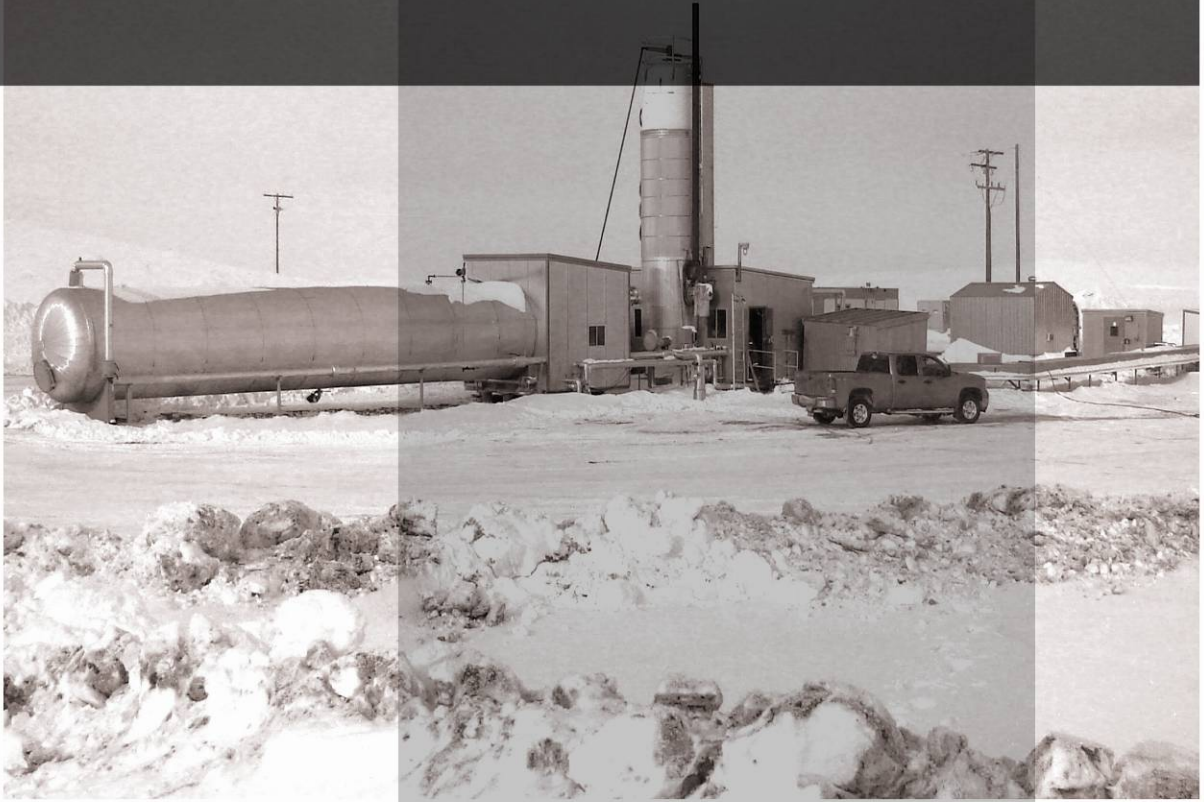


TRAFINA
ENERGY LTD.



2009 FINANCIAL STATEMENTS

REPORTS ON FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

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

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

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

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

(Signed) *"Kelly J. Ogle"*

Kelly J. Ogle, President & CEO
April 28, 2010

(Signed) *"Gary Taylor"*

Gary Taylor, Vice President, Finance & CFO

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Trafina Energy Ltd. as at December 31, 2009 and 2008 and the statements of operations, comprehensive loss and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada

April 28, 2010

FINANCIAL STATEMENTS

BALANCE SHEETS

As at December 31,	2009	2008
ASSETS		
Current Assets		
Cash	\$ ---	\$ 487,704
Accounts receivable	1,401,309	725,436
Prepaid expenses and deposits	102,469	125,595
	1,503,778	1,338,735
Property and equipment (note 5)	17,507,410	16,648,645
	\$ 19,011,188	\$ 17,987,380
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,417,225	\$ 4,875,664
Bank debt (note 6)	1,140,696	---
Commodity contract liability (note 13)	24,000	---
Current portion of liability settlement (note 7)	833,333	---
Current portion of asset retirement obligations	---	95,000
	5,415,254	4,970,664
Liability settlement (note 7)	69,444	---
Asset retirement obligations (note 8)	2,731,549	1,294,862
Future income taxes (note 9)	1,034,904	1,349,403
	9,251,151	7,614,929
Shareholders' Equity		
Share capital (note 10)	6,979,943	5,737,652
Warrants (note 10)	580,782	---
Contributed surplus (note 11)	548,748	324,663
Retained earnings	1,650,564	4,310,136
	9,760,037	10,372,451
	\$ 19,011,188	\$ 17,987,380
Future operations (note 3)		
Commitments (note 14)		
Subsequent events (note 16)		
See accompanying notes to financial statements.		
Approved by the Board:		
(Signed) "Charles A. Teare" Charles A. Teare Director	(Signed) "Donald J. Douglas" Donald J. Douglas Director	

FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND RETAINED EARNINGS

For the year ended December 31,	2009	2008
REVENUE		
Petroleum and natural gas	\$ 4,122,704	\$ 5,854,915
Royalties	(486,740)	(951,908)
Liability settlement (note 7)	533,716	---
Unrealized loss on commodity contracts (note 13)	(24,000)	---
Other	109,625	74,210
	4,255,305	4,977,217
EXPENSES		
Operating	2,291,717	1,800,601
Bad debt (note 13)	---	604,861
General and administrative	1,338,220	1,759,875
Depletion, depreciation and accretion	3,901,794	2,615,164
Stock-based compensation	222,974	51,642
Interest	91,450	58,954
	7,846,155	6,891,097
Loss before income taxes	(3,590,850)	(1,913,880)
Income tax reduction (note 9)		
Current	(156,627)	(38,374)
Future	(774,651)	(532,931)
	(931,278)	(571,305)
Net loss and comprehensive loss	(2,659,572)	(1,342,575)
Retained earnings, beginning of year	4,310,136	5,652,711
Retained earnings, end of year	\$ 1,650,564	\$ 4,310,136
Basic and diluted net loss per common share	\$ (0.22)	\$ (0.21)
Weighted average number of common shares outstanding (note 10)	11,845,631	6,257,758

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOWS

For the year ended December 31,	2009	2008
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net loss	\$ (2,659,572)	\$ (1,342,575)
Add (deduct) non-cash items:		
Depletion, depreciation and accretion	3,901,794	2,615,164
Future income tax reduction	(774,651)	(532,931)
Stock-based compensation	222,974	51,642
Liability settlement (note 7)	(533,716)	---
Unrealized loss on commodity contracts	24,000	---
Asset retirement expenditures	(63,807)	---
	117,022	791,300
Change in non-cash operating working capital (note 12)	(261,699)	1,584,078
	(144,677)	2,375,378
FINANCING ACTIVITIES		
Common shares and warrants issued, net of share issue costs	2,285,784	2,188,725
Purchase and cancellation of shares	(1,450)	(40,876)
Increase (decrease) in bank debt	1,140,696	(282,866)
	3,425,030	1,864,983
INVESTING ACTIVITIES		
Acquisition of property and equipment (note 5)	(125,896)	---
Disposition of property and equipment (note 5)	604,152	---
Additions to property and equipment	(3,833,315)	(5,259,351)
Change in non-cash investing working capital (note 12)	(412,998)	1,506,694
	(3,768,057)	(3,752,657)
Change in cash	(487,704)	487,704
Cash, beginning of year	487,704	---
Cash, end of year	\$ ---	\$ 487,704

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

For the year ended December 31, 2009 and 2008.

