

Q3

2009



petroglobe

Quarterly Report for the three and
nine months ended September 30, 2009

November 27, 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 November 27, 2009. This MD&A is a review of the results of operations and the liquidity and capital resources of the Company for the three and nine months ended September 30, 2009 compared to the three and nine months ended September 30, 2008. It should be read in conjunction with the accompanying unaudited interim financial statements of the Company for the three and nine months ended September 30, 2008 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) and PetroGlobe's website (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.

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.

COMPANY HIGHLIGHTS

- Subsequent to the quarter end, the Company closed two private placements for a total of \$3.3 million which will be used to fund planned Cardium oil drilling activity and general working capital
- Tied –in and brought on stream one natural gas well
- Successfully worked over and brought on stream one vertical Cardium oil well
- Reduced third quarter 2009 general and administrative expenses, on a per boe basis, 58% compared to the third quarter 2008

OPERATIONAL AND FINANCIAL RESULTS

Sales Volumes

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Average daily sales volumes				
Natural gas (Mcf/d)	1,475	1,206	1,845	1,050
Oil and NGLs (bbls/d)	21	4	14	2
Total (boe/d)	267	205	321	177

For the three and nine months ended September 30, 2009 PetroGlobe's average daily sales volumes were 267 boe/d and 321 boe/d, respectively. This represents increases of 30% and 81% compared to an average sales volume of 205 boe/d and 177 boe/d for the same periods of 2008. The current three and nine month average sales volumes increased primarily due to new wells coming on stream in the fourth quarter 2008 and first quarter of 2009. Third quarter 2009 average sales volumes of 267 boe/d is lower than the second quarter 2009 average sales volumes of 342 boe/d by 22% as a result of the Company shutting in production due to low natural gas prices and shut in production associated with plant turnarounds.

The Company's increase in oil and NGLs sales volumes for the three and nine months ended September 30, 2009 compared to the three and nine months ended September 2008, is attributable to oil production from the Company's Sawtooth oil well in Taber/Grand Forks which was brought on stream in July 2009, production from the Company's Cardium oil well in Pembina and the allocation of NGLs at a third-party gas plant on the Company's processed sales volumes.

Revenues and Commodity Prices

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
<i>(000's except per boe)</i>				
Revenues				
Oil and natural gas	466	935	2,064	2,572
Other	27	48	93	121
Total	493	983	2,157	2,693
Average prices received				
Natural gas (per Mcf)	2.86	7.99	3.85	7.81
Oil and NGLs (per bbl)	35.92	108.69	42.80	123.40
Per boe	18.68	50.57	24.46	52.96

Despite the increase in daily average sales volumes in Q3 2009 and for the nine months ended September 30, 2009 compared to the same periods of oil and natural gas revenues declined due to the falling price of natural gas during Q3 2009 and the nine months ended September 30, 2009. During the third quarter and first nine months of 2009 PetroGlobe realized average sales prices of \$2.86/Mcf and \$3.85/Mcf, respectively for natural gas, which represents decreases in pricing of 64% and 51%, respectively, compared to the same periods of 2008.

Other revenues are primarily composed of pipeline tariff revenues and interest received on short-term investments. Other revenue for the three and nine months ended September 30, 2009 was down compared to the same periods of 2008 due to slightly lower volumes being transported through the Company's gathering system and reduced cash and short-term investments on hand as a result of fourth quarter 2008 drilling activity.

Royalties

	Three months ended		Nine months ended	
	September 30		September 30	
<i>(000's except per boe)</i>	2009	2008	2009	2008
Crown royalties	31	29	222	278
Alberta drilling credits ⁽¹⁾	85	-	-	-
Overriding and freehold royalties	59	160	446	317
Royalties	175	189	668	595
As a percentage of petroleum and natural gas revenue	38%	20%	32%	29%
Royalties per boe	7.12	10.22	6.79	7.05

⁽¹⁾In the third quarter of 2009, the Company adjusted previous classification of the Alberta drilling credits based on new information on the application of the credits. Excluding this one time adjustment, royalties in the third quarter 2009 would have been \$90,000, 18% of petroleum and natural gas revenue and \$3.66 on a per boe basis.

