/d or 57 percent and averaged 292 boe/d compared to 186 boe/d for the same period of 2008. The 2009 increase is attributable to production that resulted from an additional well tie-ins in the Pembina operating area 2009 partially offset by natural production declines of PetroGlobe's existing producing wells.

Revenues and Commodity Prices	Quarter ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
(000s)				
<b>Revenues</b>				
Oil and natural gas	543	806	2,608	3,378
Other	28	37	121	158
Total	571	843	2,729	3,536
<b>Average prices received</b>				
Natural gas (per Mcf)	4.58	6.52	3.97	7.99
NGLs (per bbl)	20.53	-	19.47	-
Oil (bbl)	64.63	51.20	62.24	98.79
Per boe	29.49	39.63	24.47	49.87



Petroleum and natural gas revenue in the fourth quarter of 2009 was \$543,000 compared to \$806,000 in the fourth quarter of 2008 representing a decrease of \$263,000 or 33 percent. The decrease is primarily due to a 30 percent decline in natural gas prices received and decreased average sales volumes during the respective periods.

For the year ended 2009, petroleum and natural gas revenues were \$2,608,000 compared to \$3,378,000 for the year ended 2008, representing a decrease of \$770,000 or 23 percent. This decline is primarily a result of decreased natural gas prices. The year-over-year average natural gas price decreased 50 percent in 2009 compared to 2008. The decrease in natural gas prices was partially offset by increased natural gas production during 2009 as compared with 2008.

The following table details the physical commodity contract the Company had in place 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

The effect of commodity pricing on the revenues and net income of the Company would have been as follows:

(000's)	Revenue	Net income
Increase in AECO natural gas price of \$1.00 per Mcf	608	510
Decrease in AECO natural gas price of \$1.00 per Mcf	(608)	(510)
Increase in Edmonton MSW 40 Deg. API price of \$1.00 per bbl	5	4
Decrease in Edmonton MSW 40 Deg. API price of \$1.00 per bbl	(5)	(4)

Other income consists primarily of pipeline tariffs and interest income. Other income for the quarter ended December 31, 2009 was \$28,000 compared to \$37,000 for the same period as 2008. For 2009 other income was \$121,000 compared to \$158,000 for 2008. The decreases are primarily related to reduced short-term investments of excess cash on hand during 2009 as compared to 2008 and lower volumes transported on the Companies gathering line.

Royalties	Quarter ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
Crown royalties (000s)	(13)	(13)	264	208
Overriding and freehold royalties (000s)	112	133	430	580
	99	120	694	788
As a percentage of petroleum and natural gas revenue	18%	15%	27%	23%
Royalties per boe	5.39	5.90	6.52	11.64

The Company's royalties include both crown royalties to the Alberta government offset by custom processing and gas cost allowance credits as well as overriding and freehold royalties.

During the fourth quarter of 2009, PetroGlobe incurred royalties of \$99,000 or 18 percent of petroleum and natural gas revenues compared to \$120,000 or 15 percent in the fourth quarter of 2008. In the fourth quarter of 2009, the Company recorded an adjustment to royalties in the amount of approximately \$37,000 related to prior quarters. Excluding this adjustment of royalties as a percentage of petroleum and natural gas revenues would have been 13 percent. The decrease in the percentage is primarily related to the New Royalty Framework "NRF" implemented by the Government of Alberta. The decrease in crown royalties under the NFR combined with the consistent GCA credits received resulted in the recovery of crown royalties for the period.



For the year ended December 31, 2009 royalty expense was \$694,000 or 27 percent of petroleum and natural gas revenues compared to \$788,000 or 23 percent for 2008. The percentage increase in 2009 royalties is due to increased overriding and freehold royalties related to Q1 2009. During Q1 2009, three high volume producing wells came on line that had an average override and freehold royalty rate of approximately 18.5 percent which is higher than the average well in 2008. In addition, crown royalties as a percentage of petroleum and natural gas revenues was substantially higher due to the high production volumes.

In 2008, the Alberta Government released its New Royalty Framework ("NRF"), and subsequent thereto a number of changes and revisions to the NRF that took effect January 1, 2009 and a Transitional Royalty Plan. These changes and revisions didn't have a significant effect on the Company's royalties, other than resulting in some volatility in rates as commodity prices fluctuated. In the first quarter of 2009, the Alberta Government announced "a three point incentive program" to encourage additional drilling through reduced royalty rates on new wells drilled to five percent for a period of one year and provides for a credit of \$200 per meter drilled. This program was later extended by the Alberta Government for an additional year. The Company earned approximately \$527,000 in drilling incentive credits during the year. One well is eligible for the five percent royalty rate.

