

# Q1 2010



**petro**globe

Management's Discussion and Analysis  
Q1 March 31, 2010



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### Non-GAAP Measures

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

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

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

### Forward Looking Statements

This MD&A contains certain forward looking statements including management's assessment of future plans and operations, drilling and tie-in plans and timing thereof, plans regarding wells to be drilled, expected and anticipated production rates, methods of funding, anticipated liquidity of the Company and various matters that may impact such liquidity, timing of production increases and decreases related to operations, planned reductions in operating expenses in 2010 and expected operating expenses, expected production, royalties and operating expenses and general and administrative expenses, expected levels of revenues and operating netbacks in 2010 compared to 2009, maintenance of productive capacity and capital expenditures and nature of capital expenditures and the timing and method of financing thereof, may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environment risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain regulatory approvals and ability to access sufficient capital from internal and external sources. The recovery and reserve estimates of PetroGlobe's reserves provided herein are estimates only and there is no guarantee that the estimates reserves will be recovered. Events or circumstances may cause actual results to differ materially from those predicted, as a result of the risk factors set out and other known and unknown risks, uncertainties, and other factors, many of which are beyond the control of PetroGlobe. In addition, forward-looking statements or information are based on a number of factors, many of which have been used to develop such statements and information, but which may prove to be incorrect. Although, PetroGlobe believes that expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified herein, assumptions been made regarding, among other things: the impact of increasing competition, the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator to of the projects in which the Company has an interest to operate the field in a safe, efficient, and effective manner; the ability of the Company to obtain financing on acceptable terms; field production and decline rates; the ability to replace and expand oil and natural gas reserves through



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

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

### Conversion

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

### THE COMPANY

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

### OUTLOOK

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

In the first quarter 2010, PetroGlobe participated in the drilling and completion of two gross (1 net) horizontal oil wells targeting the Cardium formation with one well on production March 1, 2010 and the second well on production April 1, 2010. PetroGlobe also tied in and brought on stream three gross (three net) shallow gas wells in the Pembina area. As a result of these additional production rose to approximately 350 boed at the end of the first quarter.

During the first quarter 2010, PetroGlobe continued to grow its Cardium oil drilling inventory and at the same time extend its initial exposure across a greater number of gross locations. Through pooling and land acquisitions PetroGlobe, acquired an additional 1,120 gross acres (320 net) of prospective Cardium land adding a potential seven gross (two net) Cardium horizontal oil locations to its existing inventory. Subsequent to the end of the first quarter 2010, PetroGlobe continued to build its oil prospect inventory through the acquisition of 3,040 acres which could add a potential five gross (five net) Cardium horizontal oil locations in addition to other identified oil and gas prospects.

In March 2010, the Company completed a brokered private placement through and raised \$1.8 million through the issuance of 5.7 million common shares providing further strength to its financial position.

On May 31, 2010, the available limit under the Company's demand revolving credit facility was increased to \$3.6 million from \$2.7 million.

The Company remains focused on growing its Cardium oil production by additional horizontal drilling throughout the remainder of 2010. The combination of current oil pricing and Alberta government royalty incentives provide to create a favorable environment for exploration and development of the Company's lands. The Company's capital program for the rest of the year remains flexible to allow for further drilling by PetroGlobe and its partners.

On May 4, 2010, PetroGlobe entered into a letter of intent which contemplates a business combination with ArPetrol Inc.,



a private Alberta corporation with international oil and gas operations. The potential transaction is subject to a number of conditions precedent, including completion of satisfactory due diligence, receipt of all required corporate and regulatory approvals, and negotiation and execution of typical transaction documents. There can be no assurance that the transaction will be completed.

## OPERATIONAL AND FINANCIAL RESULTS

Sales Volumes			
	Quarter ended March 31		
	2010	2009	% change
<b>Average daily sales volumes</b>			
Natural gas (Mcf/d)	1,627	2,081	(22%)
NGLs (bbls/d)	7	23	(71%)
Oil (bbls/d)	15	-	100%
Total (boe/d)	293	370	(21%)

PetroGlobe's first quarter 2010 sales volumes decreased 77 boe/d or 21 percent and averaged 293 boe/d compared to the first quarter 2009 average of 370 boe/d. The decrease in 2010 is primarily the result of natural decline rates of the wells that came on-line in the first quarter of 2009 which was partially offset by the Company's Cardium oil well that was drilled during the quarter and put on production towards the end of Q1 2010.

