

# Q2 2010



**petroglobe**

Quarterly Report for the three and  
six months ended June 30, 2010



## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 29, 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 and six months ended June 30, 2010 compared to the three months and six months ended June 30, 2009. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements of the Company for the three and six months ended June 30, 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, August 29, 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 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 second quarter 2010 the Company completed and brought on stream one gross (0.34 net) Cardium horizontal oil well in the East Pembina area bringing its total horizontal oil producing wells in the East Pembina area to two (one net). PetroGlobe increased its weighting towards oil production during the quarter, with 17 percent of the Company's 303 barrels of oil equivalent per day (boe/d) coming from oil and natural gas liquids. The Company achieved sales volumes of 46 bbls/d oil during the second quarter 2010 compared to no oil production for the same period of 2009. The Company plans to continue this strategic shift to developing its oil assets.

PetroGlobe continued to expand its opportunity base through the acquisition of 3,040 acres of prospective multi zone oil prospects including the Cardium light oil in the Pembina area. PetroGlobe will continue to focus on its Cardium light oil opportunities in the Pembina area and plans to drill two additional gross wells by year end 2010.



## OPERATIONAL AND FINANCIAL RESULTS

## Sales Volumes

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Average daily sales volumes</b>				
Natural gas (Mcf/d)	1,502	1,975	1,564	2,028
NGLs (bbls/d)	7	12	7	16
Oil (bbls/d)	46	-	30	-
Total (boe/d)	303	342	298	354

For the three and six months ended June 30, 2010, PetroGlobe's average daily sales volumes were 303 boe/d and 298 boe/d, respectively. This represents a decrease of 11% and 16% compared to an average sales volume of 342 boe/d and 354 boe/d for the same periods of 2009. The decrease for the quarter and year-to-date average daily volumes is attributable to natural production declines related to the Company's natural gas wells. These decreases were partially offset by the production associated with the two (0.94 net) Cardium oil wells that were drilled and tied-in during the first six months of 2010.

## Revenues and Commodity Prices

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<i>(000's except per boe)</i>				
<b>Revenues</b>				
Oil and natural gas	853	628	1,703	1,598
Other	15	29	39	66
Total	868	657	1,742	1,664
<b>Average prices received</b>				
Natural gas (per Mcf)	3.83	3.45	4.41	4.22
NGLs (per bbl)	24.29	24.23	27.04	28.25
Oil (per bbl)	75.86	-	76.08	-
Per boe	30.96	20.15	31.95	24.94

Despite the decrease in daily average sales volumes in the quarter and six months ended June 30, 2010 compared to the same periods of 2009 oil and natural gas revenues increased 36% and 7% due to higher natural gas and oil prices. In addition, the increase in revenues is attributable to sales volumes mix between natural gas and oil. During the second quarter and first six months of 2010 PetroGlobe realized average sales prices of \$3.83/Mcf and \$4.41/Mcf, respectively for natural gas, which representing an increase in pricing of 11% and 5%, respectively, compared to the same periods of 2009.



## Royalties

	Three months ended		Six months ended	
	June 30		June 30	
<i>(000's except per boe)</i>	2010	2009	2010	2009
Crown royalties	46	-	86	161
Overriding and freehold royalties	80	110	189	259
Royalties	126	110	275	420
As a percentage of petroleum and natural gas revenue	15%	17%	16%	26%
Royalties per boe	4.58	3.53	5.16	6.56

<sup>(1)</sup>In the second quarter of 2009, the Company applied Alberta drilling credits against crown royalties during the period. In the third quarter of 2009 the amounts were reversed based on new information on the application of the credits. Excluding this onetime adjustment, royalties in the second quarter of 2009 would have been \$195,000, 31% of petroleum and natural gas revenue and \$6.26 on a per boe basis and royalties for the six months ended June 30, 2010 would have been \$505,000, 32% of petroleum and natural gas revenue and \$8.58 on a per boe basis.

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 second quarter of 2010, PetroGlobe incurred royalties of \$126,000 or 15 percent of petroleum and natural gas revenues compared to \$195,000 (adjusted for Alberta drilling credits) or 31 percent in the second quarter of 2009. The decrease in the percentage is primarily related to the New Royalty Framework "NRF" implemented by the Government of Alberta and an increased percentage of sales revenue being derived from oil sales which under the current royalty schematic the Company is paying 5% crown royalty.

