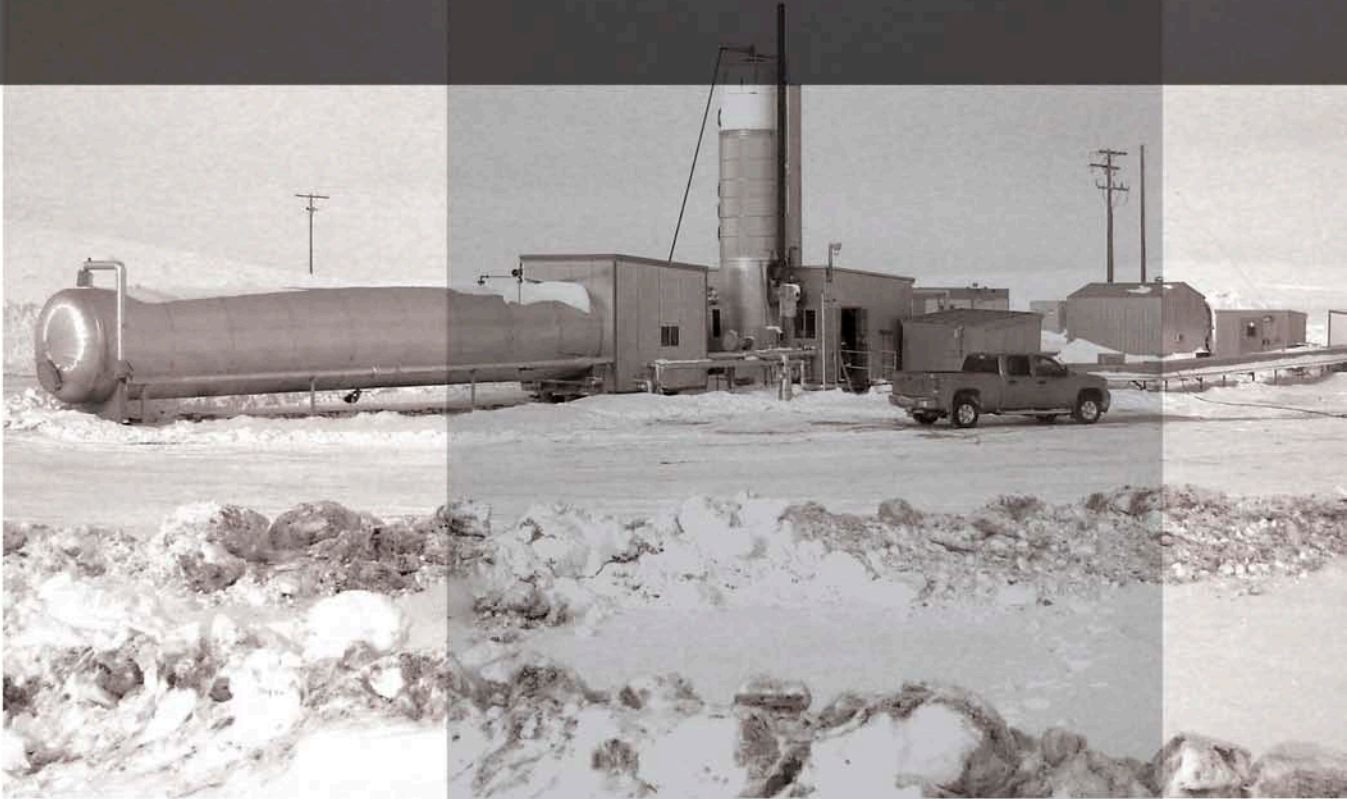


TRAFINA  
ENERGY LTD.



Q3 2010 FINANCIAL STATEMENTS

# FINANCIAL STATEMENTS

## INTERIM BALANCE SHEETS (UNAUDITED)

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets		
Accounts receivable	\$ 1,360,195	\$ 1,401,309
Commodity contracts (note 10)	42,000	---
Prepaid expenses and deposits	210,977	102,469
	<b>1,613,172</b>	<b>1,503,778</b>
Property and equipment (note 3)	<b>16,298,664</b>	<b>17,507,410</b>
	<b>\$ 17,911,836</b>	<b>\$ 19,011,188</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,675,704	\$ 3,417,225
Bank debt (note 4)	3,813,553	1,140,696
Commodity contract (note 10)	---	24,000
Current portion of liability settlement (note 5)	277,778	833,333
	<b>6,767,035</b>	<b>5,415,254</b>
Liability settlement	---	69,444
Asset retirement obligations (note 6)	3,494,636	2,731,549
Future income taxes	390,285	1,034,904
	<b>10,651,956</b>	<b>9,251,151</b>
Shareholders' Equity		
Share capital (note 7)	6,949,014	6,979,943
Warrants (note 7)	580,782	580,782
Contributed surplus (note 8)	709,160	548,748
Retained earnings (deficit)	(979,076)	1,650,564
	<b>7,259,880</b>	<b>9,760,037</b>
	<b>\$ 17,911,836</b>	<b>\$ 19,011,188</b>
Future operations (note 2)		
Commitments (note 11)		
Subsequent events (notes 4 and 13)		
See accompanying notes to interim financial statements.		

