



**TG World Energy Corp.**

**Management's Discussion and Analysis**

**For the Three Months Ended  
March 31, 2010 and 2009**



*The discussion and analysis that follows is intended to provide a summary of the consolidated results of TG World Energy Corp. ("TG World" or the "Company") for the three months ended March 31, 2010 and 2009, as well as its consolidated financial position and future plans. It should be read in conjunction with the interim consolidated financial statements for the three months ended March 31, 2010 and 2009. All dollar amounts set out in this discussion and analysis are expressed in Canadian currency unless otherwise indicated. The Company's indirect interests in oil and gas properties and prospects in Alaska, Niger and the Philippines are held through wholly owned subsidiaries of the Company -- TG World Energy, Inc., a Delaware corporation, in the case of the Alaska interests; TG World Petroleum Limited, a Bahamas company, in the case of the Niger interests; and TG World (BVI) Corp., a British Virgin Islands company, in the case of the Philippine assets. In this management's discussion and analysis, TG World Energy, Inc. is referred to as TG Alaska, TG World Petroleum Limited is referred to as TG Niger and TG World (BVI) Corp. is referred to as TG Philippines. Additional information is available on the TG World website at [www.tgworldenergy.com](http://www.tgworldenergy.com) or on SEDAR's website at [www.sedar.com](http://www.sedar.com). Information in this Management's Discussion and Analysis ("MD&A") is as of May 19, 2010.*

### **Non-GAAP Measures**

Funds from operations is a non-GAAP measure that represents cash generated from operating activities before changes in non-cash working capital. Funds from operations should not be considered an alternative to, or more meaningful than, cash flow from operating activities. Management believes that funds from operations are a useful supplemental measure to analyze the Company's ability to generate cash flow to fund capital investment and working capital requirements. Funds from operations may not be comparable to similar measures used by other companies.

### **Description of the Business**

TG World is engaged in the business of international petroleum exploration and development with the major areas of focus currently being Alaska, through its wholly-owned subsidiary, TG Alaska, Niger, through its wholly owned subsidiary, TG Niger and the Philippines through its wholly-owned subsidiary, TG Philippines.

### **Alaska**

In 2006, TG Alaska entered into a joint venture ("**JV**") agreement with Alaska Venture Capital Group, LLC ("**AVCG**") and Brooks Range Petroleum Corporation ("**BRPC**"), a wholly owned subsidiary of AVCG. Under the terms of the JV agreement, TG Alaska holds a 25% to 35% working interest in certain oil and gas leases located on the Alaska North Slope. The total acreage in which TG World has a working interest is approximately 228,600 gross acres. The JV agreement had an initial term until March 2010, however it shall continue in full force and effect unless terminated by either party giving to the other party not less than ninety (90) days written notice to terminate the agreement on any anniversary date of the agreement. As at the date of this MD&A, no such notice has been given and the JV agreement continues. TG Alaska and AVCG/BRPC have also entered into an exploration JV alliance, covering a defined area of mutual interest, to pursue additional exploration and development opportunities in Alaska. AVCG, Brooks Range Development Corp. and Ramshorn Investments Inc., a subsidiary of Nabors Drilling, are the Company's partners in the JV.

In December 2008, AVCG/BRPC filed a legal claim against TG Alaska alleging that TG Alaska had breached its obligations under the agreements governing the JV. In September 2009, pursuant to a settlement agreement (the "**Settlement Agreement**"), TG Alaska settled all outstanding legal disputes with AVCG/BRPC relating to TG Alaska's participation in the Alaska



JV involving AVCG and BRPC. The settlement did not involve any monetary consideration from either party, but was resolved with an agreement to carry out specified drilling operations in the 2009/2010 and 2010/2011 winter drilling season on the JV lands. Under the current JV arrangement and settlement, TG Alaska is committed to drill two additional wells on a promoted basis in Alaska: Sak River #1a being the first well, which is completed, and a second well called North Tarn, which is forecast to be drilled in the 2010/2011 winter drilling season.

The JV has development at various stages in four hydrocarbon potential areas in Alaska: Beechey Point Unit (Gwydyr Bay), Tofkat, Slugger/South Thomson and North Tarn.

### ***Beechey Point Unit ("BPU")***

In September 2009, the JV received approval from the Department of Natural Resources in Alaska for its BPU application, establishing a plan of development for twenty-five leases comprising a total of 53,000 acres in the Gwydyr Bay area. TG Alaska holds a 35% interest in the BPU.

The Settlement Agreement with AVCG/BRPC established a framework for BPU drilling activities for the 2009/2010 Alaska drilling season. The 2009/2010 work plan and budget called for the drilling of two wells in the BPU: Sak River #1a and North Shore #3. If Sak River #1a well was successful, TG Alaska could elect to participate in the drilling of the North Shore #3 well. If Sak River #1a was dry, then TG Alaska would relinquish its interest in the Sak River and North Shore drilling blocks and three other areas within the BPU. TG Alaska entered into this arrangement as it believed that if Sak River #1a was not successful the economics of a North Shore development, even with North Shore exploration success, would not generate a sufficient return to warrant participation in the North Shore development program.

In January 2010, the JV commenced drilling of the Sak River #1a exploration well. The well was drilled from an onshore ice pad to an offshore bottom hole location, by re-entering the suspended Sak River #1 well. Drilling reached a total measured depth of 12,726 feet and testing was performed in the Kuparuk formation at 8,900 feet before the well was suspended and deemed unsuccessful. At this point, TG Alaska elected not to participate in the North Shore #3 well and relinquished its interest in the Sak River and North Shore drilling blocks along with Sections 10, 15 and 16 of Township 12 North, Range 13 East, all within the BPU as per the Settlement Agreement. TG Alaska paid 45.7% of the drilling, completion and testing costs of the Sak River #1a well to earn its 35% equity interest. This well was the first of a two well promote program for TG Alaska under the Settlement Agreement. TG Alaska will retain a net profit interest in the North Shore #1 well and the Sak River 1a well in the BPU.

### ***Tofkat***

In 2008, the JV drilled the Tofkat #1 exploratory well. The initial well encountered ten feet of gross and six feet of net oil pay in the Kuparuk formation based on wireline log interpretation and supported by light oil samples recovered with MDT. Two offset drilling targets were also drilled, however, both were unsuccessful. The initial wellbore was plugged back and abandoned without production testing. Since that time, the JV has shot approximately 87 square miles of seismic in the Tofkat area. The seismic was unable to map the Tofkat #1 oil play as the reservoir was too thin. Additional analysis of the Kuparuk prospect at Tofkat #1 is ongoing in an attempt to determine the commerciality of this oil play. The JV has added to its land position around Tofkat and is in the process of identifying possible additional targets. TG Alaska has a 25% working interest in the Tofkat area.



### ***Slugger – South Thomson***

TG Alaska holds a 25% interest in the JV's 35,000 square mile acreage position in the South Thomson area of Alaska. South Thomson sits on the North-east corner of the North Slope of Alaska, immediately south of the Point Thomson Field being explored by Exxon-Mobil. The JV has developed a plan to shoot approximately 50 square miles of seismic on its acreage held at South Thomson. An attempt to shoot in 2008 was aborted because of access restrictions due to low snow cover. At this time, the JV has not identified a target date for shooting such seismic.

The JV continues to monitor exploratory activity at the Point Thomson Field, which is currently underway. It is also encouraged by recent successes at the Badami Unit oil play that sits adjacent to the JV's acreage at South Thomson.

### ***North Tarn***

In January 2010, the JV executed a Lease Acquisition and Participation Agreement with Eni Petroleum US LLC that covers six leases on the Alaska North Slope known as North Tarn. The North Tarn leases are located contiguous to the west side of the Kuparuk Field Unit, one of the largest producing oil fields on the North Slope of Alaska.

