Argosy Energy Inc.

Financial Statements

And

Management Discussion and Analysis

Unaudited

March 31, 2010

Argosy Energy Inc.

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Directors:

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Managing Director, Toscana Capital Corporation

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Jacob Roorda
President & CEO, EnerVest Management Ltd.

Peter Salamon
President & CEO, Argosy Energy Inc.

Ray Dobek
Executive Vice-President, Argosy Energy Inc.

Banker:

National Bank of Canada

Auditor:

KPMG LLP

Legal Counsel:

Borden Ladner Gervais, LLP

Reserve Engineers:

GLJ Petroleum Consultants Ltd.

Highlights

$ 000's except volume, drilling and share data (Unaudited)	3 Months Ended March 31, 2010	3 Months Ended December 31, 2009	3 Months Ended March 31, 2009
Cash flow from operating activities [1]			
Total	1,095	(17)	415
Per share basic	0.08	-	0.07
Net income (loss)			
Total	(191)	(1,757)	(1,490)
Per share basic	(0.01)	(0.16)	(0.25)
Per share diluted	(0.01)	(0.16)	(0.25)
Common shares outstanding	14,353,201	12,853,197	5,835,834
Debt, including working capital deficiency before fair value of derivatives	22,594	20,801	25,225
Operational :			
Sales plus realized gain on financial instruments	3,193	2,296	3,214
Royalties	522	194	892
Operating and transportation costs	537	547	691
Field Net Back [2]	2,134	1,555	1,631
Net Back/ bbl [2]	24.85	23.35	17.25
General and administrative	801	1,224	1,012
Volumes :			
Natural gas (mcf/d)	5,006	3,869	5,476
Oil (bbl/d)	25	17	30
NGL's (bbl/d)	95	62	108
Total Boe/d	954	724	1,051
Wells Drilled (Gross) :			
Oil	0	1	0
Gas	3	1	1
D&A	1	1	0
Total	4	3	1
Capital Expenditures	5,375	3,685	422

[1][2]Argosy's definition of cash flow from operating activities and/or netbacks may not be comparable to that reported by other companies.

Management Discussion and Analysis

The following discussion and analysis was prepared on and is dated May 14, 2010 and is management's assessment of Argosy's historical financial and operating results and should be read in conjunction with the audited financial statements and related notes for the years ended December 31, 2009 and 2008.

The financial data presented has been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Comparative figures for periods ended prior to the closing date of the Plan of Arrangement on September 30, 2008 are presented in accordance with continuity of interests accounting as if the assets acquired by Argosy had always operated as a stand-alone entity.

The reporting and functional currency is the Canadian dollar.

Argosy Energy Inc. was formed pursuant to a Plan of Arrangement between Accrete Energy Inc. ("Accrete"), Pengrowth Energy Trust, Pengrowth Company, Pengrowth Energy Partnership and Argosy ("the Arrangement") on September 30, 2008 and is a junior energy company focused on the acquisition, exploration, exploitation and development of oil and natural gas in Alberta in western Canada.

At March 31, 2010, there are 14,353,201 common shares, 1,847,183 common share purchase warrants and 1,050,000 stock options outstanding.

Additional information may be found on the Company's web site at www.argosyenergy.com and on the SEDAR web site at www.sedar.com.

Argosy's shares trade on the Toronto Stock Exchange ("TSX") under the symbol GSY.

The Plan of Arrangement

Argosy was inactive from the time of its incorporation to September 30, 2008 at which time, and pursuant to the Arrangement, Argosy acquired certain assets, including producing and exploratory oil and gas properties and certain tax pools from Accrete. Reference should be made to the Accrete Energy Inc. Management Information Circular dated September 2, 2008 (the "Circular") available at www.sedar.com for further details.

Accrete shareholders, pursuant to the Arrangement, received one quarter of a share of Argosy for each Accrete share held and, provided that the applicable shareholder was not an insider of Accrete as contemplated by applicable securities laws, one eighth of a warrant to acquire an Argosy share. Each whole warrant entitled the holder to acquire an Argosy share for $4.60 per share.

A total of 4,494,667 common shares of the Company were issued to former Accrete shareholders in connection with the exchange of Argosy common shares for Accrete common shares pursuant to the Arrangement.

No Argosy warrants were exercised prior to their expiry date.

Argosy also acquired various interests in the Atlee Buffalo, Peco, Caroline and Saddle Hills areas pursuant to the Arrangement which would be classified as minor miscellaneous interests.

On September 30, 2008 and concurrent with the closing of the Arrangement, Argosy issued 1,208,051 flow through shares at an issue price of $5.20 per share and 156,116 common shares at an issue price of $4.60 per share by way of private placement to certain Argosy directors, officers, employees and consultants for total gross proceeds of $6,999,999.

These financial statements present the historical financial position of Accrete for periods prior to the closing date of the Arrangement on a carve-out basis following continuity of interest accounting guidelines as if the assets acquired by Argosy had always operated as a stand-alone entity.

The historical financial data for periods prior to the closing date of the Arrangement presented herein was extracted from the books and records of Accrete.

Certain financial statement items were maintained by Accrete at a corporate rather than on a property-by-property basis and accordingly, it was necessary to make allocations of amounts reported.

Going Concern

The unaudited interim financial statements have been prepared by management on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its obligations in the normal course of business. The banking arrangements were reviewed and the credit renewed by Argosy's bank in October 2010. At March 31, 2010, the Company has a working capital deficiency of $22,171,000 including bank loans outstanding of $18,799,000 in relation to the available Demand Operating Facility of $26,000,000. The available borrowing limits of the Company's credit facilities are based on the Bank's interpretation of the Company's reserves and future commodity prices. There can be no assurance that such amounts will not decrease by the next scheduled review to be completed by October 1, 2010.

Management restricted capital, non-essential expense and administrative spending and continues to pursue alternative financing opportunities to supplement cash flow to fund its future prospects and commitments. In addition, officers and employees agreed to voluntary reductions in pay that ranged from 15 to 20 per cent of base salaries and agreed to reductions in certain benefits effective June 1, 2009.

(See also, *Radius and Financing Transactions*, *Contractual Obligations and Liquidity* and *Capital Resources*)

Management believes that the financing initiatives that it has undertaken and that it will continue to explore may mitigate the conditions and events which could raise doubt about the validity of the going concern assumption used in preparing these unaudited interim financial statements. If the going concern assumption were not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used in the financial statements.

Forward-Looking Statements

Certain statements included or incorporated herein constitute forward-looking statements. These statements relate to future events or the future performance of Argosy Energy Inc. ("Argosy"). All statements other than statements of historical fact are forward-looking.

Such forward-looking statements or information are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that reliance on such information may not be appropriate for other purposes, such as making investment decisions. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "continue", "might", "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "estimate" "budget", "forecast", "predict", "project", "potential", or the negative of these terms and similar expressions. In addition, these financial statements and accompanying management discussion may contain forward-looking statements attributed to third party industry sources. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements.

Forward-looking statements include, but are not limited to, statements with respect to:

The performance characteristics of Argosy's oil and natural gas properties; oil and natural gas production levels; the quantity of oil and natural gas reserves; the performance characteristics of oil and natural gas properties; projection of market prices; other trends of the capital markets; the size of and future net revenues from Argosy's oil and natural gas reserves; capital expenditure programs; supply and demand for oil and natural gas and commodity prices; financial conditions; industry conditions; capital expenditure programs; drilling plans; expectations regarding the Argosy's ability to raise capital and to continually add to reserves through acquisitions, exploration and development; treatment under governmental regulatory regimes and tax laws; and realization of the anticipated benefits of acquisitions and dispositions.

Some risks and other factors, which would cause results to differ materially from those expressed in the forward-looking statements contained in these financial statements and accompanying management discussion, but are not limited to:

general economic conditions in Canada, the United States and globally; industry conditions, including fluctuations in the price of oil and natural gas; governmental regulation of the oil and gas industry, including environmental regulation; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; volatility of commodity prices; environmental risks; fluctuation in foreign exchange or interest rates; liabilities inherent in oil and gas operations; geological, technical, drilling and processing problems; unanticipated operating events which can reduce production or cause production to be shut in or delayed; failure to obtain industry partner and other third party consents and approvals, when required; stock market volatility and market valuations; competition for, among other things, capital, acquisitions of reserves, undeveloped land, skilled personnel, and equipment and facilities; the need to obtain required consents, permits or approvals from regulatory authorities; competition for, among other things, capital, acquisition of reserves, undeveloped land, skilled personnel and equipment and facilities; the lack of availability of qualified personnel or management; uncertainties associated with estimating oil and natural gas reserves; aboriginal land claims; stock market volatility; the implementation of International Financial Reporting Standards and the other factors considered under "Risks".

Readers are cautioned that the foregoing lists should not be considered to be exhaustive. Readers are also cautioned that these factors and risks are difficult to predict and that the preparation of financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Forward-looking statements and other information contained herein concerning the oil and gas industry and Argosy's general expectations concerning this industry are based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Argosy believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Argosy is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

Although the assumptions used in the preparation of such information and statements are considered reasonably accurate by the Company at the time of preparation may prove to be incorrect. Accordingly, readers are cautioned that the actual results achieved will vary from the information provided herein and the variations may be material.

Statements relating to "reserves" or "resources' are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the reserves and resources described can be profitably produced in the future.

In this MD&A production data is commonly stated in barrels of oil equivalent using a six (6) to one (1) conversion ratio when converting thousands of cubic feet of natural gas to barrels of oil and a one (1) to one (1) conversion ratio for natural gas liquids. An oil equivalency of six (6) to one (1) thousand cubic feet of natural gas is based on energy equivalent at the burner tip and does not represent a value equivalency at the well head.

Investors should not place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. These forward-looking statements are made as of the date of this or as of the date specified in the documents incorporated by reference into the financial statements and accompanying management discussion. as the case may be.

Non GAAP Measures

This MD&A contains the term “cash flow” and “netbacks” which should not be considered an alternative to, or more meaningful than cash flow from operating activities as determined in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) as an indicator of the Company’s performance. Argosy’s definition of cash flow and/or netbacks may not be comparable to that reported by other companies.

The Company evaluates its performance based on net earnings, net back and cash flow.

The Company considers cash flow a key measure as it illustrates the Company’s ability to meet obligations necessary to repay debt and fund future growth through capital investment. Cash flow per share is presented using the weighted average shares outstanding in a manner consistent with that used to calculate earnings per share.

