



Q1 2011 FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

CONDENSED INTERIM STATEMENT OF FINANCIAL POSITION (UNAUDITED)

	March 31, 2011	December 31, 2010 (note 18)	January 1, 2010 (note 18)
ASSETS			
Current Assets			
Accounts receivable	\$ 1,073,379	\$ 1,281,311	\$ 1,401,309
Prepaid expenses and deposits	166,346	203,110	102,469
	<u>1,239,725</u>	<u>1,484,421</u>	<u>1,503,778</u>
Exploration and evaluation assets (note 5)	4,403,632	2,639,240	1,363,082
Property and equipment (note 6)	13,342,544	13,764,140	14,154,103
	<u>\$ 18,985,901</u>	<u>\$ 17,887,801</u>	<u>\$ 17,020,963</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 5,475,731	\$ 3,970,493	\$ 3,417,225
Bank debt (note 7)	4,191,241	3,673,466	1,140,696
Commodity contract liability (note 14)	253,027	119,589	24,000
Current portion of liability settlement (note 8)	---	69,444	833,333
	<u>9,919,999</u>	<u>7,832,992</u>	<u>5,415,254</u>
Flow through share obligation	---	130,000	58,474
Liability settlement (note 8)	---	---	69,444
Decommissioning obligations (note 9)	5,241,292	5,222,074	3,834,358
Deferred income taxes	---	---	247,913
	<u>15,161,291</u>	<u>13,185,066</u>	<u>9,625,443</u>
Shareholders' Equity			
Share capital (note 10)	10,491,151	10,461,151	7,411,451
Warrants (note 10)	1,236,023	1,236,023	580,782
Contributed surplus (note 11)	898,627	870,514	650,084
Deficit	(8,801,191)	(7,864,953)	(1,246,797)
	<u>3,824,610</u>	<u>4,702,735</u>	<u>7,395,520</u>
	<u>\$ 18,985,901</u>	<u>\$ 17,887,801</u>	<u>\$ 17,020,963</u>
Future operations (note 4)			
Commitments (note 15)			
Subsequent events (note 17)			
See accompanying notes to condensed interim financial statements.			

FINANCIAL STATEMENTS

CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

	2011	2010 (note 18)
REVENUE		
Petroleum and natural gas	\$ 1,537,110	\$ 1,494,636
Royalties	(140,177)	(205,263)
Realized gain (loss) on commodity contracts (note 14)	(8,716)	20,892
Unrealized gain (loss) on commodity contracts (note 14)	(133,438)	282,000
Other	30,345	(22,488)
	<u>1,285,124</u>	<u>1,569,777</u>
EXPENSES		
Operating	1,063,145	1,144,843
General and administrative	526,914	452,954
Depletion and depreciation	659,150	672,901
Impairment of property and equipment (note 6)	---	805,307
Share based compensation	23,273	67,967
Gain on property divestment (note 6)	---	(63,229)
Finance expenses (note 12)	78,880	58,653
	<u>(1,066,238)</u>	<u>(1,569,619)</u>
Loss before income taxes	(1,066,238)	(1,569,619)
Deferred income tax reduction	(130,000)	(255,515)
	<u>(936,238)</u>	<u>(1,314,104)</u>
Net loss and comprehensive loss	<u>(936,238)</u>	<u>(1,314,104)</u>
Basic and diluted loss per common share	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>
Weighted average number of common shares outstanding	<u>29,941,262</u>	<u>18,294,595</u>

See accompanying notes to condensed interim financial statements.

FINANCIAL STATEMENTS

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the three months ended March 31,	2011	2010 (note 18)
SHAREHOLDERS' CAPITAL		
Balance, beginning of period	\$ 10,461,151	\$ 7,411,451
Share issue costs	---	(11,646)
Issued on exercise of stock options	30,000	9,000
Balance, end of period	<u>10,491,151</u>	<u>7,408,805</u>
WARRANTS		
Balance, beginning and end of period	<u>1,236,023</u>	<u>580,782</u>
CONTRIBUTED SURPLUS		
Balance, beginning of period	870,514	650,084
Share based compensation	28,113	67,967
Balance, end of period	<u>898,627</u>	<u>718,051</u>
DEFICIT		
Balance, beginning of period	(7,864,953)	(1,246,797)
Net loss	(936,238)	(1,314,104)
Balance, end of period	<u>(8,801,191)</u>	<u>(2,560,901)</u>
TOTAL SHAREHOLDERS' EQUITY	<u>\$ 3,824,610</u>	<u>\$ 6,146,737</u>

See accompanying notes to consolidated interim financial statements.

FINANCIAL STATEMENTS

CONDENSED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended March 31,	2011	2010
		(note 18)
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net loss	\$ (936,238)	\$ (1,314,104)
Add (deduct) non-cash items:		
Depletion and depreciation	659,150	672,901
Accretion on decommissioning obligations	33,303	25,660
Impairment of property and equipment	---	805,307
Gain on property divestment	---	(63,229)
Deferred income tax reduction	(130,000)	(255,515)
Share based compensation	23,273	67,967
Unrealized loss (gain) on commodity contracts	133,438	(282,000)
Decommissioning expenditures	(14,271)	---
	(231,345)	(343,013)
Change in non-cash operating working capital	469,476	(606,432)
	238,131	(949,445)
FINANCING ACTIVITIES		
Common shares issued, net of share issue costs	30,000	(2,646)
Increase in bank debt	517,775	1,269,042
	547,775	1,266,396
INVESTING ACTIVITIES		
Acquisition of property and equipment	---	(383,660)
Disposition of property and equipment	---	1,533,892
Additions to property and equipment	(1,996,919)	(1,006,221)
Change in non-cash investing working capital	1,211,013	(460,962)
	(785,906)	(316,951)
Change in cash	---	---
Cash, beginning of period	---	---
Cash, end of period	\$ ---	\$ ---
Cash paid:		
Interest	\$ 43,709	\$ 29,657

See accompanying notes to condensed interim financial statements.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2011 and 2010.