The North Tarn exploration prospect is based on the mapping of 3-D seismic data. Two prospective reservoir zones, both productive in the adjacent Kuparuk Field Unit will be tested by the well. The exploration well is to be drilled prior to the end of the 2011 winter drilling season with drilling depth estimated at approximately 6,500 feet. TG Alaska will pay a 35.7% interest in the first well to earn a 20% interest in the leases. The well will be the second and final promote well for TG Alaska under the Settlement Agreement.

### **Petroleum Production Tax Credits ("PPTC")**

Under the terms of the Alaska Oil and Gas PPTC program, TG Alaska is entitled to credits in the amount of 45% to 65% of its qualified expenditures. The credits are issued in the form of transferable credit certificates that can be either sold back to the State of Alaska for full value, or transferred to other parties who can utilize them, usually at a negotiated discount. PPTCs payable by the State of Alaska are dependent on a forward spend program, by TG Alaska, on oil and gas development and exploration. TG Alaska's practice has been to realize full value of the credits from the State. In its consolidated financial statements, the Company records credits for which there is strong evidence of collection, such as receipt by TG Alaska of the Government's tax credit certificates.

TG Alaska has available US\$5,645,907 of PPTCs from the State, recorded as accounts receivable. In December 2009, TG Alaska submitted an application to the State of Alaska for US\$2,040,560 (which was received in Q2 2010) and in March 2010, TG Alaska submitted an application to the State of Alaska for the remaining US\$3,605,347. Applications totaling US\$2,365,263 are pending State approval and have not been recorded in accounts receivable at March 31, 2010.

### **Alaskan Asset Write-down**

As a result of the Sak River #1a well and the subsequent relinquishment of certain leases in the BPU, TG Alaska realized a write-down on its Alaskan assets in the amount of \$22.0 million in Q1 2010. The amount is based on pre-drilling, drilling, seismic and completion expenditures and capitalized general and administrative costs on the relinquished lands.

### **Outlook**

TG Alaska has now completed its 2009/2010 Alaska winter drilling program as it elected not to participate in the drilling of the North Shore #3 exploration well with its JV partners in Alaska. TG Alaska will relinquish its interest in the Sak River and North Shore drilling blocks along with Sections 10, 15 and 16 of Township 12 North, Range 13 East, all within the BPU. Total gross



acreage relinquished by TG Alaska approximates 18,000 acres, bringing its interest within the BPU down to approximately 35,000 gross acres. TG Alaska now has a working interest in 228,600 gross acres on the North Slope. TG Alaska will retain its 35% interest in areas not relinquished in the BPU. TG Alaska will also retain a net profit interest in the North Shore #1 well and the Sak River 1a well in the BPU.

During the summer of 2010, the JV will plan its drilling activity for the North Tarn area for the 2010/2011 winter drilling season. In the South Thomson area, the JV is assessing the merits of shooting seismic in the near future and in the Tofkat area, the JV has added to its lease holdings and is considering its alternatives.

### **Ténéré, Niger**

TG Niger holds a 20% interest in an oil and gas exploration license with CNPCIT in the Ténéré Block in Niger, Africa. The Ténéré Block is a 17.3 million acre block located in a geological subsurface rift basin adjacent to CNPC's Agadem Block, where unofficial reports have indicated oil and gas discoveries of over 400 million barrels of oil equivalent.

Under terms and conditions of the partner agreements, CNPCIT is obligated to pay 100% of TG Niger's share of costs for the minimum work program of the first exploration period, including project related general and administrative costs. The major components of the program are acquiring, processing, and interpreting a minimum of 900 miles of seismic data, and drilling three exploration wells. If the project results in petroleum production, TG Niger will be required to repay its carried costs to CNPCIT, without interest, from a portion of its share of future production from the Ténéré Block.

To date, CNPCIT has reprocessed 3,500 miles of vintage seismic data located across the Ténéré Block. In addition, CNPCIT acquired 2,500 miles of new 2-D seismic data, which was 1,500 miles in excess of the minimum commitment. CNPCIT paid all costs as the seismic acquisition was done prior to the completion of the second exploration well. CNPCIT has also drilled two of the three required exploration wells under the project agreements with TG Niger – Saha-1 and West Fachi-1. The wells were drilled in 2006 and 2007 and had hydrocarbon shows but were abandoned.

In 2007, the government of Niger issued a 'security warning' for Northern Niger. The area affected included the Ténéré Block and as a result minimal oil and gas activity occurred for a period of approximately two years. The security warning was lifted by the government in November 2009. In February 2010, a military coup occurred in Niger with an unknown affect on the activities intended to revive the drilling program. At the March 2010 project meeting in Beijing, China CNPCIT updated TG Niger on the security issues along with a proposed timetable for the drilling of the third well. Dependent on the security situation in Niger, CNPCIT intends to begin preparation for drilling of the third well in late 2010 with a tentative spud date of Q1 2011.

### Outlook

TG Niger has approved the drilling of the Facai-1 well, which will be located 65 miles to the north of the previous well, West Fashi-1. Facai-1 will test a different play concept than that of the previous two wells. The well will be at no cost to TG Niger. The well is planned to be drilled to approximately 12,000 feet to test Cretaceous sandstones in an anticlinal trap. Seismic data AVO analysis indicates a hydrocarbon signature at the target reservoir zone. The Facai-1 well is expected to spud in Q1 2011.

### **Philippines**

On March 10, 2010, TG Philippines signed a farm-in agreement for a 12.5% equity interest in SC54A located in the North West Palawan Basin offshore of the Philippines. SC54A is an 335 square mile area that contains two development ready oil discoveries, Tindalo and Yakal, where

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aggregate contingent resources of 16 million barrels (P50) oil in place has been independently verified by ISIS Petroleum Consultants Pty Ltd. as of February 2009.

Project partners in SC54A include project operator Nido Petroleum Limited of Perth, Australia at 42.4% working interest, Kairiki Energy of Perth, Australia at 30.1% and Trafigura Ventures III B.V. of Singapore at 15%. TG Philippines received 7.6% of its acquired interest from Nido and 4.9% from Kairiki.

Consideration for the 12.5% interest totals US\$11.17 million and is comprised of approximately US\$5.25 million upon execution of the farm-in agreements and the balance paid in staged payments based on successful oil production. TG Philippines is also responsible for its share of costs (estimated at US\$3.5 million) to first oil which is expected in Q2 2010.

Outlook

All major contracts for the operations have been executed. Mobilization of a drilling rig with a production unit installed on deck and a floating storage tanker to the Philippines is complete. The Tindalo well will be re-entered, completed and flowed, initially, on an extended well test and will then continue for the life of the field. Operations are underway and first oil is expected in Q2 2010.

**Selected Quarterly Information**

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

	2010 Q1	2009				2008		
		Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net loss (gain)	23,146	513	794	934	207	(214)	169	390
Net loss (gain) per share - basic	0.189	0.003	0.007	0.008	0.002	(0.002)	0.001	0.003
Working capital	3,587	13,517	18,349	16,500	17,189	17,794	16,325	16,666
P&NG assets	26,016	37,886	33,533	35,920	34,311	33,623	36,124	35,611
Total assets	36,835	54,711	52,785	53,602	53,844	53,324	52,587	52,765
Shareholders' equity	28,924	51,204	51,635	52,157	52,872	52,755	52,222	52,063

The following discussion highlights some of the more significant factors that changed results over the past eight reporting quarters ended March 31, 2010:

- Significant movement in the CAD / USD foreign currency exchange rate has resulted in fluctuations in the foreign exchange gain/loss, in the consolidated statement of operations, from monetary assets and liabilities, as well as through the translation of the financial statements of integrated foreign subsidiaries.
- Total P&NG assets generally increased over each quarter due to continual investment in the Alaska, Niger and Philippine projects. The slight decreases in the third quarter of 2009 and the second and fourth quarters of 2008, in comparison to other periods, reflect the receipt of PPT credit certificates which were netted against P&NG expenditures. In Q1 2010 the Company purchased assets in the Philippines for \$8.2 million and also realized a write-down of Alaska P&NG assets of \$22.0 million that resulted in the significant differences compared to other quarters.