## Operating Expenses

	Three months ended		Six months ended	
	June 30		June 30	
<i>(000's except per boe)</i>	2010	2009	2010	2009
Operating expense	355	382	646	767
Operating expense per boe	12.90	12.25	12.12	11.97

Operating expenses per boe increased 5% to \$12.90/boe for the second quarter of 2010 compared to \$12.25/boe for the same period of 2009. In addition, operating expenses increased 1% to \$12.12/boe for the first six months of 2010 compared to \$11.97/boe for the same period of 2009. The relatively flat per boe operating expenses in 2010 are attributable to decreased production volumes for both the quarter and six-month 2010 periods, partially offset by the lower operating costs per boe of oil production compared to natural gas production.

## Oil and Gas Operating Netback Information

	Three months ended		Six months ended	
	June 30		June 30	
<i>(\$ per boe)</i>	2010	2009	2010	2009
Revenue	30.96	20.15	31.95	24.94
Royalties	(4.58)	(3.53)	(5.16)	(6.56)
Operating expenses	(12.90)	(12.25)	(12.12)	(11.97)
Operating netback	13.48	4.37	14.67	6.41



PetroGlobe's operating netback increased to \$13.48/boe and \$14.67/boe for the three and six-month periods ended June 30, 2010, respectively, from \$4.37/boe and \$6.41/boe in 2009. The increases were primarily the result of sales volumes being comprised of a higher percentage of oil compared to the comparative periods in 2009 and increased natural gas prices realized during the first six months of 2010.

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

<i>(000's except per boe)</i>	Three months ended		Six months ended	
	2010	June 30 2009	2010	June 30 2009
G&A Gross	176	416	448	832
G&A Recoveries	(22)	(46)	(94)	(113)
	154	370	354	719
G&A expenses per boe	5.59	11.85	6.64	11.26

G&A expenses decreased 58% to \$154,000 for the second quarter of 2010 compared to \$370,000 for the same period of 2009. Included in the second quarter was transaction costs of \$113,000 related to the proposed business combination that was terminated subsequent to the quarter end. These costs were offset by an accrual reduction associated with operating and general and administrative items established in prior years. G&A expenses decreased 51% to \$354,000 for the six months ended June 30, 2010 compared to \$719,000 for the same period of 2009. In addition to items mentioned for the quarter and year to date G&A expenses are primarily attributable to reduced staffing expenses and lower premises rent.

On a per boe basis G&A expense decreased 53% to \$5.59/boe and 41% to \$6.64/boe for the three and six months ended June 30, 2010, respectively, compared to \$11.85/boe and \$11.26/ boe for the same periods of 2009.

#### Interest Expense

<i>(000's except per boe)</i>	Three months ended		Six months ended	
	2010	June 30 2009	2010	June 30 2009
Interest expense	35	27	54	30
Interest expense per boe	1.26	0.87	1.01	0.47

PetroGlobe incurred \$35,000 and \$54,000 of interest expense during the second quarter and first six months ended June 30, 2010 compared to \$27,000 and \$30,000 for the same periods of 2009. The increases were attributable to Part XII.6 tax related to the Company's flow-through share obligations

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

<i>(000's except per boe)</i>	Three months ended		Six months ended	
	2010	June 30 2009	2010	June 30 2009
DD&A	802	472	1,535	950
DD&A per boe	29.11	15.19	28.78	14.83

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 \$802,000 for the quarter and 1,535,000 for the six months ended June 30, 2010 compared to \$472,000 and \$950,000 for the same period of 2009. The 2010 increases compared to the prior year were the 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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Stock-based compensation (000's)	16	66	39	154

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 \$16,000 and 439,000 for the quarter and six months ended June 30, 2010 compared to \$66,000 and 4154,000 for the same periods 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

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Future income tax expense	-	300	-	137

The Company did not record any future income tax expenses for the three and six month periods ended June 30, 2010. Increases in potential future income tax assets were offset through an increased valuation allowance against future income tax assets during the periods.

### Net Loss and Comprehensive Loss

(000s)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Net loss and comprehensive loss	(639)	(1,061)	(1,175)	(1,525)

The Company recorded a net loss of \$639,000 or \$0.01 per common share in the second quarter of 2010 compared to a net loss of \$1,061,000 or \$0.02 per common share in the second quarter 2009.

The Company recorded a net loss of \$1,175,000 or \$0.02 per common share in for the six months ended June 30, 2010 compared to a net loss of \$1,525,000 or \$0.03 per common share in for the same period of 2009.