Operating Expenses				
(000s)	Quarter ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
Operating	295	441	1,382	1,486
Operating per boe	16.02	21.69	12.96	21.94

Operating expenses were \$295,000 in the fourth quarter of 2009 compared to \$441,000 for the same period of 2008, representing a decrease of \$146,000 or 33 percent. This decrease is primarily the result of the 10 percent decrease in sales volumes for the same comparative period. Additionally, per boe costs decreased in the fourth quarter 2009 compared to the fourth quarter 2008 as a result of focused attention on operating cost reduction.

For the year ended December 31, 2009 operating costs were \$1,382,000 compared to \$1,486,000 for the same period of 2008 representing decrease of \$104,000 or seven percent. This decrease is the result of cost cutting measures enacted by the Company in reaction to the general decline in natural gas prices. These measures included shutting-in uneconomic wells and reduced rental and operator expenses. For the 2009 year operating expenses were \$12.96 per boe compared to \$21.94 per boe in 2008, representing a decrease of \$8.98 per boe or 41 percent. In addition, the decrease was the result of one time well service costs incurred throughout 2008 contributing to the higher operating expenses in 2008. No similar one-time charges were incurred in 2009.

Oil and Gas Operating Netback Information				
(\$ per boe)	Quarter ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
Revenue	29.49	39.63	24.47	49.87
Royalties	(5.39)	(5.90)	(6.52)	(11.64)
Operating expenses	(16.02)	(21.69)	(12.96)	(21.94)
Operating netback	8.08	12.04	4.99	16.29

PetroGlobe's operating netback for the fourth quarter 2009 was \$8.08 compared to \$12.04 for the fourth quarter of 2008 representing a decrease of \$3.96 per boe or 33%. The reduced operating netback for Q4 2009 compared to the prior year is attributable to lower per boe natural gas prices in 2009, partially offset by decreased per boe royalties and operating expenses, discussed previously in this MD&A.

For the year ended December 31, 2009 PetroGlobe's operating netback was \$4.99 per boe compared to \$16.29 per boe in 2008 representing a decrease of \$11.30 per boe or 69% percent decrease. The reduced operating netback



for 2009 compared to the prior year is attributable to lower natural gas prices in 2009, partially offset by decreased per boe royalties and operating expenses.

General and Administrative Expenses ("G&A")				
	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
G&A Gross (000s)	287	234	1,330	1,363
G&A Recoveries(000s)	(32)	(36)	(161)	(414)
	255	198	1,169	949
Resource G&A per boe	13.84	9.74	10.97	14.01

Gross G&A expenses for resource operations increased 15 percent to \$287,000 for the fourth quarter of 2009 compared to \$234,000 for the same period of 2008. The increase is due to increased professional fees partially offset by reduced staffing costs and corporate office expenses. In addition, Q4 2009 gross G&A expenses included \$13,000 of legal fees related to ongoing litigation.

Gross G&A expenses for the year ended December 31, 2009 decreased 4 percent to \$1,330,000 compared to \$1,363,000 for the same period of 2008. The decrease in G&A expenses for the quarter and year were primarily attributable to a reduction in staffing levels and reduced activities related to U.S. operations and general corporate expenses. These reductions in expenses were partially offset by \$42,000 of legal fees related to ongoing litigation. The large decrease in G&A recoveries recognized during 2009 compared to 2008 relate to the decrease in drilling activities and the change to a contract operator from the use of internal resources.

Interest Expense				
	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
Interest expense (000s)	7	-	56	7
Per boe	0.38	-	0.52	0.10

PetroGlobe incurred \$7,000 interest expense during the fourth quarter and \$56,000 for the year compared to \$nil and \$7,000, respectively for the same periods of 2008. The increase in interest expense for fourth quarter and 2009 relates to amounts being drawn against the line of credit during the period. In addition, 2009 interest expense includes a charge of \$23,000 related to Part XII.6 interest assessed on flow-through share financings.