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For the three months ending March 31, 2010 the Company's net loss was \$23,146,199 versus a net loss of \$206,688 for the same period in 2009, an increase of \$22,939,511. The table below summarizes the change in the net loss:

Loss increase (decrease) due to:	\$
Write-down of petroleum and natural gas assets	22,000,000
Stock based compensation expense	(175,206)
General and administrative costs	720,225
Interest income	14,423
Foreign exchange	380,069
	<u>22,939,511</u>

Stock based compensation was \$92,136 for the three months ended March 31, 2010 (March 31, 2009 - \$323,281), of which \$25,193 (March 31, 2009 - \$81,133) was capitalized. The decrease in total expensed stock-based compensation from comparable periods in 2009 is due to the difference in stock based compensation associated with options granted in 2006 (fulfillment of stock based compensation expense on 2006 options occurred in Q3 2009) versus options granted in 2008 and 2009.

Interest income for the three months ended March 31, 2010 was \$10,044 compared to \$24,467 for the same period in 2009. This represents a decrease of \$14,423, resulting from a reduction in funds invested and lower interest rates.

Changes in foreign exchange result from differences in the relative change in the US and Canadian dollars.

Changes in other items of expenditure reflect variations in normal levels of business activity and new service contract rates for services provided by related parties approved by the independent directors of the Board. See comments under "*Related Party Transactions*" in this MD&A.

**Petroleum and Natural Gas (P&NG) Assets**

During the three months ended March 31, 2010 a total of \$10,130,404 (March 31, 2009 - \$683,673) in expenditures were capitalized, before the write-down of Alaskan assets of \$22,000,000 (March 31, 2009 - \$nil) and before consideration of the PPT credits of \$nil (March 31, 2009 - \$nil) that were credited against these expenditures. Below is a summary of the Company's main consolidated capital expenditures in the period:



	<b>Three months ended March 31</b>	
	<b>2010</b>	<b>2009</b>
Alaska:		
Land acquisitions and lease rentals	\$ 71,502	\$ (42,255)
Seismic	19,442	136,953
Drilling and completion	1,634,529	258,286
Write-down of P&NG assets	22,000,000	-
Capitalized general and administrative costs	198,445	223,116
Stock based compensation	13,266	40,838
	<b>\$ (20,062,816)</b>	<b>\$ 616,938</b>
Niger:		
Seismic	\$ (71,003)	\$ -
Capitalized general and administrative costs	13,692	26,441
Stock based compensation	2,418	40,294
	<b>\$ (54,893)</b>	<b>\$ 66,735</b>
Philippines:		
Acquisitions	8,031,012	-
Capitalized general and administrative costs	207,592	-
Stock based compensation	9,509	-
	<b>\$ 8,248,113</b>	<b>\$ -</b>

Expenditures in TG Alaska for land, seismic and drilling are \$1,372,489 higher for the three months ending March 31, 2010 compared to the same period in 2009. In 2009 there was a recovery in TG Alaska on the Alaska land acquisitions and rentals (\$109,650) due to a refund of lease rental costs. Seismic costs incurred in 2009 related to final costs to interpret data from the Tofkat region. In 2010 TG Alaska incurred drilling costs for testing of the Sak River #1a well, whereas in 2009 costs were minimal due to the inactivity resulting from the AVCG litigation.

Seismic costs are negative in Niger due to the reversal of an accrual from December 2008.

### **Accounts Receivable**

At March 31, 2010 accounts receivable of \$6,132,814 (December 31, 2009 - \$5,964,386) consists primarily of PPT credits (93%) claimed from the State of Alaska for qualified expenditures. The remaining receivable (7%) relates mainly to prepaid expenses and GST receivable on purchases of supplies and services.

### **Accounts Payable**

At March 31, 2010 accounts payable was \$7,080,289 (December 31, 2009 - \$3,307,844), of which \$252,141 (December 31, 2009 - \$3,053,742) is related to accruals for drilling activity in TG Alaska. The current portion of debt financing accounts for \$6,196,774.

### **Liquidity and Capital Resources**

At March 31, 2010, the Company had a consolidated working capital surplus of \$3,738,229 (December 31, 2009 - \$13,517,310), including cash and cash equivalents of \$4,682,210 (December 31, 2009 - \$10,856,400), to fund its capital programs. The Company has sufficient cash and excess working capital to fund current operations. The Company's investment policy is to secure excess cash in low risk, liquid investments. Equity and debt financing is the Company's main source of funds.

In January 2010 the Company closed a secured loan facility for \$7,500,000. The facility bears interest at an annual rate of 18%, is secured by certain Alaskan assets and is repayable in part or



full at any time over an 18 month term. In connection with the closing of the loan facility, the Company has issued the Lender common share purchase warrants that allow for the purchase of up to 10 million common shares of the Company. The warrants expire on January 15, 2012 and have an exercise price of \$0.25. In April 2010 the Company paid \$2,081,372 towards the facility, of which \$1,803,975 reduced the principle and \$277,397 was interest. The Company paid an additional \$42,135 in interest on April 15, 2010 as per terms of the financing agreement. The Company anticipates retiring \$6,196,774 in debt within the next twelve months based on projected collection of PPTC from the State of Alaska.

The number of common shares and equity instruments outstanding were as follows:

	May 19, 2010	March 31, 2010	December 31, 2009
Common shares issued	122,335,870	122,335,870	122,335,870
Stock options outstanding	11,973,230	11,973,230	12,023,230
Warrants	10,000,000	10,000,000	-

During the three months ending March 31, 2010 no options were exercised.

### **Related Party Transactions**

All related party transactions are approved by the independent directors of the Board.

During the three months ending March 31, 2010, Seajay Management Enterprises Ltd. ("Seajay") charged the Company \$117,474 (March 31, 2009 - \$99,544) for management, secretarial, and administration services. The increase in the current period is due to an increase in staff charges compared to the prior year. Seajay is a company controlled by an officer of the Company.

For the three months ending March 31, 2010, TVI Pacific Inc. ("TVI") charged \$39,382 (March 31, 2009 - \$44,922) for rent and office maintenance costs. An officer and director of TG World is also the President, CEO, Chairman, and a director of TVI.

### **Off Balance Sheet Arrangements**

The Company does not have any off balance sheet arrangements.

### **Material Contracts, Commitments, and Contingencies**

As a part of the negotiations associated with the JV Agreement on the Alaska properties, TG Alaska agreed to pay to a third party a 2% overriding royalty interest share of TG Alaska's interest in hydrocarbons from the initially awarded oil and gas leases on the Alaska North Slope. In addition, the third party will receive a 1.25% overriding royalty of TG Alaska's interest in hydrocarbons from leases acquired by the JV in the area of mutual interest, subsequent to the initially awarded leases on the Alaska North Slope. The third party has filed a claim against the Company alleging entitlement to 2.5% gross overriding ownership interest of TG Alaska's interest in all leases on the Alaska North Slope. Legal proceedings are at an early stage and it is premature to make any conclusions with respect to the final outcome.

TG Niger holds a 20% interest in the CNPCIT operated Ténéré License, and CNPCIT is committed to carry TG Niger's cost of the Minimum Work Program in the current term. The Ténéré Establishment Agreement (EA) provides options for two additional three year terms that would include additional seismic and exploratory well commitments for which TG Niger would pay its share. The term of the existing Ténéré EA has been extended by the Niger Government due to the security conditions that prevailed in the region.



### **Critical Accounting Estimates and Policies**

Certain estimates are necessary until amounts are finalized pursuant to transactional or legal proceedings. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods could differ significantly from those estimates.

