



TRAFINA
ENERGY LTD.

2010 FINANCIAL STATEMENTS

REPORTS ON FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The financial statements of Trafina Energy Ltd. were prepared by management in accordance with accounting principles generally accepted in Canada.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes. Timely release of all financial information sometimes necessitates the use of estimates when transactions affecting the current accounting period cannot be finalized until future periods. Such estimates are based on careful judgments made by management.

External auditors appointed by the shareholders have conducted an independent examination of the financial statements in order to express their opinion on the financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through its Audit Committee. The Audit Committee, consisting of non-management directors has met with the external auditors and management in order to determine that management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the financial statements.

(Signed) *"Kelly J. Ogle"*

Kelly J. Ogle, President & CEO
April 8, 2011

(Signed) *"Gary Taylor"*

Gary Taylor, Vice President, Finance & CFO

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TRAFINA ENERGY LTD.

We have audited the accompanying financial statements of Trafina Energy Ltd. (the "Company"), which comprise the balance sheets as at December 31, 2010 and 2009, the statements of operations, comprehensive loss and retained earnings (deficit) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company, as at December 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 in the financial statements which describes that the Company incurred a loss in 2010 and has a significant working capital deficiency as of December 31, 2010. These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

(Signed) "KPMG LLP"

Chartered Accountants

Calgary, Canada

April 8, 2011

FINANCIAL STATEMENTS

BALANCE SHEETS

As at December 31,	2010		2009	
ASSETS				
Current Assets				
Accounts receivable	\$	1,281,311	\$	1,401,309
Prepaid expenses and deposits		203,110		102,469
		1,484,421		1,503,778
Property and equipment (note 5)		19,559,170		17,507,410
	\$	21,043,591	\$	19,011,188
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	\$	3,970,493	\$	3,417,225
Bank debt (note 6)		3,673,466		1,140,696
Commodity contract liability (note 13)		119,589		24,000
Current portion of liability settlement (note 7)		69,444		833,333
		7,832,992		5,415,254
Liability settlement		---		69,444
Asset retirement obligations (note 8)		3,542,127		2,731,549
Future income taxes (note 9)		---		1,034,904
		11,375,119		9,251,151
Shareholders' Equity				
Share capital (note 10)		10,161,866		6,979,943
Warrants (note 10)		1,236,023		580,782
Contributed surplus (note 11)		787,777		548,748
Retained earnings (deficit)		(2,517,194)		1,650,564
		9,668,472		9,760,037
	\$	21,043,591	\$	19,011,188
Future operations (note 3)				
Commitments (note 14)				
Subsequent events (notes 13 and 16)				
See accompanying notes to financial statements.				
Approved by the Board:				
(Signed) "Charles A. Teare"			(Signed) "Donald J. Douglas"	
Charles A. Teare			Donald J. Douglas	
Director			Director	

FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND RETAINED EARNINGS (DEFICIT)

For the year ended December 31,	2010	2009
REVENUE		
Petroleum and natural gas	\$ 5,166,961	\$ 4,122,704
Royalties	(611,567)	(486,740)
Realized gain on commodity contracts (note 13)	299,244	---
Other	61,334	109,625
Liability settlement (note 7)	---	533,716
Unrealized loss on commodity contracts (note 13)	(95,589)	(24,000)
	4,820,383	4,255,305
EXPENSES		
Operating	3,956,057	2,291,717
General and administrative	1,703,375	1,338,220
Stock-based compensation	226,439	222,974
Interest	146,867	91,450
Depletion, depreciation and accretion	4,180,584	3,901,794
	10,213,322	7,846,155
Loss before income taxes	(5,392,939)	(3,590,850)
Income tax reduction (note 9)		
Current	---	156,627
Future	1,225,181	774,651
	1,225,181	931,278
Net loss and comprehensive loss	(4,167,758)	(2,659,572)
Retained earnings, beginning of year	1,650,564	4,310,136
Retained earnings (deficit), end of year	\$ (2,517,194)	\$ 1,650,564
Basic and diluted net loss per common share	\$ (0.21)	\$ (0.22)
Weighted average number of common shares outstanding (note 10)	19,694,604	11,845,631