### Funds from Operations

(000's except per share amounts)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Funds from (used in) operations	201	(213)	413	251
Per share – basic and diluted	-	-	-	-



Funds from operations were \$200,000 for the quarter ended June 30, 2010 compared to funds used in operations of \$213,000 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.

Funds from operations were \$413,000 for the six months ended June 30, 2010 compared to funds from operations of \$251,000 the same period of 2009. The increase in the 2010 year-to-date funds from operations compared to the prior year is attributable to increased average daily oil sales volumes and increased average operating netbacks partially offset by and decreased natural gas average daily sales volumes.

## NON-GAAP MEASURES

### Funds from Operations

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

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

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

	Three months ended		Six months ended	
	June 30		June 30	
(000's)	2010	2009	2010	2009
Funds from operations	200	(213)	413	(295)
Change in non-cash working capital	(32)	(90)	447	330
Cash provided by operating activities	168	(303)	860	35

### Netback and Per BOE Information

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

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



## CAPITAL EXPENDITURES

(000s)	2010		
	Q2	Q1	Total
Land and seismic	914	72	986
Drilling and completions	97	2,217	2,314
Equipment, tie in and trunk lines	102	497	599
Other	7	-	7
Cash expenditures	1,120	2,786	3,906
Acquisitions	-	650	650
Asset retirement obligations	-	37	37
Net capital expenditures	1,120	3,473	4,593

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

(000s except per share amount)	Q2 2010	Q1 2010	Q4 2009	Q3 2009
Petroleum and natural gas revenues	853	850	543	467
Consulting revenues	-	-	-	-
Net loss, before discontinued operations	(639)	(536)	(1,448)	(684)
Net loss, before discontinued operations Per share, basic and diluted	(0.01)	(0.01)	(0.02)	(0.01)
Net loss	(639)	(536)	(1,448)	(684)
Net loss Per share, basic and diluted	(0.01)	(0.01)	(0.02)	(0.01)
Net capital expenditures	1,120	3,473	471	(201)

(000s except per share amount)	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Petroleum and natural gas revenues	628	970	806	935
Consulting revenues	-	-	-	1,105
Net loss, before discontinued operations	(1,057)	(465)	(714)	(12,683)
Net loss, before discontinued operations Per share, basic and diluted	(0.02)	(0.01)	(0.01)	(0.27)
Net loss	(1,058)	(464)	(876)	(12,171)
Net loss Per share, basic and diluted	(0.02)	(0.01)	(0.01)	(0.27)
Net capital expenditures	1,374	469	3,015	(459)

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 June 30, 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 June 30, 2010 with a fixed term are as follows:

(000s)	2010
Flow-through share commitments	2,695
Lease of office premises	34
Equipment leases	13
Firm service commitments	9
	2,751

(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 three and six month periods ended June 30, 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:

	June 30, 2010	December 31, 2009
Shareholders' equity	9,378	9,242
Bank line of credit	1,665	-
Working capital (excluding bank line of credit and current future income tax assets)	361	81
<b>Total capital</b>	<b>11,404</b>	<b>9,323</b>

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 June 30, 2010.

As at June 30, 2010, the Company had working capital deficiency of \$1,814,000 compared to a working capital deficiency of \$81,000 as at December 31, 2009.

#### Credit Facility

At June 30, 2010, The Company had a \$3,600,000 credit facility consisting of a demand revolving operating loan facility. This facility is secured by a general security agreement. Interest is payable at the bank prime rate plus 1.50%. The next annual review of the credit facilities is scheduled for May 31, 2011.

Debt instruments	Demand Revolving Credit Facility Limit at June 30, 2010	Amount Outstanding at June 30, 2010	Amount Available at June 30, 2010
Bank line of credit (000s)	3,600	1,665	1,835

As at June 30, 2010 there was an outstanding letter of credit to an industry partner in the amount of \$100,000.

For additional details of PetroGlobe's credit facilities, see Note 5 of the unaudited consolidated financial statements for the periods ended June 30, 2010 and 2009.

#### Liquidity

The working capital deficiency at June 30, 2010 was \$1,814,000 compared to a working capital surplus of \$844,000 at December 31, 2009. In March 2010, PetroGlobe raised \$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. At June the Company had \$1,835,000 available on its existing demand revolving operating loan. On an ongoing basis the Company will utilize four sources of funding to finance its capital expenditure program: (1) funds from operations; (2) debt when deemed favourable; (3) sale of non-core properties; and (4) new equity if available on favourable terms.