Royalties are paid to the owners of the mineral rights with whom leases are held, including provincial governments. Overriding royalties are also paid to other parties according to contracts. In Alberta, Crown royalty is invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances. Gas cost allowance and custom processing fees reduce the effective royalty rate. With the introduction of a New Royalty Framework ("NRF") by the Province of Alberta, commencing January 1, 2009, Crown royalties are sensitive to production rates and commodity price changes.

In the third quarter the decrease in the reference price used for calculation of Crown royalties reduced the royalty rates applied by the Crown. Additionally, the Province of Alberta introduced a reduced royalty rate of 5% for a period of 12 months for wells that are brought on production after April 1, 2009.

Excluding the one time adjustment described above, royalties for the third quarter 2009 would have been \$90,000 (\$189,000 – third quarter 2008) or 18% (20% - third quarter 2008) of petroleum and natural gas revenue and \$3.66 on per boe basis (\$10.22 – third quarter 2008). This reduction from the third quarter 2008 is a result of reduced crown royalty rates due to reduced natural gas prices.

Operating Expenses

	Three months ended		Nine months ended	
	September 30		September 30	
<i>(000's except per boe)</i>	2009	2008	2009	2008
Operating expense	320	351	1,086	850
Operating expense per boe	13.00	18.98	12.39	17.50

Operating expenses decreased 32% to \$13.00/boe for the third quarter of 2009 compared to \$18.98/boe for the same period of 2008. In addition, operating expenses decreased 29% to \$12.39/boe for the first nine months of 2009 compared to \$17.50/boe for the same period of 2008. The lower per boe operating expenses in 2009 are attributable to increased production volumes for both the quarter and nine-month 2009 periods, as well as, the Company's continued focus on cost saving measures implemented during the first nine months of 2009.

Operating Netback Information

(\$ per boe)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenue	18.68	50.57	24.46	52.96
Royalties ⁽¹⁾	(3.66)	(10.22)	(6.79)	(7.05)
Operating expenses	(13.00)	(18.98)	(12.39)	(17.50)
Operating netback	2.02	21.37	5.28	28.41

⁽¹⁾In the third quarter of 2009, the Company adjusted previous classification of the Alberta drilling credits based on new information on the application of the credits. Excluding this one time adjustment, royalties in the third quarter 2009 would have been \$3.66 on a per boe basis.

PetroGlobe's operating netback decreased to \$2.02/boe and \$5.28/boe for the three and nine-month periods ended September 30, 2009, respectively, from \$21.37/boe and \$28.41/boe in 2008. The decreases were primarily the result of lower natural gas prices realized during the first nine months of 2009. The decreases were partially offset by decreased per boe operating expenses and royalties during the periods.

General and Administrative Expenses ("G&A")

(000's except per boe)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
G&A expenses	194	345	915	751
G&A expenses per boe	7.88	18.66	10.43	15.46

G&A expenses decreased 44% to \$194,000 for the third quarter of 2009 compared to \$345,000 for the same period of 2008. The decrease was primarily attributable to reduced staffing expenses and lower premises rent. For the nine months ended September 30, 2009 G&A increased 22% to \$951,000 compared to \$751,000 for the same period of 2008. The increase was attributable to increased staffing levels during the first six months of 2009 compared to the prior year and legal costs related to litigation with a joint-venture partner.

On a per boe basis G&A expense decreased 58% and 33%, for the three and nine months ended September 30, 2009 compared to the same periods of 2008 due to increased production.

Interest Expense

(000's except per boe)	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Interest expense	19	1	49	7
Interest expense per boe	0.78	0.05	0.56	0.14

PetroGlobe incurred \$19,000 interest expense during the third quarter compared to \$1,000 for the same period of 2008. The increase is attributable to the Company having increased amount outstanding on its line of credit during the quarter compared to the third quarter of 2008.

PetroGlobe incurred \$49,000 interest expense during the nine months ended September 30, 2009 compared to \$7,000 for the same period of 2008. The increase is attributable to increased outstanding balances on the Company's line of credit and the reassessment of Part XII.6 tax related to the 2005 flow-through share issuance in the second quarter of 2009.

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

<i>(000's except per boe)</i>	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
DD&A	521	495	1,471	1,343
DD&A per boe	21.19	26.77	16.77	27.65

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 \$521,000 for the quarter and \$1,471,000 for the nine months ended September 30, 2009, compared to \$495,000 and \$1,343,000 for the same periods of 2008. The increase was attributable to the increased production and depletable capital expenditures during the quarter and first nine months of 2009 partially offset by an increase in proved reserves at December 31, 2008 and reserve increases related to the new wells drilled during the nine months ended September 30, 2009.

