

# Q1 2009



**petroglobe**

Management's Discussion and Analysis  
Q1 March 31, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

May 29, 2009 - This Management's Discussion and Analysis ("MD&A") of financial condition and results of operations of PetroGlobe Inc. ("PetroGlobe" or the "Company") is dated May 29, 2009. This MD&A is a review of the results of operations and the liquidity and capital resources of the Company for the three months ended March 31, 2009 compared to the three months ended March 31, 2008. It should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Company for the three months ended March 31, 2009 and the notes thereto and the Company's audited annual consolidated financial statements and related MD&A for the year ended December 31, 2008.

### 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 the Western Canadian sedimentary basin. 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.

### **COMPANY HIGHLIGHTS**

- Achieved record quarterly average sales volumes of 370 Boe/d. Increased average sales volumes 68% compared to the fourth quarter 2008 and 131% compared to Q1 2008.
- Acquired additional mineral rights securing resource for light oil exploration
- Completed surface land acquisition and lease build for oil prospect
- Hired experienced VP Land growing existing team depth
- Purchased an additional 217,000 common shares at an average price of \$0.07 per share under normal course issuer bid and returned to treasury and cancelled 367,000 common shares.

## OPERATIONAL AND FINANCIAL RESULTS

## Sales Volumes

	Quarter ended March 31		
	2009	2008	% change
<b>Average daily sales volumes</b>			
Natural gas (Mcf/d)	2,081	948	120%
Oil and NGLs (bbls/d)	23	2	1,050%
Total (boe/d)	370	160	131%

PetroGlobe's first quarter of 2009 sales volumes increased 210 boe/d or 131 percent and averaged 370 boe/d compared to the first quarter 2008 average of 160 boe/d. Sales volumes increased primarily due to increased production related to three wells being tied in during the fourth quarter 2008. In addition, a fourth well was tied-in during January 2009 which added an average 104 boe/d during the quarter.

## Revenues and Commodity Prices

(000s)	Quarter ended March 31		
	2009	2008	% change
<b>Revenues</b>			
Petroleum and natural gas	970	663	40%
Other	37	32	16%
Total	1,007	695	45%

## Average prices received

Natural gas (per Mcf)	4.96	7.57	(34%)
Oil and NGLs (per bbl)	19.80	58.47	(66%)
Per boe	29.13	45.55	(36%)

Petroleum and natural gas revenue in the first quarter of 2009 was \$970,000 compared to \$663,000 in the first quarter of 2008 representing an increase of 40 percent. The increase in revenues was attributable to higher sales volumes for the quarter partially offset by the decline in realized natural gas prices.

Other income consists primarily of pipeline tariffs and interest income. Other income for the quarter ended March 31, 2009 was \$37,000 compared to \$32,000 for the same period in 2007. The period over period increase is related to increase in volumes transported through the Company's pipeline system.

## Royalties

(000s)	Quarter ended March 31		
	2009	2008	% change
Crown royalties (000s)	161	103	93%
Overriding and freehold royalties (000s)	149	117	27%
	310	220	41%
As a percentage of petroleum and natural gas revenue	32%	33%	(4%)
Royalties per boe	9.31	15.14	(39%)

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.

In 2008, the Provincial Government of Alberta released its New Royalty Framework ("NRF"), and subsequent thereto a number of changes and revisions to the NRF and a Transitional Royalty Plan that took effect January 1, 2009.

During the first quarter of 2009, PetroGlobe incurred royalties of \$310,000 or 32 percent of petroleum and natural gas revenues compared to \$220,000 or 33 percent in the first quarter of 2008. Historically, royalties as a percentage of petroleum and natural gas revenues have averaged approximately 23 percent. The increase in Q1 2009 is primarily related to the NRF and how royalties are calculated on higher producing wells.

In March 2009, the Alberta Government announced an incentive program to encourage additional drilling through the reduction of royalty rates on new wells to 5 percent. Additionally, companies will receive a drilling credit of \$200 per meter drilled. This incentive program is effective for a period of one year, applying to wells drilled between April 1, 2009 and March 31, 2010. PetroGlobe is evaluating its capital program to identify projects that will maximize the value of these incentives to the Company.

## Operating Expenses

(000s)	Quarter ended March 31		
	2009	2008	% change
Resource	385	226	70%
Resource per boe	11.56	15.52	(26%)

Resource operating expenses were \$385,000 in Q1 2009 compared to \$226,000 for the same period of 2008, representing an increase of 70 percent. This increase is primarily a result of additional gathering and processing charges during the quarter related to the 131 percent increase in average daily sales volumes for the period compared to Q1 2008. On a per boe basis operating expenses decreased 26% to \$11.56 per boe in the first quarter of 2009 compared to \$15.52 for the first quarter of 2008.