The following reconciles cash flow from operating activities, the most comparable GAAP measure to cash flow used in this MD&A:

$ Thousands	**3 Months Ended March 31,**	
	2010	**2009**
Cash flow provided by operating activities (GAAP)	(3,019)	(63)
Net changes in non-cash working capital	4,114	486
Cash flow (non – GAAP)	1,095	423

The following table reconciles field and corporate netback to income before taxes the most comparable GAAP measure:

	3 Months Ended March 31,	
$ Thousands	**2010**	**2009**
Net income (Loss) (GAAP)	(191)	(1,490)
Future income taxes (reduction)	16	(422)
Depletion, depreciation and accretion	1,917	2,203
Stock based compensation expense	128	124
Interest expense	217	204
Realized (gain)loss on derivative instruments	21	-
Unrealized (gain) loss on derivative instruments	(775)	-
Corporate netback (non – GAAP)	1,333	619
General and administrative expense	801	1,012
Field netback (non – GAAP)	2,134	1,631

Argosy's Business Objective

Argosy's goal is to add quality, low cost reserves and production and to create sustainable value through exploitation of its principal properties at Claresholm, Saxon and Edson. The Corporation also focuses on expanding its existing asset base through the generation of lower risk development prospects, through Crown land sales, farm-ins, farm-outs and the acquisition of additional properties where viewed as strategic.

Argosy's strategy is to initiate, develop and operate prospects and to maintain high working interests in all operations. Argosy pursues prospects that have medium risk, have multi-zone potential, are economic even under the current market conditions and which have predictable results that can be repeated.

Business Environment

AECO C spot prices were nearly flat on a quarter on quarter basis but first quarter natural gas prices were 7% over that for the final quarter of 2009. AECO C spot prices averaged Cdn $4.92 / Mcf for the first quarter of 2010 versus Cdn $4.62/ Mcf for the last quarter of 2009 and $4.93 for the first quarter of 2009. On the other hand, WTI spot prices for oil increased 82% on a quarter on quarter basis and about 3% from the final quarter of 2009. WTI spot oil prices increased from an average of US $76.03 for the last quarter of 2009 to US $78.64 for the first quarter of 2010. WTI spot oil prices averaged $43.18 for the first quarter 2009.

Natural gas storage in the US was still at a record high near the end of 2009. Cold winter weather coupled with a modest recovery in industrial demand brought natural gas storage down close to the 5 year average by the end of the first quarter of 2010. Inventories had previously increased because of mild weather, a decrease in industrial demand and prolific production from non-conventional reservoirs.

Financial Information

	Total Revenue ($ thousands)	Net Income (Loss) ($ thousands)	Net Income (Loss) Basic $/Share	Net Income(Loss) Diluted $/Share
2010				
First Quarter	3,193	(191)	(0.01)	(0.01)
2009				
First Quarter	3,215	(1,490)	(0.25)	(0.25)
Second Quarter	2,255	(1,726)	(0.30)	(0.30)
Third Quarter	1,827	(1,257)	(0.21)	(0.21)
Fourth Quarter	2,296	(1,757)	(0.16)	(0.16)
	9,593	(6,230)	(0.87)	(0.87)
2008 (1)				
First Quarter	4,728	742	0.18	0.17
Second Quarter	6,019	357	0.09	0.08
Third Quarter (2)	5,282	285	0.07	0.07
Fourth Quarter	4,767	(1,337)	(0.23)	(0.23)
Total	20,796	47	0.01	(0.01)

(1) Figures for the first three quarters of 2008 were carved out from the financial information of Accrete Energy Inc.

(2) Notice of No Auditor Review of Interim Financial Statements
Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.
The comparative figures as at and for the three month period ended September 30, 2008 that are presented in these financial statements have been prepared by management and approved by the Board of Directors of the Company.

The Company's independent auditors have not performed a review in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of Interim Financial Statements by an entity's auditors of the comparative figures as at and for the three month period ended September 30, 2008 that are presented in these financial statements.

Operational Activities

Production

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Oil (bbl/d)	25	30
NGL (bbl/d)	95	108
Total Oil/NGL (bbl/d)	120	138
Gas (mcf/d)	5,006	5,476
Total (boe/d) (1)	954	1,051

(1) The reader is cautioned that the use of the term boe's ("barrels of oil equivalent") may be misleading particularly when used in isolation. A boe conversion of 6 mcf to 1 boe may not represent a value equivalency at the wellhead.

The results of the drilling activity that was undertaken in 2009 and 2010 were not sufficient to offset normal production declines taken on a year over year basis. .

Production from wells drilled in the 4th quarter 2009 helped to boost production from an average of 724 Boe/d that was recorded for the 4th quarter of 2009 to 953 Boe/d that was recorded for the 1st quarter of 2010.

Natural Gas Production (mcf/d)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Atlee-Buffalo	31	33
Claresholm	3,833	4,945
Edson	432	359
Saxon	710	139
Total	5,006	5,476

The results of the drilling activity that was undertaken in 2009 and 2010 were not sufficient to offset normal production declines when taken on a year over year basis.

By contrast, drilling activity in the 4th quarter 2009 and 1st quarter of 2010 had a significant impact on the figures reported. Natural gas production for the 4th quarter of 2009 was 3,869 mcf/d versus 5,006 mcf/d for the 1st quarter of 2010.

The Saxon well that was put on stream part way through the 1st quarter at a restricted rate of approximately 1,000 mcf/day had the effect of increasing the average quarterly production from the Saxon area from 99 mcf/d to 710 mcf/d. Wells drilled in the 4th quarter of 2009 and the 1st quarter of 2010 had the effect of increasing the average quarterly Claresholm production from 3,397 mcf/d for the 4th quarter 2009 to 3,833 mcf/d for the 1st quarter of 2010.

Crude Oil Sales (bbl/d)

	3 Months Ended March 31, 2010	2010
Claresholm	25	30
Total	25	30

A Barons oil project was initiated in the Claresholm area in the third quarter of 2008. Drilling on this project was limited soon after the project was initiated due to the decrease in oil prices and remained limited due to capital constraints. Argosy believes that this project is extensive but the project will entail water flooding to realize its full potential. A pilot project has been initiated to determine the feasibility of the project. Argosy expects that the pilot project should be evaluated by the end of the 2nd quarter or early in the 3rd quarter of 2010.

Natural Gas Liquids Sales (bbl/d)

	3 Months Ended March 31, 2010	2008
Claresholm	62	89
Edson	24	18
Saxon	9	1
Total	95	108

Natural gas liquids production volumes decreased when taken on a year over year basis along with the declines in the production of natural gas. It should be noted that the average natural gas liquid production for the 4th quarter of 2009 was 62 bbl/d. 2009 and 2010 drilling caused Claresholm natural gas liquids production to increase from an average of 50 bbls/d for the 4th quarter of 2009 to 62 bbls/d for the 1st quarter of 2010. Edson natural gas liquid production increased from 11 bbls/d to 24 bbls/d for the same period as a result of inventories being sold in the current quarter.

Product Prices

Natural Gas Prices ($/mcf)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Atlee-Buffalo	4.95	5.05
Claresholm	5.46	5.45
Edson	5.10	5.24
Saxon	5.12	5.59
Average Price	5.38	5.44

AECO C spot prices were nearly flat on a quarter on quarter basis but first quarter natural gas prices were 7% over that for the final quarter of 2009. AECO C spot prices averaged Cdn $4.92 / Mcf for the first quarter of 2010 versus Cdn $4.62/ Mcf for the last quarter of 2009 and $4.93 for the first quarter of 2009. . Liquids are recombined to Company production giving it a higher heating content resulting in a premium price being received.

Crude Oil Sales Prices ($/bbl)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Claresholm	79.27	46.89
Average Price	79.27	46.89

WTI spot prices for oil increased 82% on a quarter on quarter basis and about 3% from the final quarter of 2009. WTI spot oil prices increased from an average of US $76.03 for the last quarter of 2009 to US $78.64 for the first quarter of 2010. WTI spot oil prices averaged $43.18 for the first quarter 2009.

The oil stream in 2009 is primarily comprised of conventional oil production from the Company's Barons oil project at Claresholm.

Natural Gas Liquids (NGL) Sales Prices ($/bbl)

	3 Months Ended March 31, 2010	3 Months Ended March 31, 2009
Claresholm	68.41	41.54
Edson	69.10	44.01
Saxon	83.66	62.07
Average Price	69.95	42.20

Natural gas liquid prices moved in tandem with oil prices. Saxon natural gas liquids contain more condensate than those in Edson and Claresholm, and thereby command higher prices.

Revenue

Total Sales
($ thousands)

	3 Months Ended March 31,	
	2010	**2009**
Oil	175	127
NGL	595	409
Gas	2,423	2,678
Total	3,193	3,214

Lower production volumes caused the decrease in sales. Natural gas prices were similar when viewed on a quarter on quarter basis. Oil prices were significantly higher but volumes are relatively low so the impact of the increased prices received for that commodity is muted. The increase in volumes had a significant effect on the increase from total sales of $2,295,000 for the 4th quarter of 2009 to $3,193,000 for the 1st quarter of 2010.

Natural Gas Sales Revenue
($ thousands)

	3 Months Ended March31,	
	2010	**2009**
Atlee-Buffalo	14	15
Claresholm	1,883	2,424
Edson	198	169
Saxon	328	70
Total	2,423	2,678

Natural gas sales are lower in the 1st quarter 2010 than in the 1st quarter 2009 primarily because of decreased volumes.

By contrast, natural gas sales revenue for the 4th quarter of 2009 totaled $1,833,000 for the 4th quarter of 2009. The increase to that which was recorded for the 1st quarter of 2010 was caused by increased volumes as a result of drilling activity.

Crude Oil Sales Revenue
($ thousands)

	3 Months Ended March31,	
	2010	**2009**
Claresholm	175	127
Total	175	127

Oil sales are higher in 2010 than in 2009 when viewed on a quarter over quarter basis primarily because of increased prices.

Natural Gas Liquids (NGL) Sales Revenue
($ thousands)

	3 Months Ended March 31,	
	2010	**2009**
Claresholm	380	331
Edson	152	71
Saxon	63	7
	595	409

The increase natural gas liquids sales revenue paralleled that for natural gas.

Royalties
($ thousands)

	3 Months Ended March 31,			
	2010		**2009**	
Area	**Total $**	**Rate**	**Total $**	**Rate**
Atlee-Buffalo	1	1%	1	8%
Claresholm	425	17%	795	28%
Edson	85	24%	76	32%
Saxon	11	3%	20	25%
Total	522	16%	892	28%

Royalty rates at Claresholm decreased on a quarter on quarter basis because the older wells in the field are subject to rate reductions as their production declines. This is offset by newer wells that are subject to higher crown rates because of higher production rates and because of higher rates for freehold and overriding royalties on wells drilled late in 2009 and early in 2010 on farm in lands.