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

For the year ended December 31,	2010	2009
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net loss	\$ (4,167,758)	\$ (2,659,572)
Add (deduct) non-cash items:		
Depletion, depreciation and accretion	4,180,584	3,901,794
Future income tax reduction	(1,225,181)	(774,651)
Unrealized loss on commodity contracts	95,589	24,000
Stock-based compensation	226,439	222,974
Liability settlement (note 7)	---	(533,716)
Asset retirement expenditures	---	(63,807)
	(890,327)	117,022
Change in non-cash operating working capital (note 12)	(1,377,925)	(261,699)
	(2,268,252)	(144,677)
FINANCING ACTIVITIES		
Common shares and warrants issued, net of share issue costs	3,865,441	2,285,784
Purchase and cancellation of shares	---	(1,450)
Increase in bank debt	2,532,770	1,140,696
	6,398,211	3,425,030
INVESTING ACTIVITIES		
Acquisition of property and equipment	(2,664,052)	(125,896)
Disposition of property and equipment	2,653,258	604,152
Additions to property and equipment	(5,236,382)	(3,833,315)
Change in non-cash investing working capital (note 12)	1,117,217	(412,998)
	(4,129,959)	(3,768,057)
Change in cash	---	(487,704)
Cash, beginning of year	---	487,704
Cash, end of year	\$ ---	\$ ---

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2010 and 2009.

1. DESCRIPTION OF BUSINESS

Trafina Energy Ltd. (the "Company" or "Trafina") was incorporated under the *Business Corporations Act* (Alberta) on December 24, 1991. Its principal business activities are petroleum and natural gas exploration and the development and production of oil and natural gas in Western Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes and those estimates could differ from actual results. The Company uses estimates in recording depletion, depreciation and accretion expenses and the provision for asset retirement obligations. The ceiling test calculation also uses estimates, such as proved reserves, production rates, future oil and natural gas prices and expenses. The Company uses the Black-Scholes option valuation model to estimate the fair value of stock options. This model requires the input of highly subjective assumptions including expected stock price volatility. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

(a) Property and equipment and depletion and amortization:

The Company follows the full cost method of accounting for its petroleum and natural gas properties. All costs relating to the acquisition, exploration and development of petroleum and natural gas reserves, including asset retirement costs, are capitalized into cost centers. Such costs include land acquisition costs, geological and geophysical costs, lease rentals on undeveloped properties, costs of drilling of both productive and non-productive wells, related plant and production equipment costs and overhead costs which are directly attributable to acquisition, exploration and development activities. Dispositions of petroleum and natural gas properties are applied against capitalized costs, with gains or losses not ordinarily recognized unless such a sale would result in a greater than 20% change in the depletion and amortization rate.

Capitalized costs, excluding costs relating to unproved properties, are depleted and amortized using the unit-of-production method, based on estimated proved petroleum and natural gas reserves, before royalties, as determined by independent engineers. Costs relating to unproved properties are initially excluded from depletion calculations until it is determined whether or not proved reserves are attributable to the property or impairment occurs. Petroleum and natural gas reserves are converted to a common unit of measure on the basis of six thousand cubic feet to one barrel of oil equivalent based on energy equivalency.

Oil and gas assets are evaluated in each reporting period to determine that their net book value is recoverable and does not exceed their fair value. The net book value is assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceeds the net book value of the oil and gas assets. If the net book value of the oil and gas assets is assessed not to be recoverable, an impairment loss is recognized. The impairment loss is estimated as the amount by which the net book value of assets exceeds the sum of the fair value of proved and probable reserves and the cost (less any impairment) of unproved properties that have been subject to a separate test for impairment and contain no probable reserves. Fair value of proved and probable reserves is based on expected future net revenues (based on future product prices and costs) discounted at risk-free rates, without giving effect to abandonment, taxes or financing costs.

Other equipment is recorded at cost and amortized on a straight line basis at a rate of 20% per year.

(b) Interest in joint operations:

Substantially all of the Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Asset retirement obligations:

Asset retirement obligations ("ARO") associated with site restoration and abandonment of tangible long-lived assets are initially measured at fair value by estimating the cost that would be incurred in performing the tasks necessary to retire such assets. The fair value of the ARO is recorded in the financial statements as a liability, equal to the present value of expected future cash outflows, with a corresponding increase in the carrying amount of the related

asset. Subsequent to initial measurement, the effect of the passage of time on the ARO, or accretion expense, and the amortization of the asset retirement cost are charged to earnings in the period. Subsequent changes in the estimated fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. Actual costs incurred upon the settlement of the ARO are charged against the ARO to the extent recorded, with any remainder recorded to earnings as a gain or loss.

