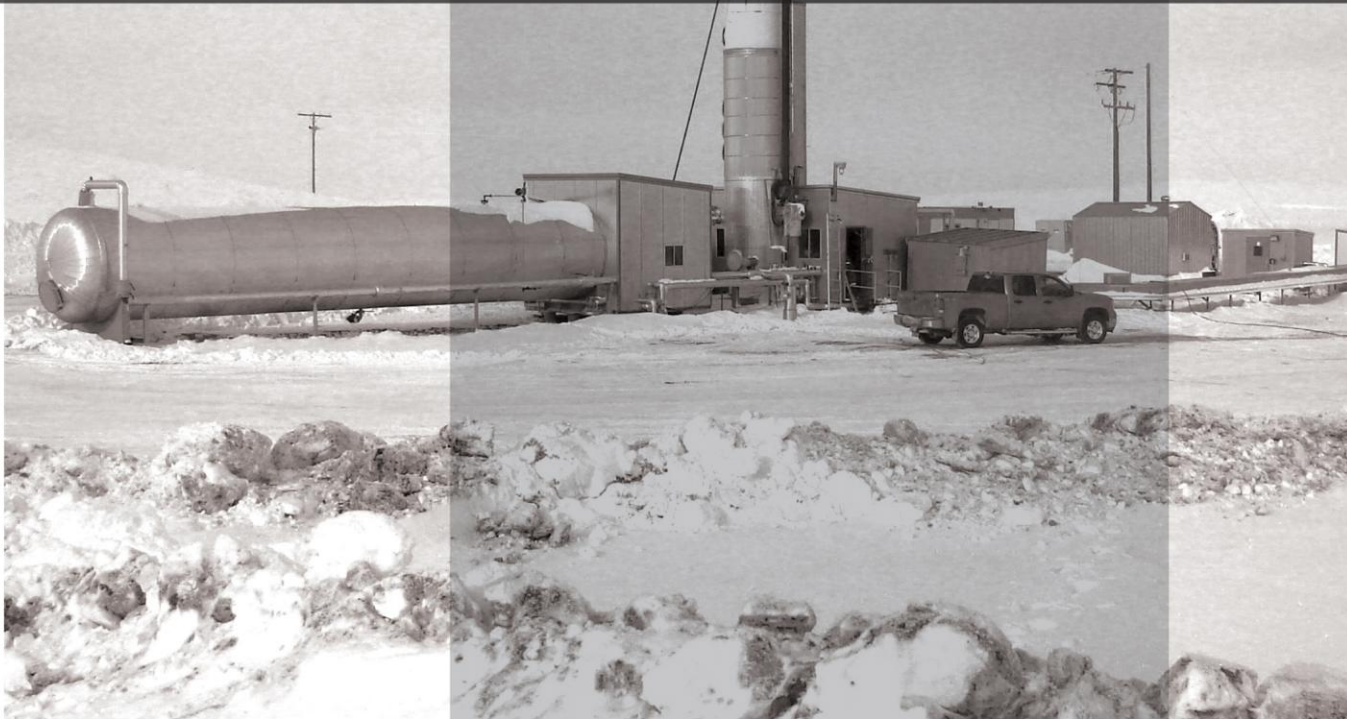


TRAFINA
ENERGY LTD.



**Q2 2010 MANAGEMENT'S
DISCUSSION & ANALYSIS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is a review of the Trafina Energy Ltd.'s (the "Company" or "Trafina") financial results for the three and six months ended June 30, 2010 and should be read in conjunction with the interim financial statements and accompanying notes for the three and six months ended June 30, 2010 and the Company's audited financial statements and MD&A for the year ended December 31, 2009. The discussion provided herein is incremental to the MD&A in respect of the audited financial statements for the year ended December 31, 2009. This MD&A is dated August 25, 2010.

All references to dollar values refer to Canadian dollars, unless otherwise stated.

In this MD&A, reserves and production are commonly stated in barrels of oil equivalent (boe) on the basis that six thousand cubic feet (mcf) of natural gas is equivalent to one barrel of oil (bbl). **Boes may be misleading, particularly if used in isolation.** A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent equivalency at the wellhead.