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. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Property and equipment and depletion and amortization:

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

Capitalized costs, excluding costs relating to unproved properties, are depleted and amortized using the unit-of-production method, based on estimated proved petroleum and natural gas reserves, before royalties, as determined by independent engineers. Petroleum and natural gas reserves are converted to a common unit of measure on the basis of six thousand cubic feet to one barrel of oil equivalent based on energy equivalency.

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

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

(b) Interest in joint operations:

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

(c) Asset retirement obligations:

Asset retirement obligations ("ARO") associated with site restoration and abandonment of tangible long-lived assets are initially measured at fair value by estimating the cost a third party would incur in performing the tasks necessary to retire such assets. The fair value of the ARO is recorded in the financial statements as a liability, equal to the present value of expected future cash outflows, with a corresponding increase in the carrying amount of the related asset. Subsequent to initial measurement, the effect of the passage of time on the ARO, or accretion expense, and the amortization of the asset retirement cost are charged to earnings in the period. Subsequent changes in the estimated

fair value of the ARO are capitalized and amortized over the remaining useful life of the underlying asset. Actual costs incurred upon the settlement of the ARO are charged against the ARO.

(d) Revenue recognition:

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

(e) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability. Future income tax assets or liabilities are adjusted to reflect substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse.

(f) Per share amounts:

Basic per share amounts are computed based on the weighted average number of shares outstanding during the period. Diluted per share amounts are calculated giving effect to the potential dilution that would occur if 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.

(g) Stock-based compensation:

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

(h) Flow-through shares:

Proceeds from flow-through shares issued are used to fund qualifying expenditures which are renounced to investors. A future income tax liability is recognized when the tax pools are renounced and a corresponding amount reduces share capital.

(i) Comprehensive income and financial instruments:

Comprehensive Income

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

Financial Instruments

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

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

The Company has made the following classifications:

Cash is designated as “held-for-trading”, accounts receivable are designated as “loans and receivables.” Accounts payable and accrued liabilities, liability settlement and bank debt are designated as “other liabilities.” The commodity contract liability is classified as a derivative and designated as “held-for-trading. As a result the contract is recorded on the balance sheet at fair value with changes to the fair value recorded in net loss.

3. FUTURE OPERATIONS

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

At December 31, 2009 the Company had a net debt and working capital deficiency of \$3,911,476 and a banking credit facility of \$3,500,000 (see note 6). The future operations of the Company is dependent upon a return to profitable operations, raising capital to support its activities, meeting its obligations and on receiving financial support of a lender. As a result of these conditions, the ability of the Company to continue as a going concern is in doubt.

Depressed commodity prices in 2009 had a negative impact on the Company's funds flow from operating activities, thus placing continued pressure on its banking credit facility. In recognition of this impact, Trafina has sold various non-core assets in 2010 and focused its attention on re-activating its newly acquired southwest Saskatchewan properties. The Company is also continually evaluating under-valued oil and gas assets and or corporate acquisitions in an attempt to increase its asset base in order to better withstand future commodity price fluctuations. Notwithstanding the impact of successfully executing and achieving the aforementioned goals, it is anticipated that additional funds will be required.

Management believes that the going concern assumption is appropriate for these financial statements. If this assumption were not appropriate, adjustments to the carrying amounts of these assets and liabilities, revenues and expenses and the balance sheet classifications used may be necessary.

4. NEW ACCOUNTING POLICIES

Effective January 1, 2009, the Company adopted new standards, "Goodwill and intangible assets" which establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The adoption of this new standard did not have an impact on the financial statements.

In 2009, amendments were made to "Financial Instruments – Disclosures" by the CICA which provided for increased disclosures on liquidity risk and increased disclosures on fair value of financial instruments.

Effective January 1, 2011, the Company will adopt new standards for "Business Combinations" which contain potentially significant changes to the measurement and recording of business combinations after January 1, 2011. The standard requires additional use of fair value measurements, recognition of additional assets and liabilities and additional note disclosure. The adoption of this standard will be applied prospectively.