(d) Revenue recognition:

Revenue is recognized when the significant risks and rewards of ownership have transferred to the buyer, the seller's price to the buyer is fixed or determinable and there is reasonable assurance regarding collectability of the consideration. Until all these criteria are met, it is not appropriate to recognize the transaction as a sale in the income statement and revenue would be deferred. Revenue associated with sales of natural gas, natural gas liquids and crude oil is recognized when the risks and rewards of ownership passes to the customer, generally with the passage of title.

(e) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability. Future income tax assets or liabilities are adjusted to reflect substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(f) Per share amounts:

Basic per share amounts are computed based on the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options and warrants to purchase Class A common shares were exercised and any other convertible instruments were converted. The Company uses the treasury stock method to determine the dilutive effect of stock options and warrants.

(g) Stock-based compensation:

The Company has a stock based compensation plan and stock based payments relating to stock options are measured using the fair value method of accounting. For stock options granted, fair value is measured at the grant date and compensation expense is recognized in the financial statements over the vesting period of the awards with a corresponding increase in contributed surplus. Fair values are determined using the Black – Scholes option pricing model. Once the value of the stock options is determined as of the grant date, no adjustments are recorded thereafter.

(h) Flow-through shares:

Proceeds from flow-through shares issued are used to fund qualifying expenditures which are renounced to investors. Future income taxes and share capital are adjusted by the estimated cost of the renounced tax deduction when the expenses are renounced.

(i) Comprehensive income and financial instruments:

Comprehensive Income

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). Since there are no cumulative changes in OCI to be included in accumulated other comprehensive income ("AOCI"), the Company has not presented AOCI as a category within shareholders' equity in the balance sheet and has not included a Statement of Accumulated Other Comprehensive Income, which would otherwise provide the continuity of the AOCI balance.

Financial Instruments

All financial instruments are measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurements in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading," "available-for-sale," "held-to-maturity," "loans and receivables" or "other financial liabilities."

Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity," "loans and receivables" and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization.

The Company has made the following classifications:

Accounts receivable are designated as "loans and receivables." Accounts payable and accrued liabilities, liability settlement and bank debt are designated as "other liabilities." The commodity contracts are classified and designated as "held-for-trading". As a result the contracts are recorded on the balance sheet at fair value with changes to the fair value recorded in earnings.

3. FUTURE OPERATIONS

These financial statements have been prepared on the basis that the Company will be able to fulfill its obligations and realize on its assets in the normal course of business and that the Company will be able to continue its business activities in the future.

At December 31, 2010 the Company had a working capital deficiency of \$6.2 million, excluding the fair value of its commodity contracts and incurred a net loss of \$4.2 million for the year then ended. In addition, the Company is in violation of its working capital ratio covenant as at December 31, 2010. The Company requested and received a waiver from its bank with respect to the breach. The Company has credit facilities with a Canadian chartered bank permitting borrowings up to \$5.25 million (see note 6). The future operations of the Company are dependent upon raising additional capital to support activities and receiving the continued financial support of its lender.

The Company has agreed to a marketed public offering of units on a reasonable best efforts agency basis to issue up to a maximum of 25,715,000 units, at a price of \$0.35 per unit, for gross proceeds of a maximum amount of approximately \$9,000,000 (see note 16).

Management has been successful in securing adequate financing in the past and has a positive relationship with the Company's lender. As a result management believes the going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying amounts of these assets and liabilities, revenues and expenses and the balance sheet classifications used, may have been necessary.

4. FUTURE ACCOUNTING PRONOUNCEMENTS

On February 13, 2008 the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board announced that Canadian public reporting issuers will be required to report under International Financial Reporting Standards ("IFRS"), which will replace the current reporting standards under Canadian Generally Accepted Accounting Principles ("GAAP"). The required reporting changes will be in effect for years beginning on or after January 1, 2011. The Company will first report under IFRS for the three months ended March 31, 2011.