- The Company and its subsidiaries are subject to various legal proceedings and claims that arise in the ordinary course of business operations. The Company periodically reviews these claims to determine if amounts should be accrued in its consolidated financial statements or if specific disclosure is warranted.
- The carrying values of P&NG assets are based on whether or not the value is greater than the future expected return from the property. If it is determined that carrying values of assets cannot be recovered, the unrecoverable amounts are written off against current earnings. Estimates must be made in establishing future revenues and the depletion and depreciation of property, plant and equipment as well as assessing the fair value of the liability for asset retirement obligations relating to the Alaska wells.
- The State of Alaska has recently altered its process for remitting PPT Credits. These changes make the timing of receipt less certain and therefore estimating the current fair value of those receivables is more uncertain.
- The Company applies the fair value method, using the Black-Scholes option pricing model when stock options and warrants are granted. Management estimates the volatility, expected life and risk-free interest rates in using the model to assess the fair value of stock options.
- Income taxes are calculated based on management's best estimates and interpretation of the Income Tax Act. These taxes are subject to assessment by the Canada Revenue Agency and Alberta Finance, which may affect the financial statements in future years.

### **Integrity of Disclosure**

The Company's management maintains appropriate information systems, procedures and controls to ensure that information used internally and disclosed externally is complete and reliable.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities. The Audit Committee fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited financial statements. The Board of Directors approves the annual audited financial statements and MD&A on the recommendation of the Audit Committee. The annual financial statements are audited by the Company's independent auditors.

The Company has approved and distributed to all staff a series of policy papers that include Code of Business Conduct and Ethics, Whistle Blower Policy and Procedures, Insider Trading and Reporting Guidelines, Disclosure Policy, and Board Control System. The Terms of References define Audit Committee, Compensation and Governance Committee, and Disclosure Committee. The Company has a defined Board Mandate. Management prepares a top down risk analysis that identifies level of risk and potential impact.

The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the period ended on these financial statements and MD&A, that the Company's disclosure controls and procedures are effective to provide reasonable assurance that material information related to the Company is made known to them by others within the Company. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that disclosure controls and procedures provide a reasonable level of assurance, they do not expect that the disclosure controls and procedures will prevent all errors



and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

### **Business Risks and Uncertainties**

The Company's business is subject to risks inherent in oil and gas exploration and development operations. In addition, there are risks associated with the current and future operations in the foreign jurisdictions in which the Company's subsidiaries operate. The Company has identified certain risks pertinent to its business including:

- a) **Exploration and Reserve Risk** - Exploration, appraisal and development of oil and gas reserves are speculative and involve a significant degree of risk. While the subsidiaries of the Company are partners with operators who are well established in the regions we operate and those operators have successful management teams and experience in the regions of operation, there can be no assurances that exploration or appraisal of the properties in which the subsidiaries hold rights will be successful.
- b) **Drilling and Operating Risk** - Exploration and development activities may be delayed or adversely affected by factors beyond the control of the Company. These include adverse climate conditions, availability of materials and competent labour to perform services, the performance of JV partners on whom the subsidiaries may be reliant, and compliance with current and future government regulations. Drilling may result in dry holes or wells that do not produce sufficiently to justify commercial production..

In Alaska, TG Alaska is confined to a winter operating program typically between the months of January and April. A late freeze up and/or early breakup could have a negative impact on TG Alaska's exploration program. With exploration success and proper infrastructure in place, exploration and operating activities can proceed year round.

In Niger, TG Niger is exposed to the harsh elements of drilling in a desert environment. Severe heat and sand storms can cause delays in drilling resulting in increased drilling expenditures.

In the Philippines, TG Philippines is exposed to drilling and operating offshore and potential typhoon conditions in the area. Delays in drilling from such conditions can increase drillings expenditures.

- c) **Costs and Availability of Materials and Services** – The Company may face difficulties in obtaining adequate materials and services at an economical price in the regions in which it operates. The Alaskan region is very competitive and some producers that are larger than TG Alaska may have greater access to materials and services. There are security concerns in the Niger region and such, access to materials and services in the region could be limited from time to time.
- d) **Environmental Risk** – The oil and gas industry is subject to extensive environmental regulations within each of the jurisdictions in which it operates. As a non-operator, the Company is reliant on each of its jurisdictional operators to ensure compliance with local environmental regulation. The Company regularly discusses the environmental practices of its operators at partnership meetings to ensure regulatory compliance is maintained. The Company believes it fully complies with existing regulations; however, it cannot predict any changes to existing regulations and the impact they could have on the Company.



To mitigate risk further in Alaska, TG Alaska contracts independent drilling specialists to review the operator's well design. It is also mandatory that all operators in Alaska belong to the Clean Seas Emergency Spill Consortium to ensure quick response in the event of an oil spill.

- e) **Capital Markets and the Requirement for Additional Capital** - The Company's main source of financing has been through the capital markets. The Company currently has access to sufficient capital to finance future operations; however, should the need arise to gain access to additional capital, the tightening within the capital markets over the past few years could negatively impact the Company's ability to raise additional sources of funds to finance future projects.
- f) **Loss of or Changes to Production Sharing, Joint Venture or Related Agreements** – The Company and its subsidiaries are subject to changes in JV or related agreements that could have a positive or negative impact on operations. Changes could result from actions of other JV partners or from the Company and its subsidiaries itself as a result of non-performance related to financial obligations or participation in JV activities. Management will accept changes that are in the best interests of the Company and its subsidiaries.
- g) **Economic, Political and Legal Risk** – TG World's operations are in foreign jurisdictions and as such, may be subject to economic, social and/or political risks including, but not limited to, terrorism, revolution, hyperinflation, change of laws affecting existing programs or foreign ownership, government participation, taxation, profit repatriation, working conditions, exploration licensing and petroleum export licensing and export duties.

In Alaska, TG Alaska depends on the continuation of the PPTC program to assist in financing on-going operations. While there are no indications at this time that this program will be eliminated, any elimination would have a significant effect on TG Alaska.

Some of the jurisdictions in which TG World operates have a less developed legal system than jurisdictions with more established economies which may result in risks such as: (i) effective legal redress in the courts of such jurisdiction, whether in respect of a breach of law or regulation or in an ownership dispute, being more difficult to obtain; (ii) a higher degree of discretion on the part of governmental authorities; (iii) the lack of judicial or administrative guidance on interpreting applicable rules and regulations; (iv) inconsistencies or conflicts between various laws, regulations, decrees, orders and resolutions; or (v) relative inexperience of the judiciary and courts in such matters. There can be no assurance that joint ventures, licenses, license applications or other such legal arrangements will not be adversely affected by the actions of government authorities or others and the effectiveness and enforcement of such arrangements in this jurisdiction cannot be assured.

- h) **Reliance on JV Partner Relationships** – In conducting business, the Company and its subsidiaries will rely on continuing existing strategic relationships and possibly forming new ones with other entities. The Company and its subsidiaries could be materially affected by changes to such relationships or difficulties in forming new ones.

Additionally, the Company and its subsidiaries rely on the relationships our joint venture partners have with the local governments in the jurisdictions in which our business operates. Adverse relationships between these parties could have a significant effect on future operations.

- i) **Market Risk** – In the event of successful development of oil and gas reserves, the marketing of TG World subsidiaries prospective production of oil and gas from such



reserves will be dependent on market fluctuations and the availability of processing and refining facilities and transportation infrastructure, including roads, access to ports, shipping facilities, pipelines and the pipeline capacity at economic tariff rates which TG World subsidiaries may have limited or no control.

In Niger, TG Niger will be dependent on the ability of CNPCIT and the Niger government to negotiate international agreements for pipeline construction and operation.