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Management's Discussion and Analysis



#### OUTSTANDING SHARE DATA

As at	August 29, 2010	June 30, 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 August 11, 2010 the proposed business combination with AR Petrol Inc. was terminated.

#### 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.

On May 27, 2010, as a result of the Alberta Governments "Competitive Review" further changes were announced that take effect January 1, 2011 that make the current 5% royalty rate (subject to the maximum production limits) on the first year of production on new natural gas or conventional oil wells permanent, reduced the maximum royalty on conventional oil production from 50% to 40% and adjusted the maximum rate for conventional natural gas well at higher price levels from 50% to 36%. In addition, further review is to be done on royalty curves which determine rates at certain price levels.

### **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 LLP  
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  
Calgary, Alberta T2G 0P6

### Reserves Evaluation Engineers

Ryder Scott Company  
1200, 530 – 8<sup>th</sup> Ave SW  
Calgary, Alberta T2P 3S8

## DEFINITIONS

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

# Q2

# 2010



**petroglobe**

Consolidated Interim Financial Statements  
For the three and six months ended June 30, 2010

**Notice to shareholders and other readers:**

The June 30, 2010 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)

	June 30, 2010	December 31, 2009
	(unaudited)	(unaudited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 3)	40	177
Accounts receivable and accrued receivables	1,070	1,200
Prepaid expenses and deposits	171	119
Future income tax asset	-	925
	1,281	2,421
<b>Property, plant and equipment (Note 4)</b>	<b>12,524</b>	<b>9,441</b>
	<b>13,805</b>	<b>11,862</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank line of credit (Note 5)	1,665	-
Accounts payable and accrued liabilities	1,430	1,577
	3,095	1,577
<b>Asset retirement obligations (Note 6)</b>	<b>1,120</b>	<b>1,043</b>
	<b>4,215</b>	<b>2,620</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	35,808	34,386
Warrants (Note 7)	63	-
Contributed surplus (Note 7)	3,442	3,404
Deficit	(29,723)	(28,548)
	9,590	9,242
	<b>13,805</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 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 June 30,		Six months ended June 30,	
	2010	2009	2010	2009
<b>REVENUE</b>				
Petroleum and natural gas	853	628	1,703	1,598
Royalties	(126)	(110)	(275)	(420)
Other	15	29	39	66
	<b>742</b>	<b>547</b>	<b>1,467</b>	<b>1,244</b>
<b>EXPENSES</b>				
Operating	355	382	646	767
General and administrative	154	370	354	719
Short-term interest	35	27	54	30
Stock-based compensation (Note 8)	16	66	39	154
Depletion, depreciation and accretion	802	472	1,535	950
Gain on sale of assets	-	-	-	(19)
Foreign exchange loss (gain)	19	(9)	14	31
	<b>1,381</b>	<b>1,308</b>	<b>2,642</b>	<b>2,632</b>
<b>Loss before income taxes</b>	<b>(639)</b>	<b>(761)</b>	<b>(1,175)</b>	<b>(1,388)</b>
<b>Future income tax recovery</b>	<b>-</b>	<b>(300)</b>	<b>-</b>	<b>(137)</b>
<b>Net loss and comprehensive loss for the period</b>	<b>(639)</b>	<b>(1,061)</b>	<b>(1,175)</b>	<b>(1,525)</b>
Deficit, beginning of period	(29,084)	(25,357)	(28,548)	(24,893)
<b>Deficit, end of period</b>	<b>(29,723)</b>	<b>(26,418)</b>	<b>(29,723)</b>	<b>(26,418)</b>
<b>Net Loss per share (Note 7)</b>				
Basic and diluted net loss per share	<b>(0.01)</b>	(0.02)	(0.02)	(0.03)