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, development and production of oil and natural gas in Western Canada.

2. BASIS OF PREPARATION

Statement of compliance:

The interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting. As these are the Company’s first set of interim financial statements in accordance with International Financial Reporting Standards (“IFRS”) the Company elected to disclose additional information relating to IFRS 1- First-time Adoption of IFRS. This information is considered key to understanding the Company’s interim financial statements and is referenced in note 18. The Company may not provide the same amount of disclosure in subsequent interim reporting in accordance with IFRS. The Company’s significant accounting policies under IFRS are presented in note 3. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. The impact of the new standards, including reconciliations presenting the change from Canadian Generally Accepted Accounting Principles (“CGAAP”) IFRS as at January 1, 2010, as at and for the three months ended March 31, 2010 and as at and for the year ended December 31, 2010 is presented in note 18.

Functional and presentation currency and basis of measurement:

The interim financial statements are presented in Canadian dollars, which is the Company’s functional currency and have been prepared on the historical cost basis except for certain financial assets and liabilities, which are measured at fair value.

Use of estimates and judgments:

The preparation of the interim financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions in various reported amounts. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised. The areas that rely significantly on judgment, estimates and assumptions are disclosed below:

(i) Derivatives

The fair value of commodity contracts are based on published market prices as at the statement of financial position date and may differ from what will eventually be realized. Changes in the fair value of the commodity contracts are recognized in the statements of loss and comprehensive loss. The actual gains and losses realized on eventual cash settlement can vary due to subsequent fluctuations in commodity prices.

(ii) Oil and gas reserves

Reserves and resources are used in the units of production calculation for depreciation, depletion and amortization and the impairment analysis which affect earnings. There are numerous uncertainties inherent in estimating oil and gas reserves. Estimating reserves is very complex, requiring many judgments based on geological, geophysical, engineering and economic data. Changes in these judgments could have a material impact on the estimated reserves. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available and as the economic environment changes.

(iii) Depreciation and depletion

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes before royalties in relation to total estimated proved and probable reserves as determined annually by independent engineers and internal reserve evaluations on a quarterly basis determined in accordance with National Instrument 51-101. Natural gas reserves and production are converted at the energy equivalent of six thousand cubic feet to one barrel of oil.

Calculations for depletion and depreciation of production equipment are based on total capitalized costs plus estimated future development costs of proved and probable undeveloped reserves less the estimated net realizable value of production equipment and facilities after the proved reserves are fully produced. The costs of acquiring and evaluating unproved properties are excluded from depletion calculations.

The interim financial statements of the Company were authorized by the Board of Directors on June 22, 2011.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements:

(a) Exploration and evaluation assets and property and equipment:

(i) Pre-exploration expenditures:

Expenditures made by the Company before acquiring the legal right to explore in a specific area are expensed by the Company as incurred.

(ii) Exploration and evaluation (“E&E”) assets:

Expenditures incurred during the exploration and evaluation phase are recorded in accordance with IFRS 6 – Exploration for and Evaluation of Mineral Resources. Application of IFRS 6 begins after the legal right to explore in a specific area is obtained and ends when the Company demonstrates that there is technical feasibility and commercial viability of extracting a mineral resource. These costs include, but are not limited to, exploration license expenditures, leasehold property acquisition costs, evaluation costs, including drilling costs directly attributable to an identifiable well and directly attributable general and administrative costs. The Company accumulates these costs in cost centres, which are rolled up under cash generating units (“CGUs”). The CGUs are assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Certain facts and circumstances may be that the right to explore has expired or will expire in the near future, no future expenditures are planned and previous exploration activities have not led to any significant discovery and management has decided not to continue further activity and although activity is to continue the carrying amount of the E&E assets is unlikely to be recovered. Once it has been determined that there is technical feasibility and commercial viability of a particular area the E&E assets are reclassified to property and equipment.

(iii) Property and equipment (“P&E”):

Expenditures relating to P&E include oil and gas development and production assets and office furniture and equipment. Expenditures are grouped and are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. P&E assets are grouped into CGUs for impairment testing. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of a CGU exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. The impairment is recorded to earnings. On disposal of property and equipment gains and losses are determined by comparing the proceeds of disposal to the carrying amount of the property and are recorded to earnings.

(iv) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in earnings as incurred.

(v) Depletion and depreciation:

Depletion of petroleum and natural gas properties is provided using the unit-of-production method based on production volumes in relation to total estimated proved and probable reserves as determined annually by independent engineers, in accordance with National Instrument 51-101.

Proved and probable reserves are estimated using independent reserve engineer reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less.

Office furniture and equipment is depreciated on a 20% declining balance basis.

(b) Impairment:

(i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in earnings.

An impairment loss is reversed if the reversal can be objectively related to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in earnings.

(ii) Non-financial assets:

The carrying amount of E&E assets are assessed for impairment when they are reclassified to P&E assets and or if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into CGUs, which are defined as the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell.

Value in use is determined by estimated the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. Fair value less costs to sell is determined to be the amount for which the asset could be sold in an arm's length transaction. Fair value less costs to sell can be determined by using an observable market or by using discounted future net cash flows of proved and probable reserves using forecasted prices and costs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill, if any, allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(c) Provisions:

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance re-mediation activities. A provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Changes in the present value of the estimated expenditure are reflected as an adjustment to the provision and the relevant asset. The unwinding of the discount on the decommissioning provision is recognized as a finance cost. Actual costs incurred upon settlement of the decommissioning liabilities is charged against the provision to the extent the provision was recognized.

