

FIRST QUARTER REPORT
 For the three months ended March 31, 2008

CORPORATE HIGHLIGHTS

	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
<i>(000's, except for per share and production data)</i>			
Petroleum and natural gas revenues (\$)	3,672	3,464	2,914
Funds from operations (\$)	1,707	1,576	1,553
Basic and diluted per share (\$)	0.14	0.13	0.13
Net earnings (loss) (\$)	(232)	(279)	1,298
Basic and diluted per share (\$)	(0.02)	(0.02)	0.11
Working capital (deficit) (\$)	(4,278)	(349)	3,582
Long-term debt (\$)	5,803	-	-
Capital expenditures (\$)	11,439	3,694	10,934
Weighted average number of shares outstanding			
Basic and diluted	11,836	11,836	11,836
Shares outstanding			
Basic	11,836	11,836	11,836
Diluted	12,957	12,957	12,758
Average Production			
Light Oil (bbls/d)	39	44	51
Heavy Oil (bbls/d)	52	63	45
Total Oil (bbls/d)	91	107	96
Natural Gas (mcf/d)	4,872	5,325	3,886
BOE (boe/d)	903	994	744
Average Realized Prices ⁽¹⁾			
Light Oil (\$/bbl)	82.62	82.41	67.32
Heavy Oil (\$/bbl)	65.17	54.88	32.93
Natural Gas (\$/mcf)	7.29	6.18	7.40
\$/boe (6:1)	46.69	40.22	45.30
Netback (\$/boe)			
Petroleum and natural gas revenue	46.69	40.22	45.30
Royalties	9.01	6.58	9.33
Operating expenses	9.42	9.34	9.57
Transportation expenses	2.00	2.35	1.76
Operating Netback	26.26	21.95	24.64

(1) Average realized prices are before transportation expenses.

LETTER TO SHAREHOLDERS

We are pleased to report on Trafalgar's progress through the first quarter of 2008. First quarter highlights include:

- A 21% increase in production over the first quarter of 2007.
- Increased total revenue by 26% over the first quarter of 2007.
- Maintained operating costs under \$9.50 per boe.
- Successfully executed 10 well winter drilling program.
- Tied in six new natural gas wells at Mackay at the end of the quarter.
- Maintained a strong balance sheet.
- Hedged 2,100 gj (~1,970 mcf) per day of natural gas for summer 2008.

Summer 2008 will be an exciting time for Trafalgar as we are in final preparations to begin a three to five well drilling program on summer accessible prospects acquired over the past year. All four prospects, located in Alberta, have the potential, on existing 100% working interest Trafalgar lands, to develop into new core producing properties. At Stowe we are targeting natural gas in the Gilwood formation as defined by our proprietary 3D seismic data. The House Mountain, Beaton and Rich prospects are all oil targets which with success have multiple potential development locations.

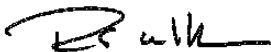
Corporate production volumes, based on field estimates, have risen to 1,125 to 1,250 boe per day over the past two weeks as our disrupted volumes have been brought back on stream. We continue to work with the operator to increase throughput and maximize production from our Mackay wells.

On April 24th Trafalgar entered a financing agreement to issue up to 1.565 million shares on a flow through basis at \$4.40 per share. Net proceeds of approximately \$6.5 million will allow Trafalgar to accelerate the summer drilling program. Closing is scheduled for May 15, 2008.

Consolidation in the junior sector of the Canadian oil and gas industry continues. If the right opportunity presents itself, Trafalgar with our solid production base, strong balance sheet and deep exploration inventory is in an enviable position to act.

With our drill ready exploration inventory the next three to six months will be very exciting for our company and I look forward on reporting our results.

On behalf of the Management, Staff and Board of Directors,



May 13, 2008

Rob Wollmann
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

All figures in tables are stated in thousands of Canadian dollars, except for per share, per boe amounts and operational data.