Depletion, Depreciation and Accretion ("DD&A")				
	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
DD&A (000s)	482	282	1,953	1,625
DD&A per boe	26.15	13.87	18.33	23.99
Property, plant and equipment impairment (000s)	-	-	-	14,578

Depletion is calculated based on depletable capital expenditures, future development costs of proved reserves, production rates and proved petroleum and natural gas reserves. PetroGlobe records asset retirement obligations based on the present value of estimated remediation, reclamation and restoration costs associated with its facilities,



including well sites and pipelines. The liability is increased each reporting period due to the passage of time through the recording of accretion expense.

PetroGlobe recorded DD&A expense of \$482,000 and \$1,953,000 for the quarter and year ended December 31, 2009, respectively compared to \$282,000 and \$1,625,000 for the same periods of 2008. The 2009 increases compared to the prior year are a result of reserve volume reductions at the end of 2009 and fewer capital expenditures associated with the exploration and development of reserves. In addition, at the beginning of 2009 the Company changed the period of amortization of its gathering pipeline from nine to eight years, which resulted in an additional \$140,000 of amortization in 2009

During 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 amount. Accordingly, PetroGlobe recognized an impairment charge of \$14,578,000.

Stock-based Compensation				
	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
(000s)				
Stock-based compensation	48	122	183	403

The Company has a stock-based compensation plan granting directors, officers, employees of, and consultants to, PetroGlobe options to purchase common shares of the Company. The Company recorded stock-based compensation expense of \$43,000 and \$183,000 for the quarter and year ended December 31, 2009 respectively, compared to \$122,000 and \$403,000 in for the same periods in 2008.

During 2009, the Company granted 2,435,000 stock options to officers, directors, employees and consultants of PetroGlobe at a weighted average price of \$0.11 per share.

Income Taxes				
	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
(000s)				
Future income tax expense (recovery)	860	(268)	996	(2,104)

During the 2008 year the Company recorded a future income tax recovery of \$2,104,000 which arose from previously unrecognised tax assets.

PetroGlobe does not expect to pay income tax in Canada during 2010 based on existing tax pools and loss carry forwards however it may be taxable in 2011 depending on commodity price and capital expenditures.

Net Loss and Comprehensive Loss				
	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
(000s)				
Net loss from continuing operations	(1,448)	(714)	(3,655)	(14,189)
Net income from discontinued operations	-	(162)	-	488
Net loss	(1,448)	(876)	(3,655)	(13,701)



<i>(per share)</i>	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
Net loss from continuing operations	(0.02)	(0.01)	(0.07)	(0.31)
Net income from discontinued operations	-	-	-	0.01
Net loss	(0.02)	(0.01)	(0.07)	(0.30)

The Company recorded a net loss from continuing operations of \$1,448,000 or \$0.02 per common share in the fourth quarter 2009 compared to a net loss of \$714,000 or \$0.01 per common share in the fourth quarter 2008. The increase in net loss is primarily attributable to reduced petroleum and natural gas revenues and increased depletion and depreciation expense.

For 2009 the Company recorded a net loss from continuing operations of \$3,655,000 or \$0.07 compared to \$14,189,000 or \$0.31 per common share. The decrease in net loss is primarily attributable to the one time impairment charge taken on the Company's oil and gas operations in the U.S. in 2008 partially offset by decreased petroleum and natural gas revenues.

#### Discontinued Operations

<i>(000s)</i>	Quarter ended December 31		Year ended December 31	
	2009	2008	2009	2008
Consulting revenue	-	-	-	4,145
Operating expense	-	-	-	3,054
General and administrative expense	-	-	-	285
Depreciation	-	-	-	9
Foreign exchange loss (gain)	-	-	-	(38)
Taxes:				
Current	-	-	-	399
Future recovery	-	-	-	(214)
	-	-	-	3,495
Income (loss) from discontinued operations	-	-	-	650
Income (loss) on disposition, net of tax	-	(162)	-	(162)
Net income from discontinued operations	-	(162)	-	488

On October 17, 2008, PetroGlobe Inc. completed the sale of all of the common shares of PetroGlobe Canada Ltd. ("PGCL"), the wholly owned subsidiary of PetroGlobe Inc. which conducted the domestic and international consulting operations as held for sale and has presented the operations from these activities as discontinued operations.