(d) Share based compensation:

The grant date fair value of options granted to officers, directors, employees and consultants is recognized as compensation expense, with a corresponding increase in contributed surplus over the vesting period. A forfeiture rate is estimated on the grant date and is periodically adjusted to reflect the actual number of options that vest. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that options are forfeited, previously recognized compensation expense associated with the unvested portion of such stock options is reversed.

(e) Income tax:

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

(i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

(ii) Deferred income tax

Deferred tax is recognized using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(f) Flow-through shares:

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. A deferred liability is recognized for the premium on the flow-through shares and is subsequently reversed as the Company incurs qualifying expenditures. Any difference between the deferred liability set up for the premium on the flow-through shares and the tax effect on the expenditures incurred is recognized in earnings.

(g) Interest in joint operations:

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

(h) Revenue recognition:

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

(i) Per share amounts:

Basic per share amounts are computed based on the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if stock options and warrants to purchase common shares were exercised and any other convertible instruments were converted. The Company uses the treasury stock method to determine the dilutive effect of stock options and warrants. The calculation assumes that the proceeds on exercise of options or warrants are used to repurchase shares at the current market price.

(j) Financial Instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments are comprised of cash, accounts receivables, accounts payable and accrued liabilities, and bank debt. Non-derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition the Company's non-derivative financial instruments are measured as described below.

Accounts receivable, accounts payable and accrued liabilities, and bank debt are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments:

The Corporation may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. All financial derivative contracts are recorded on the statement of financial position and earnings at fair value. Transaction costs are recognized in earnings when incurred.

(k) Finance expense:

Finance expense comprises interest expense on borrowings, accretion of the discount rate on provisions and impairment losses recognized on financial assets.

(l) New standards and interpretations not yet adopted:

Effective January 1, 2013, the Company will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

4. FUTURE OPERATIONS

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

At March 31, 2011 the Company had a working capital deficiency of \$8.4 million, excluding the fair value of its commodity contracts. As a result, the Company was in violation of its working capital ratio covenant as at March 31, 2011. The Company requested and received a waiver from its bank with respect to the breach and has recently agreed to revised credit facilities with its current lender (see note 7).

In April the Company completed a financing for gross proceeds of approximately \$9 million.

With the additional funds received from the public offering and the renewal of the credit facilities, 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.

5. EXPLORATION AND EVALUATION ("E&E") ASSETS

Balance, January 1, 2010	\$	1,363,082
Additions		1,061,401
Asset acquisitions		2,290,691
Transfer to property and equipment		(1,960,934)
Impairment		(115,000)
Balance, December 31, 2010		2,639,240
Additions		1,764,392
Balance, March 31, 2011	\$	4,403,632

Exploration and evaluation assets consist of the Company's exploration and evaluation projects which are pending the determination of technical feasibility and commercial viability.

6. PROPERTY AND EQUIPMENT

Cost or deemed cost	Oil and natural gas properties	Office furniture and equipment	Total
Balance, January 1, 2010	\$ 14,113,185	\$ 318,257	\$ 14,431,442
Additions	4,169,338	10,281	4,179,619
Asset acquisitions	2,262,120	---	2,262,120
Dispositions	(2,838,379)	---	(2,838,379)
Transfer from exploration and evaluation assets	1,960,934	---	1,960,934
Change in decommissioning obligations estimates	53,258	---	53,258
Balance, December 31, 2010	19,720,456	328,538	20,048,994
Additions	236,381	987	237,368
Change in decommissioning obligations estimates	186	---	186
Balance, March 31, 2011	\$ 19,957,023	\$ 329,525	\$ 20,286,548

Accumulated depletion, depreciation and impairment losses	Oil and natural gas properties	Office furniture and equipment	Total
Balance, January 1, 2010	\$ ---	\$ 277,339	\$ 277,339
Depletion and depreciation	2,677,948	40,820	2,718,768
Impairment	3,389,697	---	3,389,697
Dispositions	(100,950)	---	(100,950)
Balance, December 31, 2010	5,966,695	318,159	6,284,854
Depletion and depreciation	647,784	11,366	659,150
Balance, March 31, 2011	\$ 6,614,479	\$ 329,525	\$ 6,944,004

Net book value	Oil and natural gas properties	Office furniture and equipment	Total
Balance, January 1, 2010	\$ 14,113,185	\$ 40,918	\$ 14,154,103
Balance, December 31, 2010	\$ 13,753,761	\$ 10,379	\$ 13,764,140
Balance, March 31, 2011	\$ 13,342,544	\$ ---	\$ 13,342,544

In November 2009 the Company completed the purchase from a bank of the outstanding indebtedness and liabilities to the bank by a private oil and gas corporation with assets in southwest Saskatchewan. On January 15, 2010 the Company acquired assets from a private oil and gas corporation in exchange for amounts owing to the Company. Additional costs in 2010 incurred to realize on the acquisition were approximately \$320,000, plus related decommissioning obligations with an estimated net present value of approximately \$1.5 million. Additional properties were acquired; whereby the properties were paid by using cash and the issuance of common shares. Total consideration for the property was approximately \$260,000, plus related decommissioning obligations with an estimated net present value of approximately \$220,000.

In the year ended December 31, 2010, the Company disposed of five non-core area assets for net cash proceeds of \$2.6 million. The Company recorded a gain on sale of these properties of \$82,770.

The Company recorded no impairments for the three months ended March 31, 2011 (December 31, 2010 - \$3.4 million).

For the three months ended March 31, 2011, \$26,136 (December 31, 2010 – \$156,511) of general and administrative costs and \$4,840 (December 31, 2010 – \$12,590) of share based compensation costs were capitalized as they were directly related to exploration and development activities.