Revenues and Commodity Prices			
	Quarter ended March 31		
(000s)	2010	2009	% Change
<b>Revenues</b>			
Petroleum and natural gas	850	970	(12%)
Other	24	37	(35%)
Total	874	1,007	(13%)
<b>Average prices received</b>			
Natural gas (per Mcf)	4.96	4.96	-
NGLs (per bbl)	31.07	19.80	57%
Oil (bbl)	73.96	-	100%
Per boe	32.25	29.13	11%

Petroleum and natural gas revenue in the first quarter of 2010 was \$850,000 compared to \$970,000 in the first quarter of 2008 representing a decrease of \$120,000 or 12 percent. The decrease is primarily due to decreased natural gas sales volumes partially offset by increased oil sales volumes. PetroGlobe was able to keep natural gas prices consistent with Q1 of 2009 through the use of a physical sales contract. Other income consists primarily of pipeline tariffs and interest income. Other income for the quarter ended March 31, 2010 was \$24,000 compared to \$37,000 for the same period as 2009. The decrease is primarily related to lower volumes transported on the Company's gathering line.

Royalties			
	Quarter ended March 31		
	2010	2009	% Changed
Crown royalties (000s)	41	161	(74%)
Overriding and freehold royalties (000s)	108	149	(28%)
	149	310	(52%)



As a percentage of petroleum and natural gas revenue	<b>18%</b>	32%	(44%)
Royalties per boe	<b>5.64</b>	9.30	(39%)

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

During the first quarter of 2010, PetroGlobe incurred royalties of \$149,000 or 18 percent of petroleum and natural gas revenues compared to \$310,000 or 32 percent in the first quarter of 2009. The decrease in the percentage is primarily related to the New Royalty Framework "NRF" implemented by the Government of Alberta. As a percentage of petroleum and natural gas revenues Crown royalties (after GCA and processing credits) was five percent compared to 17 percent in the first quarter of 2009.

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

#### Operating Expenses

(000s)	Quarter ended		
	March 31		
	2010	2009	% changed
Operating	<b>291</b>	385	(24%)
Operating per boe	<b>11.03</b>	11.56	(5%)

Operating expenses were \$291,000 in the first quarter of 2010 compared to \$385,000 for the same period of 2009, representing a decrease of \$94,000 or 24 percent. This decrease is primarily the result of the 21 percent decrease in sales volumes for the same comparative period. Additionally, per boe costs decreased in the first quarter of 2010 as a result of lower operating expenses related to the oil production from the Company's Cardium oil well.

#### Oil and Gas Operating Netback Information

(\$ per boe)	Quarter ended		
	March 31		
	2010	2009	% Changed
Revenue	<b>32.25</b>	29.13	11%
Royalties	<b>(5.64)</b>	(9.31)	(39%)
Operating expenses	<b>(11.03)</b>	(11.56)	(5%)
Operating netback	<b>15.58</b>	8.26	89%

PetroGlobe's operating netback for the first quarter 2010 was \$15.58 compared to \$8.26 for the first quarter of 2009 representing an increase of \$7.32 per boe or 89%. The increased operating netback for Q1 2010 compared to the prior year is attributable to an increasing percentage of sales volumes composed of oil volumes and decreased royalties.

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

(000s)	Quarter ended		
	March 31		
	2010	2009	% changed
G&A Gross	<b>225</b>	441	(49%)
G&A Recoveries	<b>(25)</b>	(91)	(73%)
	<b>200</b>	350	(43%)



Resource G&A per boe	<b>7.59</b>	10.58	(28%)
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Gross G&A expenses for resource operations decreased 49 percent to \$225,000 for the first quarter of 2010 compared to \$441,000 for the same period of 2009. The decrease is due to reduced staffing costs and corporate office expenses. In addition, rent expense during Q1 2010 was \$46,000 less than Q1 of 2009 due to a relocation of PetroGlobe's head office; this was partially offset by increased legal fees during the first quarter of 2010.

On a per boe basis, the Q1 2010 general and administrative costs were down 28 percent to \$7.59 per boe compared to \$10.58 per boe in Q1 2009 despite lower production. Lower net costs more than offset the lower Q1 2010 production, thereby reducing the per boe figure.