5. PROPERTY AND EQUIPMENT

	2009	2008
Oil and gas properties	\$ 23,269,747	\$ 20,590,107
Production equipment	9,170,232	8,449,789
Office equipment	318,257	285,289
Other	1,227,082	---
	33,985,318	29,325,185
Accumulated depletion and depreciation	(16,477,908)	(12,676,540)
Net book value of property and equipment	\$ 17,507,410	\$ 16,648,645

In September of 2009, the Company acquired certain properties for consideration of \$5 and a non-convertible sliding scale overriding royalty (1% to 8.5%) on existing wells, with half of the royalty rate applying to new wells. The Company also assumed related abandonment and reclamation liabilities with an estimated fair value of \$1.3 million and incurred related acquisition costs of \$125,896.

In November 2009 Trafina completed the purchase from a bank of the outstanding indebtedness and liabilities to the bank by a private oil and gas corporation with assets in southwest Saskatchewan. In December 2009, Trafina appointed a receiver and acquired the corporation's assets on January 15, 2010 in exchange for debt owing to the Company. Prior to the acquisition of the properties, the Company incurred certain costs to maintain the properties as well as costs incurred to effect the acquisition which totalled \$1.2 million and are included other property and equipment costs.

During the year ended December 31, 2009, \$55,200 (December 31, 2008 - \$nil) of general and administrative costs were capitalized directly related to exploration and development activities.

In determining the Company's depletion and amortization at December 31, 2009, future development and abandonment costs on proved undeveloped properties of \$2,684,100 (December 31, 2008 - \$2,160,000) were included in the calculation. For the year ended December 31, 2009 costs of unproved properties and undeveloped seismic totaling \$137,111 (December 31, 2008 - \$nil) were excluded from the depletion and amortization calculation. Costs of \$1.2 million pertaining to the debt purchase described above were also excluded from the calculation, as reserves associated with the purchase were assigned in 2010.

Included in property and equipment at December 31, 2009 is \$1,915,929 (December 31, 2008 - \$896,710) net of accumulated depletion related to asset retirement costs.

The Company performed a ceiling test calculation at December 31, 2009 to assess the recoverable value of its oil and natural gas properties. The oil and natural gas future prices are based on the commodity price forecast of the Company's independent reserve evaluators and have been adjusted for heating content, quality and transportation parameters specific to the Company. The following table summarizes the benchmark prices used in the ceiling test calculation:

Year	WTI Oil (\$US./bbl)	AECO Gas (\$Cdn/mcf)	US/CAN Exchange rate (\$US/\$CAN)
2010	80.00	6.05	0.95
2011	83.60	6.75	0.95
2012	87.40	7.15	0.95
2013	91.30	7.45	0.95
2014	95.30	7.80	0.95
2015	99.40	8.15	0.95
2016	101.40	8.40	0.95
2017+	+2.0%/yr	+2.0%/yr	0.95

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

6. BANK DEBT

At December 31, 2009, the Company had drawn \$1,140,696 of its \$3,500,000 demand revolving operating credit facility. Advances under the credit facility bear interest at the bank's prime rate plus 1.75%. Security for this facility is by way of a general security agreement providing a security interest over all present and after acquired personal property and a floating charge on all lands. The general security agreement includes a working capital ratio covenant, which is not to fall below 1:1. At December 31, 2009 the Company was in violation of its working capital ratio covenant, mainly as a result of costs associated with its debt purchase and delays in its attempt to sell certain properties by December 31, 2009. The Company requested and received a waiver from the bank as at December 31, 2009. It is expected that the Company will also be in violation of its working capital covenant at March 31, 2010.

On April 28, 2010 the Company signed an offer letter for new credit facilities with a Canadian Chartered bank to replace its existing facility. The new facilities consist 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 floating charge debenture on all assets. The next review date is scheduled on or before October 1, 2010. Establishment of the credit facility is subject to satisfaction of customary closing conditions.

