



TRAFINA  
ENERGY LTD.

Q2 2009 FINANCIAL STATEMENTS

# REPORT ON INTERIM FINANCIAL STATEMENTS

## MANAGEMENT'S REPORT

The accompanying unaudited interim financial statements of Trafina Energy Ltd. for the three and six months ended June 30, 2009, 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.

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 a majority of non-management directors has reviewed the unaudited interim financial statements of the Company as at June 30, 2009 as compiled by Management in order to determine that management has fulfilled its responsibilities in the preparation of the interim financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the interim financial statements.

(Signed) *"Kelly J. Ogle"*

**Kelly J. Ogle, President & CEO**  
**August 24, 2009**

(Signed) *"Gary Taylor"*

**Gary Taylor, Vice President, Finance & CFO**

# FINANCIAL STATEMENTS

## INTERIM BALANCE SHEETS (unaudited)

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current Assets		
Cash	\$ ---	\$ 487,704
Accounts receivable	307,217	725,436
Income tax receivable	156,627	---
Prepaid expenses and deposits	101,013	125,595
	<u>564,857</u>	<u>1,338,735</u>
Property and equipment (note 4)	15,373,107	16,648,645
	<u>\$ 15,937,964</u>	<u>\$ 17,987,380</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,333,068	\$ 4,875,664
Current portion of liability settlement (note 6)	763,889	---
Bank debt (note 5)	1,364,232	---
Current portion of asset retirement obligations	---	95,000
	<u>3,461,189</u>	<u>4,970,664</u>
Liability settlement (note 6)	486,111	---
Asset retirement obligations (note 7)	1,374,940	1,294,862
Future income taxes	1,692,278	1,349,403
	<u>7,014,518</u>	<u>7,614,929</u>
Shareholders' Equity		
Share capital (note 8)	5,258,044	5,737,652
Contributed surplus (note 9)	380,058	324,663
Retained earnings	3,285,344	4,310,136
	<u>8,923,446</u>	<u>10,372,451</u>
	<u>\$ 15,937,964</u>	<u>\$ 17,987,380</u>
Future operations (note 2)		
Commitments (note 12)		
Subsequent event (note 14)		
See accompanying notes to interim financial statements.		

# FINANCIAL STATEMENTS

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

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
<b>REVENUE</b>				
Petroleum and natural gas	\$ 913,483	\$ 1,505,335	\$ 2,093,731	\$ 2,616,271
Royalties	(75,296)	(210,479)	(241,752)	(358,627)
Liability settlement (note 6)	533,716	---	533,716	---
Other	3,062	11,953	10,384	25,152
	<b>1,374,965</b>	<b>1,306,809</b>	<b>2,396,079</b>	<b>2,282,796</b>
<b>EXPENSES</b>				
Operating	573,527	438,903	1,102,755	811,854
Bad debt	---	379,310	---	379,310
General and administrative	279,805	386,491	659,311	996,053
Depletion, depreciation and accretion	929,003	560,609	1,885,596	1,023,678
Stock-based compensation	31,553	3,500	55,395	7,000
Interest	19,911	21,460	30,673	27,403
	<b>1,833,799</b>	<b>1,790,273</b>	<b>3,733,730</b>	<b>3,245,298</b>
Loss before income taxes	<b>(458,834)</b>	<b>(483,464)</b>	<b>(1,337,651)</b>	<b>(962,502)</b>
Provision for (reduction of) income taxes				
Current	(156,627)	---	(130,274)	---
Future	38,803	(66,000)	(182,585)	(208,000)
	<b>(117,824)</b>	<b>(66,000)</b>	<b>(312,859)</b>	<b>(208,000)</b>
Net loss and comprehensive loss	<b>(341,010)</b>	<b>(417,464)</b>	<b>(1,024,792)</b>	<b>(754,502)</b>
Retained earnings, beginning of period	3,626,354	5,315,673	4,310,136	5,652,711
Retained earnings, end of period	<b>\$ 3,285,344</b>	<b>\$ 4,898,209</b>	<b>\$ 3,285,344</b>	<b>\$ 4,898,209</b>
Basic and diluted net loss per common share	<b>\$ (0.03)</b>	<b>\$ (0.07)</b>	<b>\$ (0.09)</b>	<b>\$ (0.13)</b>
Weighted average number of common shares outstanding (note 8)	<b>11,302,675</b>	<b>5,759,848</b>	<b>11,284,240</b>	<b>5,767,348</b>

See accompanying notes to interim financial statements.