Stock-based Compensation

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Stock-based compensation (000's)	(20)	98	135	281

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 (\$20,000) and \$135,000 for the three and nine months ended September 30, 2009 compared to \$98,000 and \$281,000 for the same periods of 2008. The recovery of stock-based compensation expense during the third quarter ended September 30, 2009, relates to the forfeiture of unvested stock options during the quarter.

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

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Future income tax expense (recovery) (000s)	-	(1,836)	136	(1,836)

The Company recorded future income tax expenses of \$136,000 for the nine months ended September 30, 2009 compared with \$nil for the same period of 2008. The increase was as a result of recording a valuation allowance against future income tax assets.

Net Loss and Comprehensive Loss

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Net loss from continuing operations	(684)	(12,683)	(2,208)	(13,475)
Net income from discontinued operations	-	(28)	-	183
Net loss and comprehensive loss	(684)	(12,711)	(2,208)	(13,292)

The Company recorded a net loss from continuing operations of \$684,000 or \$0.01 per common share in the third quarter of 2009 compared to a net loss of \$12,711 or \$0.27 per common share in the third quarter 2008.

The Company recorded a net loss from continuing operations of \$2,208,000 or \$0.04 per common share in for the nine months ended September 30, 2009 compared to a net loss of \$13,292,000 or \$0.31 per common share in for the same period of 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 operations. No operations related to PGCL were carried on during 2009. The following table provides details of the discontinued operations in the comparable periods.

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Revenues				
Consulting revenue	-	1,104	-	4,142
Interest and other income	-	-	-	3
	-	1,104	-	4,145
Expenses				
Operating	-	620	-	3,080
General and administrative	-	181	-	358
Depreciation	-	9	-	9
Foreign exchange gain	-	47	-	(36)
		857	-	3,411
Income from discontinued operations before taxes	-	247	-	734
Income taxes	-	(275)	-	(551)
Net income from discontinued operations	-	(28)	-	183

Funds from Operations

<i>(in thousands of dollars)</i>	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Funds from operations - continuing operations	(213)	325	(506)	535
Change in non-cash working capital – continuing operations	47	202	376	599
Cash provided by operating activities	(166)	527	(130)	1,134

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.

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:

	Three months ended		Nine months ended	
	September 30		September 30	
	2009	2008	2009	2008
Natural Gas (Mcf)	135,691	108,722	503,733	287,396
Oil and NGLs (bbls)	1,970	368	3,734	670
Boe	24,587	18,488	87,693	48,569

CAPITAL EXPENDITURES

(000s)	2009			
	Q3	Q2	Q1	Total
Land and seismic	73	263	132	468
Drilling and completions	65	976	28	1,069
Equipment, tie in and trunk lines	199	135	310	644
Alberta drilling credits	(538)	-	-	(538)
	(201)	1,374	470	1,643
Dispositions	-	-	(19)	(19)
Net capital expenditures	(201)	1,374	451	1,624

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.

During the second quarter of 2009, PetroGlobe drilled one light oil well in Taber/Grand Forks and two natural gas wells in the Pembina area.

In the third quarter of 2009 capital expenditures related primarily to the tie-ins of the wells drilled in the second quarter as well as land purchases in the Company's strategic exploration areas. The drilling credits of \$538,000 relate to the three wells drilled in the second quarter of 2009.

SUMMARY OF EIGHT MOST RECENTLY COMPLETED CONSOLIDATED QUARTERLY RESULTS

(000s except per share amount)	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Petroleum and natural gas revenues	466	628	970	806
Consulting revenues	-	-	-	-
Net loss, before discontinued operations	(684)	(1,061)	(464)	(714)
Net loss, before discontinued operations				
Per share, basic and diluted	(0.01)	(0.02)	(0.01)	(0.01)
Net loss	(684)	(1,061)	(464)	(876)
Net loss				
Per share, basic and diluted	(0.01)	(0.02)	(0.01)	(0.01)
Net capital expenditures	(201)	1,374	451	3,015