Interest Expense	Quarter ended March 31	
	2010	2009
Interest expense (000s)	<b>19</b>	2
Per boe	<b>0.73</b>	0.05

PetroGlobe incurred \$19,000 interest expense during the first quarter compared to \$2,000 same period of 2009. The increase in interest expense for Q1 quarter and 2010 relates to amounts being drawn against the line of credit during the period. In addition, Q1 2010 interest expense includes a charge of \$13,000 related to Part XII.6 related to flow-through share financings.

Depletion, Depreciation and Accretion ("DD&A")	Quarter ended March 31		
	2010	2009	% changed
DD&A (000s)	<b>733</b>	479	53%
DD&A per boe	<b>27.82</b>	14.37	93%

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 \$733,000 for the quarter and compared to \$479,000 for the same period of 2009. The 2010 increase compared to the prior year was a result of reserve volume reductions at the end of 2009 and increased capital expenditures associated with the exploration and development of reserves.

Stock-based Compensation	Quarter ended March 31		
	2010	2009	% changed
(000s)			
Stock-based compensation	<b>23</b>	89	(74%)

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 \$23,000 for the quarter ended March 31, 2010 compared to \$89,000 for the same period in 2009.

During 2010, the Company granted 100,000 stock options to a consultant of PetroGlobe at a price of \$0.33 per share.

**Income Taxes**

(000s)	Quarter ended		
	March 31		
	2010	2009	% changed
Future income tax expense	-	164	-

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

**Net Loss and Comprehensive Loss**

	Quarter ended		
	March 31		
	2010	2009	% changed
Net loss (000s)	(536)	(464)	(16%)
Net loss (per share)	(0.01)	(0.01)	-

The Company recorded a net loss of \$536,000 or \$0.01 per common share in the first quarter 2010 compared to a net loss of \$464,000 or \$0.01 per common share in the first quarter 2009. The increase in net loss is primarily attributable to reduced natural gas revenues and increased depletion and depreciation expense partially offset by decreased operating and G&A expenses.

**Funds from Operations**

	Quarter ended		
	March 31		
	2010	2009	% changed
Funds From (used In) Operations (000s)	220	(80)	375%
Per share – basic and diluted	-	-	-

Funds from operations were \$220,000 for the quarter March 31, 2010 compared to funds used in operations of \$80,000 the same period of 2009. The increase in the 2010 first quarter funds from operations compared to the prior year is attributable to the increase in average operating netbacks and decreased 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**

<i>(000s)</i>	Quarter ended	
	March 31	
	2010	2009
Funds from operations	220	(80)
Change in non-cash working capital	474	419
Cash provided by operating activities (GAAP financial measure)	694	339

**Netback and Per BOE Information**

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

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

**CAPITAL EXPENDITURES**

<i>(000s)</i>	Q1 2010
Land and seismic	72
Drilling and completions	2,217
Equipment, tie in and trunk lines	497
Cash expenditures	2,786
Acquisitions	650
Asset retirement obligations	37
Net capital expenditures	3,473

During 2010, the Company drilled and completed two (0.94 net) Cardium oil wells in Pembina area and completed the tie in of three gas wells in Pembina area. In addition, the Company purchased an additional 40 percent after pay-out working interest in certain Cardium lands in exchange for 2,000,000 common shares and \$60,000.

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

	Q1	Q4	Q3	Q2
<i>(000s except per share amount)</i>	2010	2009	2009	2009
Petroleum and natural gas revenues	850	543	467	628
Consulting revenues	-	-	-	-
Net loss, before discontinued operations	(536)	(1,448)	(684)	(1,057)
Net loss, before discontinued operations Per share, basic and diluted	(0.01)	(0.02)	(0.01)	(0.02)
Net loss	(536)	(1,448)	(684)	(1,058)
Net loss Per share, basic and diluted	(0.01)	(0.02)	(0.01)	(0.02)
Net capital expenditures	3,473	471	(201)	1,374

	Q1	Q4	Q3	Q2
<i>(000s except per share amount)</i>	2009	2008	2008	2008
Petroleum and natural gas revenues	970	806	935	974
Consulting revenues	-	-	1,105	1,296
Net loss, before discontinued operations	(465)	(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	469	3,015	(459)	438

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 March 31, 2010 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.