*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		Six months ended	
	2010	June 30, 2009	2010	June 30, 2009
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Net loss	(639)	(1,061)	(1,175)	(1,525)
Items not involving cash:				
Depletion, depreciation and accretion	802	472	1,535	950
Stock-based compensation (Note 8)	16	66	39	154
Gain on sale of assets	-	-	-	(19)
Unrealized foreign currency gain (loss)	21	10	14	8
Future income tax expense (recovery)	-	300	-	137
	200	(213)	413	(295)
Change in non-cash working capital (Note 9)	(32)	(90)	447	330
	168	(303)	860	35
<b>Financing activities</b>				
Increase in bank line of credit	670	1,185	1,665	1,287
Issue of common shares, net of share issue costs	-	-	1,760	-
Repurchase of common shares	-	-	-	(15)
Cash received on exercise of stock options and warrants	-	-	2	-
Change in non-cash working capital (Note 9)	67	-	65	-
Cash flows from financing activities	737	1,185	3,492	1,272
<b>Investing activities</b>				
Expenditures on property plant and equipment (Note 4)	(1,120)	(1,362)	(3,906)	(1,844)
Proceed from disposition of property, plant and equipment	-	-	-	19
Change in non-cash working capital (Note 9)	201	528	(583)	(1,637)
Cash flows used in investing operations	(919)	(834)	(4,489)	(3,462)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(14)</b>	<b>48</b>	<b>(137)</b>	<b>(2,155)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>54</b>	<b>-</b>	<b>177</b>	<b>2,203</b>
<b>Cash and cash equivalents, end of period</b>	<b>40</b>	<b>48</b>	<b>40</b>	<b>48</b>
<b>Supplemental cash flow information (Note 9):</b>				
Cash interest received	-	-	-	2
Cash interest paid	30	5	16	8

See accompanying notes to the interim consolidated financial statements.

# PetroGlobe Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 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. For the six months ended June 30, 2010, the Company had a net loss of \$1,175,000 accumulated deficit of \$29,723,000, positive cash flows from operating activities of \$860,000 and a working capital deficiency at June 30, 2010 of \$1,814,000.

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

	June 30, 2010	December 31, 2009
Cash	40	57
Treasury bills	-	120
	40	177

No interest was earned during the six months ended June 30, 2010 (Six months ended June 30, 2009 – 1.25 percent).

## PetroGlobe Inc.

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

#### 4. PROPERTY, PLANT AND EQUIPMENT

<b>June 30, 2010</b>			
	<b>Cost</b>	<b>Accumulated Depletion and depreciation</b>	<b>Net book Value</b>
Petroleum and natural gas properties and equipment	<b>40,550</b>	<b>28,036</b>	<b>12,514</b>
Office furniture and equipment	<b>166</b>	<b>156</b>	<b>10</b>
	<b>40,716</b>	<b>28,192</b>	<b>12,524</b>

  

<b>December 31, 2009</b>			
	<b>Cost</b>	<b>Accumulated depletion and depreciation</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

During the six months ended June 30, 2010 the Company capitalized general and administrative expenditures of \$48,000 (December 31, 2009 - \$161,000).

At June 30, 2010, the cost of unproved properties of \$905,000 (December 31, 2009 - \$nil) and salvage values of \$700,000 (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 \$1,800,000 (December 31, 2009 - \$3,390,000) were included in the calculation of depletion for the respective periods.

#### 5. BANK LINE OF CREDIT

	<b>June 30, 2010</b>	December 31 2009
Bank line of credit	<b>1,665</b>	-

The Company has a demand revolving credit facility with an available limit of \$3,600,000 as at June 30, 2010. This facility is secured by a general security agreement. Interest is payable at the bank prime rate plus 1.50%. The next annual review of the credit facilities is scheduled for May 31, 2011.

## PetroGlobe Inc.

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

*All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated  
(Unaudited)*

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#### 6. ASSET RETIREMENT OBLIGATIONS

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

	June 30, 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	39	65
Foreign exchange	-	(10)
Asset retirement obligations, end of period	1,120	1,043

As at June 30, 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	946
2015 and thereafter	431
	1,507

The undiscounted amount of the estimated future cash flows required to settle the obligations as at June 30, 2010 was \$1,507,000 (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 4.5 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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

*All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated  
(Unaudited)*

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### 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

	<b>Number of shares</b>	<b>Amount</b>
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)	-	(189)
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)
<b>Balance, June 30, 2010</b>	<b>81,159,543</b>	<b>35,808</b>

- (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 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

### 7. SHARE CAPITAL (continued)

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

<b>Common share stock warrants</b>			
<b>Issued on March 10, 2010</b>			
	<b>Number of warrants</b>	<b>Weighted average exercise price (\$/warrant)</b>	<b>Weighted average remaining contractual life (years)</b>
Outstanding, December 31, 2009	-	-	-
Issued	330,000	0.28	0.69
<b>Outstanding, June 30, 2010</b>	<b>330,000</b>	<b>0.28</b>	<b>0.69</b>