**Oil and Gas Operating Netback Information**

(\$ per boe)	Quarter ended March 31		
	2009	2008	% change
Revenue	29.13	45.55	(36%)
Royalties	(9.31)	(15.14)	(38%)
Operating expenses	(11.56)	(15.52)	(26%)
Operating netback	8.26	14.89	(45%)

PetroGlobe's operating netback for Q1 2009 was \$8.26 per boe compared to \$14.89 per boe for Q1 of 2008 representing a decrease of \$6.63 per boe or 45 percent. This reduction is primarily due to lower natural gas prices received during the quarter partially offset by decreased per boe operating and royalty expenses incurred during the first quarter of 2009.

**General and Administrative Expenses ("G&A")**

	Quarter ended March 31		
	2009	2008	% change
Resource (000s)	350	151	132%
Resource G&A per boe	10.58	10.37	2%

G&A expenses for the resource operations increased 132 percent to \$350,000 for the first quarter of 2009 compared to \$151,000 for the same period of 2008. Increased G&A expenses in 2009 are attributable to one-time administrative items related to the Company moving corporate offices and expenses associated with PetroGlobe's annual filings. These expenses were partially offset by a reduction in staffing levels and reduced activities related to U.S. operations.

On a per boe basis G&A expense increased 2 percent to \$10.58 compared to \$10.37 for the first quarter of 2008.

**Interest Expense**

	Quarter ended March 31		
	2009	2008	% change
Resource (000s)	2	6	(67%)
Per boe	0.05	0.41	(88%)

PetroGlobe incurred \$2,000 interest expense during the first quarter compared to \$6,000 for the same period of 2008. The decrease is attributable to the Company's minimal borrowing during Q1 2009.

**Depletion, Depreciation and Accretion ("DD&A")**

	Quarter ended March 31		
	2009	2008	% change
DD&A (000s)	479	407	18%
DD&A per boe	14.37	27.95	(49%)

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 \$479,000 the quarter compared to \$407,000 for the same period of 2008. The increase was attributable to the increased production during the quarter partially offset by the increase in proved reserves at December 31, 2008.

### Stock-based Compensation

(000s)	Quarter ended March 31		
	2009	2008	% change
Stock-based compensation	89	134	(34%)

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 \$89,000 for the quarter ended March 31, 2009 compared to \$134,000 for the same period of 2008.

In 2009, the Company granted 1,370,000 options at a weighted average price of \$0.095 per share to employees, consultants, officers and directors of the Company.

### Income Taxes

(000s)	Quarter ended March 31		
	2009	2008	% change
Future income taxes reduction	164	-	-%

PetroGlobe does not expect to pay income tax in Canada during 2009 based on existing tax pools and loss carry forwards however it may be taxable in 2010 depending on commodity price and capital expenditures.

### Net Loss and Comprehensive Loss

(000s)	Quarter ended March 31	
	2009	2008
Net loss from continuing operations	(464)	(389)
Net income from discontinued operations	-	(14)
Net loss	(464)	(403)

The Company recorded a net loss from continuing operations of \$464,000 or \$0.01 per common share in the first quarter 2009 compared to a net loss of \$389,000 or \$0.01 per common share in the first quarter 2008.

### 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. Revenues and expenses from 2008 operations have been classified as discontinued operation. No operations related to PGCL were carried on during 2009.

### Funds from Continuing Operations

(000s)	Quarter ended March 31		
	2009	2008	% change
Continuing operations (000s)	(80)	135	(159%)

Funds from continuing operations were \$(80,000) for the quarter ended March 31, 2009 compared to funds from continuing operations of \$135,000 for the same period of 2008. The decrease in the 2009 funds from

operations compared to the prior year is attributable to the significant decrease in natural gas prices and increased G&A expenses.

## 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 March 31	
	2009	2008
Funds from operations – continuing operations	(80)	135
Change in non-cash working capital – continuing operations	419	(265)
Cash provided by operating activities (GAAP financial measure)	339	(130)

### 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. The following table presents the sales volumes for each period:

	Quarter ended March 31	
	2009	2008
Natural Gas (Mcf)	187,301	86,268
Oil and NGLs (bbls)	2,114	182
Boe	33,305	14,560

**CAPITAL EXPENDITURES**

<i>(000s)</i>	Three months ended March 31, 2009
Land and seismic	132
Drilling and completions	41
Equipment, tie in and trunk lines	310
Acquisitions	-
Dispositions	(19)
Net capital expenditures	464

The Company's capital expenditures for the first quarter of 2009 were concentrated on the tie-in of wells previously drilled in the fourth quarter of 2008 and on strategic land acquisitions.