**CONTRACTUAL OBLIGATIONS**

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

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

All such contractual obligations reflect market conditions at the time of the contract and do not involve related parties. Obligations at March 31, 2010 with a fixed term are as follows:



(000s)	2010
Flow-through share commitments	3,595
Lease of office premises	52
Equipment leases	22
Firm service commitments	19
	3,688

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

## COMMITMENTS AND CONTINGENCIES

### Outstanding Lawsuits

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

## RELATED PARTY TRANSACTIONS

PetroGlobe did not have any related party transactions during the periods ended March 31, 2010 and 2009.

## LIQUIDITY AND CAPITAL RESOURCES

### Capital Management

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

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

The Company closed an equity financing in March 2010 in order to increase PetroGlobe's financial flexibility and provide funding for drilling activities. PetroGlobe plans to continue to monitor funds flow from operations, working capital and debt levels. The Company will continue to monitor developments within the global economic environment to consider the impacts on the current and future capital management policies.

The Company defines and computes its capital as follows:

	March 31, 2010	December 31, 2009
Shareholders' equity	10,217	9,242
Bank line of credit	994	-
Working capital (excluding bank line of credit and current future income tax assets)	(109)	81
Total capital	11,102	9,323

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, 2010.

As at March 31, 2010, the Company had working capital deficiency of \$885,000 compared to a working capital deficiency of \$81,000 as at December 31, 2009.

#### Credit Facility

At March 31, 2010, The Company had a \$2,700,000 credit facility consisting of a demand revolving operating loan facility. This facility is secured by a general security agreement. Interest is payable at the bank prime rate plus 1.50%.

On May 31, 2010, the available limit under the demand revolving credit facility was increased to \$3,600,000. The next annual review of the credit facilities is scheduled for May 31, 2011.

Debt instruments	Demand Revolving Credit Facility Limit at March 31, 2010	Amount Outstanding at March 31, 2010	Amount Available at March 31, 2010
Bank line of credit (000s)	2,700	994	1,706

For additional details of PetroGlobe's credit facilities, see Note 5 of the unaudited consolidated financial statements for the periods ended March 31, 2010 and 2009.

#### Liquidity

In Q4 2008 commodity prices experienced a sudden and severe decline in commodity prices that lasted until Q1 2009. The result of this decline is a potential limit of PetroGlobe's access to equity markets and as a consequence affected management's approach and operating strategy during most of 2009. As a result, PetroGlobe focused on reducing its capital expenditures and operating costs. As a result of the apparent economic recovery, not only have crude prices stabilized but so has access to equity markets. In November 2009, the Company issued 5,384,615 common shares at a price of \$0.13 per common share and 18,625,853 common shares at a price of \$0.14 per common share for gross proceeds of \$3,307,620, the proceeds were used to reduce debt and fund capital expenditures. In March 2010, PetroGlobe raised an additional \$1,882,140 by way of a private placement of 3,575,389 common shares on a flow-through basis at a price of \$0.36 per common share and 2,125,000 common shares at a price of \$0.28 per common share.

OUTSTANDING SHARE DATA			
As at	May 31, 2010	March 31, 2010	December 31, 2009
Common shares	81,159,543	81,159,543	73,442,488
Warrants	330,000	330,000	-
Share options	3,168,334	3,168,334	3,085,000



## OFF BALANCE SHEET ARRANGEMENTS

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

## SUBSEQUENT EVENTS

On May 4, 2010, PetroGlobe entered into a letter of intent which contemplates a business combination with ArPetrol Inc., a private Alberta corporation with international oil and gas operations. The potential transaction is subject to a number of conditions precedent, including completion of satisfactory due diligence, receipt of all required corporate and regulatory approvals, and negotiation and execution of typical transaction documents. There can be no assurance that the transaction will be completed.

## FINANCIAL INSTRUMENTS

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

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

## BUSINESS RISKS AND UNCERTAINTIES

### General

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

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

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

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

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

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as, safety risks such as personal injury. In order to mitigate such risks, PetroGlobe conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains current insurance coverage for general and comprehensive liability. The amount and terms of the insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements, as well as industry



standards and government regulations. PetroGlobe may periodically use financial or physical delivery hedges to reduce its exposure against the potential adverse impact of commodity price volatility, as governed by formal policies approved by senior management subject to controls established by the Board.

### **Environmental Regulations and Risks**

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

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

### **Alberta Royalty Regime**

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

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

### **Global Financial Risk**

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

### **Substantial Capital Requirements**

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

### **Third Party Credit Risk**

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event



such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and joint venture partners may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the capital program and the results of such program until the Company finds a suitable alternative partner.