# FINANCIAL STATEMENTS

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
<b>REVENUE</b>				
Petroleum and natural gas	\$ 1,110,876	\$ 803,263	\$ 3,881,182	\$ 2,896,994
Royalties	(117,960)	(77,824)	(452,934)	(319,576)
Realized gain on commodity contracts (note 10)	163,574	---	250,926	---
Unrealized gain (loss) on commodity contracts (note 10)	(87,000)	---	66,000	---
Liability settlement (note 5)	---	---	---	533,716
Other	32,820	50,044	46,957	60,428
	<b>1,102,310</b>	<b>775,483</b>	<b>3,792,131</b>	<b>3,171,562</b>
<b>EXPENSES</b>				
Operating	810,167	508,587	2,844,502	1,611,341
General and administrative	359,122	257,667	1,211,056	916,978
Depletion, depreciation and accretion	895,291	923,485	2,935,495	2,809,082
Stock-based compensation	47,285	46,974	160,412	102,369
Interest	38,601	37,801	105,202	68,474
	<b>2,150,466</b>	<b>1,774,514</b>	<b>7,256,667</b>	<b>5,508,244</b>
Loss before income taxes	<b>(1,048,156)</b>	<b>(999,031)</b>	<b>(3,464,536)</b>	<b>(2,336,682)</b>
Reduction of income taxes				
Current	---	---	---	(130,274)
Future	(258,564)	(235,223)	(834,896)	(417,808)
	<b>(258,564)</b>	<b>(235,223)</b>	<b>(834,896)</b>	<b>(548,082)</b>
Net loss and comprehensive loss	<b>(789,592)</b>	<b>(763,808)</b>	<b>(2,629,640)</b>	<b>(1,788,600)</b>
Retained earnings (deficit), beginning of period	<b>(189,484)</b>	3,285,344	<b>1,650,564</b>	4,310,136
Retained earnings (deficit), end of period	<b>\$ (979,076)</b>	\$ 2,521,536	<b>\$ (979,076)</b>	\$ 2,521,536
Basic and diluted net loss per common share				
	<b>\$ (0.04)</b>	\$ (0.07)	<b>\$ (0.14)</b>	\$ (0.16)
Weighted average number of common shares outstanding (note 7)				
	<b>18,627,262</b>	11,304,641	<b>18,449,943</b>	11,289,340

See accompanying notes to interim financial statements.

# FINANCIAL STATEMENTS

## INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Cash provided by (used in):				
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (789,592)	\$ (763,808)	\$ (2,629,640)	\$ 1,788,600
Add (deduct) non-cash items:				
Depletion, depreciation and accretion	895,291	923,485	2,935,495	2,809,082
Future income tax reduction	(258,564)	(235,223)	(834,896)	(417,808)
Stock-based compensation	47,285	46,974	160,412	102,369
Unrealized (gain) loss on commodity contracts (note 10)	87,000	---	(66,000)	---
Liability settlement (note 5)	---	---	---	(533,716)
Asset retirement expenditures	---	---	---	(63,807)
	<b>(18,580)</b>	<b>(28,572)</b>	<b>(434,629)</b>	<b>107,520</b>
Change in non-cash operating working capital (note 9)	<b>(375,606)</b>	<b>(416,332)</b>	<b>(989,949)</b>	<b>(695,434)</b>
	<b>(394,186)</b>	<b>(444,904)</b>	<b>(1,424,578)</b>	<b>(587,914)</b>
<b>FINANCING ACTIVITIES</b>				
Common shares issued, net of share issue costs	100	---	(2,652)	45,850
Repurchase and cancellation of shares	---	(1,450)	---	(1,450)
Increase in bank debt	1,201,734	753,144	2,672,857	2,117,376
	<b>1,201,834</b>	<b>751,694</b>	<b>2,670,205</b>	<b>2,161,776</b>
<b>INVESTING ACTIVITIES</b>				
Acquisition of property and equipment	(21,081)	(104,893)	(440,564)	(116,997)
Disposition of property and equipment (note 3)	23,671	---	2,605,215	---
Additions to property and equipment	(1,512,158)	(204,679)	(2,966,314)	(753,747)
Change in non-cash investing working capital (note 9)	701,920	2,782	(443,964)	(1,190,822)
	<b>(807,648)</b>	<b>(306,790)</b>	<b>(1,245,627)</b>	<b>(2,061,566)</b>
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 nine months ended September 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 principal 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 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 September 30, 2010 the Company had a net debt and working capital deficiency of \$5,195,863, excluding the fair value of its 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 nine months ended September 30, 2010, the Company’s main focus was to prudently manage its debt levels. This was accomplished by disposing of non-core properties for net proceeds of \$2.6 million in the nine months ended September 30, 2010. A further reduction of the Company’s debt level will be achieved by issuing common equity (see Subsequent Events note 13).