FORWARD-LOOKING STATEMENTS

Certain information set forth in this MD&A contains "forward-looking information." Such information is frequently characterized by words such as "plan," "expect," "project," "intend," "believe," "anticipate," "estimate" or other similar words, or statements that certain events or conditions "may" or "will" occur. Forward-looking information is based on management's expectations regarding the Company's future growth, results of operations, production, future capital and other expenditures (including the amount, nature and sources of funding thereof) and anticipated financial condition and liquidity throughout 2010. Readers are cautioned that assumptions used in the preparation of forward looking statements may prove to be incorrect. Events or circumstances may cause actual results to differ materially from those predicted, as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. These risks include, but are not limited to, credit risks associated with collection of outstanding accounts receivables and access to capital, such as changes to the Company's lending line of credit and including the ability to raise funds by issuing equity or disposing of assets. Operations risks include commodity price and exchange rate fluctuations, which ultimately affect the Company's realized oil and natural gas revenue, and future production mix and operating expenses, which have an effect on funds flow from operating activities. Industry related risks include, but are not limited to: operational risks in exploration, development and production of oil and natural gas and production risks associated with sour hydrocarbons, dependence on third-party owned and operated production facilities, availability of skilled personnel and services, failure to obtain industry partners, regulatory and other third-party consents and approvals, delays or changes in plans, risks associated with the uncertainty of reserve estimates, health, safety and environmental risks and the uncertainty of estimates and projections of current production, operating costs, capital expenses and abandonment estimates. Reference is made to Trafina's annual information form for the year ended December 31, 2009 dated April 28, 2010 (the "AIF") for a description of additional risks that could affect the Company's future results and could cause results to differ materially from those expressed in the Company's forward looking statements. The risks outlined above and in the AIF should not be construed as exhaustive. Readers are cautioned not to place undue reliance on these forward-looking statements. Except as required by applicable securities law, the Company has no obligation to update or revise forward-looking information.

NON-GAAP MEASURES

The MD&A uses the term "funds flow from (used in) operations", which is not defined under Canadian Generally Accepted Accounting Principles ("GAAP") and should not be considered an alternative to, or more meaningful than, cash flow from (used in) operating activities as determined in accordance with GAAP as an indicator of the Company's performance. Trafina's determination of funds flow from (used-in) operations may not be comparable to that reported by other companies. The Company also presents funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of earnings per share. Management believes that, in addition to cash flow from operating activities, funds flow from (used-in) operations is a useful supplemental measure as it demonstrates Trafina's ability to generate cash necessary to repay debt or fund future growth through capital investment before changes in non-cash working capital balances. Investors are cautioned, however, that the measure should not be construed as an alternative to cash flow from (used-in) operating activities determined in accordance with GAAP as an indication of Trafina's performance.

The following table reconciles cash flow from (used in) operating activities to funds flow from (used-in) operations:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Cash flow from (used in) operating activities	\$ (80,948)	\$ (239,554)	\$ (1,030,387)	\$ (143,011)
Change in non-cash operating items	7,908	300,380	614,339	279,102
Funds flow from (used in) operations	\$ (73,035)	\$ 60,826	\$ (416,048)	\$ 136,091

The Company also considers field netback a key performance measure. However, field netback is not defined under GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Field netback is comprised of the Company's revenue from petroleum and natural gas sales, a liability settlement and other income less royalties and operating expenses. A reconciliation of field netback (non-GAAP) to net loss (GAAP) is presented under the *Netback Analysis* section of this MD&A. In addition, the Company presents "Net debt and working capital deficiency," which consists of current liabilities, less current assets, and excludes the effect of commodity contracts.

OVERVIEW

- Commenced drilling of its highly anticipated Cardium well at Pembina.
- Negotiated new debt facilities with a Canadian chartered bank, increasing the Company's potential borrowing capacity to \$5.75 million.
- Disposed of four non-core area assets for net proceeds of \$2.6 million.
- Reduced net debt and working capital deficit by \$0.5 million from the three months ended March 31, 2010.
- Maintained production levels above 400 boe/day despite disposing of 25 boe/day (averaged over the six month period).
- Added 92 boe/day of net production from southwest Saskatchewan in the three months ended June 30, 2010.
- Reduced operating expenses from \$30.03/boe in the three months ended March 31, 2010 to \$26.87/boe in the six months ended June 30, 2010.