## ACCOUNTING POLICY CHANGES

### RECENT PRONOUNCEMENTS

#### International Financial Reporting Standards

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

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

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

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

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

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



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

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



## CORPORATE INFORMATION

### Board of Directors

Bill Powers  
Chairman  
Independent Businessman  
Evanston, Illinois USA

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

Robert Macaulay  
Independent Businessman  
Calgary, Alberta

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

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

### Officers

Jason James, CA  
Chief Executive Officer

Dean Marcil  
Vice President, Land

### Head Office

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

### Auditors

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

### Bank

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

### Legal Counsel

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

### Stock Exchange

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

### Transfer Agent and Registrar

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

## DEFINITIONS

bbl  
Bcf  
Mbbbls  
boe

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

Mboe  
Mcf  
MMcf  
NGL  
/d

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

# Q1

# 2010



**petro**globe

**Consolidated Quarterly Financial Statements**

For the three months ended March 31, 2010 and 2009

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

*(in thousands of Canadian dollars)*

	<b>March 31, 2010 (unaudited)</b>	December 31, 2009 (unaudited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 3)	54	177
Accounts receivable and accrued receivables	1,549	1,200
Prepaid expenses and deposits	115	119
Future income tax asset	-	925
	<b>1,718</b>	<b>2,421</b>
<b>Property, plant and equipment (Note 4)</b>	<b>12,202</b>	<b>9,441</b>
	<b>13,920</b>	<b>11,862</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank line of credit (Note 5)	994	-
Accounts payable and accrued liabilities	1,609	1,577
	<b>2,603</b>	<b>1,577</b>
<b>Asset retirement obligations (Note 6)</b>	<b>1,100</b>	<b>1,043</b>
	<b>3,703</b>	<b>2,620</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	35,812	34,386
Warrants (Note 7)	63	-
Contributed surplus (Note 7)	3,426	3,404
Deficit	(29,084)	(28,548)
	<b>10,217</b>	<b>9,242</b>
	<b>13,920</b>	<b>11,862</b>

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

**Commitments and contingencies (Note 12)**

**Subsequent events (Note 13)**

*See accompanying notes to the consolidated financial statements.*

Approved by the Board of Directors:

(Signed) "Bill Powers"

Bill Powers  
 Chairman & Director

(Signed) "J. Paul Lawrence"

J. Paul Lawrence  
 Director

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

*(in thousands of Canadian dollars except per share information)*

<b>Three months ended March 31,</b> <b>(unaudited)</b>	<b>2010</b>	<b>2009</b>
<b>REVENUE</b>		
Oil and natural gas	850	970
Royalties	(149)	(310)
Other	24	37
	<b>725</b>	<b>697</b>
<b>EXPENSES</b>		
Operating	291	385
General and administrative	200	350
Short-term interest	19	2
Stock-based compensation (Note 8)	23	89
Depletion, depreciation and accretion	733	479
Foreign exchange (gain) loss	(5)	39
Gain on sale of assets	-	(19)
	<b>1,261</b>	<b>1,325</b>
<b>Loss before income taxes</b>	<b>(536)</b>	<b>(628)</b>
<b>Income taxes</b>		
Future income tax recovery	-	164
<b>Net loss and comprehensive loss for the period</b>	<b>(536)</b>	<b>(464)</b>
Deficit, beginning of period	(28,548)	(24,893)
<b>Deficit, end of period</b>	<b>(29,084)</b>	<b>(25,357)</b>
<b>Net loss per share (Note 7)</b>		
Basic and diluted	<b>(0.01)</b>	<b>(0.01)</b>

*See accompanying notes to the consolidated financial statements.*

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

(in thousands of Canadian dollars)