The reduction in the rate at Edson is volume related. Production from the well at Saxon that was put on in the first quarter of 2010 qualifies for a low royalty incentive.

For the three months ended March 31, 2010, crown royalties were $371,000 ($865,000 in 2009), gross overriding royalties were $83,000 ($24,000 in 2009), and freehold royalties were $68,000 ($3,000 in 2009).

Production and Transportation Expenses
($ thousands except per boe information)

	3 Months Ended March 31,			
	2010		2009	
Area	**Total $**	**$/boe**	**Total $**	**$/boe**
Atlee-Buffalo	6	13.82	2	4.49
Claresholm	373	5.72	595	7.01
Edson	68	7.70	77	10.94
Saxon	90	7.89	17	7.39
Total	537	6.27	691	7.32

Per unit costs at Claresholm were reduced as a result of a concerted effort to control costs. Argosy focused particularly on control of fixed costs. Fixed costs include rental field compression, plunger lifts and tanks that were added for certain wells. A review was conducted and rental units were eliminated where it was determined that they added minimal value and were replaced by company owned units where warranted.

Edson costs are in line with the $7.29/boe that was recorded for the 4th quarter of 2009. The reduction from the 1st quarter of 2009 is as a result of cost control initiatives.

Atlee Buffalo volumes are very low and even minor repair and maintenance items have a significant impact on the rate per boe. Over all though, Atlee Buffalo is not material.

Claresholm natural gas is processed in a company operated processing plant. Atlee Buffalo, Saxon and Edson natural gas is processed by third party processors hence the cost of processing is higher. The transportation expense for Saxon gas is relatively expensive because the Company is charged for the use of several outside owned pipeline segments in order to move its gas to the processing facility.

Field and Corporate Netbacks

Field Netback

	3 Months Ended March 31,	
	2010	**2009**
$/boe		
Atlee-Buffalo	15.45	23.34
Claresholm	25.11	17.59
Edson	22.86	12.50
Saxon	25.39	18.78
Field Netback	24.85	17.25

Field netbacks for 2010 increased from those in the equivalent period last year primarily because of decreased royalties and operating costs. The decrease was offset in part by a slight decrease in natural gas price.

Corporate Netback
($ thousands)

	3 Months Ended March 31,	
	2010	**2009**
Field Netback	2,134	1,631
General and Administrative	801	1,012
Corporate Netback	1,333	619

Effective June 1, 2009, officers and employees agreed to voluntary reductions in pay that ranged from 15 to 20 per cent of base salaries. In addition, officers and employees agreed to reductions in certain benefits at that time. That plus an increase in field netbacks as a result of decreases in royalties and operating costs caused corporate net back to increase on a year over year basis.

General and Administrative Expense
($ thousands)

	3 Months Ended March 31,	
	2010	**2009**
Salary & Benefits, net	496	637
General Office Expenses	334	415
Acquisition Related Costs	40	-
	870	1,052
Recoveries	(69)	(40)
Total	801	1,012

Effective June 1, 2009, officers and employees agreed to voluntary reductions in pay that ranged from 15 to 20 per cent of base salaries. In addition, officers and employees agreed to reductions in certain benefits at that time.

In January 2009, the CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. The new Section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The adoption of this policy required that the Company account for acquisition related costs as expenses in the periods in which the costs were incurred and the services received. Included in general and administrative expenses is $40,000 that was incurred in the first quarter 2010 in connection with the Radius transaction.
By contrast, general and administrative expenses for the 4th quarter of 2009 totaled $1,225,000 but that figure included $384,000 of costs incurred in connection with the Radius acquisition. Costs incurred in connection with the Radius transaction consist mainly of legal and tax advisory costs incurred in the structuring of the acquisition the majority of which were incurred in the 4th quarter of 2009.

Approximately $63,000 ($77,000 in 2009) of direct salary costs related to geological and geophysical personnel have been capitalized for the period ended March 31, 2010. No other salary or overhead charges are capitalized.

Interest Expense

Argosy utilized its operating line of credit and cash flow from operating activities to fund its capital program.

Interest expense for the 3 months ending March 31, 2010 was $217,000 ($205,000 in 2009) reflecting higher interest rates offset in part by a decrease in average loan balance outstanding.

Stock-Based Compensation

Stock-based compensation is accounted for using the fair value method. Under the fair value method of accounting, this compensation expense is recorded in the statement of income (loss) over the vesting period.

The fair value of the options granted in 2008 was estimated to be $ 1,175,000 ($2.03 per option granted). The fair value of the options granted in 2009 was estimated to be $373,000 ($.79 per option granted).

These values are expensed as stock based compensation cost over the vesting period. A total of $128,000 ($124,000 in 2009) was charged to expense and a total of $6,000 ($8,000 in 2009) was capitalized for a total stock based compensation charge of $134,000 ($132,000 in 2009) for the period ended March 31, 2010.

Depletion Depreciation & Accretion

Depletion, depreciation and accretion of the asset retirement obligation for the period ended March 31, 2010 totaled $1,917,000 or $22.33/Boe. This compares to $2,203,000 or $23.29/Boe for the comparable 3 month period in 2009.

Costs of $8,275,000 ($8,894,000 in the first quarter of 2009) relating to unproved properties have been excluded from costs subject to depletion. The excluded items include the costs of undeveloped land such as that at Ansell and Saxon that has been purchased at land sales for future exploitation.

A total of $3,124,000 related to future development costs was included in the depletion calculation.

Income Taxes

The Company recorded a future income tax charge of $16,000 for the period ended March 31, 2010 ($422,000 recovery in the first quarter of 2009).

Argosy has approximately $40,474,000 of income tax pools and $577,000 of operating loss carry forwards at March 31, 2010 and does not anticipate being cash taxable in 2010.

Cash Flow

Cash flow for the year period ended March 31, 2010 was $1,095,000 ($0.08 per share) versus $423,000 ($0.07 per share) for the equivalent period last year.

Cash flow increased on a year over year basis because of lower operating costs, royalties and general and administrative expenses offset in part by lower volumes and higher borrowing costs.

Capital Expenditures

($ thousands)	**3 Months Ended March 31, 2010**
Drilling and Completions	4,497
Geology and Geophysical	94
Equipping and Tie-Ins	637
Land	143
Office Equipment	4
Total Cash Expenditures	5,375

Drilled 4 gross gas wells in Q1 2010 – resulting in 3 (2.5 net) gas wells, and 1 (0.5 net) dry hole.

Liquidity and Capital Resources

2010 Exploration and development program funding	$ (thousands)
Cash, Beginning of period	4,300
Cash flow	1,095
Change in non-cash working capital	212
Decrease in Bank Debt	(2,930)
Issue of Capital Stock	2,698
Cash, end of period	-
Net capital expenditures	5,375

Argosy endeavors to fund its capital expenditure program from internally generated cash flow, debt, farm ins, farm outs and additional equity or other funding if available on favorable terms.

Commodity prices and production volumes have a large impact on the ability of the Company to finance its capital program. Commodity prices and production volumes affect Argosy's ability to generate adequate cash flow. Moreover, bank financing is dependent on the value of the Company's reserves which are in turn affected by commodity prices, production volumes and drilling success.

It should be noted that a prolonged period of low commodity prices would negatively affect cash flow from operations and would likely result in a reduction in the amount of cash flow available for investment in drilling programs which would in turn negatively impact future production volumes and reserves. A prolonged period of low commodity prices may also affect the availability of funds that might be available by way of bank financing because the bank financing is dependent on the value of the Company's reserves. The value of the Company's reserves would be negatively impacted by commodity pricing and lower production volumes.

A prolonged period of low commodity prices may also affect the availability of funds that might be available in the equity markets as well.

At March 31, 2010 the Company's credit facilities comprised a Revolving Operating Demand Loan Facility with a credit limit of $26,000,000 and an Acquisition/Development Demand Facility with a credit limit of

$2,000,000. At that date the Company had drawn $18,799,000 against the Revolving Operating Demand Loan Facility and nil against the Acquisition/Development Demand Facility.

The Revolving Operating Demand Loan bears interest at Bank prime plus a percentage determined quarterly ranging from .25% to 2.5% greater than the Bank's prime rate in accordance with the Bank's pricing grid. The Bank's pricing grid is dependent on the Company's debt to cash flow ratio where debt is defined by the Bank as working capital deficit, consolidated long term debt including capital leases and retractable preferred shares which are retractable at the option of the holder and cash flow is defined by the Bank as net earnings, depletion, depletion and accretion, future income taxes and other charges to income not requiring a cash payment calculated for the most recently completed quarter and annualized.
The application of the Bank's pricing grid resulted in a rate which is 2.5% greater than the Bank's prime rate.

The Revolving Operating Demand Loan has no specific terms of repayment aside from the Bank's right of demand and periodic review. The Acquisition/Development Demand Loan requires unspecified monthly principal repayments over the engineering half life of the reserves being financed as determined by the Bank

The Acquisition/Development Demand Loan is restricted to the acquisition of proved non-producing/undeveloped petroleum and natural gas reserves and/or development of proved producing/undeveloped petroleum and natural gas reserves, bears interest at a rate which is 0.5% higher than the Revolving Operating Demand Loan and bears a standby fee of between .25% and .5% on the undrawn portion of the loan facility.

The bank initiated a review of the Company's borrowing limits as of April 1, 2010. The credit limit of $26,000,000 was maintained and a new pricing grid was put into place. Formerly the grid pricing ranged from .25% to 2.5% greater than the Bank's prime rate. The new pricing grid ranges from .75% to 2.5% greater than the Bank's prime rate. The application of the new pricing grid will have no immediate effect because the Company is at the highest level on the grid based on its current debt to cash flow ratio. The credit limit of the Acquisition/Development Demand Facility was increased to $4,000,000 as result of the review. The interest rate on the Acquisition/Development Demand Facility was lowered from 0.5% higher than the Revolving Operating Demand Loan to a rate which is 0.25% higher than the Revolving Operating Demand Loan. No other material changes were made to either of the credit facilities as a result of the review.

There can be no assurance that amounts or terms will not change at the next review scheduled on or before October 1, 2010.

Security for the facilities includes a general assignment of book debts, a $75,000,000 debenture with a first floating charge over all assets with a negative pledge and an undertaking to provide fixed charges on the Company's major producing reserves at the request of the bank.