It was imperative for Trafina to stay the course while continuing to reduce debt and at the same time maintain production levels. This was accomplished by disposing of certain non-core assets and bringing on new production from the newly acquired southwest Saskatchewan assets. The last hurdle in the full realization of the potential of the Saskatchewan assets is to reduce operating costs.

SELECTED FINANCIAL INFORMATION

	For the three months ended June 30		
	2010	2009	% Change
Total gross oil and gas revenue (\$)	1,275,671	913,483	+40
Liability settlement gain (\$)	---	533,716	
Royalties (\$)	129,710	75,296	+72
Operating, processing, and transportation expenses (\$)	889,492	573,527	+55
Funds flow from (used in) operations ⁽¹⁾ (\$)	(73,035)	60,826	
per basic and diluted common share (\$)	0.00	0.01	
Weighted average basic shares outstanding	18,425,034	11,302,675	+63
Loss before income taxes (\$)	(1,241,051)	(458,834)	+170
Net loss(\$)	(935,108)	(341,010)	+175
per basic and diluted common share (\$)	(0.05)	(0.03)	
Net capital expenditures (dispositions) (\$)	(401,894)	333,882	
Total assets (\$)	17,785,062	15,937,964	+12
Net debt and working capital deficiency ⁽²⁾ (\$)	(3,667,818)	(2,896,332)	+27

(1) Funds flow from (used in) from operations is a Non-GAAP Measure. See “Non-GAAP Measures” in this MD&A.

(2) Net debt and working capital deficiency consists of current assets and current liabilities less commodity contracts.

	For the six months ended June 30		
	2010	2009	% Change
Total gross oil and gas revenue (\$)	2,770,306	2,093,731	+32
Liability settlement gain (\$)	---	533,716	
Royalties (\$)	334,973	241,752	+39
Operating, processing, and transportation expenses (\$)	2,034,335	1,102,755	+84
Funds flow from (used in) operations ⁽¹⁾ (\$)	(416,048)	136,091	
per basic common share (\$)	(0.02)	0.01	
Weighted average basic shares outstanding	18,359,814	11,284,240	+63
Loss before income taxes (\$)	(2,416,380)	(1,337,651)	+81
Net loss (\$)	(1,840,048)	(1,024,792)	+80
per basic and diluted common share (\$)	(0.10)	(0.09)	
Net capital expenditures (dispositions) (\$)	(545,907)	561,171	
Total assets (\$)	17,785,062	15,937,964	+12
Net debt and working capital deficiency ⁽²⁾ (\$)	(3,667,818)	(2,896,332)	+27

(1) Funds flow from (used in) operations is a Non-GAAP Measure. See “Non-GAAP Measures” in this MD&A.

(2) Net debt and working capital deficiency consists of current assets and current liabilities less commodity contracts.

PRODUCTION

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Change	2010	2009	Change
Natural gas	1,875 mcf/day	2,138 mcf/day	(12) %	1,918 mcf/day	2,198 mcf/day	(13) %
Oil and natural gas liquids	100 bbls/day	47 bbls/day	113 %	99 bbls/day	47 bbls/day	111 %
Total production	413 boe/day	403 boe/day	2 %	419 boe/day	414 boe/day	1 %

Trafina's production for the three and six months ended June 30, 2010 remained flat when compared to the same periods in 2009. However, the change in production mix is the first step to continuous profitability. In the first half of 2010 the Company disposed of various non-core gas weighted properties in favour of developing its southwest Saskatchewan area, which is now producing approximately 112 boe/day. In the second quarter of 2010, 1 (0.8 net) well was placed on production, bringing the total wells that commenced production in the first half of 2010 to 25 (19.5 net).

BENCHMARK PRICES

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
AECO daily spot price	\$ 3.90/mcf	\$ 3.46/mcf	\$ 4.43/mcf	\$ 4.20/mcf
West Texas Intermediate (WTI)	US\$77.89/bbl	US\$59.51/bbl	US\$78.28/bbl	US\$51.19/bbl
Edmonton Par	\$75.44/bbl	\$66.19/bbl	\$77.87/bbl	\$58.17/bbl
US/CDN \$ average exchange rate	0.97	0.86	0.97	0.83

After a sharp down turn in natural gas prices in 2009, prices remained low in the first six months of 2010. Slow recovery projections and continued high natural gas storage levels restricted any potential price increase during the period. Oil prices increased significantly in the three and six months ended June 30, 2010, compared to similar periods in 2009 as demand exceeded supply.