5. PROPERTY AND EQUIPMENT

	2010	2009
Oil and gas properties	\$ 28,657,119	\$ 23,269,747
Production equipment	10,963,487	9,170,232
Office equipment	328,538	318,257
Other	---	1,227,082
	39,949,144	33,985,318
Accumulated depletion and depreciation	(20,389,974)	(16,477,908)
Net book value of property and equipment	\$ 19,559,170	\$ 17,507,410

In the year ended December 31, 2010, the Company disposed of five non-core area assets for net proceeds of \$2.6 million, with a corresponding reduction in the asset retirement obligation of \$424,342 (see note 8).

In the year ended December 31, 2010, the Company acquired two properties, one of which was acquired for cash and common shares for approximately \$265,000. The second property acquired was undeveloped land for approximately \$2.2 million in cash.

For the year ended December 31, 2010, \$156,511 (December 31, 2009 – \$55,200) of general and administrative costs and \$12,590 (December 31, 2009 – \$nil) of stock based compensation costs were capitalized were as they were directly related to exploration and development activities.

In determining the Company's depletion, depreciation and accretion expense for 2010, future development and abandonment costs on proved undeveloped properties of \$10,118,100 (December 31, 2009 - \$2,684,100) were included in the calculation. At December 31, 2010 costs of unproved properties and seismic totaling \$2,628,742 (December 31, 2009 - \$137,111) were excluded from the depletion and amortization calculation.

In November 2009 Trafina completed the purchase from a bank of the outstanding indebtedness and liabilities to the bank by a private oil and gas corporation with assets in southwest Saskatchewan. In December 2009, Trafina appointed a receiver and acquired the corporation's assets on January 15, 2010 in exchange for debt owing to the Company. Prior to the acquisition of the properties, the Company incurred certain costs to maintain the properties as well as costs incurred to effect the acquisition which totalled \$1,227,082 and are included in other property and equipment costs as at December 31, 2009.

The Company performed a ceiling test calculation at December 31, 2010 to assess the recoverable value of its oil and natural gas properties. The oil and natural gas future prices are based on the commodity price forecast of the Company's independent reserve evaluators and have been adjusted for heating content, quality and transportation parameters specific to the Company. The following table summarizes the benchmark prices used in the ceiling test calculation:

Year	WTI Oil	AECO Gas	US/CAN Exchange rate
	(\$US/bbl)	(\$Cdn/mcf)	(\$US/\$CAN)
2011	85.00	4.25	0.975
2012	87.70	4.90	0.975
2013	90.50	5.40	0.975
2014	93.40	5.90	0.975
2015	96.30	6.35	0.975
2016	99.40	6.75	0.975
2017	101.40	7.10	0.975
2018	103.40	7.40	0.975
2019+	+2.0%/yr	+2.0%/yr	0.975

No impairment provision was required as a result of the application of the ceiling test calculation as at December 31, 2010 or 2009.

6. BANK DEBT

At December 31, 2010 the Company had credit facilities consisting of a \$4,000,000 revolving operating demand facility, with interest charged on advances under the facility at the bank's prime rate plus 1.50 percent and a \$1,250,000 acquisition and development demand facility, with interest charged on advances at the bank's prime rate plus 2.00 percent. The facilities are secured by a \$50,000,000 fixed and floating charge debenture on all assets. The revolving operating demand facility requires maintenance of a 1:1 working capital ratio covenant.

At December 31, 2010, the Company had drawn a total of \$3,673,466 on its available facilities with \$2,693,466 drawn on its revolving operating demand credit facility and \$980,000 drawn on its acquisition and development facility. Principal repayments relating to the acquisition and development facility amount to \$30,000 per month and commenced September 1, 2010. Repayments will increase to \$55,000 per month starting January 1, 2011. At December 31, 2010, the Company was in violation of its working capital ratio covenant as a result of costs associated with acquiring undeveloped oil properties. The Company requested from its lender and received a waiver with respect to the covenant breach. It is expected that the Company will be in violation of its covenant calculation at March 31, 2011. The Company has an outstanding letter of guarantee for approximately \$139,000.

In January 2011 the bank completed a scheduled review of the Company's assets and revised the revolving operating demand facility lending value to \$4,600,000. The Company's acquisition and development demand facility was reduced to \$650,000, with principal repayments of \$30,000 per month commencing February 1, 2011.

As the available credit facilities are based on the bank's assessment of the Company's reserves, development prospects and future commodity prices, there can be no assurance that the amount of available credit facility will not decrease at the next review date, which is scheduled for May, 2011.