A covenant to the Revolving Operating Demand Loan facility requires that the Company maintain a working capital ratio, exclusive of bank indebtedness, of at least 1 to 1. For purposes of this calculation, the undrawn availability under the facility is added to current assets. The Company was in compliance with this debt covenant at March 31, 2010. There is no similar working capital requirement for the Acquisition/Development Demand Loan. There is no debt to equity requirements related to either of the facilities.

Radius and Financing Transactions

In December 2009, Argosy entered in to an agreement for a business combination with Radius Resources Inc. ("Radius"). The proposed business combination is part of a proposal that was put forward by Radius pursuant to the provisions of the Bankruptcy and Insolvency Act (BIA) (the "Proposal"). Radius received approval of its unsecured creditors on April 6, 2010 and on April 13, 2010 received an order issued by the Court of Queen's Bench of Alberta that provided, among other things, approval of the Proposal.

On March 19, 2010, Argosy entered into a definitive purchase and sale agreement (the "Definitive Agreement") to complete the business combination. Total consideration will comprise $2.4 million in cash and 748,000 common shares of Argosy. Argosy also agreed to pay an additional $225,000 in transaction expenses of Radius. This transaction is expected to close in May, 2010.

The Radius acquisition will add approximately 194,000 barrels of oil equivalent of proven reserves, 396,000 proven plus probable reserves, over 19,000 acres of undeveloped land and 60 barrels of oil equivalent per day to Argosy's production. Radius's properties are primarily concentrated in the Ante Creek area of Alberta. Radius has approximately $12.3 million in unused income tax pools which may be utilized to offset future taxable income

Radius entered into a farm-in agreement with Argosy. Pursuant to the terms of the farm-in agreement, Radius agreed to pay $1,300,000 towards drilling costs to earn a 50% working interest in two wells that were spudded in the Saxon area in late December 2009. The farm-in agreement also specifies that if the relevant costs exceed the amount that was budgeted, and Radius is unable to reimburse Argosy that Radius' interest in the two wells would be reduced proportionately. In addition, Argosy may elect to convert Radius' working interest share to a 3% non-convertible overriding royalty in the event that Radius fails to pay when due all amounts owed by it to Argosy or on assignment or attachment by Radius of its interests in the wells or on the change of control of Radius.

Argosy advanced $1,300,000 to Radius to enable it to pay the commitment referred to in the preceding paragraph.

In December 2009 Argosy Energy Inc. agreed to the terms for a non-brokered private placement financing of common shares and common share purchase warrants.

The financing comprised:

> 1,944,367 units, of which 444,367 were issued prior to December 31, 2009, of the corporation at a price $1.80 per unit, each unit consisting of one Argosy share and 0.5 of an Argosy warrant;
> 1.75 million units at a price of $2 per unit, each flow-through unit consisting of one Argosy share issued on a flow-through basis and 0.5 of an Argosy warrant.

Each whole Argosy warrant shall entitle the holder thereof to receive one Argosy share at an exercise price of $2.25 per share for a period of 18 months. The exercise period of the Argosy warrants may be accelerated in the event that the 20-day trading volume weighted average price of the Argosy shares meets or exceeds $3 during the period such warrants remaining remain outstanding.

The gross proceeds from the financing were escrowed with counsel for Argosy and were released in December 2009 to Argosy upon receipt of TSX approval except for the amount of $2.7-million which represented 1,500,000 shares at $1.80 per unit, which may be used to close Radius Resources Corp. acquisition. That amount was released to Argosy on March 8, 2010.

One of the subscribers that participated in the private placement financing referred to above has undertaken to purchase $1,000,000 of flow through common shares for a cash purchase price of $2.00 per flow through share. The funds related to this issuance were placed in trust with Argosy's solicitors in April 2010. These funds will be released and the related flow through shares issued concurrent with the closing of the Radius acquisition.

Contractual Obligations

As discussed in *"Radius and Financing Transactions"*, Argosy entered into a number of agreements for the acquisition of Radius, financing and advances. On March 19, 2010, Argosy entered into a definitive purchase and sale agreement (the "Definitive Agreement") to complete the proposed business combination with Radius. Under the terms of the Definitive Agreement, Argosy will acquire all of the issued and outstanding shares of Radius on payment of $2.4 million in cash, the issuance of 748,000 common shares and the payment of transaction expenses of $225,000 on behalf of Radius. This transaction is expected to close in May , 2010.

In December 2009, the Company issued 1,750,000 units which comprised 1,750,000 common flow through shares and 875,000 warrants to purchase Argosy shares (see *"Radius and Financing Transactions"*). The issue price was $2.00 per unit. The tax deductions related to the common flow through shares issued will be renounced to flow through shareholders and booked to the accounts in 2010. The Company will be required to spend approximately $3,500,000 in 2010 on qualifying CEE expenditures to fulfill its flow through obligation.

One of the subscribers that participated in the private placement financing referred to *Radius and Financing Transactions* has undertaken to purchase $1,000,000 of flow through common shares for a cash purchase price of $2.00 per flow through share. The funds related to this issuance were placed in trust with Argosy's solicitors in April 2010. These funds will be released and the related flow through shares issued concurrent with the closing of the Radius acquisition.

The Company's banking commitments are outlined in *Liquidity and Capital Resources.*

The Company entered into a guaranteed day commitment with a drilling contractor. The Company is required to utilize the contractor's rigs for 120 days within a year, commencing on October 31, 2009. Argosy will be required to pay $7,000 for each day that it is short of the 120 commitment. At March 31, 2010, the company had utilized the contractor's rigs for 72 days therefore the maximum exposure under the contract is $336,000.

The Company has entered into various commitments related to the leasing of office premises and office equipment. The payments due under such leases are as follows:

Contractual obligations ($ thousands)	2010	2011	2012	2013	2014	Thereafter
Bank Indebtedness	18,799	-	-	-	-	-
Office Premises	531	741	808	879	609	-
Office equipment	1	-	-	-	-	-
	19,331	741	808	879	609	-

Risk Management

The current period of economic slowdown, scarcity of credit and volatile capital and commodity markets further exacerbates the risks that are hereinafter enunciated. If current conditions persist for a prolonged period of time, future results of operations, liquidity and financial condition could be materially adversely affected.

There have been no changes in risk from those described in Management's Discussion and Analysis for the year ended December 31, 2009. The most important business risks that face Argosy in the Canadian oil and gas industry together with its strategies to mitigate such risks are as follows:

Exploration Risk

The Company's business, exploration for and development of crude oil and natural gas, is inherently risky. There can be no guarantee that crude oil and natural gas can be found and produced on an economic basis. In order to mitigate that risk, the Company operates in several areas in which it has technical and operating expertise. The Company uses the latest technology to further reduce risk and increase the probability of success.

The Company operates all of its production and this allows it to a great extent to control the timing and costs in the areas in which it operates. Programs can thus be expanded or contracted on a timely basis in response to changing parameters. In this time of extreme market volatility, Argosy has cautiously moved forward with its exploration and development plans as capital has become available see *Liquidity and Capital Resources.*

Credit Risks

All of the Company's petroleum and natural gas production is marketed under standard industry terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25th day following the month in which the production is sold. As a result, the Company collects sales revenues in a predetermined and organized manner. Management monitors purchaser credit positions to mitigate any potential credit losses. To the extent the Company has joint interest activities with industry partners, the Company must collect, on a monthly basis, partners' share of capital and operating expenses. These collections are subject to normal industry credit risk. The Company attempts to mitigate risk from joint venture receivables by obtaining partner approval of capital projects prior to expenditure and collects in advance for significant amounts related to partners' share of capital expenditures in accordance with the industry operating procedures. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, however, The Company does have the ability to withhold production from joint venture partners in the event of non-payment.

The note receivable from Radius is classified non-current because it is highly unlikely that it will be settled in cash in the normal course of business. Argosy entered in to a Proposal for Business Combination with Radius. The business combination is part of a Proposal put forward by Radius pursuant to the provisions of the Bankruptcy and Insolvency Act ("BIA").Argosy will acquire all of the issued and outstanding shares of Radius, on a fully diluted basis, resulting in the settlement of all claims (both secured and unsecured). Pursuant to the farm in agreement, Argosy may elect to convert Radius' working interest share to a 3% non-convertible overriding royalty in the event that Radius fails to pay when due all amounts owed by it to Argosy or on assignment or attachment by Radius of its interests in the wells or on the change of control of Radius.

Catastrophic Events

The Company carries insurance to protect itself from catastrophic events and it reviews its coverage at least annually to ensure that the insurance policies that are in place are adequate. The Company follows all environmental and industry regulations and has formal procedures to ensure that this occurs. Such procedures are communicated to all personnel and contractors.

Liquidity Risk

The Company's operations are funded through internally generated cash flow, bank debt and new equity if available on favorable terms. (See *Liquidity and Capital Resources*)

Market Risk

Cash flow can be materially affected by fluctuations in commodity prices and foreign currency which are out of the Company's control. While substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. Argosy had no forward exchange rate contracts in place as at or during the year ended December 31, 2009.

Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also by world economic events that dictate the levels of supply and demand.

The Company has attempted to mitigate commodity price risk through the use of various financial derivative contracts classified as "held for trading" to manage volatility of commodity gas prices. These contracts can only be undertaken upon approval by the Board of Directors. The Company's banking documents limit such activities to 50% of actual production.

Such contracts are marked to market at the reporting date and an unrealized gain or loss is booked to the accounts. During the period ended, March 31, 2010, the Company recorded an unrealized liability of $13,000 on the call and an unrealized asset of $436,000 on the put as a result of marking the contracts to market. During the same period, a total $21,000 was actually received in respect to the swap and that was recorded as a realized gain.

As at March 31, 2010, the following derivative contracts were outstanding:

Type of Hedge	**Commodity Hedged**	**Volume**	**Price**	**Period**	
Financial fixed price put	Natural Gas	2,000 GJ/day	Cdn $5.00/Gj	January 1, 2010 to March 31, 2011	(1)
Financial fixed price call	Natural Gas	2,000 GJ/day	Cdn $7.70/Gj	January 1, 2010 to March 31, 2011	(1)

(1) A gigajoule (GJ) converts to a mcf at the rate of 1.055056 Gj per mcf.

On April 9, 2010 the Company entered into a financial fixed price put contract for 2,000 Gj's per day of natural gas for the period from May 1, 2010 to December 31, 2010 at a strike price of $3.50 per Gj.

Outlook

The Company will focus on core projects that can deliver quality, low cost production and reserve additions with a bias towards oil over natural gas. To this end, an enhanced oil recovery pilot project has been implemented in the Pearce area. If pressure is restored and maintained, capital spending will be focused on this area later in 2010.