### Funds from Continuing Operations

	Quarter ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
Continuing operations (000s)	(101)	(204)	(554)	331
Per share – basic and diluted	-	-	(0.01)	0.01

Funds from continuing operations were (\$101,000) and (\$554,000) for the quarter and year ended December 31, 2009 respectively compared to funds from operations of (\$204,000) and \$331,000 for the same periods of 2008. The decrease in the 2009 fourth quarter funds from operations compared to the prior year is attributable to the decrease in average daily sales volumes and natural gas prices during the fourth quarter of 2009 partially offset by reduced royalties. For the year ended December 31, 2009, the decrease of funds from operations compared to the same period of 2008 is consistent with decreased average sales prices of production partially offset by increases in average daily sales volumes.

### NON-GAAP MEASURES

#### Funds from Operations

The terms “funds from operations” and “funds from operations per share” are non-GAAP measures, in that such measures do not have a standardized meaning under Canadian GAAP, and should not be considered an alternative to, or more meaningful than, cash provided by operating activities as determined in accordance with Canadian GAAP as an indicator of the Company's performance. Management believes that in addition to net income (loss) and cash provided by operating activities, funds from operations information is a useful supplemental measure as it provides an indication of the results generated by the Company's principal business activities before consideration of how those activities are financed or how the results will be taxed.

Funds from operations per share is calculated using the same weighted average basic and diluted number of shares outstanding used in the calculation of net income (loss) per share. All references to funds from operations throughout this MD&A are based on cash flow before changes in non-cash working capital. The following table provides a reconciliation of “funds from operations” to “cash provided by operating activities”, the nearest GAAP measure.

#### Reconciliation of Funds from Continuing Operations and Cash Flows from Continuing Operations

(000s)	Quarter ended		Year ended	
	December 31		December 31	
	2009	2008	2009	2008
Funds from operations – continuing operations	(101)	(204)	(554)	331
Change in non-cash working capital – continuing operations	(500)	128	(154)	882
Cash provided by operating activities (GAAP financial measure)	(601)	(76)	(708)	1,213



### Netback and Per BOE Information

Information presented on a "netback" and "per boe" basis are non-GAAP measures. Management believes that these are important supplemental measures as they provide an indication of the results of the Company in relation to the sales volumes of the Company. Readers are cautioned, however, that these measures should not be construed as alternatives to revenue and expense items determined in accordance with GAAP.

Per boe amounts are derived by dividing the related GAAP measure or funds from operations by the sales volumes for each respective period.

### CAPITAL EXPENDITURES

(000s)	2009				
	Q4	Q3	Q2	Q1	Year to Date
Land and seismic	-	73	263	132	468
Drilling and completions	460	65	976	28	1,529
Equipment, tie in and trunk lines	-	199	135	328	662
Acquisitions	-	-	-	-	-
Alberta drilling credit	11	(538)	-	-	(527)
	471	(201)	1,374	488	2,132
Dispositions	-	-	-	(19)	(19)
Net capital expenditures	471	(201)	1,374	469	2,113

During 2009, the Company drilled and completed two shallow gas wells under farm-in commitment in Pembina area and one oil well in the Taber/Grand Forks area. Additionally, PetroGlobe completed fracture stimulation and tie-in of three natural gas wells in Pembina.



**SUMMARY OF EIGHT MOST RECENTLY COMPLETED CONSOLIDATED QUARTERLY RESULTS**

	<b>2009</b>			
<i>(000s except per share amount)</i>	Q4	Q3	Q2	Q1
Petroleum and natural gas revenues	543	467	628	970
Consulting revenues	-	-	-	-
Net loss, before discontinued operations	(1,448)	(684)	(1,057)	(465)
Net loss, before discontinued operations Per share, basic and diluted	(0.02)	(0.01)	(0.02)	(0.01)
Net loss	(1,448)	(684)	(1,058)	(464)
Net loss Per share, basic and diluted	(0.02)	(0.01)	(0.02)	(0.01)
Net capital expenditures	471	(201)	1,374	469

  

	<b>2008</b>			
<i>(000s except per share amount)</i>	Q4	Q3	Q2	Q1
Petroleum and natural gas revenues	806	935	974	663
Consulting revenues	-	1,105	1,296	1,741
Net loss, before discontinued operations	(714)	(12,683)	(402)	(390)
Net loss, before discontinued operations Per share, basic and diluted	(0.01)	(0.27)	(0.01)	(0.01)
Net loss	(876)	(12,171)	(178)	(476)
Net loss Per share, basic and diluted	(0.01)	(0.27)	(0.01)	(0.01)
Net capital expenditures	3,015	(459)	438	255

Identifiable trends in PetroGlobe's business in the past eight quarters reflect continued exploration and development of petroleum and natural gas properties resulting in higher production volumes and increased revenues. This trend was negatively impacted in 2009 and Q4 2008 by lower realized natural gas prices compared to prices realized in previous years.

