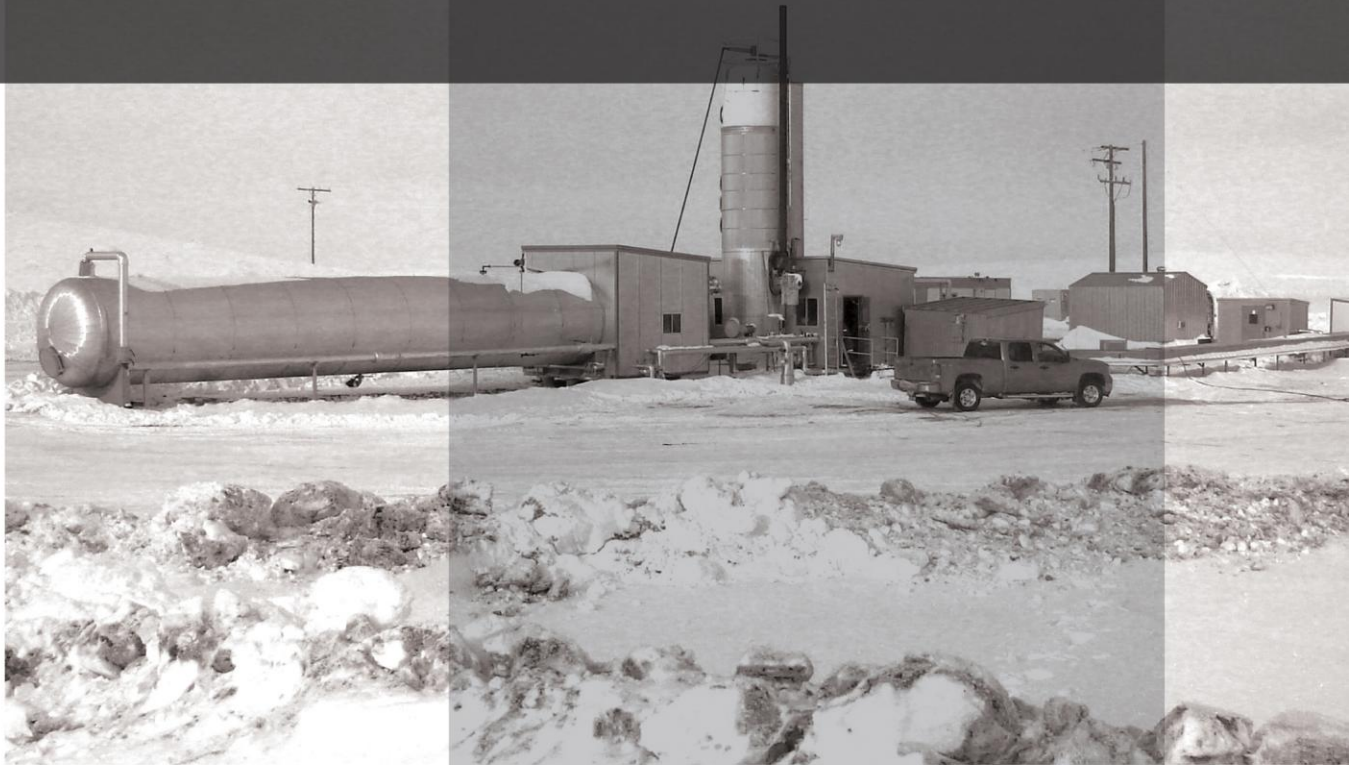


TRAFINA  
ENERGY LTD.