In determining the Company's depletion expense at March 31, 2011, future development and abandonment costs on proved plus probable properties of approximately \$14.1 million (December 31, 2010 – approximately \$14.6 million) were included in the calculation.

7. BANK DEBT

At March 31, 2011, the Company had drawn a total of \$4.2 million on its available facilities with \$3.9 million drawn on its revolving operating demand credit facility and \$0.3 million drawn on its acquisition and development facility.

At March 31, 2011 the Company had a working capital deficiency of \$8.4 million, excluding the fair value of its commodity contracts. The Company was in violation of its working capital ratio covenant as at March 31, 2011; however, as a result of completing a recent financing and receiving approximately \$9.0 million of gross proceeds, the Company's lender waived the violation (see note 17).

In June, 2011 the Company renewed its credit facilities agreement with a Canadian chartered bank. The new facilities consist of a \$4.0 million revolving operating demand facility, with interest charged on advances under the facility at the bank's prime rate plus 1.50% and a \$1.8 million 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 million fixed and floating charge debenture on all assets. The next review date is scheduled on or before October 1, 2011. The facilities include a working capital ratio covenant, which is not to fall below 1:1.

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.

8. LIABILITY SETTLEMENT

In January, 2011 the Company made a final payment of approximately \$69,000 relating to an agreed upon settlement amount owed by the Company as a result of prior years' revenue over-allocations.

9. DECOMMISSIONING OBLIGATIONS

Decommissioning 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. The total undiscounted amount of cash flows required to settle the decommissioning obligations is approximately \$6.3 million (December 31, 2010 - \$6.3 million). It is expected that the majority of the total future liability will be incurred between 2015 and 2038. To calculate the net present value of its decommissioning obligations, the Company used an average risk free rate of 2.59% (December 31, 2010 – 2.59%) and an inflation rate of 1.5% (December 31, 2010 – 1.5%).

	Three months ended March 31, 2011	Year ended December 31, 2010
Balance, beginning of the period	\$ 5,222,074	\$ 3,834,358
Obligations incurred	---	1,775,370
Obligations reversed on dispositions	---	(564,884)
Obligations settled	(14,271)	---
Change in estimates	186	53,258
Accretion expense	33,303	123,972
Balance, end of period	\$ 5,241,292	\$ 5,222,074

10. 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.

Issued

Class A common shares:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number	Amount	Number	Amount
Balance, beginning of period	29,861,262	\$ 10,461,151	18,273,262	\$ 7,411,451
Issued for cash upon private placements	---	---	6,484,000	1,945,200
Issued for cash on a flow-through basis upon private placements	---	---	4,750,000	2,000,000
Issued as partial consideration for property acquisition	---	---	324,000	162,000
Exercise of stock options	100,000	30,000	30,000	9,000
Fair value of warrants associated with private placement	---	---	---	(655,241)
Premium on flow-through shares	---	---	---	(322,500)
Share issue costs	---	---	---	(88,759)
Balance, end of period	29,961,262	\$ 10,491,151	29,861,262	\$ 10,461,151

Warrants

Details of the outstanding warrants are as follows:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number	Amount	Number	Amount
Balance, beginning of the period	8,847,335	\$ 1,236,023	2,513,335	\$ 580,782
Issued upon private placement	---	---	6,334,000	655,241
Balance, end of the period	8,847,335	\$ 1,236,023	8,847,335	\$ 1,236,023

Each outstanding warrant entitles the holder to exercise one warrant for one Class A common share of the Company. On March 7, 2011 the Company announced the acceleration of the expiry of the 6,334,000 warrants to April 15, 2011. The remaining 2,513,335 warrants expire on June 3, 2011. Subsequent to March 31, 2011, 6,334,000 warrants expired unexercised and 14,300 warrants were exercised for proceeds of \$6,435.

Stock Option Plan

The Company has an employee stock option plan under which officers, directors, employees and consultants are eligible to receive grants of options. At March 31, 2011, 2,095,000 common stock options were outstanding, with an average exercise price of \$0.38 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.

Stock option continuity is as follows:

	Three months ended March 31, 2011		Year ended December 31, 2010	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of the period	2,195,000	\$ 0.37	1,650,000	\$ 0.36
Granted	---	---	575,000	0.40
Exercised	(100,000)	0.30	(30,000)	0.30
Balance, end of period	2,095,000	\$ 0.38	2,195,000	\$ 0.37

Stock options outstanding and exercisable as at March 31, 2011:

Grant Year	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number Exercisable at March 31, 2011	Weighted Average Exercise Price
2008	\$0.37	2.54	350,000	\$0.37
2009	\$0.37	2.90	883,333	\$0.36
2010	\$0.40	4.29	248,333	\$0.41
	\$0.38	3.26	1,481,666	\$0.37

For the three months ended March 31, 2011, the Company recorded share based compensation expense of \$23,273 (March 31, 2010 - \$67,967).

Per Share Amounts

Basic weighted average shares outstanding for the three months ended March 31, 2011 were 29,941,262 (2010 – 18,294,595). Since the Company had net losses in both three month periods any adjustments for options and warrants would have an anti-dilutive effect and as a result are excluded from diluted per share amounts.

11. CONTRIBUTED SURPLUS

The following schedule shows the continuity of contributed surplus:

	Three months ended March 31, 2011	Year ended December 31, 2010
Balance, beginning of the period	\$ 870,514	\$ 650,084
Share based compensation	28,113	220,430
Balance, end of the period	\$ 898,627	\$ 870,514

12. FINANCE EXPENSES

	Three months ended March 31, 2011	Three months ended March 31, 2010
Interest on bank debt	\$ 45,577	\$ 32,993
Accretion on decommissioning obligations	33,303	25,660
Balance, end of the period	\$ 78,880	\$ 58,653

13. SUPPLEMENTAL CASH FLOW DISCLOSURES

Change in non-cash working capital:

Three months ended March 31,	2011	2010
Accounts receivable	\$ 207,932	\$ (358,239)
Prepaid expenses and deposits	36,764	(62,630)
Accounts payable and accrued liabilities	1,505,237	(438,193)
Current portion of liability settlement ⁽¹⁾	(69,444)	(208,332)
	\$ 1,680,489	\$ (1,067,394)
Change in non-cash working capital		
Operating	469,476	(606,432)
Investing	1,211,013	(460,962)

(1) Current portion of liability settlement is adjusted for \$69,444 to reflect a reduction in a long term liability settlement.

14. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company has certain financial instruments, including accounts receivable, commodity contracts, accounts payable and accrued liabilities 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 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 fair value of the Company's commodity contracts are determined 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. As at March 31, 2011 the fair value of the Company's commodity contracts was a liability of \$253,027 (December 31, 2010 - \$119,589). The commodity contracts are classified as level 2 within the fair value hierarchy.

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 March 31, 2011, approximately 51 percent of the Company's accounts receivable trade balance was from various petroleum and natural gas purchasers and has subsequently been received. A further 13 percent of the Company's accounts receivables as at March 31, 2011 have been received to date.

	Not Past Due (less than 90 days)	Past Due (more than 90 days)	Total
Petroleum and natural gas purchasers	\$ 543,792	\$ ---	\$ 543,792
Joint interest partners	265,178	264,409	529,587
Total accounts receivable at March 31, 2011	\$ 808,970	\$ 264,409	\$ 1,073,379

A joint interest partner is past due with payments of approximately \$200,000 as at March 31, 2011. The Company has begun a process of enforcing the operator's lien under its joint operating agreement.

Liquidity Risk

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

The following are the contractual maturities of financial liabilities as at March 31, 2011:

Financial Liability	Less than 1 year
Accounts payable and accrued liabilities	\$ 5,475,731

Subsequent to March 31, 2011, the Company completed a financing for gross proceeds of \$9.0 million.

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 three months ended March 31, 2011.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The following table summarizes the Company's commodity contracts:

Commodity price financial contracts:

Type	Daily Volume	Duration	Price
Fixed-Gas	300 GJ/day	April 1, 2011 to December 31, 2011	\$3.85/GJ
Fixed-Gas	300 GJ/day	May 1, 2011 to December 31, 2011	\$4.41/GJ
Collar-Oil	50 bbl/day	April 1, 2011 to December 31, 2011	Floor \$75.00 WTI Cdn Ceiling \$90.00 WTI Cdn
Collar-Oil	50 bbl/day	May 1, 2011 to December 31, 2011	Floor \$90.00 WTI US Ceiling \$108.90 WTI US

At March 31, 2011 the Company had a commodity contracts liability of \$253,027 based on the fair value of the contracts at that time. An unrealized loss on commodity contracts of \$133,438 was recognized in the three months ended March 31, 2011 (March 31, 2010 \$282,000 gain) and a realized loss of \$8,716 was recognized over the same period (March 31, 2010 \$20,892 gain). The Company estimated that a \$0.10/mcf change in the natural gas price, while holding all other variables constant would impact loss before income taxes by approximately \$2,700 and a \$1.00/bbl cdn change in the oil price, while holding all other variables constant would impact loss before income taxes by approximately \$1,600.

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 March 31, 2011, the Company had bank debt of \$4,191,241. The Company had no interest rate swap or financial contracts in place during the three months ended March 31, 2011. A 1.0% change in the prime rate over the three months ended March 31, 2011 would have impacted net loss by approximately \$9,000.

Capital Management

The Company manages its capital structure and considers adjustments in light of changes in economic conditions and the risk characteristics of its oil and natural gas assets. The Company considers its capital structure to include share capital, bank debt and working capital. The Company's revolving operating demand facility includes a covenant requiring the Company to maintain a working capital ratio of not less than one-to-one. The ratio is defined by the lender as current assets less unrealized hedging gains, plus any undrawn amounts available on its revolving operating demand facility, less current liabilities, less unrealized hedging losses and excluding any current portion drawn on either facility. The Company was in violation of its covenant at March 31, 2011. The Company requested from its lender and received a waiver with respect to the covenant breach (see note 7). There was no change in management of the Company's capital structure during the three months ended March 31, 2011.

The following outlines the Company's capital structure:

	March 31, 2011	December 31, 2010
Working capital deficiency (excluding bank debt)	\$ 4,489,033	\$ 2,675,105
Bank debt	\$ 4,191,241	\$ 3,673,466
Shareholders' equity	\$ 3,824,610	\$ 4,702,735

15. COMMITMENTS

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

2011	\$100,502
2012	\$146,000
2013	\$158,000
2014	\$112,000

16. RELATED PARTY TRANSACTIONS

A law firm of which the corporate secretary of the Company is a partner provides general and corporate legal services to the Company. For the three months ended March 31, 2011, fees for legal services billed from this related party were approximately \$70,000 (March 31, 2010 - \$43,000), of which \$70,000 is included in accounts payable and accrued liabilities at March 31, 2011 (March 31, 2010 - \$43,000). These services are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

17. SUBSEQUENT EVENTS

- a) On April 21, 2011 the Company completed a financing for gross proceeds of approximately \$9 million (the "Offering"). At closing, the Company issued 25,715,000 units (comprised of 25,715,000 Class A common shares ("Common Shares") and 25,715,000 Common Share purchase warrants ("Warrants")) at a price of \$0.35 per unit. Each Warrant issued pursuant to the Offering entitles the holder thereof to acquire one Common Share at a price of \$0.45 per share on or before October 21, 2012.
- b) In June 2011 Trafina signed a purchase and sale agreement to sell certain non-core working interests to a third party for gross proceeds of \$0.5 million. The sale is expected to close on or before June 30, 2011.

