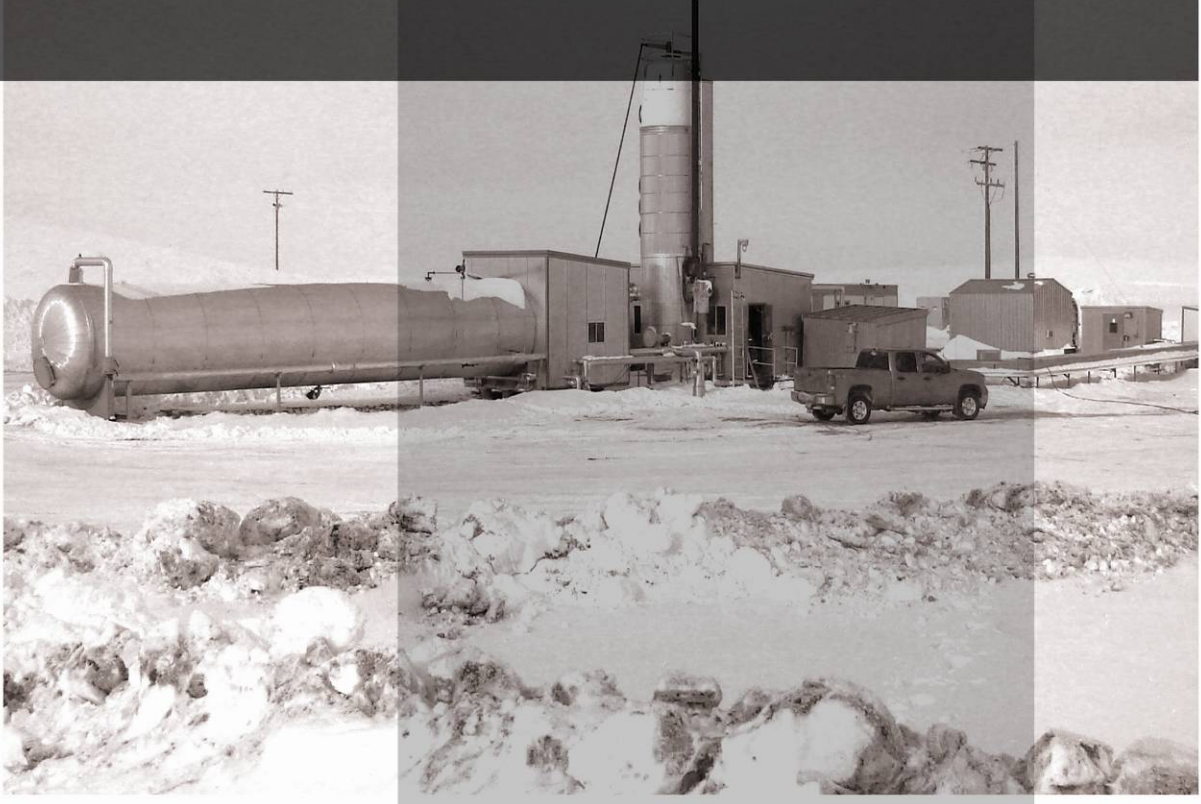


**TRAFINA**  
ENERGY LTD.



**2009 MANAGEMENT'S  
DISCUSSION & ANALYSIS**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis ("MD&A") is a review of the financial results of Trafina Energy Ltd. (the "Company" or "Trafina") for the three months and year ended December 31, 2009 and should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2009. This MD&A is dated April 28, 2010.

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

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

### FORWARD-LOOKING STATEMENTS

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

### NON-GAAP MEASURES

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

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

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Cash flow from (used in) operating activities	\$ 443,237	\$ 1,764,377	\$ (144,677)	\$ 2,375,378
Change in non-cash operating working capital	(433,736)	(1,340,510)	261,699	(1,584,078)
Funds flow from operations	\$ 9,501	\$ 423,868	\$ 117,022	\$ 791,300

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

## OVERVIEW

Trafina is an oil and gas exploration, development and production company operating in the Provinces of Alberta and Saskatchewan, Canada. Its main operational areas are in the Rangeview and Divide areas of southwest Saskatchewan and in the Pembina area of Alberta with other operated production in Wetaskiwin, Retlaw and Ronalane in Alberta.

2009 was a challenging year in the oil and gas sector due to depressed natural gas prices and continued economic uncertainty. The uncertain economic conditions forced many oil and gas corporations to revisit their asset base and focus on areas that were more operationally efficient and less capital intensive. Unfortunately, for some corporations this wasn't an option as their credit facilities were either reduced or cancelled outright. This resulted in a reduction to many corporate 2009 capital expenditure budgets and asset and corporation sales at favourable prices. Trafina's management viewed these events as advantageous and quickly re-focused its strategy of acquiring and exploiting undervalued assets and attractive farm-in opportunities. The following highlights Trafina's year:

- Increased average production 34% to 402 boe per day in 2009 from 300 boe per day in 2008.
- Acquired a 50% interest in certain assets in Alberta and Saskatchewan for \$5 plus an overriding royalty obligation and assumption of related well abandonment and reclamation liabilities. These assets are now producing approximately 60 boe per day net to Trafina.
- Purchased from a Canadian Chartered bank the outstanding indebtedness and liabilities of a private oil and gas corporation with assets in southwest Saskatchewan. In late 2009, Trafina appointed a receiver and acquired the corporation's assets on January 15, 2010 in settlement of the debt and liabilities. Since then a number of the acquired wells have been re-activated and current net production is approximately 100 boe per day.
- Farmed-in on a Rock Creek test well in the Pembina area of Alberta, which was subsequently completed for Ellerslie gas in February 2010. Management believes the well and earned lands have additional multi-zone potential including the drilling of up to four Cardium horizontal oil wells which may be undertaken in the second half of 2010.
- Completed a private placement of units, consisting of Class A common shares and share purchase warrants, and Class A common shares issued on a flow-through basis pursuant to the *Income Tax Act* (Canada) for gross proceeds of \$2.5 million. Net proceeds of the private placement were used to reduce Trafina's indebtedness and for general working capital purposes.