Q2 2010 FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

## INTERIM BALANCE SHEETS (UNAUDITED)

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets		
Accounts receivable	\$ 1,815,997	\$ 1,401,309
Commodity contracts (note 10)	129,000	---
Prepaid expenses and deposits	125,253	102,469
	<b>2,070,250</b>	1,503,778
Property and equipment (note 3)	15,714,812	17,507,410
	<b>\$ 17,785,062</b>	\$ 19,011,188
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,511,138	\$ 3,417,225
Bank debt (note 4)	2,611,819	1,140,696
Commodity contract (note 10)	---	24,000
Current portion of liability settlement (note 5)	486,111	833,333
	<b>5,609,068</b>	5,415,254
Liability settlement	---	69,444
Asset retirement obligations (note 6)	3,525,058	2,731,549
Future income taxes	648,849	1,034,904
	<b>9,782,975</b>	9,251,151
Shareholders' Equity		
Share capital (note 7)	6,948,914	6,979,943
Warrants (note 7)	580,782	580,782
Contributed surplus (note 8)	661,875	548,748
Retained earnings (deficit)	(189,484)	1,650,564
	<b>8,002,087</b>	9,760,037
	<b>\$ 17,785,062</b>	\$ 19,011,188
Future operations (note 2)		
Commitments (note 11)		

See accompanying notes to interim financial statements.

# FINANCIAL STATEMENTS

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

	Three months ended		Six months ended	
	2010	June 30 2009	2010	June 30 2009
<b>REVENUE</b>				
Petroleum and natural gas	\$ 1,275,671	\$ 913,483	\$ 2,770,306	\$ 2,093,731
Royalties	(129,710)	(75,296)	(334,973)	(241,752)
Realized gain on commodity contracts (note 10)	66,459	---	87,352	---
Unrealized gain (loss) on commodity contracts (note 10)	(129,000)	---	153,000	---
Liability settlement (note 5)	---	533,716	---	533,716
Other	36,625	3,062	14,137	10,384
	<b>1,120,045</b>	<b>1,374,965</b>	<b>2,689,822</b>	<b>2,396,079</b>
<b>EXPENSES</b>				
Operating	889,492	573,527	2,034,335	1,102,755
General and administrative	398,980	279,805	851,934	659,311
Depletion, depreciation and accretion	991,731	929,003	2,040,205	1,885,596
Stock-based compensation	47,285	31,553	113,127	55,395
Interest	33,608	19,911	66,601	30,673
	<b>2,361,096</b>	<b>1,833,799</b>	<b>5,106,202</b>	<b>3,733,730</b>
Loss before income taxes	<b>(1,241,051)</b>	<b>(458,834)</b>	<b>(2,416,380)</b>	<b>(1,337,651)</b>
Provision for (reduction of) income taxes				
Current	---	(156,627)	---	(130,274)
Future	<b>(305,943)</b>	38,803	<b>(576,332)</b>	(182,585)
	<b>(305,943)</b>	<b>(117,824)</b>	<b>(576,332)</b>	<b>(312,859)</b>
Net loss and comprehensive loss	<b>(935,108)</b>	<b>(341,010)</b>	<b>(1,840,048)</b>	<b>(1,024,792)</b>
Retained earnings, beginning of period	<b>745,624</b>	3,626,354	<b>1,650,564</b>	4,310,136
Retained earnings (deficit), end of period	<b>\$ (189,484)</b>	<b>\$ 3,285,344</b>	<b>\$ (189,484)</b>	<b>\$ 3,285,344</b>
Basic and diluted net loss per common share	<b>\$ (0.05)</b>	<b>\$ (0.03)</b>	<b>\$ (0.10)</b>	<b>\$ (0.09)</b>
Weighted average number of common shares outstanding (note 7)	<b>18,425,034</b>	11,302,675	<b>18,359,814</b>	11,284,240

See accompanying notes to interim financial statements.