During Q1 2009, the Company sold well equipment used in the U.S. operation for \$15,000 USD.

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

<i>(000s except per share amount)</i>	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Petroleum and natural gas revenues	970	806	935	974
Consulting revenues	-	-	1,105	1,296
Net loss, before discontinued operations	(464)	(714)	(12,683)	(402)
Net loss, before discontinued operations				
Per share, basic and diluted	(0.01)	(0.01)	(0.27)	(0.01)
Net loss	(464)	(876)	(12,171)	(178)
Net loss				
Per share, basic and diluted	(0.01)	(0.01)	(0.27)	(0.01)
Net capital expenditures	464	3,015	(459)	438

<i>(000s except per share amount)</i>	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Petroleum and natural gas revenues	663	571	376	641
Consulting revenues	1,741	1,708	2,266	2,496
Net loss, before discontinued operations	(390)	(1,615)	(867)	(1,097)
Net loss, before discontinued operations				
Per share, basic and diluted	(0.01)	(0.04)	(0.02)	(0.03)
Net loss	(476)	(1,080)	(1,232)	(1,126)
Net loss				
Per share, basic and diluted	(0.01)	(0.03)	(0.03)	(0.03)
Net capital expenditures	255	428	1,211	1,565

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 Q4 2008 by lower realized natural gas prices during the quarter compared to previous quarters.

The quarter ended March 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.

In the fourth quarter of 2007, the Company corrected its stock based compensation expense. The impact of the adjustment on the quarter ended September 30, 2007 reduced net income by \$643,000 and increased net loss per share by \$0.01.

### CONTRACTUAL OBLIGATIONS

- (a) The Company is committed to payments under an operating lease for office premises. The lease expires December 31, 2010. The minimum annual lease payment commitments are as follows:

2009	53
2010	67
	120

- (b) Pursuant to the private placement on August 21, 2008, PetroGlobe was committed to spend \$891,000 by December 31, 2009 on expenditures that qualified as CEE. As of March 31, 2009, the Corporation had fulfilled its obligation and incurred \$891,000 of CEE expenditures.
- (c) PetroGlobe has a two well shallow gas drilling commitment under a farm-in agreement with an industry partner. PetroGlobe estimates the cost to drill both wells is \$419,000.
- (d) The Company has outstanding letters of guarantee issued to industry partners and municipal jurisdictions in the amount of \$200,000.
- (e) The Company has a firm service commitment to supply 900 gigajoules per day of natural gas at designated recipient points from November 1, 2008 to October 31, 2009. PetroGlobe is committed to paying the pipeline tolls and tariffs for these volumes for the duration of the contract. The estimated commitment for 2009 is \$22,000.

### 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

There were no related party transactions during the first quarter of 2009 and 2008.

### LIQUIDITY AND CAPITAL RESOURCES

#### Liquidity and Capital Resources

Liquidity risks arise from the use of liquid financial resources to meet the day-to-day funding requirements of the Company and in the management of assets and liabilities in order to maintain an optimal capital structure. PetroGlobe manages liquidity risk to meet its financial obligations and commitments in a cost effective manner and to fund growth and expansion opportunities that are recognized by the Company.

The Company had net debt of \$1,006,000 at March 31, 2009 compared to net debt of \$448,000 at December 31, 2008. The change of \$558,000 was mainly due to capital expenditures of \$483,000 in the first quarter of 2009. At March 31, 2009 PetroGlobe had a demand loan credit facility of up to \$1,800,000 with a Canadian chartered bank. The credit facility is secured by a fixed and floating charge on the assets of the Company. As a result of the bank's scheduled review the facility was increased to

\$3,000,000 of which \$2,700,000 is available at the present time and bears interest at prime plus 1.5 %. The next scheduled review is May 31, 2010.

The Company anticipates it will make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. The Company will utilize internally generated cash flow from operations, debt where deemed appropriate and equity financing if market conditions are favorable to finance its capital expenditures.

The current global financial crisis has reduced the liquidity in financial and capital markets, restricted access to financing and has caused significant volatility in commodity prices. These conditions will impact operating results, management's capital investment decisions and present ongoing challenges to world economies, to industry participants and to PetroGlobe. Entities that possess cash generation from operations, a flexible capital program, low levels of bank debt and associated un-utilized bank credit facilities, are expected to be better positioned to manage through this current market crisis.