- j) *Volatility of Future Oil and Gas Prices*** - The demand for, and price of, oil and gas is highly dependent on a variety of factors beyond the control of the Company, such as international supply and demand, weather conditions, the price and availability of alternative fuels, actions taken by governments and international cartels, and global economic and political developments. International oil and gas prices have fluctuated widely in recent years and may continue similar patterns going forward. The changes in these commodity prices will have an effect on future earnings as well as impact future business decisions in determining what programs to proceed with. The Company has not entered into any forward contracts to protect itself from fluctuations in oil and gas prices as it has not had any production revenue to date.
- k) *Foreign Currency Risk*** – The Company's operations are exposed to fluctuations in foreign currency exchange rates. Variations in the foreign currency exchange rates could have a significant positive or negative impact. The Company manages its foreign currency exchange risk by maintaining foreign currency bank accounts and receivable accounts to offset foreign currency payables and planned expenditures. The Company does not engage in hedges to protect itself further from foreign currency exchange rate fluctuations.
- l) *Dependence on Key Personnel*** – The Company relies extensively on the expertise of specific management personnel. The loss of key personnel could have a materially adverse effect on the Company. Additionally, the Company must rely on the management efficiencies and technical skills of its joint venture partners BRPC, CNPCIT and Nido as operators of the Alaska, Ténéré and SC54A projects respectively.

### **New Accounting Pronouncements**

International Financial Reporting Standards (“IFRS”) – in 2008 the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. The AcSB has indicated that Canadian publicly accountable enterprises will be required to report under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result there is significantly more disclosure required, particularly for quarterly reporting. Further, while IFRS is a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed.

The Company has commenced development of its IFRS changeover plan, which includes project structure and governance, resourcing and training, analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company has analyzed the impact IFRS may have on our financial statements and anticipates the impact will be minimal.

### **Advisory Regarding Forward-Looking Statements**

Certain information set out in this discussion and analysis constitutes forward-looking information. Forward-looking statements are often, but not always, identified by the use of words such as



"seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "intend", "could", "might", "should", "believe" and similar expressions. In particular, this MD&A includes forward-looking information respecting, but not limited to: (i) anticipated operations in relation to all Alaskan wells; (ii) expectations regarding future seismic surveys in Alaska and Niger and the use of this data; (iii) the drilling of additional exploration wells and other exploration activities in Alaska; (iv) potential development scenarios in Alaska; (v) the timing and commencement of a proposed third exploration well on the Ténéré block in Niger; (vi) the Company's responsibility for costs under the Establishment Agreement in relation to its operations in Niger; (vii) current and future activities in Service Contract 54A in the Philippines.

Forward-looking statements are based upon the opinions and expectations of management of the Company as at the effective date of such statements and, in some cases, information supplied by third parties. Although the Company believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions and that information received from third parties is reliable, it can give no assurance that those expectations will prove to have been correct. Forward-looking statements are subject to certain risks and uncertainties that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking statements. These factors include, but are not limited to, such things as general economic conditions in Canada, the United States, Niger, the Philippines and elsewhere, the volatility of prices for oil and gas and other commodities, commodity supply and demand, fluctuations in currency and interest rates, inherent risks associated with the exploration of oil and gas properties (including mechanical problems), ultimate recoverability of reserves, production, timing, results and costs of exploration and development activities, political or civil unrest, availability of financial resources or third-party financing, availability of equipment and personnel and new laws and regulations (domestic and foreign).

Forward-looking statements respecting anticipated operations in relation to all Alaska wells, expectations concerning 3-D seismic surveys and the use of the data, the drilling of additional wells and other exploration activities, and potential development scenarios in Alaska are based upon information obtained from the drilling of the Tofkat #1, Tofkat #1a, Tofkat #1b and Sak River #1 and #1a wells, testing completed to date in relation to the North Shore #1 well, the current exploration plan developed by the Alaska JV Participants, the length of the applicable winter drilling seasons in Alaska and the timing and amount of PPT Credits to be received from the State of Alaska. Forward-looking statements regarding the drilling of the North Tarn property in Alaska during the 2010/2011 exploration season are based upon the results of prior exploration activities, the status of discussions with the operator and other JV participants as to the nature and extent of the Alaska exploration program, advice received from the operator of the JV and the current budget for exploration and development activities in Alaska (which are subject to change). Forward-looking information respecting anticipated mobilization and drilling activities, and additional seismic operations and the use of that data, in the Ténéré Block in Niger are based on advice received from the operator, CNPCIT, and the current budget, exploration plans and overall strategy for the Ténéré Block (which are subject to change), and the security situation in various parts of Niger, over which neither the operator nor the Company has any control. Forward-looking information respecting future obligations of the Company and the Company's responsibility for the costs of certain exploration activities is based upon the terms of the Establishment Agreement entered into in relation to the Ténéré Block and agreements entered into with CNPCIT.

Forward looking statements respecting the development of the Tindalo and Yakal discoveries, future exploration and development in SC54A and other potential opportunities between Nido and TG Philippines are based on the discussions carried out to date, the results of prior exploration and development activities, technical information provided to TG Philippines by Nido and the current budget for exploration and development activities (which are subject to change).

Accordingly, readers should not place undue reliance upon the forward-looking statements contained in this MD&A and such forward-looking statements should not be interpreted or regarded as guarantees of future outcomes. The forward-looking statements of TG World Energy

**TG WORLD ENERGY CORP.**  
**Management's Discussion and Analysis**  
**For the three months ended March 31, 2010 and 2009**



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Corp. contained in this MD&A are expressed as qualified, in their entirety, by this cautionary statement. Additional information relating to various risk factors to which TG World is exposed in the conduct of its business (and which may affect the expectations or outcomes reflected in the forward-looking statements contained in this MD&A) are described in publicly available documents filed by the Company with certain securities regulatory authorities in Canada, which are available through SEDAR at [www.SEDAR.com](http://www.SEDAR.com) and the Company's website at [www.tgworldenergy.com](http://www.tgworldenergy.com).

May 19, 2010



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**Corporate Directory:**

Clifford M. James, President and CEO  
Dean Callaway, Vice President Finance and CFO

**Corporate Directors:**

Edward (Ted) W. Best, Chairman  
A. Lloyd Flood  
Wayne G. Thomson  
Gordon J. Hoy  
David Moscovitz  
Clifford M. James

**Registrar and Transfer Agent:**

Computershare Trust Company of Canada  
600, 530 – 8<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 3S8  
Telephone: (403) 267-6800

**Share Listing:**

TSX Venture Exchange      Symbol: TGE

**Auditors:**

PricewaterhouseCoopers LLP  
3100, 111 – 5<sup>th</sup> Avenue SW  
Calgary, Alberta, Canada T2P 5L3

**Bankers:**

HSBC Bank Canada

**Solicitors:**

Bennett Jones LLP  
McCarthy Tetrault LLP  
Perkins Coie LLP



**TG World Energy Corp.**

**Consolidated Financial Statements**

**For the Three Months Ended  
March 31, 2010 and 2009**

**TG World Energy Corp.**  
 Unaudited Interim Consolidated Balance Sheets  
 As at March 31, 2010  
 (in Canadian dollars)



	March 31, 2010	December 31, 2009
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,682,210	\$ 10,856,400
Short term investments	3,494	4,368
Accounts receivable and prepaid expenses (note 3)	6,132,814	5,964,386
	<u>10,818,518</u>	<u>16,825,154</u>
Petroleum and natural gas properties (note 3)	26,016,111	37,885,815
	<u>\$ 36,834,629</u>	<u>\$ 54,710,969</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 838,535	\$ 3,256,958
Current portion of long-term debt	6,347,468	-
Due to related parties (note 4)	44,980	50,886
	<u>7,230,983</u>	<u>3,307,844</u>
Long-term debt	485,171	-
Asset retirement obligations (note 5)	194,216	198,930
	<u>7,910,370</u>	<u>3,506,774</u>
<b>Shareholders' Equity</b>		
Share capital (note 7(b))	53,652,382	53,652,382
Warrants (note 7 (d))	775,000	-
Contributed surplus (note 7(e))	7,301,968	7,209,832
Deficit	(32,797,229)	(9,651,030)
Accumulated other comprehensive loss	(7,862)	(6,989)
	<u>28,924,259</u>	<u>51,204,195</u>
	<u>\$ 36,834,629</u>	<u>\$ 54,710,969</u>

Contingencies (note 11)

See accompanying notes to consolidated financial statements.