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.

7. LIABILITY SETTLEMENT

On July 29, 2009 the Company signed an agreement with an industry partner, resulting in a settlement of amounts owed by Trafina as a result of prior years' revenue over-allocations. 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.

As a result of the settlement, the Company reduced the liability previously recorded at March 31, 2009 by \$533,000 with a corresponding increase to revenues.

During the year ended December 31, 2009, the Company paid a total of \$370,620 in principal and interest pursuant to the agreement. Of the balance of \$902,778 as a December 31, 2009, \$833,333 is due in 2010 and \$69,444 is due in 2011.

8. ASSET RETIREMENT OBLIGATIONS (ARO)

Total future asset retirement obligations have been estimated by management based on Trafina's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. Trafina has estimated the present value of its total asset retirement obligations to be \$2,731,549 as at December 31, 2009 (December 31, 2008 - \$1,389,862). 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 percent (2008 – 7 to 9 percent) and an inflation rate of 1.5 percent (2008 – 1.5 percent).

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

	2009	2008
ARO, beginning of the year	\$ 1,389,862	\$ 733,572
Liabilities acquired (note 5)	1,249,903	237,375
Liabilities sold	(45,250)	---
Settlement of liabilities	(63,807)	---
Change in estimates	100,421	356,884
Accretion expense	100,420	62,031
ARO, end of year	2,731,549	1,389,862
ARO current portion	---	95,000
ARO long term portion	\$ 2,731,549	\$ 1,294,862

9. INCOME TAXES

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

	2009	2008
Loss before income taxes	\$ (3,590,850)	\$ (1,913,880)
Statutory income tax rate	29.00%	29.50%
Expected tax provision	(1,041,347)	(564,595)
Increase (decrease) in income tax resulting from		
Change in income tax rates	44,368	22,005
Permanent differences	65,626	15,234
Other	75	(5,575)
Tax return revisions	---	(38,374)
Income taxes	\$ (931,278)	\$ (571,305)

The components of the future income tax liability at December 31, 2009 and 2008 are as follows:

	2009	2008
Property and equipment	\$ 2,256,099	\$ 2,277,731
Asset retirement obligations	(682,887)	(347,466)
Share issue costs	(173,728)	(109,728)
Commodity contract liability	(6,720)	---
Non-capital loss carry-forward	(357,860)	(471,134)
	\$ 1,034,904	\$ 1,349,403

As at December 31, 2009 the Company has non-capital loss carry-forwards of approximately \$1.6 million which expire in the year 2027.

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

The Company issued, repurchased and cancelled the following Class A common shares for the years ended December 31, 2009 and 2008:

	2009		2008	
	Number	Amount	Number	Amount
Balance, beginning of the year	11,202,472	\$ 5,737,652	5,782,472	\$ 3,558,569
Repurchased and cancelled	(5,000)	(2,561)	(80,000)	(49,234)
Issued for cash upon private placement	7,075,790	2,540,000	5,500,000	2,341,000
Fair value of warrants associated with private placement	---	(580,782)	---	---
Tax effect of flow-through shares renounced	---	(525,459)	---	---
Share issue costs	---	(254,216)	---	(152,275)
Tax effect of share issue costs	---	65,309	---	39,592
Balance, end of the year	18,273,262	\$ 6,979,943	11,202,472	\$ 5,737,652

Normal Course Issuer Bid ("NCIB")

In February 2009, the TSX Venture Exchange approved a normal course issuer bid ("NCIB") whereby the Company may purchase, for cancellation, up to 111,111 of its Class A common shares during the period commencing February 27, 2009 and ending February 26, 2010. On August 5, 2009 the Company purchased and cancelled 5,000 Class A common shares at a cost of \$0.29 per share under the NCIB. In December, 2007, Trafina was permitted to purchase, for cancellation, up to 289,000 of its Class A common shares under the normal course issuer bid which expired December 19, 2008. During 2008 the Company purchased 80,000 shares at an average price of \$0.51 per share.