(000s except per share amount)	Q3 2008	Q2 2008	Q1 2008	Q4 2007
Petroleum and natural gas revenues	935	974	663	571
Consulting revenues	1,105	1,296	1,741	1,708
Net loss, before discontinued operations	(12,683)	(402)	(390)	(1,615)
Net loss, before discontinued operations				
Per share, basic and diluted	(0.27)	(0.01)	(0.01)	(0.04)
Net loss	(12,171)	(178)	(476)	(1,080)
Net loss				
Per share, basic and diluted	(0.27)	(0.01)	(0.01)	(0.03)
Net capital expenditures	(459)	438	255	428

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 September 30, 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	16
2010	67
	83

- (b) The Company has an outstanding letter of guarantee in the amount of \$100,000 issued to an industry partner.
- (c) 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 \$3,000.

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 second quarter and six months of 2009 and 2008.

SUBSEQUENT EVENTS

- (a) Subsequent to September 30, 2009, the Company completed a series of non-brokered private placements. The Company issued 18,625,853 Flow-Through Common Shares at a price of \$0.14 per share and 5,384,615 Flow-Through Common Shares at a price of \$0.13 per share for aggregate proceeds of approximately \$3,300,000.
- (b) Subsequent to September 30, 2009, 950,000 options to purchase common shares of the Company were forfeited and cancelled.
- (c) On November 18, 2009, 1,075,000 options to purchase common shares of the Company were issued

to directors, officers and consultants with an exercise price of \$0.14 per common share.

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.

Due to the capital intensive nature of its operations, the Company may create a negative working capital position in periods of high levels of investment. At September 30, 2009 the Company had a net working capital deficit of \$2,593,000 (current assets – not including future income tax assets less current liabilities - not including future income tax liabilities and including bank line of credit) compared to a net working capital deficit of \$448,000 at December 31, 2008. The increase in deficit was a result of capital expenditures primarily in the first half of the year. Subsequent to the third quarter end, PetroGlobe raised approximately \$3,300,000 in equity financing, which will be used for future capital projects.

PetroGlobe has a demand loan credit facility of up to \$3,000,000 with a Canadian chartered bank of which \$2,700,000 is available to be drawn against at the present time and bears interest at prime plus 1.5 %. The next scheduled review is May 31, 2010.

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.

Subsequent to September 30, 2009 the Company completed a series of non-brokered private placements (See the "Subsequent Events" section of this MD&A) for approximate aggregate cash proceeds of \$3,300,000. The Company intends to use these funds to fund future capital projects and reduce its working capital deficiency.

Working Capital		
<i>(000s)</i>		
As at	September 30 2009	December 31 2008
Current assets	1,049	3,366
Current liabilities	3,642	3,814
Working capital deficiency	(2,593)	(448)

Debt instruments (000s)	September 30 2009
Bank line of credit (credit limit)	2,700
Amount drawn	(2,477)
Letter of credit outstanding ⁽¹⁾	(100)
Amount available	123

(1) Includes an outstanding letter of credit in the amount of \$100,000 to an industry partner.

For additional details of PetroGlobe's credit facilities, see Note 7 of the interim consolidated financial statements for the three and nine months ended September 30, 2009.

OUTSTANDING SHARE DATA

As at	August 27 2009	September 30 2009	December 31 2008
Common shares	49,432,020	49,432,020	49,799,020
Warrants	-	-	1,616,667
Stock options	2,200,000	3,150,000	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.

During the third quarter of 2009 the Company entered into a physical natural gas pricing collar. The details of the Company's financial instruments are as follows:

Commodity Sold	Type of Contract	Notional Volume	Remaining Term	Pricing	Fair Value
Natural Gas	Collar	1,000 GJ/d	Nov 1, 2009 – Mar 31, 2010	\$4.30/GJ to \$5.11/GJ	\$ -

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 on 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.

Financial Instruments

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted market prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Company on December 31, 2009.

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.

On July 23, 2009 the International Accounting Standards Board ("IASB") adopted certain amendments and exemptions to IFRS 1 for Canadian entities adopting IFRS for the first time. One such exemption relating to the full cost oil and gas accounting is expected to reduce the administrative burden in the transition from current CICA Accounting Guideline 16 to IFRS. The amendment allows the Company to apply IFRS 1 prospectively to its 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.