The quarter ended December 31, 2009 is discussed in detail throughout this MD&A.

In the third quarter of 2008, PetroGlobe recognized an impairment charge related to its U.S. oil and gas properties in the amount of \$14,578,000 which is reflected in the increase in the net loss for the quarter.



## SELECTED ANNUAL FINANCIAL INFORMATION

(000's)

	2009	2008	2007
Petroleum and natural gas revenues	2,608	3,378	2,224
Royalties	(694)	(788)	(330)
Consulting revenues	-	4,142	8,239
Other revenues	121	161	199
Revenues, net of royalties	2,035	6,893	10,332
Working capital surplus (deficit)	(81)	(448)	(954)
Capital expenditures, net of dispositions	2,113	3,249	10,527
Total assets	11,862	14,579	24,547
Long-term liabilities	1,043	900	587

(000's except per share amounts and shares outstanding information)

	2009	2008	2007
Net loss from continuing operations	(3,655)	(14,189)	(4,580)
Basic and diluted	(0.07)	(0.31)	(0.13)
Net income from discontinued operations	-	488	315
Basic and diluted	-	0.01	0.01
Net loss per share	(3,655)	(13,701)	(4,265)
Basic and diluted	(0.07)	(0.30)	(0.12)
Shares outstanding			
Weighted average number of shares outstanding			
Basic	52,594,588	45,419,627	34,213,166
Diluted	52,594,588	45,420,783	35,199,267

- The selected three-year consolidated financial data is based on the Company's financial statements which were prepared in accordance with Canadian GAAP.

## CONTRACTUAL OBLIGATIONS

In the ordinary course of business, the Company enters into various contractual obligations, including the following:

- purchase of services
- royalty agreements
- operating agreements
- processing and treating agreements
- right-of-way and road use agreements
- lease obligations for office space and equipment
- Firm service contracts
- flow-through share agreements

All such contractual obligations reflect market conditions at the time of the contract and do not involve related parties. Obligations at December 31, 2009 with a fixed term are as follows:



(000s)	2010
Flow-through share commitments	3,308
Lease of office premises	67
Equipment leases	30
Firm service commitments	29

(i) The Company has outstanding letters of guarantee issued to industry partners and municipal jurisdictions in the amount of \$100,000.

## COMMITMENTS AND CONTINGENCIES

### Outstanding Lawsuits

A lawsuit has been filed against the Company by an industry partner related to incidents which arose during the normal course of business. In the opinion of management and legal counsel, the outcome of the lawsuit is not likely to be against PetroGlobe. Should any loss result from the resolution of this claim, such loss will be charged to operations in the year of resolution.

## RELATED PARTY TRANSACTIONS

PetroGlobe did not have any related party transactions during the years ended December 31, 2009 and 2008.

## LIQUIDITY AND CAPITAL RESOURCES

### 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 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. 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.

As at December 31, 2009, the Company had a working capital deficit of \$81,000 compared to a working capital deficiency of \$448,000 as at December 31, 2008.

#### Credit Facility

At December 31, 2009, The Company had a \$2,700,000 credit facility consisting of a demand revolving operating loan facility. 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.

Debt instruments	Total	Amount	Amount
	Amount	Outstanding at December 31, 2009	Available at December 31, 2009
Bank line of credit (000s)	2,700	-	2,700

For additional details of PetroGlobe's credit facilities, see Note 6 of the audited consolidated financial statements for the years ended December 31, 2009 and 2008.

#### Liquidity

In Q4 2008 commodity prices experienced a sudden and severe decline in commodity prices that lasted until Q1 2009. The result of this decline that is limited PetroGlobe's access to equity markets and as a consequence affected management's approach and operating strategy during most of 2009. As a result, PetroGlobe focused on reducing its capital expenditures and operating costs. As a result of the apparent economic recovery, not only have crude prices stabilized but so has access to equity markets. In November 2009, the Company issued 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 proceeds were used to reduce debt and fund capital expenditures. In March 2010, PetroGlobe raised an additional \$1,882,140 by way of 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.