Private Placement

In February 2009, the Company completed a non-brokered private placement to an employee of Trafina and issued 100,000 Class A common shares at a price of \$0.40 per share for gross proceeds of \$40,000.

In December 2009, Trafina completed a brokered private placement of units and flow-through shares for total proceeds of \$2.5 million (net proceeds of \$2.3 million) and issued 5,026,670 units (consisting of 5,026,670 Class A common shares and 2,513,335 share purchase warrants) at a price of \$0.35 per unit and 1,949,120 Class A common shares issued on a flow-through basis at a price of \$0.38 per flow-through share. Directors and senior officers of the Company indirectly purchased an aggregate of 479,000 units and 104,025 flow-through shares pursuant to the private placement.

Each whole warrant issued pursuant to the private placement will be exercisable for one Class A common share of the Company at a price of \$0.45 per share prior to June 3, 2011. For the year ended December 31, 2009, the Company recorded a fair value of \$580,782 for the warrants and used the following assumptions:

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

Details of the outstanding warrants are as follows:

	Number of warrants	2009
Balance, beginning of the year	---	\$ ---
Issued upon private placement	2,513,335	580,782
Balance, end of the year	2,513,335	\$ 580,782

Flow-through Shares

In February 2009, the Company renounced \$2.0 million of flow-through obligations as a result of the issuance of 4.7 million Class A common shares issued on a flow-through basis pursuant to the *Income Tax Act* (Canada), in November 2008. As a result, a future income tax liability and corresponding reduction of share capital of \$525,459 was recorded in the year ended December 31, 2009. Trafina had fulfilled its flow-through obligation at December 31, 2009.

Stock Option Plan

The Company has an employee stock option plan under which employees, consultants and directors are eligible to receive options. For the year ended December 31, 2009, Trafina issued 1,300,000 common stock options as follows:

Date	Number of Options Granted	Exercise Price per Option
January 15, 2009	440,000	\$ 0.30
May 29, 2009	300,000	\$ 0.40
November 24, 2009	39,000	\$ 0.40
December 11, 2009	521,000	\$ 0.39
Total	1,300,000	\$ 0.36

At December 31, 2009, 1,650,000 common stock options were outstanding, with an average exercise price of \$0.36 per option. For options granted, one third of the options vest on the day following the date of grant, one third on the day following the first anniversary date of the grant and the remaining options vest on the day following the second anniversary date of the grant.

Details of the outstanding common stock options are as follows:

	2009		2008	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of the year	350,000	\$ 0.37	30,000	\$ 2.19
Granted	1,300,000	0.36	350,000	0.37
Expired	---	---	(30,000)	2.19
Balance, end of year	1,650,000	\$ 0.36	350,000	\$ 0.37
Exercisable, end of the year	666,667	\$ 0.37	116,666	\$ 0.37
Weighted average remaining contractual life	4.26 years		4.79 years	

For the year ended December 31, 2009, the Company recorded stock-based compensation expense of \$222,974 (December 31, 2008 - \$51,642). The assumptions used in the computation of the fair values of the stock options granted in 2009 are as follows:

	<u>2009</u>
Weighted average expected volatility	150%
Weighted average risk free interest rate	1.24%
Weighted average expected life (years)	4.0

Per Share Amounts

Basic weighted average shares outstanding for the year ended December 31, 2009 were 11,845,631 (December 31, 2008 – 6,257,758). Since the Company had net losses in both years any adjustments for options would have an anti-dilutive effect and as a result are excluded from diluted per share amounts.