This adversity however has created tremendous opportunity and PetroGlobe expects to emerge stronger from the downturn through prudent deployment of its financial resources. PetroGlobe's capital program is flexible, with the only commitments for the remainder of 2009 being \$419,000 in capital expenditures. At March 31, 2009, PetroGlobe had approximately \$1,498,000 of available credit remaining on its credit facilities, which has been increased further subsequent to the end of the first quarter 2009 to \$2,700,000. PetroGlobe will continue to monitor forecasted debt levels to help ensure that debt covenants are not exceeded and that strong financial flexibility is maintained.

### Sources and Uses of Cash

The Company believes that its access to debt and equity markets, unutilized bank credit facilities and funds generated from operations will provide it with sufficient liquidity and capital resources to fund existing operations and commitments, as well as expansion and development opportunities during the remainder of 2009. There is no assurance, however, that debt and equity financing will be available on terms acceptable to the Company to meet its capital requirements.

<b>Working Capital</b> (000s)	<b>March 31, 2009</b>	<b>December 31, 2008</b>
<b>As at</b>		
Current assets	876	3,366
Current liabilities	1,882	3,814
Working capital deficiency	(1,006)	(448)

As of March 31, 2009, the Company had a working capital deficit of \$1,006 compared to a working capital deficiency of \$558,000 as at December 31, 2008.

<b>Debt instruments</b>	<b>Total Amount</b>	<b>Amount Outstanding at March 31, 2008</b>	<b>Amount Available at March 31, 2008<sup>(1)</sup></b>
Bank line of credit (000s)	1,800	102	1,498

(1) Includes outstanding letters of credit in the amount of \$200,000 to industry partners.

For additional details of PetroGlobe's credit facilities, see Note 6 of the interim consolidated financial statements for the three months ended March 31, 2009 and 2008.

**OUTSTANDING SHARE DATA**

<b>As at</b>	May 29, 2009	March 31, 2009	December 31, 2008
Common shares	49,432,020	49,432,020	49,799,020
Warrants	1,616,667	1,616,667	1,616,667
Share options	4,045,000	4,045,000	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.

**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. These Transitional Royalties are not reflected in the December 31, 2008 reserve report of the Company's independent reserves evaluator, Ryder Scott Company.

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 the lower royalty rate on PetroGlobe's Alberta shallow gas production in the Corporation's 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 CHANGES**

### **RECENTLY ADOPTED ACCOUNTING POLICIES**

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

On January 1, 2009, the Company adopted the new standard for goodwill and intangible assets. The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard has had no impact on the Corporation's Consolidated Financial Statements.

### **NEW ACCOUNTING STANDARDS**

#### **Business Combinations**

In December 2008, the CICA issued Section 1582, *Business Combinations*, which will replace CICA Section 1581 of the same name. 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 adoption permitted. The Company is currently evaluating the impact of this changeover on the consolidated financial statements.

#### **Non-Controlling Interests**

In December 2008, the CICA issued Sections 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, which replaces existing Section 1600. 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. These standards currently do not impact the Company as it has full controlling interest of all of its subsidiaries.

#### **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

**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

Dr. Karsten Nielsen  
Vice President, Exploration  
PetroGlobe Inc.  
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

Dr. Karsten Nielsen  
Vice President, Exploration

Dean Marcil  
Vice President, Land

**DEFINITIONS**

bbl	barrels	Mboe	thousand barrels of oil equivalent
Bcf	billion cubic feet	Mcf	thousand cubic feet
Mbbbls	thousand barrels	MMcf	million cubic feet
boe	barrels of oil equivalent (6 Mcf = 1 barrel of oil equivalent)	NGL	natural gas liquids
		/d	per day

**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  
700-3<sup>rd</sup> Street SW  
Calgary, Alberta

**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  
Calgary, Alberta T2G 0P6

# Q1 2009



**petroglobe**

**Consolidated Interim Financial Statements**

For the three months ended March 31, 2009 and 2008

**Notice to shareholders and other readers:**

The March 31, 2009 interim Consolidated Statements of PetroGlobe Inc. have been prepared by management. Management hereby advises our shareholders and other readers that our auditors, Deloitte and Touche LLP, have not audited or reviewed these interim statements.