Three months ended March 31, (unaudited)	2010	2009
<b>Cash provided by (used in):</b>		
<b>Operating activities</b>		
Net loss	(536)	(464)
Items not involving cash:		
Depletion, depreciation and accretion	733	479
Stock-based compensation	23	89
Unrealized foreign currency gain	-	(1)
Future income tax expense (recovery)	-	(164)
Gain on sale of assets	-	(19)
	220	(80)
Change in non-cash working capital (Note 9)	474	419
	694	339
<b>Financing activities</b>		
Increase in bank line of credit	994	102
Issue of common shares, net of share issue costs (Note 7)	1,760	-
Repurchase of common shares	-	(15)
Cash received on exercise of stock options	2	-
Change in non-cash working capital (Note 9)	(2)	-
	2,754	87
<b>Investing activities</b>		
Expenditures on property plant and equipment	(2,786)	(483)
Proceeds from disposition of property plant and equipment	-	19
Change in non-cash working capital (Note 9)	(785)	(2,165)
	(3,571)	(2,629)
<b>Decrease in cash and cash equivalents</b>	<b>(123)</b>	<b>(2,203)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>177</b>	<b>2,203</b>
<b>Cash and cash equivalents, end of period (Note 3)</b>	<b>54</b>	<b>-</b>
<b>Supplemental cash flow information (Note 9)</b>		
Cash interest received	-	2
Cash interest paid	6	2

See accompanying notes to the consolidated financial statements.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

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

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

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles as applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements. As at March 31, 2010, the Company had a net loss of \$536,000 accumulated deficit of \$29,084,000, positive cash flows from operations of \$694,000 and working capital deficiency of \$885,000.

The Company will continue to consider development projects as opportunities present themselves, which may require financing for both working capital and the exploration and development of such properties. The Company's long-term continuance as a going concern will be dependent upon its ability to obtain adequate financing, receive the continued support of its lender 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, 2009 audited consolidated financial statements. The interim consolidated financial statements do not conform in all respects to the requirements of Canadian GAAP for annual financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2009.

### 3. CASH AND CASH EQUIVALENTS

	2010	2009
Cash	54	57
Treasury bills	-	120
	54	177

No interest was earned during the three months ended March 31, 2010 (three months ended March 31, 2009 – 1.50 percent).

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

### 4. PROPERTY, PLANT AND EQUIPMENT

<b>March 31, 2010</b>			
	<b>Cost</b>	<b>Accumulated Depletion, Depreciation and Impairment</b>	<b>Net book Value</b>
Petroleum and natural gas properties and equipment	<b>39,453</b>	<b>(27,252)</b>	<b>12,201</b>
Office furniture and equipment	<b>159</b>	<b>(158)</b>	<b>1</b>
	<b>39,612</b>	<b>(27,410)</b>	<b>12,202</b>

  

<b>December 31, 2009</b>			
	<b>Cost</b>	<b>Accumulated Depletion, Depreciation and Impairment</b>	<b>Net book Value</b>
Petroleum and natural gas properties and equipment	35,980	26,542	9,438
Office furniture and equipment	159	156	3
	36,139	26,698	9,441

At March 31, 2010, the cost of unproved properties of \$nil (December 31, 2009 - \$nil) and salvage values of \$625,000 (December 31, 2009 - \$525,000) were excluded from petroleum and natural gas properties and equipment for the purposes of calculating depletion. Future development costs totaling \$1,539,000 (December 31, 2009 - \$1,590,000) 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, 2010 and 2009

(Unaudited)

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

#### 5. BANK LINE OF CREDIT

	March 31, 2010	December 31, 2009
Bank line of credit	994	-

The Company has a demand revolving credit facility with an available limit of \$2,700,000 as at March 31, 2010. This facility is secured by a general security agreement. Interest is payable at the bank prime rate plus 1.50%.

On May 31, 2010, the available limit under the demand revolving credit facility was increased to \$3,600,000. The next annual review of the credit facilities is scheduled for May 31, 2011.

#### 6. ASSET RETIREMENT OBLIGATIONS

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

	March 31, 2010	December 31, 2009
Asset retirement obligations, beginning of period	1,043	900
Changes in liabilities during the year related to:		
Additions	37	88
Accretion expense	22	65
Foreign exchange	(2)	(10)
Asset retirement obligations, end of period	1,100	1,043

As at March 31, 2010, management estimates that undiscounted expected cash flows required to settle the Corporation's asset retirement obligations will be incurred as follows:

2013	130
2014	948
2015 and after	449
	1,527

The undiscounted amount of the estimated future cash flows required to settle the obligations as at March 31, 2010 was \$1,527,000 (December 31, 2009 - \$1,488,000). These obligations will be settled at the end of the useful lives of the underlying assets, which currently average 4.7 years (December 31, 2009 - 5.1 years). The liability for the estimated future cash flows has been calculated using a weighted average inflation rate of 1.8% and discounted at a weighted average credit-adjusted risk-free rate of 7.4% (December 31, 2009 - 7.2%).