## SELECTED FINANCIAL INFORMATION

	For the three months ended December 31		% Change
	2009	2008	
Total gross oil and gas revenue (\$)	1,225,710	1,651,810	(26)
Royalties (\$)	167,164	350,900	(52)
Operating expenses (\$)	680,376	501,542	+36
Funds flow from operations <sup>(1)</sup> (\$)	9,501	423,868	(98)
per basic common share (\$)	---	0.05	
Weighted average basic shares outstanding	13,514,502	7,738,565	+75
Loss before income taxes (\$)	(1,254,165)	(583,747)	+115
Net loss (\$)	(870,969)	(400,307)	+118
per basic and diluted common share (\$)	(0.06)	(0.05)	
Net capital expenditures (\$)	2,484,315	1,228,271	+102
Total assets (\$)	19,011,188	17,987,380	+6
Net debt and working capital deficiency <sup>(2)</sup> (\$)	(3,911,476)	(3,631,929)	+8

(1) Funds flow from operations is a Non-GAAP Measure. See *NON-GAAP MEASURES* in this MD&A.

(2) Net debt and working capital deficiency consists of accounts payable and accrued liabilities, current portion of liability settlement, bank debt and a commodity contract liability, less current assets.

	For the years ended December 31		
	2009	2008	2007
Total gross oil and gas revenue (\$)	4,122,704	5,854,915	4,470,898
Liability settlement (\$)	533,716	---	---
Royalties (\$)	486,740	951,908	560,003
Operating expenses (\$)	2,291,717	1,800,601	1,579,612
Funds flow from operations <sup>(1)</sup> (\$)	117,022	791,300	1,138,260
per basic common share (\$)	0.01	0.13	0.20
Weighted average basic shares outstanding	11,845,631	6,257,758	5,778,485
Loss before income taxes (\$)	(3,590,850)	(1,913,880)	(1,444,745)
Net loss (\$)	(2,659,572)	(1,342,575)	(705,256)
per basic and diluted common share (\$)	(0.22)	(0.21)	(0.12)
Net capital expenditures (\$)	3,355,059	5,259,351	3,094,681
Total assets (\$)	19,011,188	17,987,380	14,892,732
Net debt and working capital deficiency <sup>(2)</sup> (\$)	(3,911,476)	(3,631,929)	(1,216,727)

(1) Funds flow from operations is a Non-GAAP Measure. See *NON-GAAP MEASURES* in this MD&A.

(2) Net debt and working capital deficiency consists of accounts payable and accrued liabilities, current portion of liability settlement, bank debt and a commodity contract liability, less current assets.

## PRODUCTION

	Three Months Ended December 31			Year Ended December 31		
	2009	2008	Change	2009	2008	Change
Natural gas	<b>1,951 mcf/day</b>	2,154 mcf/day	(9) %	<b>2,111 mcf/day</b>	1,477 mcf/day	43 %
Oil and natural gas liquids	<b>64 bbls/day</b>	61 bbls/day	(5) %	<b>50 bbls/day</b>	54 bbls/day	(7) %
Total production	<b>389 boe/day</b>	420 boe/day	(7) %	<b>402 boe/day</b>	300 boe/day	34 %

Trafina's production for the three months ended December 31, 2009 decreased slightly from the same period in 2008 averaging 389 boe/day. The reduction was mostly due to declines in production from new wells that commenced production in 2008 and the sale of non-core producing assets, partially offset by production from properties acquired in September, 2009. Year over year Trafina's 2009 average production increased 34 percent, averaging 402 boe/day. In 2009 Trafina added production from 19 (6.5 net) coal bed methane wells in the Wetaskiwin area and from other oil and natural gas wells that were re-activated and/or recompleted.

## BENCHMARK PRICES

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
AECO daily spot price	<b>\$4.56/mcf</b>	\$6.73/mcf	<b>\$3.99/mcf</b>	\$8.15/mcf
West Texas Intermediate (WTI)	<b>US\$75.96/bbl</b>	US\$58.33/bbl	<b>US\$61.63/bbl</b>	US\$99.59/bbl
Edmonton Par	<b>\$76.75/bbl</b>	\$63.94/bbl	<b>\$66.20/bbl</b>	\$102.85/bbl
US/CDN \$ average exchange rate	<b>0.95</b>	0.83	<b>0.88</b>	0.94

As global recession concerns continued into 2009 and natural gas inventories grew as a result of moderate North American temperatures, natural gas spot prices continued to decline from an average price of \$8.15/mcf in 2008 to average \$3.99/mcf in 2009. After reaching unprecedented highs in 2008, oil prices declined significantly in 2009, mostly due to weakened demand as the slowdown of the world economy continued. In the three months ended December 31, 2009, both commodities rebounded somewhat as the global economy began to improve.