COMPANY REALIZED PRICES

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Natural gas	\$ 4.23/mcf	\$ 3.45/mcf	\$ 4.40/mcf	\$ 5.59/mcf
Oil and natural gas liquids	\$ 68.25/bbl	\$ 55.89/bbl	\$ 69.75/bbl	\$ 48.32/bbl
Total	\$ 33.99/boe	\$ 24.86/boe	\$ 36.60/boe	\$ 35.24/boe

The commodity prices realized in the second quarter of 2010 followed the benchmark prices trend, with natural gas prices remaining relatively flat when compared to the same periods in 2009, while oil prices rebounded somewhat compared to the prior year periods.

REVENUE

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Natural gas	\$ 655,292	\$ 671,975	\$ 1,526,102	\$ 1,680,891
Oil and natural gas liquids	620,379	241,508	1,244,204	412,840
Total revenue	\$ 1,275,671	\$ 913,483	\$ 2,770,306	\$ 2,093,731

Natural gas revenues remained flat for the three and six months ended June 30 2010 when compared to the three and six months ended June 30, 2009. The increase in revenue over the three and six months ended June 30, 2010 compared to the same periods in 2009 was attributable to an increase in oil prices and sales.

REALIZED GAIN ON COMMODITY CONTRACTS

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Realized gain on commodity contracts	\$ 66,459	\$ ---	\$ 87,352	\$ ---

A realized gain was recorded in the three and six months ended June 30, 2010 as a result of the Company entering into favourable gas hedging contracts.

UNREALIZED GAIN (LOSS) ON COMMODITY CONTRACTS

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Unrealized gain (loss) on commodity contracts	\$ (129,000)	\$ ---	\$ 153,000	\$ ---

In an attempt to mitigate commodity price fluctuations, management entered into two natural gas swap sales, agreeing to sell 500 gigajoules (“GJ”) per day at \$5.15 per GJ and an additional 250 GJ per day at \$5.30 per GJ. For the six months ended June 30, 2010, the Company recorded an unrealized gain of \$153,000 based on future natural gas price projections at June 30, 2010 compared to the Company’s contracted rates. For the three months ended June 30, 2010 the Company recorded an unrealized loss of \$129,000 as a result of a decrease in the fair value estimate of the commodity contracts from March 31, 2010.

LIABILITY SETTLEMENT REVENUE

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Liability settlement	\$ ---	\$533,716	\$ ---	\$533,716

On July 29, 2009, the Company signed an agreement with an industry partner to settle an amount owed by Trafina to the industry partner. This was the result of an over-allocation of revenue in prior periods. The Company had provided for this obligation in its financial statements. As a result of the settlement, the Company reduced its working capital deficit by approximately \$533,000 and recorded an increase in revenue.

OTHER REVENUE

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Other revenue	\$36,625	\$3,062	\$14,137	\$10,384

Other revenue relates to miscellaneous processing and water disposal income from the Company’s Kinsella area, which was acquired September 2009.

ROYALTIES

	Three Months Ended June 30				Six Months Ended June 30			
	2010	Royalty as % of revenue	2009	Royalty as % of revenue	2010	Royalty as % of revenue	2009	Royalty as % of revenue
Total royalties	\$129,710	10%	\$75,296	8%	\$334,973	12%	\$241,752	12%

Royalty payments as a percentage of revenue were slightly higher in the three months ended June 30, 2010 compared to the same period in 2009. The higher percentage was primarily a result of a higher provincial custom processing rebate from the Alberta government, partially offset by a Saskatchewan surcharge fee. The royalty rates as a percentage of revenue for the six months ended June 30, 2010 and 2009 were twelve percent, respectively.