CORPORATE INFORMATION

Board of Directors

Bill Powers
Chairman
Independent Businessman
Chicago, 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

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Officers

Jason James, CA
Chief Executive Officer

Dean Marcil
Vice President, Land

Head Office

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

Auditors

Deloitte & Touche LLP
3000 Scotia Centre
700-3rd Street SW
Calgary, Alberta

Bank

ATB Financial
239-8th Avenue SW
Calgary, Alberta T2P 1B9

Legal Counsel

McCarthy Tetrault LLP
Calgary, Alberta
3300, 421-7th 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, 125-9th Avenue SE
Calgary, Alberta T2G 0P6

DEFINITIONS

bbl	barrels	Mboe	thousand barrels of oil equivalent
Bcf	billion cubic feet	Mcf	thousand cubic feet
Mbbls	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

Q3

2009



petroglobe

Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2009

Notice to shareholders and other readers:

The September 30, 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)

	September 30 2009 <i>(unaudited)</i>	December 31 2008 <i>(audited)</i>
ASSETS		
Current assets		
Cash and cash equivalents (Note 4)	32	2,203
Accounts receivable and accrued receivables (Note 5)	874	1,071
Prepaid expenses and deposits	143	92
Future income tax asset (Note 9)	-	348
	1,049	3,714
Future income tax asset (Note 9)	1,710	1,756
Property, plant and equipment (Note 6)	9,428	9,109
	12,187	14,579
LIABILITIES		
Current liabilities		
Bank line of credit (Note 7)	2,477	-
Accounts payable and accrued liabilities	1,165	3,814
	3,642	3,814
Asset retirement obligations (Note 8)	1,027	900
	4,669	4,714
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	31,260	31,754
Warrants (Note 10)	-	502
Shares held for cancellation (Note 10)	-	(9)
Contributed surplus (Note 10)	3,359	2,511
Deficit	(27,101)	(24,893)
	7,518	9,865
	12,187	14,579

Going concern and basis of presentation (Note 1)
Commitments and contingencies (Note 13)
Subsequent events (Note 16)

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)

<i>(unaudited)</i>	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
REVENUE				
Petroleum and natural gas	466	935	2,064	2,572
Royalties (Note 5)	(175)	(189)	(595)	(668)
Other	27	48	93	121
	318	794	1,562	2,025
EXPENSES				
Operating	320	351	1,086	850
General and administrative	194	345	915	751
Short-term interest	19	1	49	7
Stock-based compensation (Note 11)	(20)	98	135	281
Depletion, depreciation and accretion	521	495	1,471	1,343
Write-down of property, plant and equipment	-	14,196	-	14,196
Gain on sale of assets	-	-	(19)	-
Foreign exchange loss (gain)	(32)	(173)	(3)	(92)
	1,002	15,313	3,634	17,336
Loss before income taxes from continuing operations	(684)	(14,519)	(2,072)	(15,311)
Future income tax recovery (expense) (Note 9)		1,836	(136)	1,836
Net loss from continuing operations	(684)	(12,683)	(2,208)	(13,475)
Net income (loss) from discontinued operations (Note 3)	-	(28)	-	183
Net loss and comprehensive loss for the period	(684)	(12,711)	(2,208)	(13,292)
Deficit, beginning of period	(26,417)	(11,773)	(24,893)	(11,192)
Deficit, end of period	(27,101)	(24,484)	(27,101)	(24,484)
Loss per share (Note 10)				
Basic and diluted loss per share – continuing operations	(0.01)	(0.27)	(0.04)	(0.31)
Basic and diluted income per share – discontinued operations	-	-	-	0.01
Basic and diluted loss per share	(0.01)	(0.27)	(0.04)	(0.30)

See accompanying notes to the interim consolidated financial statements.