**TG World Energy Corp.**

Unaudited Interim Consolidated Statements of Operations, Comprehensive Loss,  
Deficit, and Accumulated Other Comprehensive Loss  
For the Three Months Ended March 31, 2010 and 2009  
(in Canadian dollars)



	Three months ended March 31	
	2010	2009
Interest income	\$ 10,044	\$ 24,467
Expenses		
Write-down of petroleum and natural gas properties	22,000,000	-
General and administrative	606,245	446,262
Interest expense	385,036	-
Foreign exchange loss (gain)	164,962	(215,107)
	23,156,243	231,155
Net loss	(23,146,199)	(206,688)
Gain (loss) in fair value of investments	(873)	437
Comprehensive loss	\$ (23,147,072)	\$ (206,251)
Net loss per share		
Basic and diluted	(0.189)	(0.002)
Weighted average number of common shares		
Basic and diluted (note 8)	122,335,870	122,327,538
Deficit, beginning of period	\$ (9,651,030)	\$ (7,203,338)
Net loss	(23,146,199)	(206,688)
Deficit, end of period	\$ (32,797,229)	\$ (7,410,026)
Accumulated other comprehensive loss, beginning of period	\$ (6,989)	\$ (7,207)
Other comprehensive gain (loss)	(873)	437
Accumulated other comprehensive loss, end of period	\$ (7,862)	\$ (6,770)

See accompanying notes to consolidated financial statements.

**TG World Energy Corp.**

Unaudited Interim Consolidated Statements of Cash Flows  
 For the Three Months Ended March 31, 2010 and 2009  
 (expressed in Canadian dollars)



	<b>Three months ended March 31</b>	
	<b>2010</b>	<b>2009</b>
Cash provided by (used in):		
Operating activities:		
Net loss for the period	\$ (23,146,199)	\$ (206,688)
Items not involving cash:		
Write-down	22,000,000	-
Stock-based compensation expense	66,943	242,149
Amortization	1,091	972
Accretion	102,872	(6,863)
Unrealized foreign exchange (gain)/loss	206,411	(189,063)
	(768,882)	(159,493)
Changes in non-cash working capital	(399,184)	(166,545)
	(1,168,066)	(326,038)
Financing activities:		
Due to related parties	(5,906)	(4,747)
Debt financing	6,725,000	-
Warrants	775,000	-
	7,494,094	(4,747)
Changes in non-cash working capital	385,036	-
	7,879,130	(4,747)
Investing activities:		
Expenditures on petroleum and natural gas properties	(9,960,908)	(545,149)
Petroleum production tax credits	-	-
	(9,960,908)	(545,149)
Changes in non-cash working capital	(2,906,299)	438,653
	(12,867,207)	(106,496)
Effect of foreign exchange rates on cash	(18,047)	100,849
Increase (decrease) in cash and cash equivalents	(6,174,190)	(336,432)
Cash and cash equivalents, beginning of period	10,856,400	15,016,576
Cash and cash equivalents, end of period	\$ 4,682,210	\$ 14,680,144
Supplemental information:		
Interest received	\$ 5,884	\$ 21,458

See accompanying notes to consolidated financial statements.

## 1) BASIS OF PRESENTATION

TG World Energy Corp. (the “Company”) was incorporated under the Business Corporations Act (Alberta) on July 10, 2001. The Company is engaged in the business of international petroleum exploration and development with the major areas of focus being Alaska, through its wholly-owned subsidiary, TG World Energy, Inc. (“TG Alaska”), Niger, through its wholly owned subsidiary, TG World Petroleum Limited (“TG Niger”) and the Philippines, through its wholly owned subsidiary TG World (BVI) Corp. (“TG Philippines”). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies. All significant intercompany balances and transactions have been eliminated.

## 2) SIGNIFICANT ACCOUNTING POLICIES

### Preparation of Financial Statements

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions regarding certain assets, liabilities and expenses. Such estimates include those related to depreciation, accretion, asset retirement obligations, the fair value of assets and financial instruments, and litigation. Actual results could differ from estimated amounts.

### a) Petroleum and natural gas properties

#### i) Capitalized costs

The Company’s petroleum and natural gas properties located in Alaska, Niger and the Philippines are in the exploration stage.

The Company follows the full cost method of accounting for petroleum and natural gas properties whereby all costs of exploring for and development of petroleum and natural gas properties and related reserves are capitalized on a country by country basis. Such costs include land acquisition costs, geological and geophysical expenses, and costs of drilling and completion of both productive and non-productive wells. Proceeds from the disposition of properties are normally deducted from the capitalized costs without recognition of gain or loss, unless the disposal would alter the rate of depletion and depreciation by more than 20%, in which case a gain or loss on disposal is recorded. The Company currently has no producing petroleum and natural gas properties.

#### ii) Unproved properties

The Company’s lands in Alaska and Niger, on which exploration wells are being drilled, are classified as unproved properties. The Company’s land in the Philippines has two offshore development ready oil discoveries.

#### iii) Impairment

An impairment loss is recognized when the carrying value of oil and gas assets is not recoverable and exceeds its fair value. The carrying amount is assessed as recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of unproved interests, net of impairments, exceeds the carrying amount of the assets. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the assets exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interests, net of impairments. The cash flows are estimated using expected future product prices and costs and are discounted using a risk-free interest rate.

**b) Cash and cash equivalents**

Cash and cash equivalents consist of cash and short-term investments with maturities of three months or less from the date of purchase.

**c) Foreign currency translation**

Monetary items denominated in a foreign currency and the financial statements of integrated foreign operations are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in earnings.

**d) Stock-based compensation**

The Company applies the fair value method, using the Black-Scholes option pricing model, when stock options are granted to employees, consultants, and directors under the share option plan. Under this method, compensation expense of stock options to employees, measured at the grant date, is recognized as a charge to earnings over the vesting period with a corresponding credit to contributed surplus. Compensation expense of stock options to non-employees, initially measured and periodically re-measured to fair value until the non-employees' performance is complete, is recognized as a charge to earnings over the vesting period with a corresponding credit to contributed surplus. Upon exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company recognizes forfeitures as they occur.

**Future Accounting Pronouncements**

In 2008 the Accounting Standards Board of Canada (AcSB) announced that accounting standards for publicly accountable enterprises in Canada are to converge with International Financial Reporting Standards ("IFRS"). The Company will be required to report under IFRS in the first quarter of 2011 with appropriate comparative data from the prior year. Under IFRS there is significantly more disclosure required, particularly for quarterly reporting. Further, while IFRS is a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The Company has a plan and has analyzed the impact IFRS may have on our financial statements. The Company expects the impact on its financial statements to be minimal.

First Time Adoption of IFRS ("IFRS 1") provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions in certain areas to the general requirement for full retrospective application of IFRS. Management is analyzing the various accounting policy choices available and will implement those determined to be the most appropriate, which at this time are summarized as follows:

- Business Combinations – IFRS 1 would allow the Company to use IFRS rules on a prospective basis rather than re-stating all business combinations.
- Property, Plant and Equipment ("PP&E") – IFRS 1 provides the option to value PP&E assets at their deemed cost being the Canadian GAAP net book value assigned to these assets. Since the Company's assets are unproved, all assets are deemed Exploration and Evaluation expenditures and will be re-classified to intangible assets. These assets will not be depleted and must be assessed for impairment when indicators suggest the possibility of impairment.
- Share-based payments – IFRS 1 allows the Company to use Canadian GAAP for options granted prior to 2002 or for options that have fully vested prior to January 1, 2010.
- Cumulative translation differences – IFRS 1 allows for all translation differences to deemed zero upon transition.