OPERATING EXPENSES

	Three Months Ended June 30				Six Months Ended June 30			
	2010	\$/boe	2009	\$/boe	2010	\$/boe	2009	\$/boe
Operating expenses	\$889,492	\$23.70	\$573,527	\$15.61	\$2,034,335	\$26.87	\$1,102,755	\$14.73

Operating expenses, including processing and transportation costs, for the three months ended June 30, 2010 were \$889,492 (\$23.70/boe), which increased over the same period in 2009. The increase is attributable to higher operating costs associated with various down-hole well repairs and increase in pro-rata oil production versus gas production, a trend the Company will try and continue. In addition to acquiring assets that are oil weighted and require higher energy costs to extract and separate emulsion, the Company incurred extensive start-up expenses at its newly acquired southwest Saskatchewan properties. Battery site repairs, miscellaneous parts replacements, lease repairs and clean-ups, in addition to well start-up costs, contributed to an increase in operating expenses for the six months ended June 30, 2010. As more wells are placed on production and one-time charges diminish, the Company expects its operating costs on a dollar per boe basis to decrease. In the three and six months ended June 30, 2009 the Company's production was primarily from stable low cost coal bed methane gas in the Company's Wetaskiwin area.

FIELD NETBACK ⁽¹⁾

	Three Months Ended June 30				Six Months Ended June 30			
	2010	\$/boe	2009	\$/boe	2010	\$/boe	2009	\$/boe
Petroleum and natural gas revenue	\$1,275,671	\$33.99	\$913,483	\$24.91	\$2,770,306	\$36.60	\$2,093,731	\$27.94
Realized gain on commodity contract	66,459	1.77	---	---	87,352	1.15	---	---
Unrealized gain (loss) on commodity contract	(129,000)	(3.44)	---	---	153,000	2.02	---	---
Liability settlement gain	---	---	533,716	14.55	---	---	533,716	7.12
Other revenue	36,625	0.98	3,062	0.09	14,137	0.19	10,384	0.14
Royalty	(129,710)	3.46	(75,296)	2.05	(334,973)	4.42	(241,752)	3.23
Operating expenses	(889,492)	23.70	(573,527)	15.61	(2,034,335)	26.87	(1,102,755)	14.73
Field netback ⁽¹⁾	\$230,553	\$6.14	\$801,438	\$21.85	\$655,487	\$8.67	\$1,293,324	\$17.24
Sales volumes (boe)	37,533		36,673		75,701		74,934	

(1) See NON-GAAP MEASURES.

Higher operating expenses and an unrealized loss on a commodity contract for the three months ended June 30, 2010, caused a decrease in petroleum and natural gas revenue resulting in a modest \$230,553 of field netback. For the six months ended June 30, 2010, \$655,487 of field netback was influenced by higher petroleum and natural gas revenue and a realized and unrealized commodity contract gain, partially offset by higher operating expenses. In the three and six month periods ended June 30, 2009 higher field netbacks were mainly a result of the Company recording the above mentioned liability settlement.

GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSE

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
G&A	\$ 398,980	\$ 279,805	\$ 851,934	\$ 659,311
G&A per boe	\$ 10.63	\$ 7.63	\$ 11.25	\$ 8.80

General and administrative expenses for the three months ended June 30, 2010 were 43 percent higher than for the same period in 2009. Increased G&A expenses are mainly attributable to costs relating to salaries, consulting and legal fees. General and administrative expenses also increased in the six months ended June 30, 2010 compared to the six months ended June 30, 2009 by \$192,623. The increase can be mainly attributable to an increase in third party engineering services, consulting and legal fee as a result of the Company’s active asset acquisition and divestiture program.

DEPLETION, DEPRECIATION, AND ACCRETION

For the three and six months ended June 30, 2010, depletion, depreciation and accretion expense was \$991,731 (\$26.42/boe) and \$2,040,205 (\$26.95), respectively. For the three and six months ended June 30, 2009 depletion, depreciation and accretion expense was \$929,003 (\$25.33/boe) and \$1,885,596 (\$25.16), respectively. The Company’s depletion calculation uses the unit-of-production method in its computation.

STOCK BASED COMPENSATION EXPENSE

Stock based compensation expense totaled \$113,127 for the six months ended June 30, 2010, compared to \$55,395 for the six months ended June 30, 2009. The increase in stock based compensation expense relates to 730,000 stock options granted since June, 2009. Stock based compensation expense totaled \$47,285 for the three months ended June 30, 2010, compared to \$31,553 for the three months ended June 30, 2009. At June 30, 2010, there were 1,790,000 stock options outstanding.

INTEREST EXPENSE

Interest expense for the three and six months ended June 30, 2010 was \$33,608 and \$66,601, respectively, and interest expense for the three and six months ended June 30, 2009 was \$19,911 and \$30,673, respectively. Included in interest expense for the three and six months ended June 30, 2010 is overdraft interest, interest payments relating to the Company’s liability settlement and accrued interest charges due to the Canada Revenue Agency for outstanding flow-through share obligations after February 2010. At June 30, 2010 the Company had fulfilled approximately \$414,000 of its \$740,000 flow-through share obligation.