## COMPANY REALIZED PRICES

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Natural gas	<b>\$4.58/mcf</b>	\$6.82/mcf	<b>\$3.99/mcf</b>	\$7.96/mcf
Oil and natural gas liquids	<b>\$68.38/bbl</b>	\$57.53/bbl	<b>\$57.14/bbl</b>	\$83.09/bbl
Total	<b>\$34.24/boe</b>	\$43.35/boe	<b>\$28.09/boe</b>	\$54.00/boe

A continued decline in benchmark commodity prices throughout 2009 impacted the price the Company received for its production. Trafina's realized average natural gas price for the three months ended December 31, 2009 was 33 percent lower than the same period in 2008. The Company's average realized oil and natural gas liquids price for the three months ended December 31, 2009 increased slightly from the same period in the prior year. Natural gas prices averaged \$3.99/mcf in 2009, which was 50 percent lower than the year ended December 31, 2008. Similarly oil and natural gas liquids prices declined in 2009 to average \$57.14/bbl, resulting in a 31 percent reduction over average prices in 2008.

## REVENUE

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Natural gas	\$ 822,736	\$ 1,328,387	\$ 3,076,141	\$ 4,225,846
Oil and natural gas liquids	402,974	323,423	1,046,563	1,629,069
Total petroleum and natural gas revenue	\$ 1,225,710	\$ 1,651,810	\$ 4,122,704	\$ 5,854,915

Dramatically lower natural gas prices and slightly lower production in the three months ended December 31, 2009 resulted in lower revenues when compared to the same period in 2008. Oil and natural gas liquids revenues in the three months ended December 31, 2009 were slightly higher than the three months ended December 31, 2008, mainly as a result of rebounding oil prices and marginally higher oil sales. Despite a positive increase in yearly 2009 average production, overall weaker commodity prices in the year resulted in revenues decreasing by 30 percent from the year ended December 31, 2008.

## LIABILITY SETTLEMENT

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Liability settlement	\$ ---	\$ ---	\$ 533,716	\$ ---

On July 29, 2009, the Company signed an agreement with an industry partner resulting in a settlement of funds owed by Trafina to the industry partner from the over-allocation of revenue in prior periods. As a result of the settlement, the Company reduced its previously recorded estimated liability by \$533,716 resulting in a gain on settlement.

## UNREALIZED LOSS ON COMMODITY CONTRACT

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Unrealized loss on commodity contract	\$ 24,000	\$ ---	\$ 24,000	\$ ---

Management entered into 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 an unrealized loss on a commodity contract liability of \$24,000 and a corresponding commodity contract liability based on future natural gas price projections at December 31, 2009 (\$5.31/GJ) versus the Company’s contract rate (\$5.15/GJ).

## OTHER REVENUE

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Other revenue	\$ 49,197	\$ 23,269	\$ 109,625	\$ 74,210

Other revenue relates to miscellaneous processing, overhead and interest revenue.

## ROYALTIES

	Three Months Ended December 31				Year Ended December 31			
	2009	Royalty as percent of revenue	2008	Royalty as percent of revenue	2009	Royalty as percent of revenue	2008	Royalty as percent of revenue
Total royalties	\$ 167,164	14	\$ 350,900	21	\$ 486,740	12	\$ 951,908	16

Royalty obligations as a percentage of revenue for the three months ended December 31, 2009 were significantly lower than the same period in 2008, mainly due to the recording of a prior year obligation in three months ended December 31, 2008. Overall royalty percentages in the year ended December 31, 2009 were lower than the previous year mainly as a result of changes to the Alberta Government royalty framework that came into effect January 1, 2009. Under the new framework, the Company's low rate gas wells, coupled with lower commodity prices, resulted in favorable Crown royalties.

## OPERATING EXPENSES

	Three Months Ended December 31				Year Ended December 31			
	2009	\$/boe	2008	\$/boe	2009	\$/boe	2008	\$/boe
Operating expenses	\$ 680,376	\$ 19.01	\$ 501,542	\$ 12.97	\$ 2,291,717	\$ 15.62	\$ 1,800,601	\$ 16.42

Operating expenses including processing and transportation costs for the three months ended December 31, 2009 and 2008 were \$680,376 (\$19.01/boe) and \$501,542 (\$12.97/boe), respectively, which increased 46 percent per boe quarter over quarter. The increase was due to higher operating costs associated with the Company's new properties acquired in September 2009 for \$5.00, plus a gross overriding royalty (see *CAPITAL EXPENDITURES* in this MD&A). Higher operating costs in these newly acquired areas can be attributed to initial start-up costs and energy costs related to extracting and separating the emulsion. Operating expenses for the year ended December 31, 2009 decreased slightly over the same period in 2008.