- Decommissioning liabilities – IFRS 1 allows for prospectively measuring Assets Retirement Obligations at the time of adoption.
- Borrowing costs – IFRS 1 allows for prospective application pertaining to the capitalization of borrowing costs.

### 3) PETROLEUM AND NATURAL GAS PROPERTIES

	March 31, 2010	December 31, 2009
Alaska	\$ 14,936,163	\$ 34,998,979
Niger	2,817,718	2,872,611
Philippines	8,248,113	-
Other	21,562	20,578
	26,023,556	37,892,168
Accumulated amortization	(7,445)	(6,353)
	<b>\$ 26,016,111</b>	<b>\$ 37,885,815</b>

For the three months ended March 31, 2010 the Company has capitalized \$444,922 (March 31, 2009 - \$330,689) of general and administrative costs.

#### Alaska

TG Alaska has a Joint Venture Agreement with Alaska Venture Capital Group (“AVCG”) and Brooks Range Petroleum Corporation (“BRPC”), a wholly-owned subsidiary of AVCG, to explore joint venture oil and gas properties held on the Alaska North Slope. TG Alaska’s working interests vary from 25% to 35%. The carrying value of the asset represents unproved properties. In Q1 2010, the Company realized a write-down of \$22,000,000 on assets in the Gwydyr region of the North Slope.

TG Alaska applies for Petroleum Production Tax Credits (“PPTC”) from the State of Alaska, which are credited against capital expenditures when Government tax credit certificates are received. TG Alaska has accrued US\$5,645,907 in PPTC at March 31, 2010 of which US\$2,040,560 was received in April 2010. On March 18, 2010, BRPC filed a PPTC application with the State of Alaska on behalf of the Company to sell credits back to the State totalling US\$3,610,210 (discounted to \$3,605,347 in accounts receivable). TG Alaska has applied for additional credits of US\$2,365,263, which have not been recorded in the financial statements.

#### Niger

TG Niger is a party to an Establishment Agreement with the Chinese National Petroleum Company International Ténéré Ltd. (“CNPCIT”), a wholly owned subsidiary of the Chinese National Petroleum Company (“CNPC”), to explore oil and gas properties on the Ténéré Block in Niger, Africa. CNPCIT is the operator and carries nearly 100% of TG Niger’s 20% share of costs for the Minimum Work Program. The carrying value of the asset represents unproved properties.

#### Philippines

On March 10, 2010 the Company signed farm-in agreements to acquire a 12.5% equity interest in Service Contract 54A in the Philippines, which includes two offshore development ready oil discoveries. Consideration totals US\$11.17 million, with approximately US\$5.25 million paid on execution of the farm-in agreement and the balance payable in stages following first oil and subsequent crude off-takes. TG Philippines is also responsible for its share of costs (estimated at US\$3.5 million) to first oil, which is expected in Q2 2010. Funds are provided from existing cash on hand. The carrying value of the asset represents unproved properties.



#### 4) RELATED PARTY TRANSACTIONS

The Company receives management, secretarial and administrative services from Seajay Management Enterprises Ltd. ("Seajay") and TVI Pacific Inc. ("TVI") under contracts approved by the independent members of the Board of Directors. The amounts are recorded at fair market value. The Company's President and CEO is also an officer and director of Seajay and TVI. At March 31, 2010 the Company had an account payable to Seajay for \$33,200 (December 31, 2009 - \$30,177) and an account payable to TVI for \$11,780 (December 31, 2009 - \$20,709). The balances were paid in Q2 2010. The following table presents transactions with related parties during the year.

	<b>Three months ended March 31</b>	
	<b>2010</b>	<b>2009</b>
Management, secretarial and administrative services charged by Seajay	\$ 117,474	\$ 99,544
Rent and office maintenance costs charged by TVI	39,382	44,922
	<b>\$ 156,856</b>	<b>\$ 144,466</b>

During the three months ended March 31, 2010 the Company paid \$29,750 and accrued \$26,750 (March 31, 2009 – \$nil and \$nil) in director's fees.

#### 5) ASSET RETIREMENT OBLIGATIONS

The following table reconciles the asset retirement obligation associated with TG Alaska's properties in Alaska:

	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31, 2010</b>	<b>December 31, 2009</b>	
Balance, beginning of year/period	\$ 198,930	\$ 266,659	
Change in estimates	1,206	(26,247)	
Additions	-	-	
Foreign currency translation	(5,920)	(41,482)	
<b>Balance, end of year/period</b>	<b>\$ 194,216</b>	<b>\$ 198,930</b>	

**Key assumptions:**

Inflation rate	2%	2%
Credit adjusted risk free rate	8%	8%
Undiscounted estimated cash flow required to settle obligation	296,921	305,985

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets. The Company estimates that these obligations will be paid within the next 15 years, with the majority of costs anticipated in 2022. The reclamation cost assumptions were adjusted downward in 2009 as a result of updated cost projections received from the operator.

#### 6) FINANCING

On January 15, 2010 the Company closed a secured loan for proceeds of \$7,500,000. The loan bears interest at an annual rate of 18%, is secured by certain Alaskan assets and is repayable in part or full at any time over an 18 month term. In connection with the closing of the loan, the Company has issued the Lender common share purchase warrants that allow for the purchase of up to 10 million common shares of the Company. The warrants



expire on January 15, 2012 and have an exercise price of \$0.25. The warrants have been recorded at a fair value of \$775,000 and the loan has been recorded at \$6,725,000. The principle amount of the loan will be measured at amortized cost using the effective interest rate method over the full term of the loan. On April 1, 2010 the Company paid \$2,081,372 towards the loan, of which \$1,803,975 reduced the principle and \$277,397 was interest.

## 7) SHARE CAPITAL

### a) Authorized

An unlimited number of common shares.

### b) Issued and outstanding

Common shares	Three months ended March 31, 2010		Year ended December 31, 2009	
	Number	Amount	Number	Amount
Balance, beginning of year/period	122,335,870	\$ 53,652,382	122,327,538	\$ 53,651,003
Shares issued:				
On exercise of options	-	-	8,332	1,379
Balance, end of year/period	122,335,870	\$ 53,652,382	122,335,870	\$ 53,652,382

### c) Common share option plan

The Company has a share option plan pursuant to which options may be granted to directors, officers, employees, and consultants of the Company. The number of common shares issuable under the Company's share option plan cannot exceed 10% of the issued and outstanding common shares of the Company. The number of common shares issuable to any one person under the plan cannot exceed 5% of the issued and outstanding common shares from time to time. The maximum number of common shares issuable to consultants of the Company or employees conducting investor relations cannot exceed 2% of the issued and outstanding common shares in any twelve month period. The exercise price of each option is equal to the greater of \$0.10 or the closing market price of the Company's stock the day prior to the grant date or a price higher than the closing market price deemed appropriate by the board of directors. The options vest in equal quarterly instalments over three years and expire no more than five years from the date of grant.

The following table summarizes information about options outstanding and exercisable:

	March 31, 2010		December 31, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of year/period	12,023,230	\$ 0.60	9,128,230	\$ 0.83
Granted	-	-	4,760,000	0.12
Exercised	-	-	(8,332)	(0.12)
Expired	(50,000)	(0.60)	(515,000)	(0.10)
Forfeited	-	-	(1,341,668)	(0.65)
<b>Options outstanding, end of year/ period</b>	<b>11,973,230</b>	<b>\$ 0.60</b>	<b>12,023,230</b>	<b>\$ 0.60</b>
<b>Options exercisable, end of year/ period</b>	<b>6,567,814</b>	<b>\$ 0.98</b>	<b>5,906,980</b>	<b>\$ 1.07</b>

Options outstanding and exercisable as at March 31, 2010:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Exercisable
\$ 0.115	100,000	3.6	41,667
0.120	6,625,000	4.2	1,691,250
0.155	150,000	4.7	12,500
0.580	1,655,000	2.5	1,379,167
0.990	1,035,000	0.4	1,035,000
1.100	208,230	1.1	208,230
1.900	2,200,000	1.4	2,200,000
<b>\$ 0.60</b>	<b>11,973,230</b>	<b>3.1</b>	<b>6,567,814</b>

There were nil options granted during the three months ended March 31, 2010 (March 31, 2009 – 50,000). The following table sets out the assumptions used in applying the Black-Scholes model:

	Three months ended March 31, 2010	Year ended December 31, 2009
Risk-free interest rate – average	-	2.31%
Expected life (in years)	-	5
Expected volatility	-	103%
Weighted average fair value	-	\$0.09

During the three months ended March 31, 2010, a total of \$92,136 (March 31, 2009 – \$323,282) of stock-based compensation was charged, of which \$25,193 (March 31, 2009 – \$81,133) was capitalized.