OUTSTANDING SHARE DATA			
As at	April 27, 2010	December 31, 2009	December 31, 2008
Common shares	81,159,543	73,442,488	49,799,020
Warrants	-	-	1,616,667
Share options	3,075,000	3,075,000	2,720,000



## OFF BALANCE SHEET ARRANGEMENTS

The Company is not party to any contractual arrangement, under which an unconsolidated entity may have any obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity, or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. The Company has no obligation under derivative instruments, nor under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

## SUBSEQUENT EVENTS

In February 2010, PetroGlobe completed the acquisition of an additional 40% after pay-out working interest in certain Cardium lands in exchange for 2,000,000 common shares and \$60,000.

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.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, accounts receivable and accrued receivables, bank indebtedness and accounts payable and accrued liabilities. In addition, PetroGlobe engages in the sale of energy commodities. These instruments and the sale of energy commodities result in exposures to credit, interest rate, energy commodity prices and foreign exchange rate risks.

Management of PetroGlobe may use financial instruments to reduce corporate risk in certain situations. As of the date of this MD&A, the Company did not have any hedging commitments in place.

## BUSINESS RISKS AND UNCERTAINTIES

### General

PetroGlobe's production and exploration activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers to much larger integrated petroleum companies.

PetroGlobe is subject to the various types of business risks and uncertainties including:

- Finding and developing oil and natural gas reserves at economic costs;
- Production of oil and natural gas in commercial quantities; and
- Marketability of oil and natural gas produced.

In order to reduce exploration risk, PetroGlobe strives to employ highly qualified and motivated professional employees with a demonstrated ability to generate quality proprietary geological and geophysical prospects. To help maximize drilling success, PetroGlobe combines exploration in areas that target a range of low to moderate risk prospects with some exposure to select high-risk/high-reward opportunities.

PetroGlobe mitigates its risk related to hydrocarbon exploration and production through the utilization of the most appropriate technology and information systems managed by qualified personnel. In addition, the Company seeks to maintain operational control of the majority of its prospects.



Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as, safety risks such as personal injury. In order to mitigate such risks, PetroGlobe conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains current insurance coverage for general and comprehensive liability. The amount and terms of the insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements, as well as industry standards and government regulations. PetroGlobe may periodically use financial or physical delivery hedges to reduce its exposure against the potential adverse impact of commodity price volatility, as governed by formal policies approved by senior management subject to controls established by the Board.

### **Environmental Regulations and Risks**

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

Due to the evolving nature and details of the debate surrounding climate change and control of greenhouse gases and resulting requirements, it is not currently possible to predict either the nature of those requirements or the impact on the Company and its operations and financial condition at this time.

### **Alberta Royalty Regime**

On January 1, 2009, the Alberta Government implemented changes to the royalty rates under a New Royalty Framework ("NRF") previously announced on October 25, 2008. In 2008, the Alberta Government also announced, but not yet enacted as of December 31, 2008, provisions that allow for transitional royalties ("Transitional Royalties") to the NRF for certain wells.

The majority of PetroGlobe's current Alberta wells are in the 500m to 1,000m depth range and typically produce at lower rates. The overall impact of the NRF is mitigated by PetroGlobe's lower shallow gas Alberta natural gas rate royalty production in PetroGlobe's Alberta conventional oil and gas production portfolio. The NRF and Transitional Royalties will impact future drilling decisions in order for the Company to maintain acceptable rates of return on its capital deployed.

### **Global Financial Risk**

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

### **Substantial Capital Requirements**

PetroGlobe anticipates making ongoing capital expenditures in the exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce planned and anticipated capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of PetroGlobe to access sufficient capital for its



operations could have a material adverse effect on the Company's business financial condition, results of operations and prospects.

### Third Party Credit Risk

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

## ACCOUNTING POLICYCHANGES

### RECENTLY ADOPTED ACCOUNTING POLICIES

#### 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 13 to the Consolidated Financial Statements for the years ended December 31, 2009 and 2008.

#### 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.

#### Financial Instruments Recognition and Measurement

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

### RECENT PRONOUNCEMENTS

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.