INCOME TAXES

For the three months ended June 30, 2010, the Company recorded a future income tax reduction of \$305,943. For the six months ended June 30, 2010, the Company recorded a future income tax reduction of \$576,332. For the three and six months ended June 30, 2009, the Company recorded a future income tax provision of \$38,803 and a future income tax reduction of \$182,585, respectively. Trafina’s tax horizon depends on factors such as production, commodity prices, the tax classification of wells drilled as well as the diversified nature of other capital expenditures incurred throughout the year.

NET LOSS

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net loss	\$935,108	\$341,010	\$1,840,048	\$1,024,792

For the three months ended June 30, 2010, the Company recorded a net loss of \$935,108 as a result of low revenue, high depletion, depreciation and accretion expense, and higher operating costs. By comparison, for the three months ended June 30, 2009, the Company recorded a net loss of \$341,010, as a result of lower revenue, high depletion, depreciation and accretion expense, and higher operating costs, partially offset by the liability settlement adjustment. For the six months ended June 30, 2010, the Company recorded a net loss of \$1,840,048, compared to a net loss of \$1,024,792 reported in the six months ended June 30, 2009. In 2010 a general increase in expenses due to the Company’s change in focus relating to asset mix and product type was the main cause of the net loss. In 2009 lower revenue and higher expenses were partially offset by the liability settlement. Comprehensive loss consists of net loss and other comprehensive loss (“OCL”). Because the Company does not have any OCL, the Company’s net loss and comprehensive loss are the same.

FUNDS FLOW FROM (USED IN) OPERATIONS

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Net loss	\$ (935,108)	\$ (341,010)	\$ (1,840,048)	\$ (1,024,792)
Add back items not involving cash:				
Depletion, depreciation and accretion	991,731	929,003	2,040,205	1,885,596
Future income taxes (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 contract	129,000	–	(153,000)	–
Liability settlement	---	(533,716)	---	(533,716)
Abandonments	---	(63,807)	---	(63,807)
Funds flow from (used in) operations ⁽¹⁾	\$ (73,035)	\$ 60,826	\$ (416,048)	\$ 136,091
Funds flow from (used in) operations per share –basic ⁽¹⁾	\$ 0.00	\$ 0.01	\$ (0.02)	\$ 0.01

(1) See NON-GAAP MEASURES.

For the three months ended June 30, 2010 the Company used funds of \$73,036 in its operations as a result of higher operating expenses relating to its southwest Saskatchewan assets and well tubing repair charges at the Company's Kinsella, Alberta area. Funds used in operations of \$416,048 for the six months ended June 30, 2010 were primarily a result of start-up charges associated with operations in southwest Saskatchewan. For the three and six months ended June 30, 2009 funds flow from operations were \$60,826 and \$136,091, respectively. Funds were generated in both periods in 2009 mainly due to lower operating expenses, when compared to funds used in both periods in 2010.

NETBACK ANALYSIS

The following table reconciles field netback (non-GAAP) to funds flow from (used in) operations (non-GAAP) to net loss (GAAP) for the three and six months ended June 30, 2010 and June 30, 2009:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Petroleum and natural gas revenue	\$ 1,275,671	\$ 913,483	\$ 2,770,306	\$ 2,093,731
Realized gain on commodity contract	66,459	---	87,352	---
Unrealized gain (loss) on commodity contract	(129,000)	---	153,000	---
Liability settlement revenue	---	533,716	---	533,716
Other revenue (expense)	36,625	3,062	14,137	10,384
Royalties	(129,710)	(75,296)	(334,973)	(241,752)
Operating expenses	(889,492)	(573,527)	(2,034,335)	(1,102,755)
Field netback ⁽¹⁾	230,553	801,438	655,487	1,293,324
General and Administrative	(398,980)	(279,805)	(851,934)	(659,311)
Interest	(33,608)	(19,911)	(66,601)	(30,673)
Current tax	---	156,627	---	130,274
Unrealized (gain) loss on commodity contract	129,000	–	(153,000)	–
Abandonments	---	(63,807)	---	(63,807)
Liability settlement revenue	---	(533,716)	---	(533,716)