# PetroGlobe Inc.

## Consolidated Balance Sheets

(in thousands of Canadian dollars)

	March 31 2009 (unaudited)	December 31 2008 (audited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	-	2,203
Accounts receivable and accrued receivables	758	1,071
Prepaid expenses and deposits	118	92
Future income tax asset (Note 8)	232	348
	<b>1,108</b>	<b>3,714</b>
<b>Future income tax asset (Note 8)</b>	<b>1,778</b>	<b>1,756</b>
<b>Property, plant and equipment (Note 5)</b>	<b>9,130</b>	<b>9,109</b>
	<b>12,016</b>	<b>14,579</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank line of credit (Note 6)	102	-
Accounts payable and accrued liabilities	1,780	3,814
	<b>1,882</b>	<b>3,814</b>
<b>Asset retirement obligations (Note 7)</b>	<b>918</b>	<b>900</b>
	<b>2,800</b>	<b>4,714</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	31,260	31,754
Warrants (Note 9)	502	502
Shares held for cancellation (Note 9)	-	(9)
Contributed surplus (Note 9)	2,811	2,511
Deficit	(25,357)	(24,893)
	<b>9,216</b>	<b>9,865</b>
	<b>12,016</b>	<b>14,579</b>

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

### Commitments and contingencies (Note 12)

See accompanying notes to the interim consolidated financial statements.

Approved by the Board of Directors:

(signed) "Bill Powers"

Bill Powers  
Director  
Chairman

(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>Three months ended March 31, (unaudited)</b>	<b>2009</b>	<b>2008</b>
<b>REVENUE</b>		
Oil and natural gas	970	663
Royalties	(310)	(220)
Other	37	32
	<b>697</b>	<b>475</b>
<b>EXPENSES</b>		
Operating	385	226
General and administrative	350	151
Short-term interest	2	6
Stock-based compensation (Note 9)	89	134
Depletion, depreciation and accretion	479	407
Gain on disposal of assets	(19)	-
Foreign exchange loss	39	(60)
	<b>1,325</b>	<b>864</b>
<b>Loss before income taxes from continuing operations</b>	<b>(628)</b>	<b>(389)</b>
<b>Income taxes</b>		
Future tax recovery (Note 8)	164	-
<b>Net loss from continuing operations</b>	<b>(464)</b>	<b>(389)</b>
<b>Net loss from discontinued operations (Note 3)</b>	<b>-</b>	<b>(14)</b>
<b>Net loss and comprehensive loss for the year</b>	<b>(464)</b>	<b>(403)</b>
Deficit, beginning of year	(24,893)	(11,192)
<b>Deficit, end of year</b>	<b>(25,357)</b>	<b>(11,595)</b>
<b>Loss per share (Note 9)</b>		
<b>Net loss from continuing operations per share</b>		
Basic and diluted	(0.01)	(0.01)
<b>Net loss from discontinued operations per share</b>		
Basic and diluted	-	-
<b>Net loss per share</b>		
Basic and diluted	(0.01)	(0.01)

See accompanying notes to the interim consolidated financial statements.

**PetroGlobe Inc.**  
**Consolidated Statements of Cash Flows**

(in thousands of Canadian dollars)

<b>Three months ended March 31, (unaudited)</b>	<b>2009</b>	<b>2008</b>
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss from continuing operations	(464)	(389)
Items not involving cash:		
Depletion, depreciation and accretion	479	407
Stock-based compensation (Note 9)	89	134
Gain on disposition of assets	(19)	-
Unrealized foreign currency gain	(1)	(17)
Future tax recovery (Note 8)	(164)	-
Change in non-cash working capital (Note 11)	419	(265)
Cash flows from continuing operations	339	(130)
Cash flows from discontinued operations (Note 3)	-	22
	<b>339</b>	<b>(108)</b>
<b>Financing activities</b>		
(Decrease) increase in bank line of credit	102	(50)
Issue of common shares, net of share issue costs (Note 9)	-	1,989
Repurchase of common shares (Note 9)	(15)	-
Cash flows from continuing financing activities	87	1,939
<b>Investing activities</b>		
Expenditures on property plant and equipment	(483)	(255)
Proceeds from disposition of property plant and equipment	19	-
Change in non-cash working capital (Note 11)	(2,165)	(885)
Cash flows used in continuing investing activities	(2,629)	(1,140)
Cash flows from discontinued investing activities (Note 3)	-	-
	<b>(2,629)</b>	<b>(1,140)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(2,203)</b>	<b>691</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>-</b>	<b>1,114</b>
<b>Supplemental cash flow information (Note 11)</b>		
Cash interest received	2	-
Cash interest paid	2	6
Cash income taxes paid related to discontinued operations	-	64

See accompanying notes to the interim consolidated financial statements.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

---

### 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"). The Company is 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 (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. 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

These interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") and are prepared using the same accounting policies set out in note 2 of the Company's December 31, 2008 audited consolidated financial statements. The disclosures herein are incremental to those described in the December 31, 2008 audited consolidated financial statements and should be read in conjunction with the interim statements.