7. LIABILITY SETTLEMENT

On July 29, 2009 the Company signed an agreement with an industry partner, resulting in the settlement of amounts owed relating to prior years' revenue over-allocations. As a result of the settlement, the Company reduced the liability previously recorded at March 31, 2009 by \$533,716, resulting in an increase to revenue for that period. The agreement includes the following terms and conditions:

- The Company shall pay a total of \$1,307,604 (principal amount of \$1,250,000), which includes interest at 6.5% per annum calculated monthly.
- Payments of principal and interest occur monthly with the last payment due January 1, 2011.

During the year ended December 31, 2010, the Company paid a total of \$867,157 (December 31, 2009 - \$370,620) in principal and interest pursuant to the agreement. The remaining principal balance owing as at December 31, 2010 is \$69,444 (December 31, 2010 902,777). The final payment was made in January 2011.

8. ASSET RETIREMENT OBLIGATIONS (ARO)

Total future asset retirement obligations have been estimated by management based on Trafina's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. As at December 31, 2010 the total undiscounted amount of cash flows required to settle its ARO is \$6,280,604 (December 31, 2009 - \$4,627,450). Trafina has estimated the present value of its total asset retirement obligations to be \$3,542,127 as at December 31, 2010 (December 31, 2009 - \$2,731,549). It is expected that the majority of the total future liability will be incurred between 2012 and 2020. To calculate the net present value of its asset retirement obligations, the Company used a credit adjusted risk free rate of 7% to 9% (2009 – 7% to 9%) and an inflation rate of 1.5% (2009 – 1.5%).

The following table reconciles change in the Company's total asset retirement obligation.

	2010	2009
ARO, beginning of the year	\$ 2,731,549	\$ 1,389,862
Liabilities acquired and assumed	1,006,721	1,249,903
Liabilities sold	(424,342)	(45,250)
Settlement of liabilities	---	(63,807)
Change in estimates	(40,319)	100,421
Accretion expense	268,518	100,420
ARO, end of year	\$ 3,542,127	\$ 2,731,549

9. INCOME TAXES

The provision for income taxes differs from the amount which would have been obtained by applying the corporate income tax rate to the Company's loss before income taxes. The difference results from the following items:

	2010	2009
Loss before income taxes	\$ (5,392,939)	\$ (3,590,850)
Statutory income tax rate	28.00%	29.00%
Expected tax provision	(1,510,023)	(1,041,347)
Increase (decrease) in income tax resulting from		
Change in income tax rates	101,319	44,368
Stock based compensation	70,272	65,626
Other	3,276	75
Valuation allowance	109,975	---
Income tax reduction	\$ (1,225,181)	\$ (931,278)

The components of the future income tax at December 31, 2010 and 2009 are as follows:

	2010	2009
Property and equipment	\$ 19,038	\$ (2,256,099)
Asset retirement obligations	885,532	682,887
Share issue costs	71,112	173,728
Commodity contract liability	31,691	6,720
Non-capital loss carry-forward	685,822	357,860
	1,693,195	---
Valuation allowance	(1,693,195)	---
	\$ ---	\$ (1,034,904)

As at December 31, 2010 the Company has non-capital loss carry-forwards of approximately \$2.6 million which will expire in years 2028 to 2030.

10. SHARE CAPITAL

Authorized

- Unlimited number of Class A voting common shares;
- Unlimited number of Class B non-voting common shares, of which non have been issued; and
- Unlimited number of preferred shares issuable in series, of which none have been issued.

Issued

Class A common shares:

	2010		2009	
	Number	Amount	Number	Amount
Balance, beginning of the year	18,273,262	\$ 6,979,943	11,202,472	\$ 5,737,652
Repurchased and cancelled	---	---	(5,000)	(2,561)
Issued for cash upon private placements	6,484,000	1,945,200	5,126,670	1,799,335
Issued for cash on a flow-through basis upon private placements	4,750,000	2,000,000	1,949,120	740,665
Issued as partial consideration for property acquisition	324,000	162,000	---	---
Exercise of stock options	30,000	9,000	---	---
Fair value of warrants associated with private placement	---	(655,241)	---	(580,782)
Tax effect of flow-through shares renounced	---	(190,277)	---	(525,459)
Share issue costs	---	(88,759)	---	(254,216)
Tax effect of share issue costs	---	---	---	65,309
Balance, end of the year	29,861,262	\$ 10,161,866	18,273,262	\$ 6,979,943

Shares issued for cash upon private placements:

November 2010:

The Company completed a private placement to an employee of Trafina and issued 150,000 Class A common shares at a price of \$0.30 per share for gross proceeds of \$45,000.