18. IFRS TRANSITION

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the period ended March 31, 2011, January 1, 2010 transitional statement of financial position and the comparative financial statements for the periods ended March 31, 2010 and December 31, 2010. IFRS 1 First-time Adoption of IFRS and International Accounting Standard ("IAS") 34 Interim Financial Reporting have been applied to these interim financial statements.

As a result of applying IFRS 1, the Company is required to present comparative information with the application of IFRS accounting policies as at the January 1, 2010 transition date and comparative information for the three months ended March 31, 2010 and for the year ended December 31, 2010. IFRS 1 provides for certain mandatory and optional exemptions for first time adopters to alleviate the retrospective application of all the accounting standards under IFRS.

The adjustments arising from the application of IFRS to amounts on the statement of financial position on the transition date, and on transactions prior to that date, were recognized as an adjustment to the Company's opening deficit on the statement of financial position when appropriate.

Reconciliation of statement of financial position from Canadian GAAP ("CGAAP") to IFRS January 1, 2010

	CGAAP	IFRS Adjustments	IFRS
ASSETS			
Current Assets			
Accounts receivable	\$ 1,401,309	\$ ---	\$ 1,401,309
Prepaid expenses and deposits	102,469	---	102,469
	1,503,778	---	1,503,778
Exploration and evaluation assets (note 18 a(i))	---	1,363,082	1,363,082
Property and equipment (note 18 a(i))	17,507,410	(3,353,307)	14,154,103
	\$ 19,011,188	\$ (1,990,225)	\$ 17,020,963
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 3,417,225	\$ ---	\$ 3,417,225
Bank debt	1,140,696	---	1,140,696
Commodity contract liability	24,000	---	24,000
Current portion of liability settlement	833,333	---	833,333
	5,415,254	---	5,415,254
Flow through share obligation (note 18 b)	---	58,474	58,474
Liability settlement	69,444	---	69,444
Decommissioning obligations (note 18 a(ii))	2,731,549	1,102,809	3,834,358
Deferred income taxes (note 18 c)	1,034,904	(786,991)	247,913
	9,251,151	374,292	9,625,443
Shareholders' Equity			
Share capital (note 18 b)	6,979,943	431,508	7,411,451
Warrants	580,782	---	580,782
Contributed surplus (note 18 a(iii))	548,748	101,336	650,084
Retained earnings (deficit)	1,650,564	(2,897,361)	(1,246,797)
	9,760,037	(2,364,517)	7,395,520
	\$ 19,011,188	\$ (1,990,225)	\$ 17,020,963

a. IFRS1 is a standard under IFRS that includes mandatory and optional exemptions that the Company may elect to help in its transition to IFRS. The elections are only available to corporations that are transitioning to IFRS for the first time and are only applicable to the opening balance sheet of the Company on the transition date of January 1, 2010. The following includes the significant IFRS1 exemptions taken by the Company at January 1, 2010:

i. Deemed cost exemption:

Under CGAAP the Company followed the full cost method of accounting for its oil and gas properties, whereby, costs incurred to acquire, evaluate, develop assets net of any amounts received from dispositions are pooled together under property and equipment ("P&E") and depleted, depreciated and/or accreted as one unit. P&E under IFRS requires certain capital projects to be separated into different categories.

The Company elected to use the deemed cost full cost exemption. This election enabled the Company to use the balance sheet carrying amount of its P&E under CGAAP as at January 1, 2010 and separate the P&E into three categories; pre-exploration costs, exploration and evaluation ("E&E") assets and development and production ("D&P") assets. The result of this election is as follows:

The Company did not identify any pre-exploration costs. The Company identified and reclassified \$1,363,082 that fit the definition of E&E assets and also removed expenditures relating to office furniture and equipment. The remaining amount was allocated to D&P assets on a pro rata basis using reserve value metrics from its proved plus probable Company interest reserves. The resulting D&P assets were rolled down into CGUs and tested for impairment. The test resulted in the recognition of \$1,990,225 of impairments as at January 1 2010. The Company used the greater of its value in use and its fair value less costs to sell. The impairment amount was recorded to the January 1, 2010 deficit.

ii. Decommissioning obligations:

The Company elected to use an exemption that allowed it to use IAS 37 *Decommissioning Liabilities* to record an abandonment liability and any changes to the CGAAP amount at January 1, 2010 will be recorded to opening deficit. An increase in the decommissioning obligation at January 1, 2010 was primarily a result of using a risk free rate, compared to using a credit adjusted risk free rate under CGAAP. As a result of applying this exemption, the Company's decommissioning obligation increased by \$1,102,809.

iii. Share based compensation:

The Company elected an exemption that allowed it to apply IFRS2 (share-based payments) to any unvested options outstanding as at December 31, 2009. Differences to CGAAP include the fact that each award is treated as a separate award under IFRS and IFRS uses a graded vesting method in the calculation instead of each award treated as a single award and calculated using a straight-line method as under CGAAP. Recalculating share based compensation on outstanding options as at December 31, 2009 resulted in an increase in contributed surplus of \$101,336 and a corresponding increase to the opening deficit.

b. Flow-through share obligation / share capital:

Under CGAAP proceeds received from the issuance of flow-through shares were credited to share capital and the associated deferred tax liability was recognized when the Company renounced the eligible tax pools. Under IFRS a liability is set up to account for a premium between the underlying share price at the time an agreement is entered into, compared to the flow-through share price. The liability is reduced as qualifying flow-through expenditures are made. An analysis was made of all of the Company's flow-through issuances to December 31, 2009. For flow-through issuances completed in 2009 a liability of \$58,474 was recorded with a corresponding entry to share capital. For flow-through share issuances completed prior to 2009, an entry was made to reduce share capital for \$489,982 and reduce the opening deficit to adjust for previous flow-through tax adjustments.

c. Deferred income tax:

As a result of adjustments to P&E and decommissioning obligations the Company's deferred income tax liability was reduced by \$786,991.