Additionally, funds acquired from non-core property dispositions and common equity issuances will enable the Company to focus on further development activities in its core areas. The Company is also evaluating under-valued oil and gas assets and/or corporate asset acquisitions in an attempt to increase its asset base. It is anticipated that in order to meet all of these objectives additional funds will be required, including by issuing equity or securities convertible into equity.

Given its recently completed equity issuances and the anticipated completion of a further equity issuance on or before November 30, 2010 (see Subsequent Events note 13), 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.

### 3. PROPERTY AND EQUIPMENT

	September 30, 2010	December 31, 2009
Oil and gas properties	\$ 24,676,955	\$ 23,269,747
Production equipment	10,509,387	9,170,232
Office equipment	328,171	318,257
Other	---	1,227,082
	<b>35,514,513</b>	33,985,318
Accumulated depletion and depreciation	<b>(19,215,849)</b>	(16,477,908)
Net book value of property and equipment	<b>\$ 16,298,664</b>	\$ 17,507,410

In the nine months ended September 30, 2010, the Company disposed of five non-core area assets for net proceeds of \$2.6 million. The disposition of assets had a positive impact on the Company’s abandonment and reclamation liabilities by reducing the Company’s exposure by \$424,342 (see note 6).

During the three and nine months ended September 30, 2010, \$47,945 and \$143,522 (September 30, 2009 - \$16,800 and \$33,700) of general and administrative costs were capitalized as they were directly related to exploration and development activities.

In determining the Company's depletion, depreciation and accretion expense at September 30, 2010, future development and abandonment costs on proved undeveloped properties of \$2,670,700 (December 31, 2009 - \$2,684,100) were included in the calculation. At September 30, 2010 costs of unproved properties and seismic totaling \$168,226 (December 31, 2009 - \$137,111) were excluded from the depletion and amortization calculation.

Included in property plant and equipment at September 30, 2010 is \$2,146,472 (December 31, 2009 - \$1,915,929) net of accumulated depletion related to asset retirement costs.

#### 4. BANK DEBT

At September 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 revolving operating demand facility requires maintenance of a 1:1 working capital ratio covenant.

At September 30, 2010, the Company had drawn a total of \$3,813,553 on its available facilities with \$2,743,553 drawn on its revolving operating demand credit facility and \$1,070,000 drawn on its acquisition and development demand facility. Principal repayments relating to the acquisition and demand facility are \$30,000 per month and commenced September 1, 2010. Repayments will increase to \$55,000 per month starting January 1, 2011. At September 30, 2010, the Company is in compliance with its working capital covenant.

Subsequent to September 30, 2010, the Company's lender completed a scheduled review of the Company's assets and revised the revolving operating demand facility lending value to \$4,000,000. This was largely due to a reduced natural gas price forecast by the lender. The Company's acquisition and development demand facility lending value remained at \$1,250,000.

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 January 1, 2011.

#### 5. 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 nine months ended September 30, 2010, the Company paid a total of \$655,447 (year ended December 31, 2009 - \$370,620) in principal and interest pursuant to the agreement. The remaining principal balance owing as at September 30, 2010 is \$277,778.

#### 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 \$3,494,636 as at September 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.

	Nine months ended September 30, 2010	Year ended December 31, 2009
ARO, beginning of the period	\$ 2,731,549	\$ 1,389,862
Liabilities acquired	989,875	1,249,903
Liabilities sold (note 3)	(424,342)	(45,250)
Settlement of liabilities	---	(63,807)
Change in estimates	---	100,421
Accretion expense	197,554	100,420
ARO, end of period	\$ 3,494,636	\$ 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 none have been issued.