PetroGlobe Inc.
Consolidated Statements of Cash Flows

(in thousands of Canadian dollars)

<i>(unaudited)</i>	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
Cash provided by (used in):				
Operating activities				
Net loss from continuing operations	(684)	(12,683)	(2,208)	(13,475)
Items not involving cash:				
Depletion, depreciation and accretion	521	495	1,471	1,343
Stock-based compensation (Note 11)	(20)	98	135	281
Write-down of property, plant and equipment	-	14,196	-	14,196
Gain on sale of assets	-	-	(19)	-
Unrealized foreign currency gain (loss)	(30)	55	(21)	26
Future income tax expense (recovery)	-	(1,836)	136	(1,836)
	(213)	325	(506)	535
Change in non-cash working capital (Note 12)	47	202	376	599
Cash flows from continuing operations	(166)	527	(130)	1,134
Net income from discontinued operations	-	(28)	-	183
Items not involving cash:				
Depreciation and amortization	-	9	-	9
Unrealized foreign currency gain (loss)	-	(26)	-	(35)
Change in non-cash working capital	-	213	-	(451)
Cash flows from discontinued operations	-	168	-	(294)
	(166)	695	(130)	840
Financing activities				
Increase in bank line of credit	1,191	-	2,477	(50)
Issue of common shares, net of share issue costs	-	839	-	2,828
Repurchase of common shares (Note 10)	-	-	(15)	-
Cash received on exercise of stock options and warrants	-	68	-	72
Cash flows from continuing financing activities	1,191	907	2,462	2,850
Investing activities				
Expenditures on property plant and equipment (Note 5)	201	(338)	(1,643)	(1,031)
Proceed from disposition of property, plant and equipment		797	19	797
Change in non-cash working capital (Note 12)	(1,242)	(287)	(2,879)	(1,411)
Cash flows used in continuing investing operations	(1,041)	172	(4,503)	(1,645)
Increase (decrease) in cash and cash equivalents	(16)	1,774	(2,171)	2,045
Cash and cash equivalents, beginning of period	48	694	2,203	423
Cash and cash equivalents, end of period	32	2,468	32	2,468
Supplemental cash flow information (Note 12):				
Cash interest received	-	6	-	9
Cash interest paid	17	1	43	7
Cash income taxes paid	-	275	-	551

See accompanying notes to the interim consolidated financial statements.

PetroGlobe Inc.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts

(Unaudited)

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.

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.

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.

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.

PetroGlobe Inc.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts

(Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Financial Instruments

In May 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted market prices for which all significant inputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These amendments are effective for the Company on December 31, 2009.

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.

On July 23, 2009 the International Accounting Standards Board ("IASB") adopted certain amendments and exemptions to IFRS 1 for Canadian entities adopting IFRS for the first time. One such exemption relating to the full cost oil and gas accounting is expected to reduce the administrative burden in the transition from current CICA Accounting Guideline 16 to IFRS. The amendment allows the Company to apply IFRS 1 prospectively to its 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.

PetroGlobe Inc.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts
(Unaudited)

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:

	Three months ended September 30 2008	Nine months ended September 30 2008
Revenues		
Consulting revenue	1,104	4,142
Interest and other income	-	3
	1,104	4,145
Expenses		
Operating	620	3,080
General and administrative	181	358
Depreciation	9	9
Foreign exchange loss (gain)	47	(36)
	857	3,411
Income from discontinued operations before taxes	247	734
Income taxes	(275)	(551)
Net income from discontinued operations	(28)	183

4. CASH AND CASH EQUIVALENTS

	September 30 2009	December 31 2008
Cash	32	560
Treasury bills	-	1,643
	32	2,203

5. ACCOUNTS RECEIVABLE AND ACCRUED RECEIVABLES

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 Inc.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts
(Unaudited)

5. ACCOUNTS RECEIVABLE AND ACCRUED RECEIVABLES (continued)

During Q2 2009, PetroGlobe drilled three wells eligible for the drilling credit program announced by the Provincial Government of Alberta which the Company estimates created \$538,000 of drilling credits to apply against crown royalties (net of deductions). In the second quarter ended June 30, 2009, PetroGlobe applied \$85,000 of drilling credits against net crown royalties paid and recorded an accrued receivable in the same amount. After reviewing recent clarifications and amendments to the drilling credit program the Company determined that the entire \$538,000 in drilling credits should be recognized as a receivable with the offset charged against property, plant and equipment. Based on this change in estimate the company has reversed the \$85,000 of drilling credits previously charged to crown royalty expense.

6. PROPERTY, PLANT AND EQUIPMENT

September 30, 2009			
	Cost	Accumulated Depletion and depreciation	Net book Value
Petroleum and natural gas properties and equipment	35,537	26,130	9,407
Office furniture and equipment	126	105	21
	35,663	26,235	9,428
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 nine months ended September 30, 2009 the Company capitalized general and administrative expenditures of \$12,000 (December 31, 2008 - \$80,000).