# FINANCIAL STATEMENTS

## INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three months ended		Six months ended	
	2010	June 30 2009	2010	June 30 2009
Cash provided by (used in):				
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (935,108)	\$ (341,010)	\$ (1,840,048)	\$ (1,024,792)
Add (deduct) non-cash items:				
Depletion, depreciation and accretion	991,728	929,003	2,040,205	1,885,596
Future income tax provision (reduction)	(305,943)	38,803	(576,332)	(182,585)
Stock-based compensation	47,285	31,553	113,127	55,395
Unrealized (gain) loss on commodity contracts (note 10)	129,000	---	(153,000)	---
Liability settlement (note 5)	---	(533,716)	---	(533,716)
Asset retirement expenditures	---	(63,807)	---	(63,807)
	<b>(73,035)</b>	60,826	<b>(416,048)</b>	136,091
Change in non-cash operating working capital (note 9)	<b>(7,908)</b>	(300,380)	<b>(614,339)</b>	(279,102)
	<b>(80,948)</b>	(239,554)	<b>(1,030,387)</b>	(143,011)
<b>FINANCING ACTIVITIES</b>				
Common shares issued, net of share issue costs	(106)	5,850	(2,752)	45,850
Increase in bank debt	202,081	1,184,088	1,471,123	1,364,232
	<b>201,975</b>	1,189,938	<b>1,468,371</b>	1,410,082
<b>INVESTING ACTIVITIES</b>				
Acquisition of property and equipment (note 3)	(35,823)	---	(419,483)	---
Disposition of property and equipment (note 3)	1,047,652	---	2,581,544	---
Additions to property and equipment	(447,934)	(333,882)	(1,454,155)	(561,171)
Change in non-cash investing working capital (note 9)	(684,922)	(616,502)	(1,145,886)	(1,193,604)
	<b>(121,027)</b>	(950,384)	<b>(437,980)</b>	(1,754,775)
Change in cash	---	---	---	(487,704)
Cash, beginning of period	---	---	---	487,704
Cash, end of period	\$ ---	\$ ---	\$ ---	\$ ---

See accompanying notes to interim financial statements.

## NOTES TO INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 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 principle business activities are petroleum and natural gas exploration and the development and production of oil and natural gas in Western Canada.

The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the year ended December 31, 2009. The following disclosure is incremental to the disclosure included with the December 31, 2009 financial statements. These interim financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2009.

### 2. FUTURE OPERATIONS

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

At June 30, 2010 the Company had a net debt and working capital deficiency of \$3,667,813, excluding the fair value of the commodity contracts. The Company has credit facilities with a Canadian chartered bank permitting borrowings up to \$5.75 million (note 4). The future operations of the Company are dependent upon a return to profitable operations, raising capital to support activities, meeting obligations and receiving the continued financial support of its lender. As a result of these conditions, the ability of the Company to continue as a going concern is in doubt.

In the three months ending June 30, 2010, the Company continued its prudent debt management focus by disposing of additional non-core assets bringing in net proceeds of \$2.6 million for the six months ended June 30, 2010.

In addition to managing debt levels, the Company remains focused on further development activities in its core areas in southwest Saskatchewan and Ronalane and Pembina areas of Alberta. The Company is also continually evaluating undervalued oil and gas assets and/or corporate acquisitions in an attempt to increase its asset base. It is anticipated that additional funds will be required to meet these objectives.

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 be necessary.

### 3. PROPERTY AND EQUIPMENT

	June 30, 2010	December 31, 2009
Oil and gas properties	\$ 24,141,006	\$ 23,269,747
Production equipment	9,639,090	9,170,232
Office equipment	326,851	318,257
Other	---	1,227,082
	<b>34,106,947</b>	33,985,318
Accumulated depletion and depreciation	<b>(18,392,135)</b>	(16,477,908)
Net book value of property and equipment	\$ <b>15,714,812</b>	\$ 17,507,410

In the six months ended June 30, 2010, the Company disposed of four non-core area assets for net proceeds of \$2.6 million. As a result of the dispositions, the Company reduced its exposure to abandonment and reclamation liabilities by \$316,058. During the same period the Company incurred expenditures of \$600,000 to acquire oil and gas properties as follows: On January 15<sup>th</sup>, 2010 the Company acquired assets from a private oil and gas corporation in exchange for amounts owing to the Company. Additional costs in the first half of the year incurred to realize on the acquisition were approximately \$320,000, bringing the total acquisition cost as of June 30, 2010 to approximately \$1.5 million, plus related abandonment liabilities with an estimated fair value of \$846,346. Additional properties were acquired; whereby the properties were paid for using cash and the issuance of Company stock. Total consideration for the property for the six months ended June 30, 2010 was approximately \$260,000. As a result of the aforementioned acquisitions the Company also assumed related abandonment and reclamation liabilities of \$983,592.

During the three and six months ended June 30, 2010, \$47,756 and \$95,577 (June 30, 2009 - \$nil and \$16,900) of general and administrative costs were capitalized directly related to exploration and development activities, respectively.