Funds flow from (used-in) operations ⁽¹⁾	(73,035)	60,826	(416,048)	136,091
Depletion, depreciation and accretion	(991,731)	(929,003)	(2,040,205)	(1,885,596)
Future income tax reduction (expense)	305,943	(38,803)	576,332	182,585
Stock-based compensation	(47,285)	(31,553)	(113,127)	(55,395)
Unrealized gain (loss) on commodity contract	(129,000)	–	153,000	–
Abandonments	---	63,807	---	63,807
Liability settlement revenue	---	533,716	---	533,716
Net loss	\$ (935,108)	\$ (341,010)	\$ (1,840,048)	\$ (1,024,792)

(1) See NON-GAAP MEASURES.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2010, the Company had a net debt and working capital deficiency of \$3,667,818, which excludes the fair value of the commodity contracts. At June 30, 2009 the Company had a net debt and working capital deficiency of \$2,896,332. The primary reason for the difference is that 2009 includes the favourable liability settlement adjustment.

The future operations of the Company are dependent upon a return to profitable operations, raising capital to support activities, meeting obligations and receiving continued financial support of its lender. 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 ending 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 the 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.

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, where interest is 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 include a working capital ratio covenant, which is not to fall below 1:1.

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

EQUITY

Changes to equity of the Company for the six months ended June 30, 2009 were as follows:

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 the transfer of certain well 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 Options

The Company has an employee stock option plan under which employees, consultants and directors are eligible to receive options to purchase Class A common shares of the Company. For stock 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. On January 21, 2010, the Board of Directors of Trafina approved the issuance of 170,000 stock options to employees and consultants of the Company with an exercise price of \$0.46 per common share. Also in January, a director of the Company exercised 30,000 stock options at a price of \$0.30 per share and was issued 30,000 Class A common shares for gross proceeds of \$9,000. At June 30, 2010, stock options to purchase 1.79 million Class A common shares were outstanding, with an average exercise price of \$0.37 per common share.

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 in December 2009, pursuant to the *Income Tax Act* (Canada). 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.

Outstanding share data

Trafina is authorized to issue an unlimited number of Class A voting common shares, an unlimited number of Class B non-voting common shares and an unlimited number of preferred shares. As at August 25 2010, 18,627,262 Class A common shares were issued and outstanding. There are nil Class B common shares and nil preferred shares outstanding.

CAPITAL EXPENDITURES

The following table summarizes capital expenditures for the three and six months ended June 30, 2010 and June 30, 2009.

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Property dispositions	\$ (1,047,652)	\$ ---	\$ (2,581,544)	\$ ---
Property acquisitions	197,822		612,597	
Drilling, completions and recompletions	231,019	40,191	777,332	269,584
Equipping and facilities	169,097	274,442	541,537	518,691
Non-operated joint interest partner 2008 accrual adjustment	---	---	---	(246,469)
Other	47,820	19,249	104,171	19,365
Total capital expenditures, net	\$ (401,894)	\$ 333,882	\$ (545,907)	\$ 561,171

During the three months ended June 30, 2010, the Company disposed of a non-core area property for net proceeds of \$1.0 million. The Company also acquired assets at Brownfield, Alberta for cash and issuance of 324,000 special warrants to acquire an equivalent number of Class A common shares in the capital of the Company. Also, in late June 2010 the Company commenced drilling of its much anticipated Pembina Cardium well. The remaining expenditures were primarily a result of preparation work on a well tie-in program at Ronalane.

For the six months ended June 30, 2010 the Company disposed of four non-core area properties for net proceeds of \$2.6 million and acquired assets for \$0.6 million. Assets acquired consisted of the aforementioned Brownfield area and additional southwest Saskatchewan asset costs. Total costs incurred to realize on the acquisition of the southwest Saskatchewan assets as of June 30, 2010 were approximately \$1.5 million. The Company also incurred expenditures to complete an earning well at Pembina, thereby fulfilling its farm-in obligation and clearing the way for the commencement of the drilling of its Cardium well, which spud in late June. Equipping and tie-in projects at Wetaskiwin, southwest Saskatchewan, and Ronalane rounded out the remaining expenditures.