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

### 7. 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, 2009	73,442,488	34,386
Issued pursuant to private placement (i)	5,700,389	1,882
Share issue costs (net of tax) (i)	-	(185)
Issued upon exercise of stock options	16,666	4
Issued on acquisition of mineral interests (ii)	2,000,000	650
Tax effect of flow-through shares (iii)	-	(925)
Balance, March 31, 2010	81,159,543	35,812

- (i) In March, 2010 the Company completed a private placement of 3,575,389 common shares issued on a flow-through basis eligible for renunciation of Canadian Exploration Expenses ("CEE") at a price of \$0.36 per common share for proceeds of \$1,287,000. In addition, PetroGlobe completed a private placement of 2,125,000 common shares for proceeds of \$595,000 resulting in total gross proceeds of \$1,882,140. Total costs related to the private placement were \$185,000. In connection with the private placement 330,000 warrants were issued to an agent as compensation. The warrants allow the holder to exercise the warrant at a price of \$0.28 per warrant and expire on March 24, 2011.
- (ii) In February 2010, PetroGlobe completed the acquisition of certain mineral interests. The deemed price (effective date of the transaction) for the common shares issued was \$0.325 per common share for total share consideration of \$650,000.
- (iii) In November 2009, the Company completed a private placement of 5,384,615 common shares at a price of \$0.13 per common share and 18,625,853 common shares at a price of \$0.14 per common share for gross proceeds of \$3,307,620. The shares were issued on a flow-through basis eligible for renunciation of CEE. In February 2010, the Company filed the renouncement of the CEE expenditures with an effective renouncement date of December 31, 2009 and recognized a charge to share capital of \$925,000 related to the future income tax liability associated with the renounced expenditures.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

### 7. SHARE CAPITAL (continued)

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

##### Common share purchase warrants

Common share stock warrants			
Issued on March 10, 2010			
	Number of warrants	Weighted average exercise price (\$/warrant)	Weighted average remaining contractual life (years)
Outstanding, December 31, 2009	-	-	-
Issued	330,000	0.28	1.00
<b>Outstanding, March 31, 2010</b>	<b>330,000</b>	<b>0.28</b>	<b>0.95</b>

  

	Number of warrants	Amount
Balance, December 31, 2009	-	-
Issued	330,000	63
Balance, March 31, 2010	330,000	63

The fair value of each warrant granted was estimated on the date of issuance using the Black-Scholes Option Pricing Model to calculate stock-based compensation expense. The weighted average fair value of the options issued was \$0.19 per warrant. The assumptions used in the model were a risk-free interest rate of 2.8 percent, an expected hold period of five years, an expected volatility of 85 percent, and an expected dividend yield of zero percent.

#### (d) Contributed surplus

	March 31, 2010	December 31, 2009
Contributed surplus balance, beginning of period	3,404	2,511
Stock-based compensation	23	183
Common shares purchased below assigned value	-	208
Transferred from share capital on expiry of warrants	-	502
Transferred to share capital on exercise of options	(1)	-
Contributed surplus, end of period	3,426	3,404

#### (d) Per share amounts

	March 31, 2010	March 31, 2009
Weighted average common shares outstanding - basic	74,956,222	49,444,076
Dilutive effect of options and stock purchase warrants	-	-
Weighted average common shares outstanding - diluted	74,956,222	49,444,076

In calculating the weighted average number of diluted common shares outstanding for the period ended March 31, 2010, the Company excluded 3,168,334 options (March 31, 2009 – 4,045,000) and 330,000 common share purchase warrants (March 31, 2009 – 1,616,667) as they were determined to be anti-dilutive.

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

### 8. STOCK-BASED COMPENSATION

The Company has a stock option plan under which it grants to directors, officers, consultants and employees of the Company. Under this plan, the Company may grant total options to a maximum of 10% of the issued and outstanding common shares of the Company. Options granted under this plan have an exercise price equal to the quoted market closing price of the Company's common shares on the date of grant. All options granted under this plan vest one-third immediately on granting and one-third on each of the first and second anniversaries from the date of grant and have a term of five years.