We continue to review last season's drilling results from the Saxon area and are in the process of investigating the feasibility of horizontal drilling and multi staged completion technologies in the Edson area. We have adopted a cautious approach to these potentially capital intensive areas.

We expect there will be a continuous supply of industry divestitures in the near future and we will continue to analyze and evaluate these for accretive opportunities.

We will in turn, review our current inventory and focus on those projects that fit our corporate mandate while rationalizing those projects that cannot be capitalized in a reasonable time frame.

Critical Accounting Estimates

There have been no changes from those described in Management's Discussion and Analysis for the year ended December 31, 2009.

Changes in Legislation

There have been no changes from those described in Management's Discussion and Analysis for the year ended December 31, 2009.

Disclosure Controls and Internal Controls over Financial Reporting

Argosy's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that (i) material information relating to the Company is made known to Argosy's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

Argosy's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, Internal Controls over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The control framework Argosy's that officers used to design the ICFR is the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations.

No material changes in Argosy's internal controls over financial reporting were identified during the three months ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including Argosy's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Change in Accounting Policies and Recent Accounting Pronouncements

International Financial Reporting Standards ("IFRS")

On February 13, 2008, Canada's Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the effective date for the mandatory convergence of Canadian GAAP to IFRS for Canadian public companies.

The first financial statements that the Company will have to prepare under IFRS will be the unaudited statements for the quarter ended March 31, 2011 that will include unaudited comparative financial information for the quarter ended March 31, 2010. The first audited financial statements that the Company will have to prepare will be those for the year ended December 31, 2011 with comparative financial information for the year ended December 31, 2010. As a result, all of the opening balance sheet figures as at January 1, 2010 must be computed prior to the issuance of the unaudited financial statements for the quarter ended March 31, 2011 so as comparative figures may be shown.

Argosy has begun the process to transition to IFRS from Canadian GAAP as it currently exists. The process is being managed internally with the assistance of outside consultants that have been engaged to provide guidance and assistance. The major steps in Argosy's implementation plan are;

- Selection of appropriate accounting policies that comply with IFRS
- Preparation of an opening IFRS balance sheet as at January 1, 2010.
- Assessing and addressing the impact on IT systems, processes and controls and business management
- Preparation of interim and annual financial statements for 2010, including disclosures.

The Company is in the process of selecting accounting policies that comply with IFRS. To that end, Company staff have has completed a review of the major differences between Canadian GAAP and IFRS, has prepared detailed assessment of the individual differences and policy choices and has summarized these findings in a number of position papers. These position papers have been submitted to the outside consultants for review and comment. Once these position papers have been finalized, the accounting staff will quantify the impact of the proposed changes on our financial statements with a view to presenting a final position to the audit committee of the board of directors for approval in the summer of 2010.

As a result of the accounting staff's work to date, it has been determined that IFRS may result in policy changes that could significantly impact the Company's financial statements. The most significant changes are expected to be to the accounting for petroleum and natural gas assets and equipment, asset retirement obligations ("ARO"), stock-based compensation and future income taxes.

IFRS standards require that a corporation make a choice with respect to the initial recording of petroleum and natural gas assets. A corporation could choose to report its petroleum and natural gas assets at either the amount which would have been recorded if it had always followed IFRS standards, at fair value or at a deemed cost that would be equal to historic cost as calculated under Canadian GAAP. At this time, Argosy's management favors the latter choice, but a final decision has yet to be made.

Furthermore, Argosy will be required to reclassify certain assets that are included in petroleum and natural gas assets to Exploration and Evaluation ("E&E") expenditures. Typically these E&E expenditures would include the cost of undeveloped land and the costs of exploration activities such as geological and seismic expenditures related to those lands. E&E expenditures will initially be capitalized and are not depleted but rather must be assessed for impairment whenever there are indicators that impairment may be possible.

Under IFRS, petroleum and natural gas assets other than E&E expenditures will comprise development assets that are carried at cost less accumulated depletion and depreciation and any accumulated impairment losses. It should be noted that the provisions of IFRS do not specify the category of reserves to be used for purposes of a company's depletion calculations.

Impairment testing for petroleum and natural gas assets must be performed for each cash generating unit of the Company. Impairment tests are based on the fair value of the assets or their value in use. Impairments may be recovered in the future if the loss has decreased or is determined to no longer exist.
The Company expects to base these assessments on its reserve values and expected cash flows but these amounts may be affected by discounting at the then current market rate which may vary materially from one reporting period to another.

Decommissioning liability under IFRS is calculated using a discount rate derived from a risk free rate rather than a credit adjusted risk free rate that is used currently in the calculation of ARO. Any change in the discount rate will affect the decommissioning liability taken as a whole. Accretion expense will be included in finance cost rather than included in depletion depreciation amortization and accretion in the income statement.

IFRS requires that stock-based awards that vest in installments to be accounted for as though each installment or vesting is a separate award. This will likely result in stock-based compensation expense increasing in the vesting periods immediately following new grants. Moreover, the estimate of the number of stock-based awards that are expected to vest or forfeited will have an impact on the amount of the stock - based compensation that is recorded under IFRS.

The IFRS standard that deals with income taxes is itself in transition. The exposure draft on IAS 12 "Income Taxes" was withdrawn in November 2009 and has not yet been replaced.

The Company has begun to review the impact of IFRS on its agreements. It is expected that although the transition to IFRS may require minor changes to its agreements that there will be no material effect.

The Company is inventorying the potential impact of the conversion to IFRS on ICFR and disclosure controls and procedures with respect to the conversion process and the ensuing reporting processes.

Based on a preliminary review, Argosy has concluded that its main internal and its critical web based systems appear to be capable of the transition. It however has to assess the effect of the conversion on its spread sheet based sub systems.

As the Company has not finalized its accounting policy choices, it is unable to quantify the impact on the financial statements at this time. Moreover, IFRS standards are evolving are may change during the implementation period. Argosy recognizes that it will have to be flexible in its transition plans.

The outside consultants that Argosy has engaged in respect to the IFRS transition provide timely and useful guidance. The accounting staff that is involved in the transition has received and continues to receive training through various workshops and conferences.

Transactions With Related Parties

The Company has not entered into any transactions with related parties, nor did it have any balances outstanding with related parties at year end.

Off Balance Sheet Arrangements

The Company has not entered into any off-balance sheet transactions.

Argosy Energy Inc.
Balance Sheets
(Unaudited)

($ Thousands)	March 31, 2010	December 31, 2009
ASSETS		
Current assets		
Cash	-	4,300
Accounts receivable	1,901	2,011
Prepaid expenses	415	473
Fair value of derivative contracts (note11)	423	-
Future income tax (note 9)	-	99
	2,739	6,883
Note receivable – Radius Resources Corp. (Note 8)	1,300	1,300
Property and equipment (note 4)	69,335	65,806
	73,374	73,989
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	5,999	5,955
Fair value of derivative contracts (note 11)	-	352
Future income tax	112	
Bank indebtedness (note 5)	18,799	21,729
	24,910	28,036
Asset retirement obligation (note 7)	1,037	973
Future income tax (note 9)	6,710	6,030
	32,657	35,039
SHAREHOLDERS' EQUITY		
Share capital (note 6)	47,157	45,333
Contributed surplus (note 6)	1,318	1,184
Deficit	(7,758)	(7,567)
	40,717	38,950
	73,374	73,989

Approved by the Board of Directors:

“Brian Mellum”	“Peter Salamon”
Brian Mellum, Director	Peter Salamon, Director

Basis of Presentation and Going Concern (note 2)
Commitments (note 13)
Subsequent events (Note14)
See accompanying notes to unaudited financial statements

Argosy Energy Inc.
Statements of Loss and Comprehensive Loss
(Unaudited)

($ Thousands)	Three Months Ended March 31, 2010	2009
Revenue		
Petroleum and natural gas revenue	3,193	3,214
Royalties	(522)	(892)
Realized loss on derivative contracts (note 11)	(21)	-
Unrealized gain on derivative contracts (note 11)	775	-
	3,425	2,322
Expenses		
Production	458	606
Transportation	79	85
General and administrative	801	1,012
Interest	217	204
Stock based compensation (note 6)	128	124
Depletion, depreciation and accretion	1,917	2,203
	3,600	4,234
Loss before income taxes	(175)	(1,912)
Future income tax expense (reduction) (note 9)	16	(422)
Net loss and comprehensive loss	(191)	(1,490)
Net loss per share (Note 6):		
Basic	(0.01)	(0.25)
Diluted	(0.01)	(0.25)

See accompanying notes to unaudited financial statements.

Argosy Energy Inc.
Statements of Deficit
Unaudited

($ Thousands)	Three Months Ended March 31, 2010	2009
Deficit, beginning of period	(7,567)	(1,337)
Net income (loss) for the period	(191)	(1,490)
Deficit, end of period	(7,758)	(2,827)

See accompanying notes to unaudited financial statements.

Argosy Energy Inc.
Statements of Cash Flows

($ Thousands)	Three Months Ended March 31, 2010	2009
Cash provided by (used in):		
Operating Activities		
Net income (loss)	(191)	(1,490)
Items not affecting cash:		
Stock based compensation expense	128	124
Future income (tax reduction) expense	16	(422)
Unrealized gain on derivative instruments	(775)	-
Depletion, depreciation and accretion	1,917	2,203
	1,095	415
Change in non-cash working capital (note 10)	(4,114)	(486)
	(3,019)	(71)
Investing Activities		
Property and equipment additions	(5,375)	(422)
Change in non-cash working capital (note 10)	4,326	(1,010)
	(1,049)	(1,432)
Financing Activities		
Bank debt	(2,930)	1,503
Share issuances, net of issue costs	2,698	-
	(232)	1,503
Increase (decrease) in cash	(4,300)	
Cash – beginning of period	4,300	-
Cash – end of period	-	-
Supplemental Information :		
Interest Paid	217	204

See accompanying notes to unaudited financial statements.

Argosy Energy Inc.
Notes to the Unaudited Financial Statements
For the Three Months Ended

1. Description of Business

Argosy Energy Inc. ("Argosy") is an independent public Company engaged in the acquisition, exploration, exploitation, development and production of crude oil and natural gas in Alberta, Canada.

Argosy was inactive from the time of its incorporation under the Business Corporations Act (Alberta) on June 6, 2008 to September 30, 2008 at which time, and pursuant to a Plan of Arrangement between Accrete Energy Inc. ("Accrete"), Pengrowth Energy Trust, Pengrowth Company, Pengrowth Energy Partnership and Argosy ("the Arrangement"), Argosy acquired certain assets including producing and exploratory oil and gas properties and certain tax pools from Accrete effective on the closing date of September 30, 2008.