**d) Warrants**

In January 2010 the Company issued 10 million common share purchase warrants in connection with a debt financing, with a total fair value of \$775,000. Each warrant is convertible into one common share at an exercise price of \$0.25 per share. The warrants expire on January 15, 2012.

**e) Contributed surplus**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Balance, beginning of year	\$ 7,209,832	\$ 6,314,250
Stock-based compensation	92,136	1,008,813
Options forfeited	-	(112,852)
Transfer to share capital on exercise of options	-	(379)
<b>Balance, end of year/ period</b>	<b>\$ 7,301,968</b>	<b>\$ 7,209,832</b>

**8) PER SHARE AMOUNTS**

The basic weighted average number of common shares outstanding for the three months ended March 31, 2010 was 122,335,870 (March 31, 2009 – 122,327,538). No addition is made to the basic weighted average number of shares when calculating diluted weighted average number of shares as the diluted per share amounts are not dilutive.

**9) CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain balance sheet strength to ensure the Company's strategic objectives are met while providing an appropriate return to shareholders relative to the risk of the Company's underlying assets.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, issue debt, and make adjustments to its capital expenditures program.

The Company does not have externally imposed capital requirements. Consistent with other capital intensive companies, the Company monitors capital on the basis of the debt-to-equity ratio, the debt-to-assets ratio, and the working capital surplus. Debt is calculated as the sum of accounts payable and accrued liabilities, due to related parties and current plus long-term debt. Equity comprises all components of equity other than amounts in accumulated other comprehensive income. Assets are defined as petroleum and natural gas properties and receivables.

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Debt	\$7,716,154	\$3,307,844
Equity	\$28,932,121	\$51,211,184
Assets	\$32,148,925	\$43,850,201
Debt-to-equity	0.267	0.065
Debt-to-assets	0.240	0.075
Working capital surplus	\$3,587,535	\$13,517,310

**10) FINANCIAL INSTRUMENTS**

**a) Fair values of financial assets and financial liabilities**

The carrying value of the Company's financial assets and liabilities consisting of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, and due to related parties approximate their fair value at March 31, 2010 and December 31, 2009 due to their short term nature.

The secured loan is measured at amortized cost using the effective interest rate method. The fair value of the loan equates to the book value due to the recent occurrence of the transaction.

**b) Currency risk**

The Company faces currency risks mainly due to the substantial cross-border element of its operations. The Company is a publicly traded Canadian company and to date it obtains its financing in Canadian dollars. However, the Company's main expenditures are denominated in US dollars. There are no forward sales, and the Company does not engage in currency hedging activities.

The Company publishes its consolidated financial statements in Canadian dollars and as a result, it is also subject to foreign currency exchange translation risk in respect of the results and underlying net assets of its foreign operations. A 1% change in the foreign currency exchange rate would result in a change, based on period end balances, of cash and cash equivalents of \$1,971, a change of accounts receivable and prepaid expenses of \$56,459 and a change of accounts payable and accrued liabilities of \$2,709.

**c) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances.

The Company's financing arrangement is secured by Alaskan assets and re-payment of the loan is based on receipt of PPTCs from the State of Alaska. The elimination of the PPTC program could have a detrimental effect on the Company's ability to meet its obligation to the lender.

The Company continues to be a development stage enterprise and engages in exploration and development of properties located in Alaska, Niger and the Philippines. As such, TG Alaska, TG Niger and TG Philippines currently have no producing petroleum and natural gas properties and no production revenue. However, the Company's current assets are in excess of its current liabilities, with a current ratio multiple of 1.5. The Company will continue to monitor its capital and operating expenditures to ensure financial obligations can be met when they fall due.

**d) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company does have a significant concentration of credit risk on its outstanding receivables, however they are mainly due from government agencies. The timing of cash receipts from the State of Alaska will be more difficult to determine as the Department of Revenue has recently altered its procedures for issuing PPTCs. Previously, the State had 120 days to conduct an audit of qualified expenditures subject to tax credit and issue the Tax Credit Certificate, whereas they will now issue Tax Credit Certificates in advance of extensive audits without a limitation on when the audit must be completed. PPTCs will be issued upon completion of audits. Additionally, the State will only accept one PPTC application per quarter, which will also impact the timing of cash receipts. The Company views amounts in accounts receivable as current in nature. Long term receivables reflect discounted fair value PPTCs to be received after one year.

The Company maintains its cash and investments (Treasury bills and bankers' acceptance notes) in accounts from highly reputable banks, which are approved by the Board of Directors.

**e) Price risk**

Price risk is the risk the Company faces from changes in commodity prices. Since the Company's business is trading a marketable commodity, the Company is exposed to market rates for that commodity in terms of potential revenue it generates and how the price of the commodity impacts business decisions to ensure the Company aligns itself strategically with changes in the marketplace to ensure profitability.

## 11) CONTINGENCIES

As a part of the negotiations leading to the Joint Venture Agreement on the Alaska properties, TG Alaska agreed to pay a third party a 2% overriding royalty interest share of TG Alaska's interest in hydrocarbons from the initially awarded oil and gas leases on the Alaska North Slope. In addition, the third party will receive a 1.25% overriding royalty of TG Alaska's interest in hydrocarbons from leases acquired by the joint venture in the area of mutual interest, subsequent to the initially awarded leases on the Alaska North Slope. The third party has filed a claim against the Company alleging entitlement to 2.5% gross overriding ownership interest of TG Alaska's interest in all leases on the Alaska North Slope. Legal proceedings are at an early stage and it is premature to make any conclusions respecting the final outcome.

In September 2009 TG Alaska settled all outstanding legal disputes with AVCG and BRPC. With the execution and delivery of the settlement agreement, the current litigation between AVCG/ BRPC and TG Alaska, and related claims and counterclaims has been dismissed with prejudice. The current Joint Venture Agreement expired in March 2010, however it continues in full force and effect as neither contract party has given the other party written notice to terminate the Agreement (not less than ninety (90) days on any anniversary date of this Agreement).

TG Niger holds a 20% interest in the CNPCIT operated Ténéré Permit, and CNPCIT is currently committed to carry TG Niger's cost of the Minimum Work Program for the current term. However, the Ténéré Establishment Agreement (EA) provides options for two additional three year terms that would include additional seismic and exploratory well commitments for which the Company would pay its share. The current term of the existing Ténéré EA has been extended by the Niger Government due to the security conditions and force majeure that prevailed in the region.

In April 2009 TG Alaska applied to the State of Alaska for PPTCs of US\$534,637 for 2008 qualified exploration expenditures. TG Alaska expects the application to be approved as submitted and approval is anticipated before the end of the second quarter 2010. In March 2010 TG Alaska applied to the State of Alaska for PPTCs of US\$1,830,626 for 2009 qualified exploration expenditures. TG Alaska expects the application to be approved as submitted and approval is anticipated before the end of the second quarter 2010.

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Dean Callaway, Vice President Finance and CFO

**Corporate Directors:**

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A. Lloyd Flood  
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HSBC Bank Canada

**Solicitors:**

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