## FIELD NETBACK <sup>(1)</sup>

	Three Months Ended December 31				Year Ended December 31			
	2009	\$/boe	2008	\$/boe	2009	\$/boe	2008	\$/boe
Petroleum and natural gas revenue	\$ 1,225,710	\$ 34.25	\$ 1,651,810	\$ 42.75	\$ 4,122,704	\$ 28.10	\$ 5,854,915	\$ 53.32
Liability settlement	---	---	---	---	533,716	3.64	---	---
Unrealized loss on commodity contract	(24,000)	0.67	---	---	(24,000)	0.16	---	---
Other revenue	49,197	1.37	23,269	0.60	109,625	0.75	74,210	0.68
Royalties	(167,164)	4.67	(350,900)	9.08	(486,740)	3.32	(951,908)	8.67
Operating expenses	(680,376)	19.01	(501,542)	12.97	(2,291,717)	15.62	(1,800,601)	16.42
Field netback <sup>(1)</sup>	\$ 403,367	\$ 11.27	\$ 822,637	\$ 21.30	\$ 1,963,588	\$ 13.38	\$ 3,176,616	\$ 28.91
Sales volumes (boe)	35,788		38,640		146,730		109,800	

(1) See *NON-GAAP MEASURES* in this MD&A

Trafina's field netback per boe decreased 47 percent to \$11.27/boe for the three months ended December 31, 2009, compared to \$21.30/boe for the three months ended December 31, 2008. The lower field netback per boe was a result of lower commodity prices, an unrealized loss on a commodity contract and higher operating expenses per boe, partially offset by lower royalties. For the year ended December 31, 2009, the Company's field net back per boe was \$13.38/boe, which was 54 percent lower than the same period in 2008. The decrease was primarily a result of lower commodity prices, which were partially offset by a one-time working capital adjustment recorded as liability settlement revenue.

## GENERAL AND ADMINISTRATIVE (“G&A”) EXPENSE

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
G&A	\$ 421,242	\$ 386,265	\$ 1,338,220	\$ 1,759,875
G&A per boe	\$ 11.77	\$ 10.00	\$ 9.12	\$ 16.03

G&A expenses for the three months ended December 31, 2009 were slightly higher than the same period in 2008. The majority of the difference is attributable to bonuses paid to employees. For the year ended December 31, 2009, G&A expenses were significantly less than the year ended December 31, 2008. The difference is mainly due to a severance payment to an executive officer in the first quarter of 2008 and lower salary, consulting and legal fees in 2009 compared to 2008.

## DEPLETION, DEPRECIATION, AND ACCRETION

For the three months and year ended December 31, 2009, depletion, depreciation and accretion expense was \$1,092,708 (\$30.53/boe) and \$3,901,794 (\$26.59/boe), respectively. For the three months and year ended December 31, 2008, depletion, depreciation and accretion expense was \$966,472 (\$25.01/boe) and \$2,615,164 (\$23.82/boe), respectively. The increase in depletion, depreciation and accretion expense is a direct correlation to production, as the Company’s depletion calculation uses the unit-of-production method in its computation.

## STOCK BASED COMPENSATION EXPENSE

Stock based compensation expense totaled \$222,974 for the year ended December 31, 2009, compared to \$51,642 for the year ended December 31, 2008 and totaled \$120,605 for the three months ended December 31, 2009, compared to \$41,142 for the three months ended December 31, 2008. The increase in stock based compensation expense for 2009 relates to 1,300,000 stock options granted in 2009, including 560,000 options granted in the three months ended December 31, 2009. As at December 31, 2009, 1,650,000 stock options were outstanding.

## INTEREST EXPENSE

Interest expense for the three months and year ended December 31, 2009 was \$91,450 and \$22,976, respectively, and interest expense for the three months and year ended December 31, 2008 was \$12,403 and \$58,954, respectively. Included in interest expense for the year ended December 31, 2009 is accrued interest charges due to the Canada Revenue Agency for outstanding flow-through share obligations after February 2009 and interest associated with the Company’s liability settlement (see *CONTRACTUAL OBLIGATIONS* in this MD&A). Interest associated with the 2009 flow-through obligation was paid on February 28, 2010.

## INCOME TAXES

For the three months ended December 31, 2009, the Company recorded a future income tax reduction of \$356,843. For the year ended December 31, 2009, the Company recorded a future income tax reduction of \$774,651 and a current income tax reduction of \$156,627. For the three months and year ended December 31, 2008, the Company recorded future income tax reductions of \$183,440 and \$532,931, respectively and recorded a current income tax reduction of \$38,374. Trafina’s tax horizon depends on factors such as production, commodity prices, tax classifications of wells drilled and the nature of capital expenditures throughout the year.

## NET LOSS

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Net loss	\$ 870,969	\$ 400,307	\$ 2,659,572	\$ 1,342,575

For the three months ended December 31, 2009, the Company recorded a net loss of \$870,969, compared to a net loss of \$400,307 reported in the same period ended December 31, 2008. A higher net loss in the three months ended December 31, 2009 was a result of lower revenue, an unrealized loss on a commodity contract, higher operating costs, G&A expenses, depletion, depreciation and accretion expense, stock-based compensation and interest charges, partially offset by lower royalties and a favorable reduction in taxes. For the year ended December 31, 2009, the Company recorded a net loss of \$2,659,572, compared to a net loss of \$1,342,575 for the year ended December 31, 2008 mainly as a result of low revenue, higher operating costs, depletion, depreciation and accretion expense, stock-based compensation and interest charges, partially offset by lower royalties, a one-time liability settlement, lower G&A expenses and a favorable reduction in taxes.

Comprehensive loss consists of net loss and other comprehensive loss (“OCL”). Because the Company does not have any OCL, the Company’s net loss and comprehensive loss are the same.