In addition to the initial adoption adjusting entries the following describes the entries associated with changes from CGAAP to IFRS for the three months ended March 31, 2010 and the year ended December 31, 2010.

Reconciliation of statement of financial position from Canadian GAAP ("CGAAP") to IFRS March 31, 2010

	CGAAP	IFRS	2010 IFRS TRANSITION	IFRS
ASSETS				
Current Assets				
Accounts receivable	\$ 1,759,548	\$ ---	\$ ---	\$ 1,759,548
Commodity contracts asset	258,000	---	---	258,000
Prepaid expenses and deposits	165,099	---	---	165,099
	2,182,647	---	---	2,182,647
Exploration and evaluation assets (note 18 a(i),d)	---	1,363,082	(1,156,767)	206,315
Property and equipment (note 18 a(i),d,f,g,h)	17,129,403	(3,353,307)	1,281,377	15,057,473
	\$ 19,312,050	\$ (1,990,225)	\$ 124,610	\$ 17,446,435
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 2,979,032	\$ ---	\$ ---	\$ 2,979,032
Bank debt	2,409,738	---	---	2,409,738
Current portion of liability settlement	694,444	---	---	694,444
	6,083,214	---	---	6,083,214
Flow through share obligation (note 18 b,i)	---	58,474	(7,602)	50,872
Decommissioning obligations (note 18 a(ii),f)	3,546,028	1,102,809	516,775	5,165,612
Deferred income taxes (note 18 c,k)	954,792	(786,991)	(167,801)	---
	10,584,034	374,292	341,372	11,299,698
Shareholders' Equity				
Share capital (note 18 b,k)	6,787,020	431,508	190,277	7,408,805
Warrants	580,782	---	---	580,782
Contributed surplus (note 18 a(iii),j)	614,590	101,336	2,125	718,051
Retained earnings (deficit)	745,624	(2,897,361)	(409,164)	(2,560,901)
	8,728,016	(2,364,517)	(216,762)	6,146,737
	\$ 19,312,050	\$ (1,990,225)	\$ 124,610	\$ 17,446,435

Reconciliation of statement of financial position from Canadian GAAP ("CGAAP") to IFRS December 31, 2010

	CGAAP	IFRS	2010 IFRS TRANSITION	IFRS
ASSETS				
Current Assets				
Accounts receivable	\$ 1,281,311	\$ ---	\$ ---	\$ 1,281,311
Prepaid expenses and deposits	203,110	---	---	203,110
	1,484,421	---	---	1,484,421
Exploration and evaluation assets (note 18 a(i),d)	---	1,363,082	1,276,158	2,639,240
Property and equipment (note 18 a(i),d,f,g,h)	19,559,170	(3,353,307)	(2,441,723)	13,764,140
	\$ 21,043,591	\$ (1,990,225)	\$ (1,165,565)	\$ 17,887,801
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable and accrued liabilities	\$ 3,970,493	\$ ---	\$ ---	\$ 3,970,493
Bank debt	3,673,466	---	---	3,673,466
Commodity contract liability	119,589	---	---	119,589
Current portion of liability settlement	69,444	---	---	69,444
	7,832,992	---	---	7,832,992
Flow through share obligation (note 18 b,i)	---	58,474	71,526	130,000
Decommissioning obligations (note 18 a(ii),f)	3,542,127	1,102,809	577,138	5,222,074
Deferred income taxes (note 18 c,k)	---	(786,991)	786,991	---
	11,375,119	374,292	1,435,655	13,185,066
Shareholders' Equity				
Share capital (note 18 b,k)	10,161,866	431,508	(132,223)	10,461,151
Warrants	1,236,023	---	---	1,236,023
Contributed surplus (note 18 a(iii),j)	787,777	101,336	(18,599)	870,514
Deficit	(2,517,194)	(2,897,361)	(2,450,398)	(7,864,953)
	9,668,472	(2,364,517)	(2,601,220)	4,702,735
	\$ 21,043,591	\$ (1,990,225)	\$ (1,165,565)	\$ 17,887,801

Reconciliation of statements of loss and comprehensive loss from Canadian GAAP (“CGAAP”) to IFRS for the three months ended March 31, 2010

	CGAAP	IFRS adjustments	IFRS
REVENUE			
Petroleum and natural gas	\$ 1,494,636	\$ ---	\$ 1,494,636
Royalties	(205,263)	---	(205,263)
Realized gain on commodity contracts	20,892	---	20,892
Unrealized gain on commodity contracts	282,000	---	282,000
Other	(22,488)	---	(22,488)
	<u>1,569,777</u>	<u>---</u>	<u>1,569,777</u>
EXPENSES			
Operating	1,144,843	---	1,144,843
General and administrative	452,954	---	452,954
Depletion and depreciation (note 18 e)	994,448	(321,547)	672,901
Impairment of property and equipment (note 18 h)	---	805,307	805,307
Share based compensation (note 18 j)	65,842	2,125	67,967
Gain on property divestment (note 18 g)	---	(63,229)	(63,229)
Finance expenses (note 18 f)	87,019	(28,366)	58,653
Loss before income taxes	(1,175,329)	(394,290)	(1,569,619)
Deferred income tax reduction (note k)	270,389	(14,874)	255,515
Net loss and comprehensive loss	<u>\$ (904,940)</u>	<u>\$ (409,164)</u>	<u>\$ (1,314,104)</u>
Basic and diluted loss per common share	\$0.05		\$0.07

Reconciliation of statements of loss and comprehensive loss from Canadian GAAP ("CGAAP") to IFRS for the year ended December 31, 2010