11. CONTRIBUTED SURPLUS

The following schedule shows the continuity of contributed surplus:

	2009	2008
Balance, beginning of the year	\$ 324,663	\$ 264,664
Stock based compensation	222,974	51,642
Stock repurchased and cancelled under NCIB (note 10)	1,111	8,357
Balance, end of the year	\$ 548,748	\$ 324,663

12. SUPPLEMENTAL CASH FLOW DISCLOSURES

Change in non-cash working capital:	2009	2008
Accounts receivable	\$ (675,873)	\$ 403,861
Income tax receivable	---	321,580
Prepaid expenses and deposits	23,126	(31,909)
Accounts payable and other liabilities ⁽¹⁾	(21,950)	(2,397,240)
	\$ (674,697)	\$ (3,090,772)
Change in non-cash working capital		
Operating	(261,699)	1,584,078
Investing	(412,998)	1,506,694

(1) Accounts payable for the year ended December 31, 2009 was adjusted for \$533,716 and \$69,445 to reflect a non-cash reduction in accounts payable and the recognition of a long term liability settlement, respectively as per note 6 and \$24,000 as a non cash increase in accounts payable.

The following net cash payments were made:

	2009	2008
Interest paid	\$ 58,377	\$ 58,954
Income tax refund	156,627	38,374

13. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company carries a number of financial instruments, such as accounts receivable, accounts payable and accrued liabilities, liability settlement and bank debt and is exposed to risks such as credit risk, liquidity risk and market risk. The carrying amount of the Company's accounts receivable, accounts payable and accrued liabilities and liability settlement approximate their fair values due to short terms to maturity. The bank debt bears interest at a floating market rate and accordingly the fair value approximates the carrying value. The carrying value of the Company's liability settlement is calculated using an interest rate agreed upon between two non related parties dealing at arms length, thus the carrying value approximates the fair value. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Credit Risk

Credit risk is generally related to the collection of the Company's accounts receivable from petroleum and natural gas purchasers and joint interest partners. At December 31, 2009, approximately 33 percent of the Company's accounts receivable balance was from five petroleum and natural gas purchasers and has subsequently been received. Approximately 24 percent of the Company's accounts receivable balance was associated with federal and provincial government agencies. The remaining 43 percent of account receivables is due from joint interest partners. At December 31, 2009, approximately \$217,500 (2008 - \$18,000) of receivables were outstanding for more than 90 days. Included in accounts receivable as of December 31, 2009, is approximately \$66,000 relating to a joint interest partner that, on February 12, 2010, filed for protection under the Companies' Creditors Arrangement Act ("CCAA"). It is unknown at this time if the Company will be able to collect this receivable.

In July 2008 SemGroup, (the parent organization of the Canadian firms that previously marketed a majority of the Company's oil and natural gas) filed under Chapter 11 of the US Bankruptcy code. Subsequently, Trafina's marketers, SemCanada Energy (natural gas) and SemCanada Crude (oil) filed for creditor protection in Canada. As a result, the Company provided for \$604,861 representing all of the exposure pertaining to SemCanada Crude and SemCanada Energy

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages liquidity by ensuring, as far as possible, that it will have sufficient liquidity under both normal and stressed conditions. Trafina's management prepares a yearly budget, revised cash flow forecasts and monthly sales reconciliations. In order to mitigate its liquidity risk in 2010, management has subsequently completed several arrangements disposing of non-core properties (*see subsequent events note 16*); whereby the funds will be used by the Company to pay down a portion of its debt.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

Financial Liability	Less than 1 year	1 to 2 years
Accounts payable and accrued liabilities	\$ 3,417,225	\$ ---
Liability settlement	833,333	69,444
Bank debt	1,140,696	---
Total	\$ 5,355,180	\$ 69,444