  

	<b>Number of warrants</b>	<b>Amount</b>
Balance, December 31, 2009	-	-
Issued	330,000	63
Balance, June 30, 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

	<b>June 30, 2010</b>	December 31, 2009
Contributed surplus balance, beginning of period	<b>3,404</b>	2,511
Stock-based compensation	<b>39</b>	183
Transferred to share capital on exercise of options	<b>(1)</b>	208
Transferred from share capital on expiry of warrants	-	502
Contributed surplus, end of period	<b>3,442</b>	3,404

502

-

## PetroGlobe Inc.

### NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

#### 7. SHARE CAPITAL (continued)

##### (e) Per share amounts

	Three months ended	
	June 30, 2010	June 30, 2009
Weighted average common shares outstanding – basic and diluted	<b>81,159,543</b>	49,251,778

  

	Six months ended	
	June 30, 2010	June 30, 2009
Weighted average common shares outstanding – basic and diluted	<b>78,075,019</b>	49,442,158

In calculating the weighted average number of diluted common shares outstanding for the period ended June 30, 2010, the Company excluded 3,168,334 options (June 30, 2009 – 3,895,000) and 330,000 common share purchase warrants (June 30, 2009 – 1,616,667) as they were determined to be anti-dilutive.

#### 8. 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.

# PetroGlobe Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

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

A summary of the status of the plan as of September 30, 2010 and changes during the periods then ended is presented as follows:

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

	June 30, 2010	
	Number of options	Weighted average exercise price (\$/option)
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 June 30, 2010 is as follows:

Exercise Price (\$/option)	Options Outstanding		Options Exercisable	
	Number outstanding at March 31, 2010	Weighted average remaining contractual life (years)	Number exercisable at March 31, 2010	Weighted Average Exercise Price (\$/option)
0.095 – 0.50	2,518,334	3.81	1,373,334	0.18
0.51 – 1.00	450,000	2.09	450,000	0.80
1.50 – 2.95	200,000	1.50	200,000	1.85
<b>0.095 - 2.95</b>	<b>3,168,334</b>	<b>3.42</b>	<b>2,023,334</b>	<b>0.48</b>

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

	June 30, 2010	December 31, 2009
Weighted-average fair value of options granted	\$0.33	\$0.08
Risk-free interest rate (%)	2.5	2.3
Expected hold period (years)	5	5
Expected volatility (%)	85	81
Expected dividend yield (%)	nil	nil

# PetroGlobe Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

*All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated (Unaudited)*

### 9. SUPPLEMENTARY CASHFLOW INFORMATION

	Three months ended June 30, 2010	Three months ended June 30, 2009
Changes in non-cash working capital:		
Accounts receivable and accrued receivables	478	(71)
Prepaid expenses and deposits	(56)	(36)
Accounts payable and accrued liabilities	(186)	545
	236	438
Changes in non-cash working capital:		
Operating	(32)	(90)
Financing	67	
Investing	201	528
	236	438
	Six months ended June 30, 2010	Six months ended June 30, 2009
Changes in non-cash working capital:		
Accounts receivable and accrued receivables	130	242
Prepaid expenses and deposits	(54)	(62)
Accounts payable and accrued liabilities	(147)	(1,487)
	(71)	(1,307)
Changes in non-cash working capital:		
Operating	447	330
Financing	65	-
Investing	(593)	(1,637)
	(71)	(1,307)

# PetroGlobe Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

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

### 10. FINANCIAL INSTRUMENTS

#### Carrying Values and Estimated Fair Values

The Company has the following classifications:

Financial assets and liabilities	Category
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 June 30, 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 June 30, 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	1,665	1,665	
Accounts payable and accrued liabilities and other	Yes - Liability	1,430	1,430	-
Office lease	No	24	34	-
Equipment lease	No	15	15	-
Total		2,677	2,677	-

# PetroGlobe Inc.

## NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2010 and 2009

*All tabular amounts in thousands of Canadian dollars except per share amounts and otherwise indicated (Unaudited)*

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### 11. CAPITAL MANAGEMENT

The Company defines and computes its capital as follows:

	June 30, 2010	December 31, 2009
Shareholders' equity	9,590	9,242
Bank line of credit	1,665	-
Working capital (excluding bank line of credit and current future income tax assets)	149	81
Total capital	11,404	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 June 30, 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 June 30, 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 August 11, 2010 the proposed business combination with AR Petrol Inc. was terminated.