2. Basis of Presentation and Going Concern

Going Concern

The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its obligations in the normal course of business. Market events, including disruptions in credit markets and other financial systems and the deterioration of global economic conditions have resulted in significant declines in commodity prices. At March 31, 2010, the Company has a working capital deficiency of $22 million, including bank loans outstanding of $ 18.8 million. The available borrowing limits are based on the bank's assessment of the Company's reserves and future commodity prices. The bank initiated a review of the Company's borrowing limits as of April 1, 2010. The credit limit of $26,000,000 for the Revolving Operating Demand Loan was maintained and the credit limit for the Acquisition/Development Demand Loan was increased to from $2,000,000 to $4,000,000.

The Company has outlined its operating commitments in Note 13. Management has strictly controlled capital, non-essential expense and administrative spending and continues to pursue financing opportunities to fund its future prospects. During 2009 and 2010, officers and employees agreed to voluntary reductions in pay that ranged from 15 to 25 per cent of base salaries and to reductions in certain benefits including the suspension of the Employee Stock Savings Plan. The board of directors has approved the reinstatement of the Employee Stock Savings Plan effective April 1, 2010.

The Company closed equity financings in October 2009, December 2009, March 2010 and April 2010. These financings resulted in the issuance of 8,494,367 additional common voting shares and 1,847,183 common share purchase warrants for net proceeds of $11,704,000.

Management believes the courses of action being taken mitigate the conditions and events which could raise doubt about the validity of the going concern assumption used in preparing these unaudited interim financial statements. If the going concern assumption were not appropriate, adjustments might be necessary to the carrying values of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

For the period up to September 30, 2008, these financial statements present the historical financial position, results of operations and cash flow of Accrete on a carve-out basis following continuity of interest accounting as if the assets acquired by Argosy had always operated as a stand-alone entity. Certain financial statement items were maintained by Accrete at a corporate rather than on a property-by-property basis and accordingly, it was necessary to make allocations of amounts reported in the financial statements of Accrete in order to prepare these financial statements for the carved-out assets. The historical financial statements may not necessarily be indicative of the results that would have been attained if Argosy had operated as a stand-alone entity for the periods prior to September 30, 2008.

Significant Accounting Policies

The unaudited interim financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and following the same accounting policies and methods of computation as the audited financial statements for the year ended December 31, 2009. The disclosures provided below are incremental to those included with the annual financial statements. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes thereto.

Use of Estimates

The financial statements have been prepared in conformity with Canadian GAAP. The reporting and measurement currency is the Canadian dollar.

As the determination of certain assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions which have been made using careful judgment. Areas requiring the use of management estimates include estimates of revenues royalties and production costs at a specific reporting date but for which actual revenues and costs have not yet been received, estimates on capital projects which are in progress or recently been completed where actual costs have not been received at a specific reporting date, collectability of accounts receivable, recoverability of petroleum and natural gas interests, rates of depletion and depreciation, accrued liabilities, determination of asset retirement obligations and environmental obligations, the assessment of impairment of oil and gas assets, assumptions used in the calculation of stock-based compensation, allocation of proceeds for units between common shares, warrants and contributed surplus, and the determination of the valuation allowance for future tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

Amounts recorded for depreciation and depletion, and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves. The Company’s reserve estimates are reviewed annually by an independent engineering firm. By their nature, these estimates of reserves and future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

3. Change In Accounting Policies

International Financial Reporting Standards (“IFRS”)

On February 13, 2008, Canada’s Accounting Standards Board (“AcSB”) confirmed January 1, 2011 as the effective date for the mandatory convergence of Canadian GAAP to IFRS for Canadian public companies.

Argosy is required to adopt the requirements set out by AcSB and other regulatory bodies. The impact of adopting IFRS is not reasonable to estimate at this time. Argosy has begun the process to transition to IFRS from Canadian GAAP as it currently exists. The Company has nearly completed a high level review of the major differences between Canadian GAAP and IFRS and has commences a detailed assessment of the individual differences, policy choices and the impacts on the Company’s financial statements and business processes.

The process is being managed internally with the assistance of outside consultants that have been engaged to provide guidance and assistance.

The first financial statements that the Company will have to prepare under IFRS will be the unaudited statements for the quarter ended March 31, 2011 that will include unaudited comparative financial information for the quarter ended March 31, 2010. The first audited financial statements that the Company will have to prepare will be those for the year ended December 31, 2011 with comparative financial information for the year ended December 31, 2010. As a result, all of the opening balance sheet figures as at January 1, 2010 must be computed prior to the issuance of the unaudited financial statements for the quarter ended March 31, 2011 so that comparative figures may be shown.

4. Property and Equipment

($ thousands)	At at March 31, 2010 $	As at December 31, 2009 $
Petroleum and natural gas properties and equipment	101,147	95,723
Furniture, fixtures and other	193	188
	101,340	95,911
Less: Accumulated depletion and depreciation	32,005	30,105
	69,335	65,806

At March 31, 2010 costs of $8,275,000 ($8,865,000 at March 31, 2009) with respect to unproved properties have been excluded from costs subject to depletion.

At March 31, 2010 a total of $3,124,000 ($1,713,000 at March 31, 2009) of future development costs were included in the depletion calculation.

Direct salary costs related to geological and geophysical personnel in the amount of $63,000 for the three months ended March 31, 2010 ($77,000 in the first quarter of 2009) have been capitalized.

5. Bank Indebtedness

Amounts outstanding:

Credit Facility	March 31, 2010 000’s	December 31, 2009 000’s
Revolving operating demand loan	18,799	21,729
Acquisition/development demand loan	-	-
	18,799	21,729

At March 31, 2010 the Company’s credit facilities comprised a Revolving Operating Demand Loan facility with a credit limit of $26,000,000 and an Acquisition/Development Demand Facility with a credit limit of $2,000,000.

The Revolving Operating Demand Loan bears interest at Bank prime plus a percentage determined quarterly ranging from .25% to 2.5% greater than the Bank's prime rate in accordance with the Bank's pricing grid. The Bank's pricing grid is dependent on the Company's debt to cash flow ratio where debt is defined by the Bank as working capital deficit, consolidated long term debt including capital leases and retractable preferred shares which are retractable at the option of the holder and cash flow is defined by the Bank as net earnings, depletion, depletion and accretion, future income taxes and other charges to income not requiring a cash payment calculated for the most recently completed quarter and annualized.
The application of the Bank's pricing grid resulted in a rate which is 2.5% greater than the Bank's prime rate.

The Revolving Operating Demand Loan has no specific terms of repayment aside from the Bank's right of demand and periodic review. The Acquisition/Development Demand Loan requires unspecified monthly principal repayments over the engineering half life of the reserves being financed as determined by the Bank

The Acquisition/Development Demand Loan is restricted to the acquisition of proved non-producing/undeveloped petroleum and natural gas reserves and/or development of proved producing/undeveloped petroleum and natural gas reserves, bears interest at a rate which is 0.5% higher than the Revolving Operating Demand Loan and bears a standby fee of between .25% and .5% on the undrawn portion of the loan facility.

The bank initiated a review of the Company's borrowing limits as of April 1, 2010. The credit limit of $26,000,000 for the Revolving Operating Demand Loan was maintained and the credit limit for the Acquisition/Development Demand Loan was increased to from $2,000,000 to $4,000,000. A new pricing grid was put into place for the Revolving Operating Demand Loan . Formerly the grid pricing ranged from .25% to 2.5% greater than the Bank's prime rate. The new pricing grid ranges from .75% to 2.5% greater than the Bank's prime rate. The application of the new pricing grid will have no immediate effect because the Company is at the highest level on the grid based on its current debt to cash flow ratio. The credit limit of the Acquisition/Development Demand Facility was increased to $4,000,000 as result of the review. The interest rate on the Acquisition/Development Demand Facility was lowered from 0.5% higher than the Revolving Operating Demand Loan to a rate which is 0.25% higher than the Revolving Operating Demand Loan. No other material changes were made to either of the credit facilities as a result of the review.

There can be no assurance that amounts or terms will not change at the next review scheduled on or before October 1, 2010.

Security for the facilities includes a general assignment of book debts, a $75,000,000 debenture with a first floating charge over all assets with a negative pledge and an undertaking to provide fixed charges on the Company's major producing reserves at the request of the bank.

A covenant to the Revolving Operating Demand Loan facility requires that the Company maintain a working capital ratio, exclusive of bank indebtedness, of at least 1 to 1. For purposes of this calculation, the undrawn availability under the facility is added to current assets. The Company was in compliance with this debt covenant at March 31, 2010. There is no similar working capital requirement for the Acquisition/Development Demand Loan. There is no debt to equity requirements related to either of the facilities.

6. Share Capital

Common Voting Shares

Authorized:
An unlimited number of common voting shares and an unlimited number of preferred shares issuable in series for which the directors may fix, among other things, the rights, privileges, restrictions, conditions,

voting rights, rates, method of calculation and dates of payment of dividends and terms of redemption, purchase and conversion if any, and any other provisions.

Issued and outstanding, Common Voting Shares:

	Number of Shares	$ Thousands
Issued on incorporation, June 6, 2008	1	.1
Cancelled on closing of the Arrangement	(1)	(.1)
Issued pursuant to the Arrangement	4,494,667	29,986
Issued on private placement to officers , directors and employees – flow through shares	1,208,051	6,282
Issued on private placement to officers, directors and employees – common shares	156,116	718
Balance, December 31, 2008	5,858,834	36,986
Tax effect flow through shares	-	(1,570)
Issued on conversion of special warrants	4,800,000	6,000
Issued on private placement	444,363	738
Issued on private placement , flow through	1,750,000	3,245
Share issuance costs, net of tax	-	(382)
Balance, December 31, 2009	12,853,197	45,017
Issued on private placement	1,500,004	2,483
Tax effect flow through shares	-	(875)
Balance, March 31, 2010	14,353,201	46,625

Warrants

	Number of Warrants	$ Thousands
Opening Balance December 31, 2008	-	
Private placement	1,097,180	316
Balance, December 31, 2009	1,097,180	316
Private Placement	750,003	216
Balance March 31, 2010	1,847,183	532

On September 30, 2009, the Company completed a bought deal equity financing of 4,800,000 special warrants at a price of $1.25 per special warrant. The special warrants were converted into common voting shares on October 9, 2009 following the approval of the disinterested shareholders at a special meeting of shareholders held on October 6, 2009.