# FINANCIAL STATEMENTS

## INTERIM STATEMENTS OF CASH FLOWS (unaudited)

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Cash provided by (used in):				
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (341,010)	\$ (417,464)	\$ (1,024,792)	\$ (754,502)
Add (deduct) non-cash items:				
Depletion, depreciation and accretion	929,003	560,609	1,885,596	1,023,678
Future income tax provision (reduction)	38,803	(66,000)	(182,585)	(208,000)
Stock-based compensation	31,553	3,500	55,395	7,000
Liability settlement (note 6)	(533,716)	---	(533,716)	---
Asset retirement expenditures	(63,807)	---	(63,807)	---
	<b>60,826</b>	<b>80,645</b>	<b>136,091</b>	<b>68,176</b>
Change in non-cash operating working capital (note 10)	(300,380)	(451,305)	(279,102)	248,941
	<b>(239,554)</b>	<b>(370,660)</b>	<b>(143,011)</b>	<b>317,117</b>
<b>FINANCING ACTIVITIES</b>				
Common shares issued, net of share issue costs	5,850	---	45,850	---
Repurchase and cancellation of shares	---	(3,925)	---	(13,981)
Increase in bank debt	1,184,088	47,492	1,364,232	1,106,630
	<b>1,189,938</b>	<b>43,567</b>	<b>1,410,082</b>	<b>1,092,649</b>
<b>INVESTING ACTIVITIES</b>				
Additions to property and equipment	(333,882)	18,093	(561,171)	(1,809,766)
Change in non-cash investing working capital (note 10)	(616,502)	309,000	(1,193,604)	400,000
	<b>(950,384)</b>	<b>327,093</b>	<b>(1,754,775)</b>	<b>(1,409,766)</b>
Change in cash	---	---	(487,704)	---
Cash, beginning of period	---	---	487,704	---
Cash, end of period	\$ ---	\$ ---	\$ ---	\$ ---

See accompanying notes to interim financial statements.

## NOTES TO FINANCIAL STATEMENTS

As at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 (unaudited)

### 1. SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements of Trafina Energy Ltd. ("Trafina" or the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal year ended December 31, 2008, except as discussed in note 3. The disclosures provided below are incremental to those included with the annual financial statements and certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. The interim financial statements should be read in conjunction with the Company's financial statements and the notes thereto for the year ended December 31, 2008.

### 2. 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 June 30, 2009 the Company had a net debt and working capital deficiency of \$2,896,332 and a banking credit facility of \$3,500,000 (see note 5). The future operations of the Company is dependent upon a return to profitable operations, raising capital to support its activities and meet its obligations, including flow-through commitments (see note 12) and on receiving the continued financial support of its lender. As a result of these conditions, the ability of the Company to continue as a going concern is in doubt.

The Company's main focus in 2009 is to fulfill its flow-through obligation, while maintaining acceptable debt levels. Notwithstanding the impact of favorable commodity prices on future funds flow, and the corresponding ability to reduce debt levels, it is anticipated that additional funds will be needed. Possible funding may be obtained through one or more equity financings and/or an increased credit facility. To date the Company has had the continued financial support from its lender.

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.

### 3. CHANGE IN ACCOUNTING POLICY

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 financial statements.

### 4. PROPERTY AND EQUIPMENT

	June 30, 2009	December 31, 2008
Oil and gas properties	\$ 20,856,545	\$ 20,590,107
Production equipment	8,742,057	8,449,789
Office equipment	287,754	285,289
	<b>29,886,356</b>	29,325,185
Accumulated depletion and depreciation	<b>(14,513,249)</b>	(12,676,540)
Net book value of property and equipment	\$ <b>15,373,107</b>	\$ 16,648,645

During the six months ended June 30, 2009, \$16,900 (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 June 30, 2009, future development and abandonment costs on proved undeveloped properties of \$2,085,500 (December 31, 2008 - \$2,160,000) were included in the calculation. For the six months ended June 30, 2009 the Company included the cost of unproved properties in the depletion and amortization calculation.

Included in property and equipment at June 30, 2009 is \$812,636 (December 31, 2008 - \$896,710) net of accumulated depletion related to asset retirement costs.

## 5. BANK DEBT

At June 30, 2009, the Company had drawn \$1,364,232 of its \$3,500,000 demand revolving operating credit facility. The Company's credit facility was renewed by the lender and remains at \$3,500,000, with interest calculated at the banks prime rate plus 1.75%. The next scheduled review date is September 30, 2009. The Company is in compliance with all covenants of this credit facility.