Certain comparative figures in these interim consolidated financial statements have been reclassified to conform to the current year's presentation. These interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries PetroGlobe Canada Ltd. and PetroGlobe Energy USA Ltd.

#### **Changes in Accounting Policies**

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

On January 1, 2009, the Company adopted the new standard for goodwill and intangible assets. The new standard replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard has had no impact on the Corporation's Consolidated Financial Statements.

#### **New Policies**

##### ***Business Combinations***

In December 2008, the CICA issued Section 1582, *Business Combinations*, which will replace CICA Section 1581 of the same name. 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 adoption permitted. The Company is currently evaluating the impact of this changeover on the consolidated financial statements.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 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 December 2008, the CICA issued Sections 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, which replaces existing Section 1600. 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. These standards currently do not impact the Company as it has full control of all of its subsidiaries.

#### ***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:

<b><i>Three months ended March 31,</i></b>	<b>2008</b>
Revenues	
Consulting revenue	1,741
Interest and other income	2
	<b>1,743</b>
Expenses	
Operating	1,520
General and administrative	55
Foreign exchange loss (gain)	(11)
	<b>1,564</b>
Income from discontinued operations before taxes	179
Income taxes	(193)
Net income from discontinued operations	<b>(14)</b>

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

### 4. CASH AND CASH EQUIVALENTS

	March 31, 2009	December 31, 2008
Cash	-	560
Treasury bills	-	1,643
	-	2,203

### 5. PROPERTY, PLANT AND EQUIPMENT

March 31, 2009			
	Cost	Accumulated Depletion and depreciation	Net book Value
Petroleum and natural gas properties and equipment	34,236	25,132	9,104
Office furniture and equipment	168	142	26
	34,404	25,274	9,130

  

December 31, 2008			
	Cost	Accumulated depletion and depreciation	Net book Value
Petroleum and natural gas properties and equipment	33,750	24,677	9,073
Office furniture and equipment	168	132	36
	33,918	24,809	9,109

During the three months ended March 31, 2009 the Company capitalized general and administrative expenditures of \$nil (December 31, 2008 - \$80,000).

At March 31, 2009, the cost of unproved properties of \$181,000 (December 31, 2008 - \$nil) and salvage values of \$430,000 (December 31, 2008 - \$430,000) were excluded from petroleum and natural gas properties and equipment for the purposes of calculating depletion. Future development costs totaling \$650,000 (December 31, 2009 - \$650,000) were included in the calculation of depletion for the respective periods.

## PetroGlobe Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

#### 6. BANK LINE OF CREDIT

	March 31, 2009	December 31, 2008
Bank line of credit	102	-

The Company has a demand revolving credit facility with an available limit of \$1,800,000 at March 31, 2009. This facility is secured by a general security agreement. Interest is payable at the bank prime rate plus 1.25%.

Subsequent to March 31, 2009, as a result of the Company's annual review with its lender the demand revolving credit facility was increased to \$3,000,000 of which \$2,700,000 is available at the present time bearing interest at the bank's prime rate plus 1.50%.

#### 7. ASSET RETIREMENT OBLIGATIONS

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

	March 31, 2009	December 31, 2008
Asset retirement obligations, beginning of year	900	587
Changes in liabilities during the year related to:		
Acquisitions	-	17
Additions	-	174
Revisions	-	89
Liabilities disposed	-	(28)
Accretion expense	15	44
Foreign exchange	3	17
Asset retirement obligations, end of year	918	900

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

2014	464
2015	766
	1,230

The undiscounted amount of the estimated future cash flows required to settle the obligations as at March 31, 2009 was \$1,230,000 (December 31, 2008 - \$1,230,000). These obligations will be settled at the end of the useful lives of the underlying assets, which currently average 6.2 years (December 31, 2008 - 6.5 years). The estimated future cash flows have been calculated using an inflation rate of 2.0% and discounted at a weighted average credit-adjusted risk-free rate of 7.1% (December 31, 2008 - 7.1%).