In determining the Company's depletion, depreciation and accretion expense at June 30, 2010, future development and abandonment costs on proved undeveloped properties of \$2,924,800 (December 31, 2009 - \$2,684,100) were included in the calculation. At June 30, 2010 costs of unproved properties and undeveloped seismic totaling \$168,226 (December 31, 2009 - \$137,111) were excluded from the depletion and amortization calculation.

Included in property and equipment at June 30, 2010 is \$2,340,100 (December 31, 2009 - \$1,915,929) net of accumulated depletion related to asset retirement costs.

#### 4. BANK DEBT

At June 30, 2010 the Company had credit facilities consisting of a \$4,500,000 revolving operating demand facility, with interest charged on advances under the facility at the bank's prime rate plus 1.50% and a \$1,250,000 acquisition and development demand facility, with interest charged on advances at the bank's prime rate plus 2.00%. The facilities are secured by a \$50,000,000 fixed and floating charge debenture on all assets. The next review date is scheduled on or before October 1, 2010. The facilities require maintenance of a 1:1 working capital ratio.

At June 30, 2010, the Company had drawn \$2,611,819 of its demand credit facility and is in compliance with its covenant.

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.

#### 5. LIABILITY SETTLEMENT

On July 29, 2009 the Company signed an agreement with an industry partner, resulting in a 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 six months ended June 30, 2010, the Company paid a total of \$440,300 (year ended December 31, 2009 - \$370,620) in principal and interest pursuant to the agreement. The remaining balance owing as at June 30, 2010 is \$486,111.

#### 6. 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. Trafina has estimated the present value of its total asset retirement obligations to be \$3,525,058 as at June 30, 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.

	Six months ended June 30, 2010	Year ended December 31, 2009
ARO, beginning of the period	\$ 2,731,549	\$ 1,389,862
Liabilities acquired (note 3)	983,592	1,249,903
Liabilities sold (note 3)	(316,058)	(45,250)
Settlement of liabilities	---	(63,807)
Change in estimates	---	100,421
Accretion expense	125,975	100,420
ARO, end of period	\$ 3,525,058	\$ 2,731,549

## 7. SHARE CAPITAL

### Authorized

- Unlimited number of Class A voting common shares;
- Unlimited number of Class B non-voting common shares; and
- Unlimited number of preferred shares issuable in series, of which non have been issued.

### Issued

Class A common shares:

	Six months ended June 30, 2010		Year ended December 31, 2009	
	Number	Amount	Number	Amount
Balance, beginning of the period	18,273,262	\$ 6,979,943	11,202,472	\$ 5,737,652
Repurchased and cancelled	---	---	(5,000)	(2,561)
Issued for cash upon private placement	---	---	7,075,790	2,540,000
Issued as partial consideration for property purchase	324,000	162,000	---	---
Exercise of stock options	30,000	9,000	---	---
Fair value of warrants associated with private placement	---	---	---	(580,782)
Tax effect of flow-through shares renounced	---	(190,277)	---	(525,459)
Share issue costs	---	(11,752)	---	(254,216)
Tax effect of share issue costs	---	---	---	65,309
Balance, end of the period	18,627,262	\$ 6,948,914	18,273,262	\$ 6,979,943

### Property purchase

As part of the consideration for acquiring certain assets in February 2010, the Company issued 324,000 special warrants convertible into Class A common shares of the Company, subject to obtaining approval of certain licenses by the Alberta Energy Resources Conservation Board (“ERCB”). In May 2010 the Company received the necessary ERCB approvals and converted the special warrants to 324,000 Class A common shares.

### Stock option exercise

In January 2010, a director of the Company exercised 30,000 stock options at \$0.30 per share and was issued 30,000 Class A common shares for gross proceeds to the Company of \$9,000.

### Flow-through Shares

In February 2010, the Company renounced \$0.74 million of flow-through obligations as a result of the issuance of 1.9 million Class A common shares issued on a flow-through basis pursuant to the *Income Tax Act*, in December 2009. As a result, a future income tax liability and corresponding reduction of share capital of \$190,277 was recorded in the six months ended June 30, 2010.