The Company completed a non-brokered private placement of Class A common shares issued on a flow-through basis pursuant to the *Income Tax Act* (Canada) for gross proceeds of \$1.5 million and issued 3,750,000 flow-through shares at a price of \$0.40 per share. Directors and senior officers of the Company purchased an aggregate of 550,000 flow-through shares pursuant to the private placement.

December 2010:

The Company completed a non-brokered private placement of units for gross proceeds of \$1.9 million. The Company issued 6,334,000 units (comprised of 6,334,000 Class A common shares and 6,334,000 share purchase warrants) at a price of \$0.30 per unit. Each unit consisted of one Class A common share and one Common Share purchase warrant to acquire an additional Class A common shares at an exercise price of \$0.45 with an expiry of November 30, 2012. The Company has elected to accelerate the expiry of the warrants (see note 16).

The Company completed a non-brokered private placement of Class A common shares issued on a flow-through basis pursuant to the *Income Tax Act* (Canada) resulting in gross proceeds of \$0.5 million and issued 1,000,000 flow-through shares at a price of \$0.50 per share.

Warrants

Pursuant to the private placement in 2010, the Company issued share purchase warrants that are exercisable for one Class A common share of the Company at a price of \$0.45 per share prior to November 30, 2012.

	2010		2009	
	Number	Amount	Number	Amount
Balance, beginning of the year	2,513,335	\$ 580,782	---	\$ ---
Issued upon private placement	6,334,000	655,241	2,513,335	580,782
Balance, end of the year	8,847,335	\$ 1,236,023	2,513,335	\$ 580,782

For the years ended December 31, 2010 and 2009, the Company recorded fair values for the warrants of \$655,241 and \$580,782, respectively and used the following assumptions:

	2010	2009
Weighted average expected volatility	110%	150%
Weighted average risk free interest rate	1.69%	0.49%
Weighted average expected life (years)	1.0	1.0

On March 7, 2011 the Company announced the acceleration of the expiry of the 6,334,000 warrants pursuant to the private placement in November 2010 (see note 16).

Stock Option Plan

The Company has an employee stock option plan under which employees, consultants and directors are eligible to receive options. For the year ended December 31, 2010, Trafina issued 575,000 common stock options with a weighted average exercise price of \$0.40 per share.

At December 31, 2010, 2,195,000 common stock options were outstanding, with an average exercise price of \$0.37 per share. For options granted, one third of the options vest on the day following the date of grant, one third on the day following the first anniversary date of the grant and the remaining options vest on the day following the second anniversary date of the grant.

Details of outstanding stock options are as follows:

	2010		2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of the year	1,650,000	\$ 0.36	350,000	\$ 0.37
Granted	575,000	0.40	1,300,000	0.36
Exercised	(30,000)	0.30	---	---
Balance, end of year	2,195,000	\$ 0.37	1,650,000	\$ 0.36
Exercisable, end of the year	1,378,333	\$ 0.37	666,667	\$ 0.37
Weighted average remaining contractual life	3.31 years		4.26 years	

For the year ended December 31, 2010, the Company recorded stock-based compensation expense of \$226,439 (December 2009 - \$222,974). The fair value and assumptions used in the computation of the fair value of stock options granted in the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Fair value of stock options granted	\$181,470	\$380,900
Weighted average expected volatility	122%	150%
Weighted average risk free interest rate	1.52%	1.10%
Weighted average expected life (years)	4.0	4.0

Per Share Amounts

Basic weighted average shares outstanding for the year ended December 31, 2010 were 19,694,604 (December 31 2009 – 11,845,631). Since the Company had net losses, any adjustments for options would have an anti-dilutive effect and as a result are excluded from diluted per share amounts.