At September 30, 2009, the cost of unproved properties of \$281,000 (December 31, 2008 - \$nil) and salvage values of \$525,000 (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, 2008 - \$650,000) were included in the calculation of depletion for the respective periods.

PetroGlobe Inc.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts
(Unaudited)

7. BANK LINE OF CREDIT

	September 30 2009	December 31 2008
Bank line of credit	2,477	-

The Company has a demand revolving credit facility with an available limit of \$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% as at September 30, 2009. This facility is secured by a general security agreement.

8. ASSET RETIREMENT OBLIGATIONS

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

	September 30 2009	December 31 2008
Asset retirement obligations, beginning of period	900	587
Changes in liabilities during the year related to:		
Acquisitions	-	17
Additions	88	174
Revisions	-	89
Liabilities disposed	-	(28)
Accretion expense	46	44
Foreign exchange	(7)	17
Asset retirement obligations, end of period	1,027	900

At September 30, 2009, management estimates that undiscounted expected cash flows required to settle the Company's asset retirement obligations will be incurred as follows:

2013	130
2014	464
2015	766
	1,360

The undiscounted amount of the estimated future cash flows required to settle the obligations as at September 30, 2009 was \$1,360,000 (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 5.9 years (December 31, 2008 - 6.5 years). The estimated future cash flows for asset retirement obligations added during 2009 have been calculated using an inflation rate of 0.1% and discounted at a weighted average credit-adjusted risk-free rate of 10.1% (December 31, 2008 - 7.1%).

PetroGlobe Inc.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts
(Unaudited)

9. 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:

	Nine months ended September 30 2009
Loss before income taxes from continuing operations	(2,072)
Average combined federal and provincial tax rate	29.0%
Computed income tax recovery	(601)
Increase (decrease) in income taxes resulting from:	
Stock-based compensation	39
Non-deductible expenses	3
Change in statutory tax rates	-
Other	19
Change in valuation allowance	676
Future income tax expense	136

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

	September 30 2009
Future income tax assets:	
Non-capital loss carry-forwards	733
Asset retirement obligations	248
Share issue costs	43
Tax basis of property plant, and equipment in excess of carrying amount	1,362
	2,386
Valuation allowance	(676)
Net future income tax asset	1,710

The Company has Canadian non-capital losses of approximately \$2,800,000 (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 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2009 and 2008

All tabular amounts in thousands of Canadian dollars except per share amounts

(Unaudited)

10. 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, September 30, 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.

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10. SHARE CAPITAL (continued)

- (ii) 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. The warrants expired unexercised on August 8, 2009.

(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
Expired	(1,616,667)	(502)
Balance, September 30, 2009	-	-

(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
Outstanding, September 30, 2009	-	-	-

(e) Contributed surplus

	September 30 2009	December 31 2008
Contributed surplus balance, beginning of period	2,511	1,476
Stock-based compensation	135	403
Value of common shares purchased in excess of cost	211	-
Transferred to share capital on exercise of options	-	(44)
Transferred from share capital on expiry of warrants	502	325
Transferred from share capital on forfeiture of warrants	-	351
Contributed surplus, end of period	3,359	2,511

PetroGlobe Inc.

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10. SHARE CAPITAL (continued)

(f) Per share amounts

	Three months ended	
	September 30 2009	September 30 2008
Weighted average common shares outstanding - basic	49,432,020	47,691,107
Dilutive effect of options and stock purchase warrants	-	-
Weighted average common shares outstanding - diluted	49,432,020	47,691,107

	Nine months ended	
	September 30 2009	September 30 2008
Weighted average common shares outstanding - basic	49,438,742	43,918,694
Dilutive effect of options and stock purchase warrants	-	-
Weighted average common shares outstanding - diluted	49,438,742	43,918,694

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 three and nine months ended September 30, 2009, the Company excluded 3,150,000 options (September 30, 2008 - 2,791,672 and 2,750,000 warrants) because they were determined to be anti-dilutive.

11. 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.