## FUNDS FLOW FROM OPERATIONS

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Net loss	\$ (870,969)	\$ (400,307)	\$ (2,659,572)	\$ (1,342,575)
Add back items not involving cash:				
Depletion, depreciation and accretion	1,092,708	966,472	3,901,794	2,615,164
Future income taxes	(356,843)	(183,439)	(774,651)	(532,931)
Stock-based compensation	120,605	41,142	222,974	51,642
Liability settlement revenue	---	---	(533,716)	---
Unrealized loss on commodity contract	24,000	---	24,000	---
Abandonment expenditures	---	---	(63,807)	---
Funds flow from operations <sup>(1)</sup>	\$ 9,501	\$ 423,868	\$ 117,022	\$ 791,300
Funds flow from operations per share – basic	---	\$0.05	\$0.01	\$0.13

(1) See *NON-GAAP MEASURES* in this MD&A

Lower funds flow from operations for the Company in the three months and year ended December 31, 2009 compared to the same period in 2008 are primarily a result of lower revenues and higher operating costs.

## NETBACK ANALYSIS

The following table reconciles field netback (non-GAAP) to funds flow from operations (non-GAAP) to net loss (GAAP) for the three months and year ended December 31, 2009 and 2008:

	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Petroleum and natural gas revenue	\$ 1,225,710	\$ 1,651,810	\$ 4,122,704	\$ 5,854,915
Liability settlement	---	---	533,716	---
Unrealized loss on commodity contract	(24,000)	---	(24,000)	---
Other revenue	49,197	23,269	109,625	74,210
Royalties	(167,164)	(350,900)	(486,740)	(951,908)
Operating expenses	(680,376)	(501,542)	(2,291,717)	(1,800,601)
Field netback <sup>(1)</sup>	403,367	822,637	1,963,588	3,176,616
General and Administrative	(421,242)	(386,265)	(1,338,220)	(1,759,875)
Interest	(22,977)	(12,504)	(91,450)	(58,954)
Current tax	26,353	---	156,627	38,374
Bad debt	---	---	---	(604,861)
Unrealized loss on commodity contract	24,000	---	24,000	---
Abandonment expenditures	---	---	(63,807)	---
Liability settlement revenue	---	---	(533,716)	---
Funds flow from operations <sup>(1)</sup>	9,501	423,868	117,022	791,300
Depletion, depreciation and accretion	(1,092,708)	(966,472)	(3,901,794)	(2,615,164)
Future income taxes	356,843	183,439	774,651	532,931
Stock-based compensation	(120,605)	(41,142)	(222,974)	(51,642)
Liability settlement revenue	---	---	533,716	---
Unrealized loss on commodity contract	(24,000)	---	(24,000)	---
Abandonment expenditures	---	---	63,807	---
Net loss	\$ (870,969)	\$ (400,307)	\$ (2,659,572)	\$ (1,342,575)

(1) See *NON-GAAP MEASURES* in this MD&A

## LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2009, the Company had net debt and working capital deficiency of \$3,911,476. Despite a private placement financing in December 2009, lower funds flow combined with flow-through expenditure obligations incurred in the three months ended December 31, 2009 had a significant impact on rising debt levels.

Continued depressed commodity prices in 2010 will have a negative impact on the Company's funds flow from operating activities, thus placing continued pressure on Trafina's banking credit facility. In recognition of this impact, Trafina sold various non-core assets in 2009 and 2010 and focused its attention to re-activating its newly acquired southwest Saskatchewan properties. The Company also has exciting drilling opportunities programmed for 2010 including several Pembina area drilling locations and further development of its Saskatchewan properties, both of which could dramatically increase future funds flow. The Company is also continually evaluating under-valued oil and gas assets and corporate acquisitions in an attempt to increase its asset base and size in order to better withstand potential future commodity price fluctuations. Notwithstanding the impact of successfully executing and or achieving the aforementioned goals, it is anticipated that the Company will need to access the capital markets for additional funds.

## 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 percent. 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 Company 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 the sale of certain properties prior to December 31, 2009. The Company requested and received a waiver from the bank. 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 loan, with interest charged on advances under the loan at the bank's prime rate plus 1.50% and a \$1,250,000 acquisition and development demand loan, 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.

## EQUITY

Changes to equity of the Company for the year ended December 31, 2009 were as follows.

### *Share Issues*

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 pursuant to the *Income Tax Act* (Canada) 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. Acumen Capital Finance Partners Limited as underwriter was paid a cash commission equal to 7 percent of the total proceeds. The Class A common shares issued pursuant to the private placement were subject to a hold period that expired April 4, 2010.

### *Share Purchase Warrants*

As a result of the December 3, 2009 financing, 2,513,355 share purchase warrants were issued and are outstanding at December 31, 2009 and were subject to a hold period that expired April 4, 2010.

### *Flow-Through Shares*

In February 2009, the Company renounced \$2,021,000 million of flow-through obligations with an effective date of December 31, 2008 as a result of the issuance of 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 commensurate reduction of share capital of \$525,459 was recorded in the year ended December 31, 2009. Trafina had fulfilled its flow-through spending obligation at December 31, 2009.

### Normal Course Issuer Bid

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 subsequently cancelled 5,000 Class A common shares at a price of \$0.29 per share under the NCIB. The NCIB expired February 26, 2010.

### Stock Options

The Company has an employee stock option plan under which employees, consultants and directors are eligible to receive options. As at December 31, 2009, Trafina had 1,650,000 stock options outstanding as follows:

Date	Number of Options Granted	Exercise Price per Option
October 08, 2008	250,000	\$0.42
October 30, 2008	100,000	\$0.30
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	1,650,000	\$0.36

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.

In 2010 Trafina issued an additional 170,000 options at \$0.46 and 30,000 options have been exercised. As of April 28, 2010 1,790,000 stock options remained outstanding.