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

		<b>March 31, 2010</b>
	<b>Number of options</b>	<b>Weighted average exercise price (\$/option)</b>
Balance, beginning of period	3,085,000	0.54
Granted	100,000	0.33
Exercised	(16,666)	(0.14)
Balance, end of period	3,168,334	0.36
Exercisable, end of period	2,023,334	0.48

A summary of the outstanding stock options as at March 31, 2010 is as follows:

<b>Exercise Price (\$/option)</b>	<b>Options Outstanding</b>		<b>Options Exercisable</b>	
	<b>Number outstanding at March 31, 2010</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number exercisable at March 31, 2010</b>	<b>Weighted Average Exercise Price (\$/option)</b>
0.095 – 0.50	2,518,334	4.06	1,373,334	0.18
0.51 – 1.00	450,000	2.34	450,000	0.80
1.50 – 2.95	200,000	1.75	200,000	1.85
<b>0.095 - 2.95</b>	<b>3,168,334</b>	<b>3.67</b>	<b>2,023,334</b>	<b>0.48</b>

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

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

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. The weighted average fair value of the options granted and assumptions used in the model were as follows:

	March 31, 2010	December 31, 2009
Weighted-average fair value of options granted	\$0.33	<b>\$0.08</b>
Risk-free interest rate (%)	2.5	<b>2.3</b>
Expected hold period (years)	5	<b>5</b>
Expected volatility (%)	85	<b>81</b>
Expected dividend yield (%)	nil	<b>nil</b>

### 9. SUPPLEMENTARY CASHFLOW INFORMATION

	March 31, 2010	March 31, 2009
Changes in non-cash working capital:		
Accounts receivable and accrued receivables	<b>(349)</b>	313
Prepaid expenses and deposits	<b>4</b>	(26)
Accounts payable and accrued liabilities	<b>32</b>	(2,033)
	<b>(313)</b>	(1,746)
Changes in non-cash working capital:		
Operating	<b>474</b>	419
Financing	<b>(2)</b>	-
Investing	<b>(785)</b>	(2,165)
	<b>(313)</b>	(1,746)

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

### 10. FINANCIAL INSTRUMENTS

#### Carrying Values and Estimated Fair Values

The Company has the following classifications:

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

The carrying values of the financial assets and liabilities, except cash which is carried at fair value, approximate fair value due to the short term to maturity of these instruments. The Company categorized cash, which is held at fair value on the balance sheet, as a Level 1 financial instrument. There have been no transfers between levels during the three month period ended March 31, 2010.

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments. There have not been any significant changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2009, except as noted below:

#### Liquidity Risk

The following are the contractual maturities of financial liabilities at March 31, 2010.

	Recognized in Financial Statements	Payments Due by Period		
		Contractual Cash Flows	Less than 1 year	1-3 years
Bank line of credit	Yes - Liability	994	994	-
Accounts payable and accrued liabilities and other	Yes - Liability	1,609	1,609	-
Office lease	No	52	52	-
Equipment lease	No	22	22	-
Total		2,677	2,677	-

# PetroGlobe Inc.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2010 and 2009

(Unaudited)

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

### 11. CAPITAL MANAGEMENT

The Company defines and computes its capital as follows:

	March 31, 2010	December 31, 2009
Shareholders' equity	10,217	9,242
Bank line of credit	994	-
Working capital (excluding bank line of credit and current future income tax assets)	(109)	81
Total capital	11,102	9,323

There were no changes to the Company's objective for managing capital since December 31, 2009.

The Company is subject to financial covenants in its bank line of credit agreement. The Company is in compliance with all financial covenants as at March 31, 2010.

### 12. COMMITMENTS AND CONTINGENCIES

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.

There have been no changes to the Company's contractual commitments and contingencies since December 31, 2009, other than as described below:

- (a) Pursuant to the private placement on November 13, 2009, PetroGlobe was committed to spend \$3,308,000 by December 31, 2010 on expenditures that qualified as CEE. As at March 31, 2010 The Company had incurred \$1,000,000 of CEE expenditures
- (b) Pursuant to the private placement completed in March 2010, PetroGlobe is committed to spend \$1,287,000 by December 31, 2010 on expenditures that qualify as CEE.

### 13. SUBSEQUENT EVENTS

- (a) On May 4, 2010, PetroGlobe entered into a letter of intent which contemplates a business combination with ArPetrol Inc., a private Alberta corporation with international oil and gas operations. The potential transaction is subject to a number of conditions precedent, including completion of satisfactory due diligence, receipt of all required corporate and regulatory approvals, and negotiation and execution of typical transaction documents. There can be no assurance that the transaction will be completed.