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11. STOCK-BASED COMPENSATION (continued)

A summary of the status of the plan as of September 30, 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	(940,000)	(0.34)
Outstanding, September 30, 2009	3,150,000	0.54
Exercisable, September 30, 2009	1,879,445	0.73

A summary of the outstanding stock options as at September 30, 2009 is as follows:

Exercise Price (\$/option)	Options Outstanding		Options Exercisable	
	Number outstanding at September 30 2009	Weighted average remaining contractual life (years)	Number exercisable at September 30 2009	Weighted Average Exercise Price (\$/option)
0.09 – 0.50	2,106,667	3.85	1,030,556	0.25
0.51 – 1.00	583,333	2.84	388,889	0.80
1.01 – 1.50	100,000	0.44	100,000	1.23
1.50 – 2.95	360,000	2.19	360,000	1.92
0.09 - 2.95	3,150,000	3.43	1,879,445	0.73

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 nine months ended September 30, 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 (%)	-%

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12. SUPPLEMENTARY CASHFLOW INFORMATION

	Three months ended September 30 2009	Three months ended September 30 2008
Changes in non-cash working capital:		
Accounts receivable and accrued receivables	(45)	1,083
Prepaid expenses and deposits	11	(1)
Accounts payable and accrued liabilities	(1,161)	(954)
	(1,195)	128
Changes in non-cash working capital:		
Operating	47	415
Investing	(1,242)	(287)
	(1,195)	128
	Nine months ended September 30 2009	Nine months ended September 30 2008
Changes in non-cash working capital:		
Accounts receivable and accrued receivables	197	(133)
Prepaid expenses and deposits	(51)	184
Accounts payable and accrued liabilities	(2,649)	(1,314)
	(2,503)	(1,263)
Changes in non-cash working capital:		
Operating	376	148
Investing	(2,879)	(1,411)
	(2,503)	(1,263)

PetroGlobe Inc.

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13. 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	16
2010	67
	83

- (b) The Company has an outstanding letter of guarantee in the amount of \$100,000 issued to an industry partner.
- (c) 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 \$3,000.
- (d) 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.

14. RISK MANAGEMENT AND 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	September 30, 2009	
	Carrying Value	Fair Value
Loans and receivables	1,017	1,017
Other liabilities	3,642	3,642

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14. RISK MANAGEMENT AND 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 September 30, 2009, the Company was exposed to credit concentration risk with three industry parties totaling \$823,000 or 94% of the total accounts receivable outstanding.

The Company's receivable from oil and gas marketers is typically collected on the 25th 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 September 30, 2009	
Neither impaired nor past due	692
Impaired (net of valuation allowance)	-
Not impaired and past due in the following periods:	
Within 30 days	
31-60 days	32
61-90 days	65
Over 90 days	85

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14. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

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 7 Bank line of credit) which is reviewed by the lender annually with interim reviews generally scheduled.

The Company actively maintains credit facilities to ensure that it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost. The following are the contractual maturities of financial liabilities at September 30, 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	1,165	1,165	-
Line of credit	Yes - Liability	2,477	2,477	-
Office and equipment lease	No	83	16	67
Firm service commitment	No	3	3	-
Total		3,728	3,661	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.

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14. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(b) Commodity price risk

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

The Company had the following risk management contract outstanding as at September 30, 2009. Fair values are determined using external counterparty information, which was compared to observable market data.

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

Commodity price sensitivity:

Commodity Price	
Natural gas physical contracts (GJ)	151,000
Price change	\$ 0.10
Sensitivity – natural gas revenue	\$ 15

(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 September 30, 2009.

15. 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.

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15. CAPITAL DISCLOSURES (continued)

The Company defines and computes its capital as follows:

	September 30 2009	December 31 2008
Shareholders' equity	7,518	9,865
Bank line of credit	2,477	-
Cash and cash equivalents	32	(2,203)
Total capital	10,027	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 September 30, 2009.

16. SUBSEQUENT EVENTS

- (a) Subsequent to September 30, 2009, the Company completed a series of non-brokered private placements. The Company issued 18,625,853 Flow-Through Common Shares at a price of \$0.14 per share and 5,384,615 Flow-Through Common Shares at a price of \$0.13 per share for aggregate proceeds of approximately \$3,300,000.
- (b) Subsequent to September 30, 2009, 950,000 options to purchase common shares of the Company were forfeited and cancelled.
- (c) On November 18, 2009, 1,075,000 options to purchase common shares of the Company were issued to directors, officers and consultants of PetroGlobe Inc. with an exercise price of \$0.14 per common share.