### *Issued*

Class A common shares:

	Nine months ended September 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	---	(11,652)	---	(254,216)
Tax effect of share issue costs	---	---	---	65,309
Balance, end of the period	18,627,262	\$ 6,949,014	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. The release of these special warrants was subject to the Company 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 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 nine months ended September 30, 2010. As at September 30, 2010, the Company has fulfilled its obligation by spending \$0.74 million on qualifying flow-through expenditures.

### 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:

	Nine months ended September 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 nine months ended September 30, 2010, Trafina issued 170,000 common stock options with an exercise price of \$0.46 per share.

At September 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 outstanding stock options are as follows:

	Nine months ended September 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	3.55 years		4.26 years	

For the three and nine months ended September 30, 2010, the Company recorded stock-based compensation expense of \$47,285 (2009 - \$46,974) and \$160,412 (2009 - 102,369), respectively. The fair value of the 170,000 options granted in the nine months ended September 30, 2010 was approximately \$68,000. The assumptions used in the computation of the fair value of stock options granted in the nine months ended September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
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 nine months ended September 30, 2010 were 18,627,262 and 18,449,943, respectively (2009 - 11,304,641 and 11,289,340). 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:

	Nine months ended September 30, 2010	Year ended December 31, 2009
Balance, beginning of the period	\$ 548,748	\$ 324,663
Stock based compensation	160,412	222,974
Stock repurchased and cancelled under normal course issuer bid	---	1,111
Balance, end of the period	\$ 709,160	\$ 548,748

## 9. SUPPLEMENTAL CASH FLOW DISCLOSURES

Change in non-cash working capital:	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Accounts receivable	\$ 455,802	\$ (601,867)	\$ 41,114	\$ (183,648)
Income tax receivable	---	156,627	---	---
Prepaid expenses and deposits	(85,724)	(50,101)	(108,508)	(25,519)
Accounts payable and other liabilities <sup>(1)</sup>	164,569	81,791	(741,521)	(1,677,089)
Current portion of liability settlement <sup>(2)</sup>	(208,333)	---	(624,998)	---
	\$ 326,314	\$ (413,550)	\$ (1,433,913)	\$ (1,886,256)
Change in non-cash working capital				
Operating	(375,606)	(416,332)	(989,949)	(695,434)
Investing	701,920	2,782	(443,964)	(1,190,822)

(1) Accounts payable for the three months ended September 30, 2009 was adjusted for \$208,334 to reflect a non-cash reduction in the Company's long-term liability settlement. Accounts payable for the nine months ended September 30, 2009 was adjusted for \$533,716 and 277,778 to reflect a non-cash reduction in accounts payable and the recognition of a long term liability settlement, respectively as per note 5.

(2) Current portion of liability settlement for the nine months ended September 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 September 30		Nine months ended September 30	
	2010	2009	2010	2009
Interest paid	\$ 38,601	\$ 21,200	\$ 98,519	\$ 27,108

## 10. 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.

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 September 30, 2010, the only financial instrument that required disclosure of fair value according to the new three-level hierarchy was the Company's 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 September 30, 2010, approximately 33% of the Company's accounts receivable trade balance was from various petroleum and natural gas purchasers and has subsequently been received. A further 21% of the Company's accounts receivables as at September 30, 2010 have been received to date. The remaining 46% of the account receivable trade balance is due from joint interest partners. At September 30, 2010, approximately \$300,000 (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. As noted earlier, in order to mitigate the Company's liquidity risk, Trafina disposed of certain non-core properties in the nine months ended September 30, 2010 and funds received were used to pay down debt.

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

Financial liability	Less than 1 year	1 to 2 years
Accounts payable and accrued liabilities	\$ 2,675,704	\$ ---
Liability settlement	277,778	---
Bank debts	3,813,553	---
Total	\$ 6,767,035	\$ ---

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

### *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 nine months ended September 30, 2010.

#### *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 financial derivatives sales 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. 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 September 30, 2010 the Company recorded a commodity contracts asset of \$42,000 based on the fair value of the contracts at that time. An unrealized gain on commodity contracts of \$66,000 was recognized in the nine months ended September 30, 2010 and a realized gain of \$250,926 was recognized over the same period. For the three months ended September 30, 2010 the Company recorded an unrealized loss on commodity contracts of \$87,000 and a realized gain of \$163,574.