### Outstanding share data

Trafina is authorized to issue an unlimited number of Class A voting common shares, an unlimited number of Class B non-voting common shares and an unlimited number of preferred shares. As at April 28, 2010, 18,303,262 Class A voting common shares were issued and outstanding. There are nil Class B non-voting common shares and nil preferred shares outstanding. As at April 28, 2010, 2,513,355 share purchase warrants were issued and are outstanding.

## CAPITAL EXPENDITURES

The following table summarizes capital expenditures for the three months and year ended December 31, 2009 and 2008.

	Three months ended December 31		Year ended December 31	
	2009	2008	2009	2008
Acquisition	\$ 8,899	\$ ---	\$ 125,896	\$ 2,685
Disposition	(604,152)	---	(604,152)	---
Land and Seismic	---	---	22,111	---
Drilling, completions and recompletions	1,716,034	1,118,491	1,990,242	3,188,111
Equipping and facilities	84,448	109,780	752,181	2,067,805
Non-operated joint interest partner 2008 accrual adjustment	---	---	(246,469)	---
Office equipment and capital G&A	52,003	---	88,168	750
Other	1,227,082	---	1,227,082	---
Total capital expenditures	\$ 2,484,314	\$ 1,228,271	\$ 3,355,059	\$ 5,259,351

In September 2009, the Company acquired a 50 percent interest in certain assets in Alberta and Saskatchewan for consideration of \$5 and a non-convertible sliding scale overriding royalty (1 percent to 8.5 percent) 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 present value of \$1.3 million and incurred related acquisition costs of \$125,896.

In October 2009, the Company sold its 50 percent working interest in certain non-core, non-operated assets for net proceeds of \$604,152.

The Company also drilled 3 (2.5 net) wells in the fourth quarter of 2009. An oil well in the Ronalane area of south-east Alberta was completed, tied-in and on production in late December 2009. The second well, a Rock Creek test in the Pembina area of Alberta, was completed for Ellerslie gas in February 2010 and a third well, also at Ronalane, was abandoned. Trafina also participated in several recompletions and tie-in projects.

In November 2009, Trafina completed the purchase from a Canadian bank of the outstanding indebtedness and liabilities to the bank of 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 the debt and liabilities owing to the Company. From November 2009 to the final transfer of assets in January 2010, Trafina made certain payments, among other things, to acquire the debt, pay secured creditors and governmental agencies and pay service providers to maintain the properties throughout the receivership process. The payments in 2009 amounted to \$1,227,082 and are included under "Other" in the above table.

From January to September 2009, most of the Company's capital expenditures were incurred in the Wetaskiwin area and resulted in placing 19 (6.5 net) coal bed methane wells drilled in 2008, on production. For the year ended December 31, 2008, capital expenditures were mainly a result of expenditures relating to the Wetaskiwin area drilling program.

## CONTRACTUAL OBLIGATIONS

On July 29, 2009, the Company signed an agreement with an industry partner, resulting in a settlement of funds owed by Trafina to the industry partner for revenue over-allocation in prior years. The agreement includes the following terms and conditions:

- The Company shall pay a total sum of \$1,307,604, 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.

The following table reconciles the Company's remaining future payments:

	<b>Principal</b>
2010	\$ 833,333
2011	69,445
Total	\$ 902,778

As a result of completing a private placement financing on December 3, 2009, the Company is required to spend 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.

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.

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

On October 27, 2009, the Company agreed to farm-in on lands in the Pembina area, where the Company paid 100 percent of the drilling and completion costs to earn a 65 percent (net 32.5 percent) interest in the well. The well commenced drilling in December 2009, with the remaining drilling and completion work completed in early 2010. The well was completed in the Ellerslie zone in 2010, whereby the farmor exercised its right to back-in for an additional 8.12 percent of Trafina's 32.5 percent interest leaving Trafina with a net 24.38 percent interest.

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

## OFF BALANCE SHEET TRANSACTIONS

There were no off balance sheet transactions entered into during the period, nor are there any outstanding as of April 28, 2010.

## TRANSACTIONS WITH RELATED PARTIES

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.

## SUBSEQUENT EVENTS

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.

On January 21, 2010 the Company finalized the acquisition of assets associated with the Company's 2009 purchase of debt security (see *CAPITAL EXPENDITURES* in this MD&A). On January 15, 2010, a court appointed receiver, received approval to sell the assets to Trafina in exchange for the debt owed. Immediately upon completion of the Purchase, Trafina assigned an undivided 20% interest in all of the assets to a private Alberta company. Trafina now owns an undivided 80% interest in all of the lands and production therefrom.

On February 18, 2010 Trafina closed a sale of its 3.42% interest in Bindloss Unit #1 in southern Alberta for approximately \$1.4 million. Based on Trafina's net interest of approximately 21 barrels of oil equivalent (boe) per day, the sale price represents a value of \$66,900 per flowing boe per day. The sale proceeds was used to reduce the Company's debt.

In February 2010, Trafina acquired a 100% interest in certain non-producing assets in the Provost area of Alberta and related oil and gas rights for aggregate consideration of \$215,000, consisting of \$53,000 cash and 324,000 special warrants of the Company issued 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 and facility licences from the Alberta Energy Resources Conservation Board ("ERCB"). There is no assurance that the licenses will be received from the ERCB on terms satisfactory to Trafina if at all. The failure to receive the well battery licenses may negatively impact Trafina's development plans for the assets.

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 sold assets are currently producing approximately 20 boe per day. The sale is expected to close on or before May 31, 2010 and is effective April 1, 2010.