## PetroGlobe Inc.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

#### 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:

	<b>March 31, 2009</b>
Loss before income taxes from continuing operations	(628)
Average combined federal and provincial tax rate	29.0%
Computed income tax recovery	(182)
Increase (decrease) in income taxes resulting from:	
Stock-based compensation	26
Non-deductible expenses	-
Change in statutory tax rates	-
Other	(8)
Change in valuation allowance	-
Income tax recovery	(164)

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

	<b>March 31, 2009</b>
Future income tax assets:	
Non-capital loss carry-forwards	3,586
Asset retirement obligations	241
Share issue costs	43
Tax bases of property plant, and equipment in excess of carrying amount	3,348
	7,218
Valuation allowance	(5,208)
Net future income tax asset	2,010

The Company has Canadian non-capital losses of approximately \$2,300,000 (December 31, 2008 – \$2,200,000) and United States operating losses of approximately \$9,100,000 USD (December 31, 2008 - \$9,100,000 USD) available to be carried forward for tax purposes. The financial statements do not reflect the full potential tax benefit of the United States losses. 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

For the three months ended March 31, 2009 and 2008

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

### 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
Issued upon exercise of stock options	216,666	116
Share issue costs (net of tax) (i)(ii)	-	(53)
Balance, December 31, 2008	49,799,020	31,754
Cancellation of shares (iii)	(367,000)	(236)
Tax effect related to flow-through shares (ii)	-	(258)
Balance, March 31, 2009	49,432,020	31,260

- (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 and recognized a charge to share capital of \$258,000 related to the future income liability associated with the renounced expenditures,
- (iii) 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. The bid will officially terminate on December 17, 2009, but can be terminated at an earlier date at the option of PetroGlobe. Any acquired common shares will be cancelled and returned to treasury. During the three months ended March 31, 2009, PetroGlobe purchased 217,000 shares at an average price of \$0.07 per common share. In addition, the Company cancelled 367,000 shares and recognized a charge against share capital of \$236,000 representing the weighted-average assigned value of the shares cancelled.
- (iv) During 2007, the Company issued 2,750,000 units through a private placement. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to receive one common share at a price of \$0.95 per common share with 24 months from August 8, 2007. The warrants expire on August 8, 2009, after which they no longer convey a right to acquire any common shares.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

### 9. SHARE CAPITAL (continued)

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

	Number of shares	Amount
Balance, December 31, 2007	3,733,721	1,178
Expired	(983,721)	(325)
Forfeited	(1,133,333)	(351)
Balance, December 31, 2008	1,616,667	502
<b>Balance, March 31, 2009</b>	<b>1,616,667</b>	<b>502</b>

#### (d) 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	0.61
<b>Outstanding, March 31, 2009</b>	<b>1,616,667</b>	<b>0.95</b>	<b>0.36</b>

#### (e) Contributed surplus

	March 31, 2009	December 31, 2008
Contributed surplus balance, beginning of period	2,511	1,476
Stock-based compensation	89	403
Value of common shares purchased in excess of cost	211	-
Transferred to share capital on exercise of options	-	(153)
Contributed surplus, end of period	2,811	2,511

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

### 9. SHARE CAPITAL (continued)

#### (f) Per share amounts

	March 31, 2009	March 31, 2008
Weighted average common shares outstanding - basic	49,444,076	37,996,376
Dilutive effect of options and stock purchase warrants	4,833	18,531
Weighted average common shares outstanding - diluted	49,448,909	38,014,907

The treasury stock method assumes that the proceeds received from the exercise of "in the money" stock options and warrants are used to repurchase common shares at the average market price. In calculating the weighted average number of diluted common shares outstanding for the year ended March 31, 2009, the Company excluded 4,010,000 options (March 31, 2008 - 3,605,000) and 1,616,667 warrants (March 31, 2008 - 2,750,000) because they were determined to be anti-dilutive.

### 10. STOCK-BASED COMPENSATION

The Company has a stock option plan which is open 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 as of March 31, 2009 and changes during the periods then ended is presented as follows:

The following table summarizes information about the Company's stock options:

Common share stock options	Options Outstanding	
	Number of options	Weighted average exercise price (\$/option)
Outstanding, December 31, 2008	2,720,000	0.70
Granted	1,370,000	0.09
Forfeited	(45,000)	(0.19)
<b>Outstanding, March 31, 2009</b>	<b>4,045,000</b>	<b>0.50</b>
<b>Exercisable, March 31, 2009</b>	<b>2,335,000</b>	<b>0.66</b>

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

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

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

Exercise Price (\$/option)	Options Outstanding		Options Exercisable	
	Number outstanding at March 31, 2009	Weighted average remaining contractual life (years)	Number exercisable at March 31, 2009	Weighted Average Exercise Price (\$/option)
0.09 – 0.50	2,860,000	4.34	1,416,667	0.25
0.51 – 1.00	700,000	3.34	466,667	0.80
1.01 – 1.50	100,000	3.09	66,666	1.23
1.50 – 2.95	385,000	2.70	385,000	1.92
<b>0.17 - 2.95</b>	<b>4,045,000</b>	<b>3.98</b>	<b>2,335,000</b>	<b>0.66</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 three months ended March 31, 2009. The weighted average fair value of the options granted and assumptions used in the model were as follows:

	2009
Weighted-average fair value of options granted	0.06
Risk-free interest rate (%)	2.68%
Expected hold period (years)	5
Expected volatility (%)	81%
Expected dividend yield (%)	-%

### 11. SUPPLEMENTARY CASHFLOW INFORMATION

	March 31, 2009	March 31, 2008
Changes in non-cash working capital:		
Accounts receivable and accrued receivables	313	1,379
Prepaid expenses and deposits	(26)	29
Accounts payable and accrued liabilities	(2,033)	(2,558)
	<b>(1,746)</b>	<b>(1,150)</b>
Changes in non-cash working capital:		
Operating	419	(265)
Investing	(2,165)	(885)
	<b>(1,746)</b>	<b>(1,150)</b>

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

### 12. COMMITMENTS AND CONTINGENCIES

- (a) The Company is committed to payments under an operating lease for office premises. The lease expires December 31, 2010. The minimum annual lease payment commitments are as follows:

2009	53
2010	67
	120

- (b) Pursuant to the private placement on August 21, 2008, PetroGlobe was committed to spend \$891,000 by December 31, 2009 on expenditures that qualified as CEE. As at March 31, 2009, the Corporation had fulfilled its obligation and incurred \$891,000 of CEE expenditures.
- (c) The Company has a two well shallow gas drilling commitment under a farm-in agreement with an industry partner. PetroGlobe estimates the cost to drill both wells is \$419,000.
- (d) The Company has outstanding letters of guarantee in the amount of \$200,000 issued to industry partners and municipal jurisdictions.
- (e) The Company has a firm service commitment to supply 900 gigajoules per day of natural gas at designated recipient points from November 1, 2008 to October 31, 2009. PetroGlobe is committed to paying the pipeline tolls and tariffs for these volumes for the duration of the contract. The estimated commitment for the rest of 2009 is \$22,000.
- (f) 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.

### 13. FINANCIAL INSTRUMENTS

#### Carrying Values and Estimated Fair Values

The Company has classified its cash and cash equivalents as financial assets held-for-trading and has measured them at fair value. Accounts receivable and accrued receivables and deposits are classified as loans and receivables; account payable and accrued liabilities and bank line of credit are classified as other liabilities, all of which are measured at amortized cost.

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

Classification	March 31, 2009	
	Carrying Value	Fair Value
Loans and receivables	876	876
Other liabilities	1,882	1,882

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

### 13. FINANCIAL INSTRUMENTS (continued)

#### 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 March 31, 2009, the Company was exposed to credit concentration risk with one customer totaling \$347,000 or 46% of the total accounts receivable outstanding.

The Company's receivable from oil and gas marketers are typically collected on the 25<sup>th</sup> of the month following production. PetroGlobe's production is currently marketed by a single marketer; however the marketer is a large entity with an AAA credit rating.

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 30 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 March 31, 2009	
Neither impaired nor past due	396
Impaired (net of valuation allowance)	-
Not impaired and past due in the following periods:	
Within 30 days	212
31-60 days	105
61-90 days	42
Over 90 days	3

#### 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.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

### 13. FINANCIAL INSTRUMENTS (continued)

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 March 31, 2009:

	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	1,780	1,780	-
Line of credit	Yes - Liability	102	102	-
Office and equipment lease	No	120	53	67
Drilling commitments	No	419	419	-
Firm service commitment	No	22	22	-
Total		2,443	2,376	67

#### 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. 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 March 31, 2009.

#### (b) Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as discussed above, but also by world economic events that dictate the levels of supply and demand.

The Company has no forward commodity price contracts in place as at March 31, 2009.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 and 2008

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

### 13. 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 March 31, 2009.

### 14. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure the Company will have the financial capacity, liquidity and flexibility to fund ongoing exploration and development of its oil and natural gas assets. The Company's capital requirements may exceed its cash generated in any one period.

PetroGlobe's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and provide returns for shareholders and to facilitate the exploration and development of petroleum and natural gas properties consistent with the growth strategy of the Company.

The Company defines and computes its capital as follows:

	March 31, 2009	December 31, 2008
Shareholders' equity	9,216	9,865
Bank line of credit	102	-
Cash and cash equivalents	-	(2,203)
Total capital	9,318	7,662

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 March 31, 2009.