In December 2009 Argosy Energy Inc. agreed to the terms for a non-brokered private placement financing comprising:

> 1,944,367 units of the corporation at a price $1.80 per unit, each unit consisting of one Argosy share and 0.5 of an Argosy warrant, of which 1,500,000 were issued subsequent to year end;
> 1.75 million units at a price of $2 per unit, each flow-through unit consisting of one Argosy share issued on a flow-through basis and 0.5 of an Argosy warrant.

Each whole Argosy warrant shall entitle the holder thereof to receive one Argosy share at an exercise price of $2.25 per share for a period of 18 months. The exercise period of the Argosy warrants may be accelerated in the event that the 20-day trading volume weighted average price of the Argosy shares meets or exceeds $3 during the period such warrants remaining remain outstanding.

The gross proceeds from the financing were escrowed with counsel for Argosy and were released in December 2009 to Argosy upon receipt of TSX approval except for the amount of $2.7 million (1,500,000 units at $1.80 per unit) which may be used to close Radius acquisition. On March 8, 2010, the $2.7 million was released from escrow. 1,500,004 units comprising 1,500,004 common shares and 750,003 warrants were issued at that time.

The allocation of the issue price of units between common shares and share purchase warrants is based on fair values of the common shares and warrants. The fair market value of the common shares was based on the closing price of the Company's shares on the Toronto Stock Market on the closing date. The common share purchase warrants are valued using a Black-Scholes model using the following assumptions:

- Share price $1.27
- Exercise price $2.25
- Time to expiry 1.5 years
- Risk free rate 1.3%
- Volatility 83%

One of the subscribers that participated in the private placement financing referred to above has undertaken to purchase $1,000,000 of flow through common shares for a cash purchase price of $2.00 per flow through share. The funds related to this issuance were placed in trust with Argosy's solicitors in April 2010. These funds will be released and the related flow through shares issued concurrent with the closing of the Radius acquisition.

The tax deductions related to the flow through shares issued in 2008 were renounced to flow through shareholders and booked in February 2009. The tax deductions related to the flow through shares issued in 2009 will be renounced to flow through shareholders and booked in February 2010.

The following reconciles the weighted average number of common shares outstanding used in calculating net loss per common share ("EPS"):

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
Weighted average common voting shares outstanding - basic	13,253,198	7,099,884
Weighted average common voting shares outstanding - diluted	13,253,198	7,099,884

Diluted EPS excludes the effect of stock options in 2009 because their inclusion would be anti-dilutive.

Stock Options

Under the terms of the Argosy Energy Inc. 2008 Incentive Stock Option Plan, (the "plan"), directors, officers, employees (the "Participant(s)") are eligible to be granted options to purchase common shares. The plan provides that the Company can reserve up to 10% of the common shares that are issued and outstanding for the granting of options.

The maximum number of option shares that may be reserved for issuance to any one Participant under the plan cannot exceed 5% of the issued and outstanding common shares.

The grant price under the plan is defined by the plan to be the closing price on the principal stock exchange on which the common shares are traded on the last business date preceding the date of grant or if the common shares did not trade on that date, the weighted average price for the five trading days preceding the date of grant if the common shares are listed and posted for trading on a stock exchange or the value conclusively determined by the Board of Directors if it is not.

The vesting of stock options is determined by the board of directors and the term, as also determined by the board of directors cannot exceed five years from the date of grant of such options.

A participant's entitlement under the plan ceases upon ceasing to be a Participant. If such cessation is involuntary, then the vested and unvested options can be exercised for a period of ninety days after such date. Where a Participant is terminated for cause, the Participant may only exercise those options that have become vested. Where a Participant is terminated by the company without cause, the Participant is entitled to exercise stock options that have vested during the notice period or in the event of compensation being paid in lieu of notice, for 21 days after ceasing to be a Participant.

Options granted under the plan are not assignable and no financial assistance is extended to optionees.

The board of directors is empowered to amend the plan. Any amendment to the plan is subject to the receipt of necessary regulatory approvals and any amendment required by applicable law or regulatory policy to be approved by shareholders does not become effective until so approved.

The following table summarizes information about stock options outstanding at March 31, 2010:

Options outstanding:

Balance, December 31, 2009	1,050,000
Granted	-
Forfeited	-
Balance March 31, 2010	1,050,000

The Company has accounted for its employee stock options granted using the fair value method at the date of the grants in 2008 and 2009 using the Black-Scholes model.

The following assumptions were used for the 2008 options:

- Share price $4.60
- Exercise price $4.60
- Time to expiry 5 years
- Risk free rate 3%
- Volatility 46%

The following assumptions were used for the 2009 options:

- Share price $1.20
- Exercise price $1.20
- Time to expiry 5 years
- Risk free rate 1.3%
- Volatility 83%

The fair value of the options granted in 2008 was estimated to be $ 1,175,000 ($2.03 per option granted). The fair value of the options granted in 2009 was estimated to be $373,000 ($0.79 per option granted).

This value is expensed as stock based compensation cost over the vesting period. A total of $128,000 ($124,000 in 2009) was charged to expense and a total of $6,000 ($8,000 in 2009) was capitalized for a total stock based compensation charge of $81,000 ($132,000 in 2009) for the period ended March 31, 2010. Compensation cost has been decreased for forfeited options in the period of forfeiture.

Grant Price ($/Share)	Repriced	Options Outstanding	Remaining Contractual Life	Number Exercisable (Vested)
4.60	1.28	577,000	3.5 Years	384,667
1.20	n/a	473,000	4.75 Years	157,667
		1,050,000		542,334

On August 6, 2009, the directors approved the re pricing of options granted in 2008 to employees other than directors and officers of the Company.

At a special meeting of the Company's shareholders held on October 6, 2009, the shareholders of the Company approved the re pricing of the directors and officers options from $4.60 to $1.28 being the closing market price of the Company's stock on the TSX on the last trading day prior to the date of the information circular dated September 8, 2009 with respect to the special meeting.

The incremental fair value of the options as a result of the re pricing was $143,000 ($0.33 per option) to be expensed over the remaining vesting period of the options.

On December 18, 2009, the Board of Directors approved the acceleration of the vesting of certain stock options that were granted to employees other than directors and officers of the Company in 2008. Of the 577,000 options that had been granted in 2008, 376,000 vest equally over a three year period commencing at the date of grant. The remainder, 201,000 options formerly vested equally over a three year period commencing on the first anniversary of the date of grant. The change had the effect of accelerating the vesting period of those options so that all options will equally vested at December 31, 2009 and will be fully vested three years from the date of grant. This change did not affect the value of the 2008 stock options outstanding but it did require the inclusion of $151,000 in additional stock based compensation in 2009.

On December 18, 2009, the Board of Directors approved the granting of 473,000 options to directors, officers and employees. The exercise price of these options was $1.20 being the closing market price of the Company's stock on the TSX on the last trading day prior to the date of grant. These options vest equally over a two year period commencing on the date of grant.

On April 21, 2010, the Board of Directors approved the granting of 383,000 options to directors, officers and employees. The exercise price of these options was $.91 being the closing market price of the Company's stock on the TSX on the last trading day prior to the date of grant. These options vest 1/3 on grant with the remainder equally over a two year period commencing on the date of grant.

Contributed Surplus

($ thousands)	Three Months Ended March 31, 2010	Year Ended December 31, 2009
Balance, beginning of period	1,184	383
Stock Based Compensation	134	801
Balance, end of period	1,318	1,184

7. Asset Retirement Obligation

Asset retirement obligation comprises:

($ thousands)	Three Months Ended March 31, 2010	Year Ended December 31, 2009
Balance, beginning of period	973	771
Liabilities incurred	47	139
Accretion expense	17	63
Balance, end of period	1,037	973

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows to settle the asset retirement obligation is approximately $2,652,000 (2009 $2,520,000) which will be incurred over the next twenty five years. A credit adjusted risk-free rate of 7% - 8% (2009 7% - 8%) and an inflation rate of 2% (2008 2%) was used to calculate the fair value of the obligations.

8. Note Receivable – Radius Resources Corp.

A note receivable and promissory note between Argosy and Radius was agreed on December 31, 2009. The funds advanced are only to be used to pay for and were only advanceable against Radius' share of costs under an agreement whereby Radius farmed in to certain Argosy properties. The note is repayable on demand, unsecured and is interest free.

Pursuant to the terms of the farm-in agreement, Radius agreed to pay $1,300,000 towards drilling costs to earn a 50% working interest in two wells that were spudded in the Saxon area in late December 2009. The farm-in agreement also specifies that if the relevant costs exceed the amount that was budgeted, and Radius is unable to reimburse Argosy that Radius' interest in the two wells would be reduced proportionately.

The note receivable is classified non-current because it is highly unlikely that it will be settled in cash in the normal course of business. See Note 13, *Commitments*, Argosy entered in to an agreement for a business combination with Radius Resources Inc. ("Radius").

Pursuant to the farm in agreement, Argosy may elect to convert Radius' working interest share to a 3% non-convertible overriding royalty in the event that Radius fails to pay when due all amounts owed by it to Argosy or on assignment or attachment by Radius of its interests in the wells or on the change of control of Radius.

9. Income Taxes

The Company's exploration and development expenditures and undepreciated capital costs total $40,474,000. These costs may be carried forward indefinitely to reduce future taxable income. The Company also has $577,000 of non-capital losses that may be applied to reduce taxable income in the next 20 years.