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**

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The eventual changeover to IFRS represents a change due to new accounting standards. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies, as well as increased disclosure requirements under IFRS. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

In July 2009, the International Accounting Standards Board ("IASB") has approved amendments and exemptions to IFRS 1 "First-time adoption of IFRS" in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting reduces the administrative burden in the transition from the current Canadian Accounting Guideline 16 (related to the full cost method of accounting for oil and gas activities) to IFRS. The amendment will permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the provision that an impairment test, under IFRS standards, be conducted at the transition date.

In the second quarter of 2010, our project team will complete the diagnostic phase of our project and identified the key differences between Canadian GAAP and IFRS and will move into the implementation phase which will focus on accounting policy decisions, modifications to IT systems and accounting processes as well as reviewing our internal controls over financial reporting. In mid 2010, our work will focus on integration testing of our IT systems, conducting a pilot of our newly designed systems and processes and determining IFRS disclosure requirements.

The project team will continue to provide updates to senior management and the Audit Committee. We will provide the key elements of our plan and progress on the project as information becomes available during the transition period.

Possible significant accounting differences between our current accounting policies under Canadian GAAP and expected accounting policies under IFRS include the following:

- Depletion and depreciation of property, plant and equipment ("PP&E") will be based on significant components. Depletion of resource properties will generally continue to be calculated using the unit-of-production method; however, under IFRS there is an option to base production volumes before royalties on total proved reserves or total proved plus probable reserves. Depreciation of all other assets will be calculated on a straight-line basis over their estimated useful life.
- Oil and gas properties will be classified as either PP&E or Exploration and Evaluation assets ("E&E"). E&E assets will be measured at cost and are classified according to the nature of the expenditures and whether or not technical feasibility and commercial viability of extracting oil and gas from the property has been demonstrated.
- E&E costs will be reclassified to PP&E, to the extent they are not impaired, when proved reserves have been assigned to the asset. If proved reserves will not be established through the completion of E&E activities and there are no future plans for development activity, then the E&E expenditures are reviewed for impairment. Any impairment is charged to income.
- Impairment testing on oil and gas properties will be performed at a lower level than under current Canadian GAAP.



- Share-based payments are expensed based on a graded vesting schedule.
- Discount rates used in calculating the asset retirement obligation are currently under review by the IASB as there is diversity in practice when selecting a rate. Future changes to the standards and further interpretations of the guidance could lead to a material change in this provision upon adoption of the IFRS. We are currently in the process of evaluating the impact of the above noted accounting policy choices and the effect they will have on our financial statements. We will disclose additional information on the impact of the changes throughout 2010. Any amendments to existing IFRS standards or implementation of new IFRS standards could lead to additional changes.

The Company's current IFRS changeover includes project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, during 2010.



## CORPORATE INFORMATION

### Board of Directors

Bill Powers  
Chairman  
Independent Businessman  
Evanston, Illinois USA

Jason James, CA  
Chief Executive Officer  
PetroGlobe Inc.  
Calgary, Alberta

Robert Macaulay  
Independent Businessman  
Calgary, Alberta

J. Michael Gatens  
Chief Executive Officer  
Unconventional Gas Resources Canada  
Calgary, Alberta

J. Paul Lawrence, CA  
Chief Financial Officer  
Arsenal Energy Inc  
Calgary, Alberta

### Officers

Jason James, CA  
Chief Executive Officer

Dean Marcil  
Vice President, Land

### Head Office

850, 540 – 5<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 0M2  
Tel 403.265.4488  
Fax 403.265.9727

### Auditors

Deloitte & Touche  
3000 Scotia Centre  
700-2<sup>nd</sup> Street SW  
Calgary, Alberta T2P 0S7

### Bank

ATB Financial  
239-8<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 1B9

### Legal Counsel

McCarthy Tetrault LLP  
Calgary, Alberta  
3300, 421-7<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 4K9

### Stock Exchange

Toronto Venture Exchange (TSX-V)  
Stock trading symbol: PGB

### Transfer Agent and Registrar

Olympia Trust Company of Canada  
2300, 125-9<sup>th</sup> Avenue SE

## DEFINITIONS

bbbl  
Bcf  
Mbbbls  
boe

barrels  
billion cubic feet  
thousand barrels  
barrels of oil equivalent  
(6 Mcf = 1 barrel of oil equivalent)

Mboe  
Mcf  
MMcf  
NGL  
/d

thousand barrels of oil equivalent  
thousand cubic feet  
million cubic feet  
natural gas liquids  
per day