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

Market Risk

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

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company has no forward exchange rate contracts in place as at or during the year ended December 31, 2009 to mitigate or manage this risk.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar as outlined above, but also world economic events that dictate the level of supply and demand. Due to natural gas prices continued slow recovery, management entered into a financial swap sales contract with a purchaser to sell 500 gigajoules ("GJ") per day of natural gas production at \$5.15 per GJ commencing November 1, 2009 and ending October 31, 2010. At December 31, 2009 the Company recorded a liability of \$24,000 and a corresponding unrealized loss on commodity contracts based on the fair value of the contract as at December 31, 2009. As a further attempt to mitigate potential falling natural gas prices in 2010, the Company entered into another 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.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At December 31, 2009, the Company had bank debt of \$1,140,696 and future cash drawings against its banking facility will further expose the Company to changes in interest rates on its bank debt which bears a floating rate of interest. The Company has no interest rate swap or financial contracts in place as at or during the year ended December 31, 2009. A 1.0 percent change in the prime rate over the year ended December 31, 2009 would have impacted net loss by approximately \$9,000.

Capital Management

The Company manages its capital structure and considers adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Company considers its capital structure to include share capital, bank debt and working capital. There has been no change in the Company's management of its capital structure during the year ended December 31, 2009.

The following outlines the Company's capital structure:

	December 31, 2009	December 31, 2008
Working capital deficit (excluding bank debt)	\$ 2,770,780	\$ 3,631,929
Bank debt	\$ 1,140,696	\$ ---
Shareholders' equity	\$ 9,760,037	\$ 10,372,451

14. COMMITMENTS

At December 31, 2009 the Company had the following commitments:

- a) As a result of completing a private placement financing on December 3, 2009, the Company is required to incur approximately \$740,000 on eligible "flow-through" expenditures to be incurred by December 31, 2010. The remaining qualified expenditure obligations will be funded by cash flow from operating activities and bank debt.
- b) The Company entered into financial swap natural gas sales contracts as follows:
 - i. During the year the Company has agreed to sell 500 GJ per day of natural gas to a purchaser for \$5.15 per GJ from November 1, 2009 to October 31, 2010. The fair value of the contract as at December 31, 2009 was a liability of \$24,000.
 - ii. Subsequent to December 31, 2009 the Company has agreed to sell 250 GJ per day of natural gas to a purchaser for \$5.30 per GJ from April 1 to October 31, 2010.
- c) Trafina has an office lease arrangement terminating August 30, 2014. The Company's total remaining rent obligation is as follows:

2010	\$122,000
2011	\$134,000
2012-2014	\$416,000

15. RELATED PARTY TRANSACTIONS

A law firm of which the Corporate Secretary is a partner provides general and corporate legal services to the Company. For the year ended December 31, 2009, fees for legal services billed from this related party were approximately \$108,000 (2008 - \$200,000), of which \$24,000 is included in accounts payable and accrued liabilities at December 31, 2009 (December 31, 2008 - \$98,000). These services are provided in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. SUBSEQUENT EVENTS

- a) On January 21, 2010 the board of directors of Trafina approved the grant to an officer and certain consultants of the Company of options to acquire 170,000 shares of the Company at a price of \$0.46 per share exercisable on or prior to January 21, 2015.
- b) On January 21, 2010 the Company finalized the acquisition of assets associated with the Company's 2009 purchase of debt security (see note 5). Immediately upon completion of the acquisition, Trafina assigned an undivided 20% interest in all of the assets to a private Alberta company.
- c) On February 18, 2010 Trafina closed the sale of its 3.42% interest in Bindloss Unit #1 in southern Alberta for approximately \$1.4 million. The sale proceeds were used to reduce the Company's debt.
- d) Trafina also acquired a 100% interest in certain non-producing assets for aggregate consideration of \$215,000, consisting of \$53,000 cash and 324,000 special warrants of the Company at a price of \$0.50 per special warrant. Each special warrant is automatically convertible into one Class A common share of Trafina for no additional consideration upon the Company receiving certain well battery licences from the Alberta Energy Resources Conservation Board ("ERCB"). There is no assurance the licenses will be received from the ERCB.
- e) In April 2010 Trafina signed a purchase and sale agreement to sell its remaining non-core working interest in the Jenner area to a third party for gross proceeds of \$1.1 million. The agreement is to close on or before May 31, 2010 and is effective April 1, 2010.