The following reconciles the difference between income tax recorded and the expected income tax expense obtained by applying the expected income tax rate to earnings before taxes:

	Three Months Ended March 31,	
($ thousands)	2010	2009
Income/(Loss) before income taxes	(175)	(1,912)
Statutory Rate	28%	29%
Expected income tax expense at the combined federal and provincial statutory rate	(49)	(554)
Stock based compensation cost	36	36
Acquisition Transaction Costs	11	-
Tax-rate changes	17	95
Other	1	1
Future income tax expense (reduction)	16	(422)

The following table summarizes the tax effect of temporary differences:

($ thousands)	March 31, 2010	December 31 2009
Future income tax assets (liabilities):		
Carrying value of capital assets in excess of tax basis	(7,215)	(6,526)
Asset retirement obligation	259	244
Fair value of financial instruments	(112)	99
Share issuance costs	102	108
Loss carry forward	144	144
	(6,822)	(5,931)
Current future income tax asset:		
Fair value of financial instruments	112	(99)
	(6,710)	(6,030)

10. Supplemental Cash Flow Information

Change in non-cash working capital comprises:

	March 31, 2010
($ thousands)	
Accounts receivable	110
Prepaid expenses	58
Accounts payable and accrued liabilities	44
Change in non-cash working capital	212
Relating to:	
Investing activities	4,326
Operating activities	(4,114)
	212

11. Risks and Fair Value of Financial Instruments

The Company has exposure to credit, liquidity and market risk.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, set appropriate limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

(a) Credit Risk

All of the Company's petroleum and natural gas production is marketed under standard industry terms. The industry has a pre-arranged monthly settlement day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25th day following the month in which the production is sold. As a result, the Company collects sales revenues in a predetermined and organized manner. Management monitors purchaser credit positions to mitigate any potential credit losses. To the extent the Company has joint interest activities with industry partners, the Company must collect, on a monthly basis, partners' share of capital and operating expenses. These collections are subject to normal industry credit risk. The Company attempts to mitigate risk from joint venture receivables by obtaining partner approval of capital projects prior to expenditure and collects in advance for significant amounts related to partners' share of capital expenditures in accordance with the industry operating procedures. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, however, The Company does have the ability to withhold production from joint venture partners in the event of non-payment. The Company's credit risk is limited to the carrying amount of its accounts receivable, which are due primarily from other entities involved in the oil and gas industry. These amounts are subject to the same risks as the industry as a whole. The Company had no material trade accounts receivable deemed uncollectible. As at March 31, 2010 the Company's receivables consisted of $842,000 (2009 - $878,000) from joint venture partners, $1,040,000 (2009 - $1,057,000) of receivables from petroleum and natural gas marketers, and $18,000 (2009 - $29,000) in other trade receivables.

At March 31, 2010, the Company considers its receivables, net of allowance for doubtful accounts, to be aged as follows :

Aging ($ thousands)	2010
Not past due	1,893
Past due by less than 120 days	8
Past due by more than 120 days	-
Total	1,901

The note receivable from Radius is classified non-current because it is highly unlikely that it will be settled in cash in the normal course of business. See Note 12, *Commitment*, Argosy entered in to a Proposal for Business Combination with Radius. The proposed business combination is part of a Proposal to be put forward by Radius pursuant to the provisions of the Bankruptcy and Insolvency Act (BIA). If the Proposal is approved, Argosy will acquire all of the issued and outstanding shares of Radius, on a fully diluted basis, resulting in the settlement of all claims (both secured and unsecured). The agreement and the Proposal are subject to the satisfaction of certain conditions and receipt of all approvals, including approval of the court and the Toronto Stock Exchange. If the Proposal is rejected, Radius will be declared bankrupt.

Pursuant to the farm in agreement, Argosy may elect to convert Radius' working interest share to a 3% non-convertible overriding royalty in the event that Radius fails to pay when due all amounts owed by it to Argosy or on assignment or attachment by Radius of its interests in the wells or on the change of control of Radius.

(b) Liquidity Risk

Liquidity risk relates to the risk the Company will encounter should it have difficulty in meeting obligations associated with the financial liabilities. The financial liabilities on its balance sheet consist of accounts payable, accrued liabilities, and bank debt. Accounts payable consists of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Company processes invoices within a normal payment period. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities and its commitments through its future funds from operations, financings and available bank debt. The Company was not in default on its bank debt or any of its other financial liabilities. See also note 5.

(c) Market Risk

Market risk is the risk of changes in market prices, such as commodity prices, foreign currency exchange rates and interest rates that will affect the net earnings or fair value of financial instruments. The objective of managing market risk is to control market risk exposures within acceptable limits, while maximizing returns. The Company may utilize financial derivative contracts to manage market risk. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors. The Company's banking documents limit such activities to 50% of actual production.

(i) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in the commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined below, but also global economic events that dictate the levels of supply and demand. The Company has entered into derivative contracts for the purpose of protecting its cash flow from operations before changes in non-cash working capital. The fair value of these derivative natural gas contracts is determined by reference to market information provided by the Company's bank. The Company recorded an unrealized derivative asset of $436,000 on the call and an unrealized liability of $13,000 on the put as a result of marking the contracts to market at March 31, 2010. A total $21,000 was actually paid out during 2010 in respect to the derivative natural gas contracts and that was recorded as a realized loss.

(ii) Foreign Currency Exchange Rate Risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency; however, the United States dollar influences the price of petroleum and natural gas sold in Canada. The Company's financial assets and liabilities are not affected by a change in currency rates. The Company had no foreign exchange contracts in place during 2010.

(iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent the changes in market interest rates will impact the Company's debts that have a floating interest rate. The Company had no interest rate swaps or hedges at March 31, 2010.

(d) Fair Value of Financial Assets and Liabilities

The Company's financial instruments recognized on the balance sheet consist of cash, accounts receivable, derivative contracts, note receivable, accounts payable and accrued liabilities and bank indebtedness.

Accounts receivable and notes receivable are designated as "loans and receivables" and accounts payable and accrued liabilities are designated as "other liabilities" and are recorded at their amortized costs. The fair value of these instruments approximates their carrying amounts due to their short-terms to maturity. Bank indebtedness bears interest at a floating market rate and accordingly the fair value approximates the carrying value.

Derivative contracts are designated as "held-for-trading" and recorded at the estimated fair market value.

As at March 31, 2010, the following derivative contracts were outstanding:

Type of Hedge	Commodity Hedged	Volume	Price	Period	March 31, 2010 Fair Value $ 000	Unrealized Gain(Loss) $ 000
Financial fixed price put	Natural Gas	2,000 GJ/day	Cdn $5.00 /Gj	April 1, 2010 to March 31, 2011	436	591
Financial fixed price call	Natural Gas	2,000 GJ/day	Cdn $7.70/Gj	April 1, 2010 to March 31, 2011	(13)	184
					423	775

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Note: A gigajoule (GJ) converts to a mcf at the rate of 1.055056 GJs per mcf.

On April 9, 2010, the Company entered into a financial fixed price put on 2,000 Gj's per day at a strike price of $3.50 for the period from May 1, 2010 to December 31, 2010.

12. Capital Structure

The Company's objective in the course of the management of the Company's capital structure is to maintain a flexible capital structure that will allow it to execute on its capital expenditure program, which includes expenditures on oil and gas activities that may or may not be successful.

The Company considers that its capital structure comprises share capital of $48,032,000.

The Company monitors its capital structure and makes adjustments when possible. Business conditions including current economic trends, the underlying risk characteristics of the Company's assets, the depth and breadth of its exploration and development portfolio, the desired pace of investment, the availability of farm ins and farm outs, current and forecasted energy prices, the potential bank credit that could be obtained as a result of reserve growth and forecasted debt levels are all factors that the Company uses as inputs to its capital management process.

In order to maintain or adjust its capital structure, the Company may issue new common voting shares if available on favorable terms and/or renegotiate the terms of its banking facilities. Equity financing may not be readily available to junior oil and gas producers given current market conditions. The availability of bank credit is generally reducing and related costs are increasing. See Note 5, a covenant to the Revolving Operating Demand Loan facility requires that the Company maintain a working capital ratio, exclusive of bank indebtedness, of at least 1 to 1. For purposes of this calculation, the undrawn availability under the facility is added to current assets. The Company was in compliance with this debt covenant at March 31, 2010. There is no similar working capital requirement for the Acquisition/Development Demand Loan. There is no debt to equity requirements related to either of the facilities.

The Company may also consider other sources of debt with different characteristics than existing bank debt, adjust exploration and development capital expenditures and acquire or dispose of assets.

13. Commitments

In December 2009, Argosy entered in to an agreement for a business combination with Radius Resources Inc. ("Radius"). The proposed business combination is part of a proposal that was put forward by Radius pursuant to the provisions of the Bankruptcy and Insolvency Act (BIA) (the "Proposal"). Radius received approval of its unsecured creditors on April 6, 2010 and on April 13, 2010 received an order issued by the Court of Queen's Bench of Alberta that provided, among other things, approval of the Proposal.

On March 19, 2010, Argosy entered into a definitive purchase and sale agreement (the "Definitive Agreement") to complete the business combination. Total consideration will comprise $2.4 million in cash and 748,000 common shares of Argosy. Argosy also agreed to pay an additional $225,000 in transaction expenses of Radius. This transaction is expected to close in May, 2010.

One of the subscribers that participated in the private placement financing referred to in note 6 has undertaken to purchase $1,000,000 of flow through common shares for a cash purchase price of $2.00 per flow through share. The funds related to this issuance were placed in trust with Argosy's solicitors in April 2010. These funds will be released and the related flow through shares issued concurrent with the closing of the Radius acquisition.

The Company entered into a guaranteed day commitment with a drilling contractor. The Company is required to utilize the contractor's rigs for 120 days within a year commencing on October 31, 2009. Argosy will be required to pay $7,000 for each day that it is short of the 120 commitment. At March 31, 2010, the company had utilized the contractor's rigs for 72 days therefore the maximum exposure under the contract is $336,000.

On April 9, 2010, the Company entered into a financial fixed price put on 2,000 Gj's per day at a strike price of $3.50 for the period from May 1, 2010 to December 31, 2010.

The Company has entered into various commitments related to the leasing of office premises and office equipment. The payments due under such leases are as follows:

Contractual obligations ($ thousands)	2010	2011	2012	2013	2014	Thereafter
Bank Indebtedness	18,799	-	-	-	-	-
Office Premises	531	741	808	879	609	-
Office equipment	1	-	-	-	-	-
	19,331	741	808	879	609	-

14. Subsequent Events

The bank initiated a review of the Company's borrowing limits as of April 1, 2010. The credit limit of $26,000,000 for the Revolving Operating Demand Loan was maintained and the credit limit for the Acquisition/Development Demand Loan was increased to from $2,000,000 to $4,000,000. A new pricing grid was put into place for the Revolving Operating Demand Loan .

On April 9, 2010, the Company entered into a financial fixed price put on 2,000 Gj's per day at a strike price of $3.50 for the period from May 1, 2010 to December 31, 2010.

On April 21, 2010, the Board of Directors approved the granting of 383,000 options to directors, officers and employees. The exercise price of these options was $.91 being the closing market price of the Company's stock on the TSX on the last trading day prior to the date of grant. These options vest equally over a two year period commencing on the date of grant.

One of the subscribers that participated in the private placement financing referred to in note 6 has undertaken to purchase $1,000,000 of flow through common shares for a cash purchase price of $2.00 per flow through share. The funds related to this issuance were placed in trust with Argosy's solicitors in April 2010. These funds will be released and the related flow through shares issued concurrent with the closing of the Radius transaction referred to in Note 13.