11. CONTRIBUTED SURPLUS

The following schedule shows the continuity of contributed surplus:

	2010	2009
Balance, beginning of the year	\$ 548,748	\$ 324,663
Stock based compensation	239,029	222,974
Common shares repurchased and cancelled under NCIB	---	1,111
Balance, end of the year	\$ 787,777	\$ 548,748

12. SUPPLEMENTAL CASH FLOW DISCLOSURES

Change in non-cash working capital:	2010	2009
Accounts receivable	\$ 119,998	\$ (675,873)
Prepaid expenses and deposits	(100,641)	23,126
Accounts payable and accrued liabilities and commodity contract ⁽¹⁾	553,268	(21,950)
Current portion of liability settlement ⁽²⁾	(833,333)	---
	\$ (260,708)	\$ (674,697)
Change in non-cash working capital		
Operating	(1,377,925)	(261,699)
Investing	1,117,217	(412,998)

(1) Amount at December 31, 2010 was adjusted for \$95,589 to reflect a non-cash increase in the Company's commodity contract liability.

(2) Current portion of liability settlement at December 31, 2010 was adjusted for \$69,444 to reflect a non cash movement of the liability from a long term liability to a current liability.

The following net cash payments were made:

	2010	2009
Interest paid	\$ 139,139	\$ 58,377
Income tax refund	---	156,627

13. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company has certain financial instruments, including accounts receivable, commodity contracts, accounts payable and accrued liabilities, liability settlement and bank debt, and is exposed to risks such as credit risk, liquidity risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

The carrying amount of the Company's accounts receivable, accounts payable and accrued liabilities and liability settlement approximate their fair values due to short terms to maturity. Bank debts bear interest at a floating market rate and accordingly the fair value approximates the carrying value. The carrying value of the Company's liability settlement is calculated using an interest rate agreed upon between two non-related parties dealing at arm's length, thus the carrying value approximates the fair value.

As at December 31, 2010, the only financial instrument that required disclosure of fair value according to the three-level hierarchy was the Company's commodity contracts, which are recorded at fair value and are considered level 2. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Credit Risk

Credit risk is generally related to the collection of the Company's accounts receivable from petroleum and natural gas purchasers and joint interest partners. At December 31, 2010, approximately 42 percent of the Company's accounts receivable trade balance was from various petroleum and natural gas purchasers and has subsequently been received. A further 34 percent of the Company's accounts receivables as at December 31, 2010 have been received to date. The remaining 24 percent of the account receivable trade balance is due from joint interest partners. At December 31, 2010, approximately \$193,000 (December 31, 2009 - \$217,500) of receivables were outstanding for more than 90 days.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages liquidity by ensuring, as far as possible, that it will have sufficient liquidity under both normal and stressed conditions. Trafina's management prepares a yearly budgets, cash flow forecasts and monthly sales reconciliations.

The following are the contractual maturities of financial liabilities as at December 31, 2010:

Financial Liability	Less than 1 year
Accounts payable and accrued liabilities	\$ 3,970,493
Liability settlement	69,444
Total	\$ 4,039,937

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

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. Although 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. The Company had no forward exchange rate contracts in place during the year ended December 31, 2010 or 2009.

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 commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar as outlined above, but also by world economic events that dictate the level of supply and demand. The Company attempts to mitigate commodity price risk through the use of commodity price contracts. In 2009 management entered into a financial swap sales contract to sell 500 gigajoules ("GJ") per day of natural gas production at \$5.15 per GJ, which ended October 31, 2010. On January 15, 2010 management entered into a financial swap sales contract to sell an additional 250 GJ per day of natural gas production at \$5.30 per GJ commencing April 1, 2010 and ending October 31, 2010. On November 1, 2010 management entered into two financial sales contracts with the first contract based on selling 300 GJ per day of natural gas at \$3.85 per GJ commencing January 1, 2011 and ending December 31, 2011 and the second contract based on selling 50 barrels per day of oil with a floor price of \$75 WTI Cdn and a ceiling price of \$90 WTI Cdn commencing January 1, 2011 and ending December 31, 2011. At December 31, 2010 the Company had a commodity contracts liability of \$119,589 based on the fair value of the contracts at that time. An unrealized loss on commodity contracts of \$95,589 was recognized in the year ended December 31, 2010 and a realized gain of \$299,244 was recognized over the same period. The Company estimated that a \$0.10/mcf change in the natural gas price, while holding all other variables constant would impact loss before income taxes by approximately \$20,000.

Subsequent to the year ended December 31, 2010 management has entered into two additional financial sales contracts whereby the Company has agreed to a costless collar based on selling 50 bbls/day with a floor price of \$90 WTI US and a ceiling price of \$108.90 WTI US and agreed to a commodity swap based on selling 300 GJ/day of natural gas at \$4.41/GJ.