CONTRACTUAL OBLIGATIONS

At June 30, 2010, the Company had the following contractual obligations:

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 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

At June 30, 2010 the Company recorded the fair value of the commodity contracts of \$129,000 representing an unrealized gain on the contracts.

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

The Company expects to fulfill these obligations from funds flow and bank debt.

OFF BALANCE SHEET TRANSACTIONS

There were no off balance sheet transactions entered into during the period, nor are there any outstanding as of August 25, 2010.

TRANSACTIONS WITH RELATED PARTIES

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.

HISTORICAL QUARTERLY FINANCIAL INFORMATION

Outlined below is a table of historical quarterly financial information over the last eight quarters:

	2010		2009				2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Production (boepd)	413	424	389	392	403	423	420	279
Revenue (\$)	1,275,671	1,515,528	1,225,710	803,263	913,483	1,180,249	1,651,810	1,609,142
Revenue (\$/boe)	33.99	39.21	34.25	62.69	24.91	31.19	42.75	62.69
G&A (\$)	398,980	452,954	421,242	257,667	279,805	379,506	386,265	377,557
Funds flow from (used in) operations (\$) ⁽¹⁾	(73,035)	(343,013)	9,501	(28,572)	60,826	75,266	423,868	299,256
Funds flow per basic and diluted common share	\$(0.00)	\$(0.02)	--	--	\$0.01	\$0.01	\$0.05	\$0.05
Net loss (\$)	(935,108)	(904,940)	(870,969)	(763,808)	(341,010)	(683,782)	(400,307)	(187,767)
Net loss per basic and diluted common share	\$(0.05)	\$(0.05)	\$(0.06)	\$(0.07)	\$(0.03)	\$(0.06)	\$(0.05)	\$(0.03)
Capital expenditures (\$)	(401,894)	(144,011)	2,484,314	309,572	333,882	227,289	1,228,271	2,221,314
Net debt and working capital deficiency (\$) ⁽¹⁾	(3,667,818)	(4,158,567)	(3,911,476)	(3,444,260)	(2,896,332)	(3,712,758)	(3,631,929)	(4,921,251)

(1) See NON-GAAP MEASURES.

Beginning in Q3 2008, the Company consistently generated funds flow from operations until Q3 2009 when funds flow decreased dramatically, primarily as a result of low natural gas prices. In Q1 2010 the Company used funds flow in its operations, primarily as a result of start-up and repair charges at its southwest Saskatchewan properties. In Q2 2010 repair costs diminished dramatically in reducing funds flow used in operations to \$73,035, compared to Q1 2010. In the first quarter of 2009, the Company had a net loss of \$683,782 primarily as a result of lower commodity prices and higher depletion expense. The Company's net loss for the second quarter of 2009 decreased to a net loss of \$341,010, primarily a result of recording \$533,000 of liability settlement gain. A continual decline in natural gas prices resulted in a net loss for the third quarter of \$763,808. In the fourth quarter of 2009, the Company's net loss increased to \$870,969 mainly as a result of higher depletion, depreciation and accretion expenses. Q1 2010 saw a net loss of \$911,116, primarily due to the aforementioned start-up operating expenses at southwest Saskatchewan. The Q2 2010 net loss was mainly due to lower commodity prices and higher expenses.

FINANCIAL INSTRUMENTS

The Company has certain financial instruments, such as 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 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.

The Company manages its exposure to credit risk, liquidity risk and market risk by operating in a manner that minimizes its exposure to these risks to the extent practical.

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.

BUSINESS RISKS

Although economic conditions have improved slightly in 2010, Trafina expects to see an unsettled economy for the remainder of 2010 and as a result, faces many risks associated with its business. For a list of risk factors, see the Company's AIF filed on SEDAR at www.sedar.com.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards for financial periods beginning on January 1, 2011. As a result of this transition for 2011, Trafina will also be expected to disclose comparative 2010 results. This will require Trafina to restate its 2010 results to conform to IFRS standards.

Since the release of the Company's audited financial statements and MD&A for the year ended December 31, 2009, there has been no change in the Company's IFRS implementation strategy. The Company is currently evaluating its opening balance sheet.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the Company's AIF, is filed on SEDAR at www.sedar.com and on the Company's website at www.trafinaenergy.com. Information can also be obtained by contacting the Company at Trafina Energy Ltd., 2210, 530-8th Avenue S.W., Calgary, Alberta T2P 3S8.