## HISTORICAL QUARTERLY FINANCIAL INFORMATION

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

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production (boe/day)	<b>398</b>	392	403	423	420	279	261	248
Revenue (\$)	<b>1,225,710</b>	803,263	913,483	1,187,571	1,651,810	1,609,142	1,505,335	1,124,135
Revenue (\$/boe)	<b>34.25</b>	22.24	24.91	31.19	42.75	62.69	63.38	49.81
G&A (\$)	<b>421,242</b>	257,667	279,805	379,506	386,265	377,557	386,491	609,562
Funds flow from (used-in) operations (\$) <sup>(1)</sup>	<b>9,501</b>	(28,572)	60,826	75,266	423,868	299,256	80,645	(12,469)
Funds flow per basic and diluted common share (\$)	---	---	0.01	0.01	0.05	0.05	0.01	---
Net loss (\$)	<b>(870,969)</b>	(763,808)	(341,010)	(683,782)	(400,307)	(187,767)	(417,464)	(337,038)
Net loss per basic and diluted common share (\$)	<b>(0.06)</b>	(0.07)	(0.03)	(0.06)	(0.05)	(0.03)	(0.07)	(0.06)
Capital expenditures (\$)	<b>2,484,314</b>	309,572	333,882	227,289	1,228,271	2,221,314	(18,093)	1,827,859
Net debt and working capital deficiency (\$) <sup>(1)</sup>	<b>(3,911,476)</b>	(3,444,260)	(2,896,332)	(3,712,758)	(3,631,929)	(4,921,251)	(2,972,298)	(3,067,111)

(1) See *NON-GAAP MEASURES* in this MD&A

Other than Q1 2008 when the Company used funds flow for operations due to a severance payment, the Company consistently generated funds flow from operations until Q3 2009 when funds flow were again used in operations mainly as a result of low natural gas prices. In Q4 2009 mainly as a result of recovering commodity prices the Company again generated funds flow from operations.

In the first two quarters of 2008, net losses were recorded as a result of the aforementioned severance payment and a bad debt expense. The third quarter of 2008 saw a slight recovery largely due to higher commodity prices. A net loss of \$400,307 in the fourth quarter of 2008 was mainly due to higher depletion expense, the result of increased production. In the first quarter of 2009, the Company had a net loss of \$683,782 primarily as a result of lower commodity prices and higher depletion expense. The Company's net loss for the second quarter of 2009 decreased to a net loss of \$341,010, primarily a result of recording \$533,000 of liability settlement gain. A continual decline in natural gas prices resulted in a net loss for the third quarter of \$763,808. In the fourth quarter of 2009, the Company's net loss increased to \$870,969 mainly as a result of higher depletion, depreciation and accretion expenses.

## FINANCIAL INSTRUMENTS

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.

### 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; 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.

## BUSINESS RISKS

Continued economic uncertainty in 2009 created a climate of low investor confidence, greater volatility, less liquidity and tighter credit conditions. Trafina, like most other junior oil and gas producers, faced challenging times in 2009 as a result of low commodity prices and credit restrictions, which affected cash flows and debt repayment. Although economic conditions have improved slightly in 2010, Trafina expects to see an unsettled economy for the remainder of 2010 and as a result, faces many risks associated with its business. A summary of certain risks is provided below; however, a more extensive list is provided in our Annual Information Form filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Commodity prices:

Commodity prices are generally determined by global supply and demand, which are beyond the control of the Company. A further deterioration in natural gas prices may affect the Company's funds flow and as a result could affect the Company's

borrowing base and credit facility. As a potential tool in mitigating this risk, Trafina has entered into two financial swaps sales contracts and continues to monitor expected future commodity prices.

Trafina is also exposed to fluctuations in the exchange rate between the Canadian and US dollar as some of the Company's commodity prices are based on US dollar benchmarks. The decline in commodity prices has had an inverse affect on the Canadian/US exchange rate, thus having a positive impact on the Company's commodity prices.

*Credit risk:*

Trafina might be exposed to third party credit risk through its contractual arrangements with joint interest partners, petroleum and natural gas purchasers and other parties. Failure to meet contractual obligations by any of these parties may have a material adverse effect on Trafina's financial condition and results of operations. Management believes credit risk is minimized by dealing with reputable joint interest partners and entering into contractual arrangements with creditworthy purchasers that can be terminated on reasonable notice.

*Access to capital:*

The ability of the Company to fund its 2010 capital program with funds flow from operations may be difficult. There can be no assurance that if commodity prices remain low, that the Company can obtain additional debt or equity financing. This could have a material effect on the Company's financial position and operations.

*Operational risk:*

The Company attempts to manage operational risks by engaging competent field personnel, participating in joint operations with reputable partners and implementing a comprehensive insurance program designed to protect the Company from significant losses arising from identified risk exposures.

*Health, safety and environmental risk:*

Mitigating health, safety and environmental risks are addressed by compliance, in all material respects, with government regulations. The Company has acquired the services of a reputable environmental consulting company to assist in maintaining and updating safety and environmental requirements.

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in accordance with Canadian GAAP requires management to make certain judgments and estimates. Estimates which are critical and/or significant for Trafina include the estimates of reserves, depletion and depreciation, asset retirement obligation, stock-based compensation and the ceiling test. Changes in these estimates could have a material impact on the Corporation's financial results and financial condition.