#### *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 September 30, 2010, the Company had bank debt of \$3,813,553 and any future cash draws against this facility will further expose the Company to changes in interest rates because they bear a floating rate of interest. The Company had no interest rate swap or financial contracts in place during the nine months ended September 30, 2010. A 1.0% change in the prime rate over the nine months ended September 30, 2010 would have impacted net loss by approximately \$15,100.

### 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. There was no change in management of the Company's capital structure during the nine months ended September 30, 2010.

The following outlines the Company's capital structure:

	<b>September 30, 2010</b>	December 31, 2009
Working capital deficit (excluding bank debt and commodity contracts)	\$ 1,382,310	\$ 2,746,780
Bank debt	\$ 3,813,553	\$ 1,140,696
Shareholders' equity	\$ 7,259,880	\$ 9,760,037

## 11. COMMITMENTS

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

### Financial sales contracts

The following contracts were in place at September 30, 2010:

Type	Daily Volume	Duration	Price
Fixed- Gas	500 GJ/day	October 1, 2010 to October 31, 2010	\$5.15/GJ
Fixed - Gas	250 GJ/day	October 1, 2010 to October 31, 2010	\$5.30/GJ

On November 1, 2010, the Company entered into the following financial sales 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

### Flow-through

As a result of completing a private placement financing on November 5, 2010 (see *Subsequent Events note 13*), the Company is required to incur \$1.5 million on eligible flow-through expenditures prior to December 31, 2011. The qualified expenditures is expected to be funded by cash flow from operating activities, bank debt and funds raised as a result of issuing equity.

### Office rent

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

2010	\$ 31,000
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 nine months ended September 30, 2010, fees for legal services billed from this related party were approximately \$157,000 (December 31, 2009, \$108,000), of which \$22,000 is included in accounts payable and accrued liabilities at September 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.

### 13. SUBSEQUENT EVENTS

- a) On October 1, 2010 the Company announced that its board of directors had approved the appointment of Mr. Edward Marcinew as Vice President, Exploration. In connection with his appointment, Mr. Marcinew was granted options to acquire 70,000 Class A common shares at a price of \$0.33 per share. These options have an expiry date of October 1, 2015 and are subject to the provisions of the Company's stock option plan. On November 5, 2010 Mr. Marcinew purchased 150,000 of the Company's common shares at a price of \$0.30 per share on a private placement basis for gross proceeds of \$45,000.
- b) On November 5, 2010 the Company completed a non-brokered private placement of Class A common shares issued on a flow-through basis resulting in gross proceeds of \$1.5 million. At closing, the Company issued 3,750,000 flow-through shares at a price of \$0.40 per share. Directors and senior officers of the Company directly and indirectly purchased an aggregate of 550,000 flow-through shares pursuant to the private placement. The Company paid a finder's fee of \$24,000 to an arm's-length party in connection with the subscriptions of certain subscribers who participated in the private placement. The Company will be required to incur \$1.5 million of eligible exploration expenditures prior to December 31, 2011.

In addition, on November 5, 2010 the board of directors of the Company approved a non-brokered private placement of up to \$1,900,200 of units at a price of \$0.30 per unit, with each unit consisting of one Class A common share and one Class A common share purchase warrant ("Warrant"). Each Warrant will entitle the holder thereof to acquire one Common Share at a price of \$0.45 per share on or before the date that is the second anniversary of the Closing Date (the "Expiry Date"). If at any time after the Closing Date and before the Expiry Date the 20 day volume weighted average trading price ("VWAP") of the Common Shares is greater than \$0.50 per share, the Corporation shall be entitled, upon 30 days prior written notice to all holders of the Warrants, to require all of the then outstanding Warrants to be exercised by a date to be specified by the Corporation (the "VWAP Conversion Date"). All Warrants that remain unexercised following the VWAP Conversion Date shall immediately expire and all rights of holders of such Warrants terminated without any compensation to any such holder. The VWAP is calculated by dividing the total value by the total volume of Common Shares traded for the relevant period. Closing of the private placement is expected to occur on or before November 30, 2010 and is subject to the approval of the TSX Venture Exchange.

- c) On November 17, 2010 the Company entered into a definitive agreement to purchase an undivided 100 percent working interest in approximately 37.5 gross sections (28.25 net) of undeveloped lands in north-eastern Alberta. In addition to the land purchase, the Company has entered into a participation agreement with the same third party to earn a 25 percent working interest in an additional 13 gross sections of land in the same area by drilling one well at a 100 percent working interest or two wells at a 50 percent working interest. The definitive agreement provides that the first well will be spud on or before March 31, 2012. Closing is anticipated to occur on or about November 30, 2010.