### Warrants

Pursuant to the private placement in December 2009, 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 June 3, 2011.

Details of the outstanding warrants are as follows:

	Six months ended June 30, 2010		Year ended December 31, 2009	
	Number	Amount	Number	Amount
Balance, beginning of the period	2,513,335	\$ 580,782	---	\$ ---
Issued upon private placement	---	---	2,513,335	580,782
Balance, end of the period	2,513,335	\$ 580,782	2,513,335	\$ 580,782

### Stock Option Plan

The Company has an employee stock option plan under which employees, consultants and directors are eligible to receive options. For the six months ended June 30, 2010, Trafina issued 170,000 common stock options with an exercise price of \$0.46 per share.

At June 30, 2010, 1,790,000 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 the outstanding common stock options are as follows:

	Six months ended June 30, 2010		Year ended December 31, 2009	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of the period	1,650,000	\$ 0.36	350,000	\$ 0.37
Granted	170,000	0.46	1,300,000	0.36
Exercised	(30,000)	0.30	---	---
Balance, end of period	1,790,000	\$ 0.37	1,650,000	\$ 0.36
Exercisable, end of the period	940,000	\$ 0.37	666,667	\$ 0.37
Weighted average remaining contractual life	3.80 years		4.26 years	

For the three and six months ended June 30, 2010, the Company recorded stock-based compensation expense of \$47,285 (2009 - \$31,553) and \$113,127 (2009 - 55,395), respectively. The assumptions used in the computation of the fair values of the stock options granted in the six months ended June 30, 2010 and 2009 are as follows:

	2010	2009
Weighted average expected volatility	150%	150%
Weighted average risk free interest rate	1.22%	1.10%
Weighted average expected life (years)	4.0	2.0

### Per Share Amounts

Basic weighted average shares outstanding for the three and six months ended June 30, 2010 were 18,425,034 and 18,359,814, respectively (2009 - 11,302,675 and 11,284,240). Since the Company had net losses in the periods, any adjustments for options would have an anti-dilutive effect and as a result are excluded from diluted per share amounts.

## 8. CONTRIBUTED SURPLUS

The following schedule shows the continuity of contributed surplus:

	Six months ended June 30, 2010	Year ended December 31, 2009
Balance, beginning of the period	\$ 548,748	\$ 324,663
Stock based compensation	113,127	222,974
Stock repurchased and cancelled under normal course issuer bid	---	1,111
Balance, end of the period	\$ 661,875	\$ 548,748

## 9. SUPPLEMENTAL CASH FLOW DISCLOSURES

Change in non-cash working capital:	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Accounts receivable	\$ (56,449)	\$ 189,108	\$ (414,688)	\$ 418,220
Income tax receivable	---	(156,627)	---	(156,627)
Prepaid expenses and deposits	39,846	18,074	(22,784)	24,582
Accounts payable and other liabilities <sup>(1)</sup>	(467,894)	(967,437)	(906,087)	(1,758,881)
Current portion of liability settlement <sup>(2)</sup>	(208,333)	---	(416,666)	---
	\$ (692,830)	\$ (916,882)	\$ (1,760,225)	\$ (1,472,706)
Change in non-cash working capital				
Operating	(7,908)	(300,380)	(614,339)	(279,102)
Investing	(684,922)	(616,502)	(1,145,886)	(1,193,604)

(1) Accounts payable for the three months ended June 30, 2009 was adjusted for \$63,806 as a result of the timing and recognition of well abandonments and was also adjusted for \$533,716 as a result of a non cash reduction in a liability obligation.

(2) Current portion of liability settlement for the six months ended June 30, 2010 is adjusted for \$69,443 to reflect a reduction in a long term liability settlement.

The following net cash payments were made:

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Interest paid	\$ 30,261	\$ 5,588	\$ 59,918	\$ 5,908

## 10. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company has certain financial instruments, being 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. The bank debt bears 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.