The following table summarizes the Company's commodity contracts:

Commodity price financial contracts:

Type	Daily Volume	Duration	Price
Fixed-Gas	300 GJ/day	January 1, 2011 to December 31, 2011	\$3.85/GJ
Collar-Oil	50 bbl/day	January 1, 2011 to December 31, 2011	Floor \$75.00 WTI Cdn Ceiling \$90.00 WTI Cdn

Subsequent to year end the Company has also entered into the following commodity price financial contracts:

Type	Daily Volume	Duration	Price
Fixed-Gas	300 GJ/day	May 1, 2011 to December 31, 2011	\$4.41/GJ
Collar-Oil	50 bbl/day	May 1, 2011 to December 31, 2011	Floor \$90.00 WTI US Ceiling \$108.90 WTI US

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At December 31, 2010, the Company had bank debt of \$3,673,466. The Company had no interest rate swap or financial contracts in place during the year ended December 31, 2010. A 1.0% change in the prime rate over the year ended December 31, 2010 would have impacted net loss by approximately \$23,792.

Capital Management

The Company manages its capital structure and considers adjustments in light of changes in economic conditions and the risk characteristics of its oil and natural gas assets. The Company considers its capital structure to include share capital, bank debt and working capital. The Company's revolving operating demand facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one. The ratio is defined by the lender as current assets less unrealized hedging gains, plus any undrawn amounts available on its revolving operating demand facility, less current liabilities, less unrealized hedging losses and excluding any current portion drawn on either facility. The Company was in violation of its covenant at December 31, 2010. The Company requested from its lender and received a waiver with respect to the covenant breach (see note 6). There was no change in management of the Company's capital structure during the year ended December 31, 2010.

The following outlines the Company's capital structure:

	December 31, 2010	December 31, 2009
Working capital deficiency (excluding bank debt)	\$ 2,675,105	\$ 2,770,780
Bank debt	\$ 3,673,466	\$ 1,140,696
Shareholders' equity	\$ 9,668,472	\$ 9,760,037

14. COMMITMENTS

At December 31, 2010 the Company had the following commitments:

Flow-through

As a result of completing a private placement financing in November and December, 2010, the Company is required to incur \$2.0 million on eligible flow-through expenditures prior to December 31, 2011. The Company incurred \$1.1 million in qualified expenditures by the end of December, 2010, resulting in a remaining obligation of \$0.9 million of qualified expenditures to be incurred prior to December 31, 2011.

Office rent

Trafina has an office lease arrangement terminating August 30, 2014. The Company's total remaining rent obligation is as follows:

2011	\$134,000
2012	\$146,000
2013	\$158,000
2014	\$112,000

15. RELATED PARTY TRANSACTIONS

A law firm of which the Company's corporate secretary is a partner provides general and corporate legal services to the Company. For the year ended December 31, 2010, fees for legal services billed from this related party were approximately \$199,000 (December 31, 2009, \$108,000), of which \$50,000 is included in accounts payable and accrued liabilities at December 31, 2010 (December 31, 2009, \$24,000). These services are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. SUBSEQUENT EVENTS

On March 7, 2011 the Company announced that it has elected to accelerate the expiry of the warrants (the "Warrants") originally issued on November 30, 2010 and December 2, 2010 as part of its private placement unit offering. Each Warrant entitles the holder thereof to acquire one Class A common share of the Company at a price of \$0.45 per share. The Warrants were originally set to expire on November 30, 2012 and will now expire on April 15, 2011

On April 5, 2011 the Company announced that it has agreed to a marketed public offering of units on a reasonable best efforts agency basis to issue a minimum of 14,286,000 units and a maximum of 22,858,000 units, at a price of \$0.35 per unit, for gross proceeds of a minimum amount of approximately \$5,000,000 and up to a maximum amount of approximately \$8,000,000. Each Unit will consist of one Class A common share and one Common Share purchase warrant to acquire an additional Class A common share at an exercise price of \$0.45 for a period of eighteen months from the date of closing. On April 8, 2011 the board of directors of the Company approved an increased maximum under the offering to \$9 million. Assuming the minimum offering is received, a minimum of 14,286,000 units and up to a maximum of 25,715,000 units will be issued.