*Full Cost Accounting:*

The Company follows the full cost method of accounting. All costs for exploration and development of reserves are capitalized in a country by country cost centre; the costs are then depleted on the unit of production method based on estimated proved reserves. The estimation of reserves is subject to a number of risks and uncertainties as described below. The capitalized costs cannot exceed a ceiling amount. If the capitalized costs are determined to be in excess of this reserve-based ceiling amount, the excess is written off. The financial statement line items affected by this accounting estimate are property and equipment on the balance sheet (through the provision for accumulated depletion and amortization) and depletion, amortization and accretion on the statement of operations, comprehensive loss and retained earnings. Accordingly, changes to this accounting estimate can have a significant effect on total assets and net loss but no direct cash flow impact. In compliance with accounting standards, the reserve-based ceiling amount is an estimate that is revisited, and possibly adjusted, at each balance sheet date, to coincide with changes to the latest reserve estimate. An alternative method of accounting for oil and natural gas operations is the successful efforts method. Under this method the cost centre is defined to be a property rather than a country cost centre and exploratory dry holes and geological and geophysical costs are charged to earnings when incurred.

*Reserves:*

The Company engages independent qualified reserve evaluators to evaluate its reserves each year. Reserve determinations involve forecasts based on property performance, future prices, future production and costs, and the timing of expenditures; all of which are subject to uncertainty. The financial statement line items affected by this accounting estimate are property and equipment on the balance sheet (through the provision for accumulated depletion and amortization) and depletion, amortization and accretion on the statement of operations, comprehensive loss and retained earnings. Accordingly, changes to this accounting estimate can have a significant effect on total assets and net loss but no direct cash flow impact. Reserves at the end of each year are based on a report obtained from qualified reserve evaluators. This estimate of reserves will change from one year to the next, thus causing changes in current year amounts booked to the balance sheet and income statement. Reserve revisions can change reported depletion and depreciation and earnings; downward revisions could result in a ceiling test writedown.

*Asset Retirement Obligation:*

The Company provides for estimated abandonment costs using a fair value method based on cost estimates determined under current legislative requirements and industry practice. The amount of the liability is affected by the estimated cost per well, the timing of the expenditures and the discount factor used. The financial statement line items affected by this accounting estimate are property and equipment on the balance sheet (through the inclusion of an asset retirement cost), asset retirement obligation on the balance sheet and depletion, amortization and accretion on the statement of operations. Accordingly, changes to this accounting estimate can have a significant effect on total assets, total liabilities and net loss but no direct cash flow impact. Total future asset retirement obligations are estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities, before deduction of salvage values, and the estimated timing of the costs to be incurred in future periods. To assist in estimating salvage values and timing of abandonment costs, management uses the estimates and assumptions found in the reserve report obtained from qualified reserve evaluators. This reserve report will change from one year to the next, thus causing changes in current year amounts booked to the balance sheet and income statement.

*Stock based Compensation*

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which were fully tradable with no vesting restrictions. This option valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty. The financial statement line items affected by this accounting estimate are contributed surplus on the balance sheet and stock based compensation on the statement of operations, comprehensive loss and retained earnings. Accordingly, changes to this accounting estimate can have a significant effect on shareholders equity and net income but no direct cash flow impact. Assumptions used in the Black-Scholes option pricing model such as stock volatility, interest rates and expected life of the option change based on trading behavior of the Company's stock as well as overall economic conditions. Increased stock volatility results in higher compensation cost for new stock issuances, leading to lower net income.

**CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**

Effective January 1, 2009, the Company adopted Section 3064, "Goodwill and intangible assets" as issued by the Canadian Institute of Chartered Accountants ("CICA"). It 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 Section did not have an impact on the Company's financial statements.

In 2009, amendments were made to Section 3862 "Financial Instruments – Disclosures" by the CICA. The amendments provided for increased disclosures on liquidity risk and increased disclosures on fair value of financial instruments.

Effective January 1, 2011, the Company will adopt CICA issued Section 1582, "Business Combinations", replacing section 1581. Section 1582 contains potentially significant changes to the measurement and recording of a business combination after January 1, 2011. The Section requires additional use of fair value measurements, recognition of additional assets and liabilities and additional note disclosure. The adoption of this Section will be applied prospectively.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

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

Currently under Canadian GAAP the Company records additions to property plant and equipment using full cost accounting. Under IFRS the Company will report property plant and equipment as either Exploration and Evaluation ("E&E") assets or Developed and Producing ("D&P") assets. E&E assets will not be depleted; however, they will be assessed for impairment. D&P assets will be depleted and tested for impairment at a more detailed level than Canadian GAAP using Cash Generating Units ("CGU"). Impairment tests will be carried out on each CGU and any impairment right down will be recorded in the income statement. Under IFRS an impairment right down may be reversed in future periods. This may result in greater fluctuations in Trafina's operating results.

Another key difference between the two reporting standards will occur when reporting Asset Retirement Obligations (“ARO”). Currently under Canadian GAAP, the Company records its ARO using a credit-adjusted risk free rate. Under IFRS, ARO is calculated using the current market-based discount rate at each reporting date. This may cause significant fluctuations in each reporting period. Also the accretion expense associated with ARO will be reported under finance costs rather than reported under depletion, depreciation and accretion expense.

Trafina is currently evaluating preparation of its opening balance sheet.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company is filed on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company’s website at [www.trafinaenergy.com](http://www.trafinaenergy.com). Information can also be obtained by contacting the Company at Trafina Energy Ltd., 2210, 530-8<sup>th</sup> Avenue S.W., Calgary, Alberta T2P 3S8.