The Company adopted the amendments to CICA Handbook section 3862 – "Financial Instruments" for its financial assets and liabilities effective December 31, 2009. These amendments outline a hierarchy of methods used to determine the fair value of financial instruments at the balance sheet date. As at June 30, 2010, the only financial instrument that required disclosure of fair value according to the new three-level hierarchy was the commodity contracts (derivative financial instruments), 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 June 30, 2010, approximately 42% of the Company's accounts receivable trade balance (not including cash call and accruals) was from various petroleum and natural gas purchasers and has subsequently been received. A further 18% of the Company's accounts receivables have been received to date. The remaining 40% of the account receivable trade balance is due from joint interest partners. At June 30, 2010, approximately \$193,000 (year end 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 budget, revised cash flow forecasts and monthly sales reconciliations. In order to mitigate the Company's liquidity risk, Trafina disposed of certain non-core properties in the six months ended June 30, 2010. Funds received were used by the Company to pay down a portion of its debt.

The following are the contractual maturities of financial liabilities as at June 30, 2010:

Financial liability	Less than 1 year	1 to 2 years
Accounts payable and accrued liabilities	\$ 2,511,138	\$ ---
Liability settlement	486,111	---
Bank debt	2,611,819	---
Total	\$ 5,609,068	\$ ---

It is expected that the Company's bank facility will be renewed and as a result payment of bank debt will not be required.

#### *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 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 has no forward exchange rate contracts in place as at or during the six months ended June 30, 2010 to mitigate or manage this risk.

#### *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 by not only the relationship between the Canadian and United States dollar as outlined above, but also world economic events that dictate the level of supply and demand. The Company attempts to mitigate commodity price risk through the use of financial derivatives sales contracts. In 2009 management entered into a financial swap sales contract with a purchaser to sell 500 gigajoules ("GJ") per day of natural gas production at \$5.15 per GJ, which ends October 31, 2010. In 2010 management entered into an additional 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. At June 30, 2010 the Company recorded an unrealized loss of \$129,000 based on the fair value of the contracts at that time. An unrealized gain on commodity contracts of \$153,000 was recognized in the first half of 2010 and a realized gain of \$87,352 was recognized over the same period. For the three months ended June 30, 2010 the Company recorded an unrealized loss on commodity contracts of \$129,000 and a realized gain of \$66,459.

#### *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 June 30, 2010, the Company had bank debt of \$2,611,819 and future cash drawings against its banking facility will further expose the Company to changes in interest rates on its bank debt which bears a floating rate of interest. The Company has no interest rate swap or financial contracts in place as at or during the six months ended June 30, 2010. A 1.0% change in the prime rate over the six months ended June 30, 2010 would have impacted net loss by approximately \$8,267.

#### *Capital Management*

The Company manages its capital structure and considers adjustments to it 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 the facilities. There has been no change in the Company's management of its capital structure during the six months ended June 30, 2010.

The following outlines the Company's capital structure:

	June 30, 2010	December 31, 2009
Working capital deficit (excluding bank debt and commodity contracts)	\$ 1,055,994	\$ 2,746,780
Bank debt	\$ 2,611,819	\$ 1,140,696
Shareholders' equity	\$ 7,982,239	\$ 9,760,037

## 11. COMMITMENTS

At June 30, 2010 the Company had the following commitments:

### *Flow-through*

As a result of completing a private placement financing on December 3, 2009, the Company is required to incur approximately \$740,000 on eligible “flow-through” expenditures to be incurred by December 31, 2010. The Company estimated that it has spent approximately \$414,000 on qualifying flow through expenditures. The remaining qualified expenditure obligations of \$326,000 will be funded by cash flow from operating activities and bank debt.

### *Financial sales contracts*

The following contracts were in place at June 30, 2010.

Type	Amount (GJ/day)	Duration	Price (\$/GJ)
Fixed	500	June 1, 2010 to October 31, 2010	5.15
Fixed	250	June 1, 2010 to October 31, 2010	5.30

### *Office rent*

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

2010	\$ 62,000
2011	\$134,000
2012-2014	\$416,000

## 12. 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 six months ended June 30, 2010, fees for legal services billed from this related party were approximately \$118,000 (December 31, 2009, \$108,000), of which \$18,500 is included in accounts payable and accrued liabilities at June 30, 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.