As the available credit facility is 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.

## 6. 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 sum of \$1,307,604, which includes interest at 6.5% per annum calculated monthly.
- Payments of principal and interest are to occur monthly over an 18 month period, with the first payment to occur in August 2009.

At December 31, 2008 the Company had estimated the obligation on its audited balance sheet. As a result of the settlement, the Company reduced the liability previously recorded at March 31, 2009 by approximately \$533,000, resulting in an increase to revenue. The following table reconciles the Company's annual future payments:

	Principal
2009	\$ 347,222
2010	833,333
2011	69,445
Total	1,250,000
Less current portion of liability	(763,889)
Long term liability	\$ 486,111

## 7. 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 \$1,374,940 as at June 30, 2009 (December 31 2008 - \$1,389,862). The Company's future liability of \$2,581,844 at June 30, 2009 remained the same as at December 31, 2008. It is expected that the majority of the total future liability will be incurred between 2012 and 2022. 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.

	Six months ended June 30, 2009	Year ended December 31, 2008
ARO, beginning of the period	\$ 1,389,862	\$ 733,572
Liabilities incurred during the period	---	237,375
Adjustment due to change in estimate	---	356,884
Settlement of liabilities	(63,807)	---
Accretion expense	48,885	62,031
ARO, end of period	1,374,940	1,389,862
ARO current portion	---	95,000
ARO long term	\$ 1,374,940	\$ 1,294,862

## 8. 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 the following Class A common shares for the six months ended June 30, 2009:

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number	Amount	Number	Amount
Balance, beginning of the period	11,202,472	\$ 5,737,652	5,782,472	\$ 3,558,569
Repurchased and cancelled	---	---	(80,000)	(49,234)
Issued for cash upon private placement	100,000	40,000	5,500,000	2,341,000
Tax effect of flow-through shares renounced	---	(525,459)	---	---
Share issue costs	---	5,851	---	(152,275)
Future tax benefit of share issue costs	---	---	---	39,592
Balance, end of period	11,302,472	\$ 5,258,044	11,202,472	\$ 5,737,652

### *Private Placement*

In February of 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. The 100,000 Class A common shares are subject to a four month hold period expiring June 4, 2009.

### *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 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 six months ended June 30, 2009.

### Normal Course Issuer Bid (“NCIB”)

In February of 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 05, 2009, the Company purchased 5,000 Class A common shares at a price of \$0.29 under the NCIB.

### Stock Option Plan

The Company has an employee stock option plan under which employees, consultants and directors are eligible to receive options. For the six months ended June 30, 2009, Trafina issued 740,000 common stock options as follows:

- January 15, 2009, 440,000 stock options were issued to employees and directors of the Company with an exercise price of \$0.30 per option.
- May 29, 2009, 300,000 stock options were issued to an officer of the Company with an exercise price of \$0.40 per option.

At June 30, 2009, 1,090,000 common stock options were outstanding, with an average exercise price of \$0.35 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:

	Six months ended June 30, 2009		Year ended December 31, 2008	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of the period	350,000	\$ 0.37	30,000	\$ 2.19
Granted	740,000	0.34	350,000	0.37
Expired	---	---	(30,000)	2.19
Balance, end of period	1,090,000	\$ 0.35	350,000	\$ 0.37
Exercisable, end of the period	363,333	\$ 0.35	116,666	\$ 0.37
Weighted average remaining contractual life	4.57 years		4.79 years	

For the six months ended June 30, 2009, the Company recorded compensation expense of \$55,395 (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	1.1%
Weighted average expected life (years)	2.0

### Per Share Amounts

Basic weighted average shares outstanding for the three and six months ended June 30, 2009 were 11,302,675 and 11,284,240, respectively (June 30, 2008 – 5,759,848 and 5,767,348). Since the Company had net losses in the three and six months ended June 30, 2009 and June 30, 2008 any adjustments for options would have an anti-dilutive effect and as a result are excluded from diluted per share amounts.