	CGAAP	IFRS adjustments	IFRS
REVENUE			
Petroleum and natural gas	\$ 5,166,961	\$ ---	\$ 5,166,961
Royalties	(611,567)	---	(611,567)
Realized gain on commodity contracts	299,244	---	299,244
Unrealized loss on commodity contracts	(95,589)	---	(95,589)
Other	61,334	---	61,334
	4,820,383	---	4,820,383
EXPENSES			
Operating	3,956,057	---	3,956,057
General and administrative	1,703,375	---	1,703,375
Depletion and depreciation (note 18 e)	3,912,064	(1,193,298)	2,718,766
Impairment of property and equipment (note 18 h)	---	3,504,697	3,504,697
Share based compensation (note 18 j)	226,439	(18,599)	207,840
Gain on property divestment (note 18 g)	---	(424,150)	(424,150)
Finance expenses (note 18 f)	415,387	(144,548)	270,839
Loss before income taxes	(5,392,939)	(1,724,102)	(7,117,041)
Deferred income tax reduction (note 18 k)	1,225,181	(726,294)	498,887
Net loss and comprehensive loss	\$ (4,167,758)	\$ (2,450,396)	\$ (6,618,154)
Basic and diluted loss per common share	\$0.21		\$0.34

d. Transfers:

During the three months ended March 31, 2010 and the year ended December 31, 2010 the Company classified various costs as E&E and moved costs out of E&E to D&P once it had been determined that there is technical feasibility and commercial viability.

The following table presents the E&E continuity:

	Year ended December 31, 2010	Three months ended March 31, 2010
Balance, beginning of period	\$ 1,363,082	\$ 1,363,082
Add	3,352,092	70,315
Transfer to D&P	(1,960,934)	(1,227,082)
Impairment	(115,000)	---
Balance, end of period	\$ 2,639,240	\$ 206,315

e. Depletion:

Under CGAAP depletion was calculated using total proved reserves and used a full cost pool concept. Under IFRS a corporation has a choice regarding its depletion methodology and depletion is calculated based on individual components and not a full cost pool. The Company has adopted the policy of depleting its development and producing assets using a proved plus probable reserves base and calculates depletion at an area or commodity level. As a result of using a proved plus probable reserve base and depleting at an area level, accumulated depletion decreased by \$321,547 for the three months ended March 31, 2010 and decreased by \$1,193,298 for the year ended December 31, 2010.

f. Decommission obligation:

As a result of using a risk free rate to calculate the net present value of decommissioning obligations instead of a credit adjust risk free rate the Company's decommissioning obligation for the three months ended March 31, 2010 and the year ended December 31, 2010 increased by \$516,775 and \$577,138, respectively. The resultant increase in the Company's decommissioning obligation also increased property and equipment for the three months ended March 31, 2010 and year December 31, 2010 by \$689,148 and \$1,290,779, respectively. The change in the discount rates used also had an effect on accretion expense resulting in accretion expense decreasing by \$28,366 and \$144,548 in the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

g. Gain on property divestment:

Under CGAAP dispositions were recorded to the full cost pool and no gains or losses were reported unless the resulting disposition changed the depletion rate by 20 percent or greater. Under IFRS, proceeds from a divestiture are deducted from the carrying value of the asset and a gain or loss is recognized in earnings. All CGAAP divestitures in 2010 did not result in a gain or loss and P&E was adjusted for proceeds from the sale, with an additional adjustment for a reduction in related decommissioning obligations. Under IFRS the Company adjusted P&E for gains and reversed the reduction in decommissioning obligations resulting in a decrease in P&E for the three months ended March 31, 2010 and the year ended December 31, 2010 of \$80,772 and \$144,943, respectively. In the three months ended March 31, 2010 a gain of \$63,229 was recorded as a result of property dispositions. In the year ended December 31, 2010 a gain of \$424,150 was recorded as a result of property dispositions described above, in addition to gains resulting from properties that were sold for no cash consideration, but resulted in a reduction in the associated decommissioning obligation.

h. Impairment:

The Company evaluates its CGUs for impairment when indicators of impairment are present. In the three months ended March 31, 2010 the Company impaired certain gas properties due to a decline in gas prices and production and further impaired its gas properties at September 30, 2010 and December 31, 2010 due to declining gas prices. At December 31, 2010 the Company tested the E&E assets for impairment and concluded that certain seismic data and future development of the underlying area was not part of the Company's future plans and impaired the asset by \$115,000. The Company recorded impairments for the three months ended March 31, 2010 and year ended December 31, 2010 of \$805,307 and \$3,504,697, respectively.

i. Flow-through shares:

The Company's flow-through obligation at January 1, 2010 was reduced by \$7,602 for the three months ended March 31, 2010 as the Company incurred qualifying flow-through expenditures. A revised flow-through obligation of \$322,500 was recorded at December 31, 2010 as a result of the Company raising approximately \$2 million of flow-through shares. A corresponding adjustment was made to share capital for the year ended December 31, 2010. The flow-through obligation was partially offset due to the Company incurring a portion of eligible costs prior to year end.

j. Share based compensation:

Using a graded method for calculating share based compensation under IFRS resulted in an increase to contributed surplus for the three months ended March 31, 2011 of \$2,125 and a decrease to contributed surplus for the year ended December 31, 2010 of \$18,599, with corresponding entries to share based compensation.

k. Income tax:

As a result of temporary differences between CGAAP and IFRS relating to flow-through shares and the recording of an entry to remove a deferred tax asset as it was determined that it wasn't probable that future taxable profits will be available against which the temporary difference can be utilized, in the three months ended March 31, 2010 and year ended December 31, 2010, deferred income taxes were reduced to nil and share capital increased by \$190,277 as previously recorded under GAAP.