## 9. CONTRIBUTED SURPLUS

The following schedule shows the continuity of contributed surplus:

	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of the period	\$ 324,663	\$ 264,664
Stock based compensation	55,395	51,642
Stock repurchased and cancelled under NCIB	---	8,357
Balance, end of the period	\$ 380,058	\$ 324,663

## 10. SUPPLEMENTAL CASH FLOW DISCLOSURES

Change in non-cash working capital:	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Accounts receivable	\$ 189,108	\$ (134,073)	\$ 418,220	\$ (80,234)
Income tax receivable	(156,627)	----	(156,627)	---
Prepaid expenses and deposits	18,074	(74,238)	24,582	(37,363)
Accounts payable and other liabilities <sup>(1)</sup>	(967,437)	66,006	(1,758,881)	766,538
	\$ (916,882)	\$ (142,305)	\$ (1,472,706)	\$ 648,941
Change in non-cash working capital				
Operating	(300,380)	(451,305)	(279,102)	248,941
Investing	(616,502)	309,000	(1,193,604)	400,000

(1) Accounts payable for the three months ended June 30, 2009 was adjusted for \$63,806 as a result of the timing and recognition of well abandonments. Accounts payable was also adjusted for \$533,716 as a result of a non cash reduction in a liability obligation as per note 6.

The following net cash payments were made:

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
Interest paid	\$ 5,588	\$ 21,461	\$ 5,908	\$ 27,404

## 11. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company carries a number of financial instruments, such as accounts receivable, accounts payable and accrued liabilities, current portion of 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 current portion of liability settlement approximate their fair values due to short terms to maturity. The Company's 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 long term portion of its 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. 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 June 30, 2009, approximately 77 percent of the Company's accounts receivable balance was from petroleum and natural gas purchasers. The Company sells the majority of its production to four purchasers and has subsequently received payments for amounts in accounts receivable at June 30, 2009 from its purchasers. At June 30, 2009, approximately \$22,000 of receivables was outstanding for more than 90 days.

### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company manages liquidity by ensuring, as far as possible, that it will have sufficient liquidity under both normal and stressed conditions. Trafina's management prepares a yearly budget, revised cash flow forecasts and monthly sales reconciliations. The Company's revolving operating loan facility with an Alberta-based full-service financial institution remains at \$3.5 million. At June 30, 2009, the Company was in compliance with its bank covenant.

### *Market Risk*

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

### Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company has no forward exchange rate contracts in place as at or during the six months ended June 30, 2009.

### Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar as outlined above, but also world economic events that dictate the level of supply and demand. The Company has no derivative contracts in place to manage commodity price risk as of or during the six months ended June 30, 2009.

### Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. At June 30, 2009, the Company had bank debt of \$1,364,232 and future cash drawings against its banking facility will further expose the Company to changes in interest rates on its bank debt which bears a floating rate of interest. The Company has no interest rate swap or financial contracts in place as at or during the six months ended June 30, 2009. A 1.0 percent change in the prime rate over the six months ended June 30, 2009 would have impacted net earnings by approximately \$1,000.

### 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. The Company has the ability to manage its share capital by issuing shares or re-purchasing shares through a normal course issuer bid. There has been no change in capital management during the six months ended June 30, 2009.

The following outlines the Company's capital structure:

	<b>June 30, 2009</b>	December 31, 2008
Working capital deficit (excluding bank debt)	\$ <b>1,532,100</b>	\$ 3,631,929
Bank debt	\$ <b>1,364,232</b>	\$ ---
Shareholders equity	\$ <b>8,923,446</b>	\$ 10,372,451

## 12. COMMITMENTS

As a result of completing a private placement financing on November 28, 2008, the Company is required to spend approximately \$2,021,000 on eligible "flow-through" expenditures. The Company estimated that it has spent approximately \$886,000 on qualifying flow through expenditures, leaving approximately \$1,135,000 of qualified expenditures to be incurred by December 31, 2009. The remaining qualified expenditures obligations will be funded by funds flow and bank debt.

Effective December 1, 2008 Trafina entered into a lease arrangement for office space. The Company's total rent obligation for 2009 is approximately \$50,000.

On July 29, 2009, Trafina signed an agreement with an industry partner, resulting in a settlement of funds owed by Trafina, to the industry partner, as a result of revenue over-allocation. See note 6 for details.

## 13. 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 six months ended June 30, 2009, fees for legal services billed from this related party were approximately \$59,300, of which \$13,000 is included in accounts payable and accrued liabilities at June 30, 2009. 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.

#### **14. SUBSEQUENT EVENT**

The Company has agreed to purchase certain producing assets in Alberta and Saskatchewan from an arm's-length third party for \$10 plus a sliding scale royalty and the assumption of related operating, abandonment and reclamation liabilities. The present value of assuming the reclamation liabilities are estimated to be \$750,000. The closing date is expected to occur on or about September 17, 2009.