The following management's discussion and analysis ("MD&A") reviews Trafalgar Energy Ltd.'s ("Trafalgar" or the "Company") activities and results of operations for the three months ended March 31, 2008. The MD&A should be read in conjunction with the unaudited financial statements of Trafalgar for the three months ended March 31, 2008. The accompanying unaudited interim financial statements of Trafalgar have been prepared by management and approved by the Company's Audit Committee and Board of Directors. These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. This MD&A was reviewed and approved by the Company's Audit Committee and Board of Directors on May 13, 2008.

DESCRIPTION OF COMPANY

Trafalgar is a Calgary, Alberta based oil and natural gas exploration, production and development company, with operations in the Canadian provinces of Alberta and British Columbia. Trafalgar was established in April 2006 and began trading on the Toronto Stock Exchange ("TSX") on September 26, 2006 under the symbol TFL.

NON-GAAP FINANCIAL MEASURES

Trafalgar uses the following terms for measurement within the MD&A that do not have standardized prescribed meaning under GAAP and these measurements may not be comparable with the calculation of similar measurements of other entities.

"Funds from operations" and "Funds from operations per share" are terms utilized by Trafalgar to evaluate operating performance and assess leverage. Trafalgar considers funds from operations to be an important measure of Trafalgar's ability to generate the funds necessary to finance capital expenditures and repay debt. Funds from operations does not represent net income and should not be viewed as an alternative to net income or other measures of financial performance calculated in accordance with GAAP. All references to funds from operations throughout the MD&A are based on cash provided by operating activities before change in non-cash working capital.

A reconciliation of cash provided by operating activities to funds from operations is as follows:

	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Cash provided by operating activities (per GAAP)	1,979	1,404	1,327
Change in non-cash operating working capital	(272)	172	226
Funds from Operations	1,707	1,576	1,553

Trafalgar also uses "operating netbacks" as a key performance indicator. Operating netbacks do not have a standardized meaning prescribed by GAAP and therefore may not be comparable with the calculation of similar measures by other companies. Operating netbacks are determined by deducting royalties, operating expenses, processing fees and transportation from petroleum and natural gas sales revenue.

Funds from operations and operating netbacks are not intended to represent operating profits, nor should they be viewed as an alternative to cash flows provided by operating activities, net income or other measures of financial performance calculated in accordance with GAAP.

BOE PRESENTATION

In conformity with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that the term "boe" may be misleading, particularly if used in isolation.

FORWARD-LOOKING STATEMENTS

This discussion and analysis contains forward-looking statements related to future events or future performance. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates" and similar expressions. Forward looking statements are provided to help investors better understand our business. Certain statements regarding Trafalgar include management's assessment of future plans and operations and may constitute forward-looking statements under applicable securities laws and necessarily involve known and unknown risks and uncertainties, most of which are beyond Trafalgar's control. These risks may cause actual financial and operating results, performance, levels of activity and achievements to differ materially from those expressed in, or implied by, such forward-looking statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations including adoption of new environmental laws

and regulations, and changes in how they are interpreted and enforced; competition from other producers; the lack of availability of drilling rigs and other field services; the lack of availability of qualified personnel; fluctuations in commodity prices; the results of exploration and development drilling related activities; imprecision in reserve estimates; the production and growth potential of Trafalgar's various assets; fluctuations in foreign exchange or interest rates; the ability to access sufficient capital from internal and external sources; and obtaining required approvals of regulatory authorities.

Accordingly, Trafalgar gives no assurance nor makes any representations or warranty that the expectations conveyed by the forward-looking statements will prove to be correct and actual results may differ materially from those anticipated in the forward-looking statements. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. Trafalgar disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

Additional information regarding Trafalgar is available under the Company's profile on SEDAR at www.sedar.com or on the Company's website at www.trafalgarenergy.ca.

RESULTS OF OPERATIONS

Production

Production for the three months ended March 31, 2008 has increased 21% over the first quarter of 2007 as a result of increased natural gas production at MacKay. Production averaged 903 boe per day for the three months ended March 31, 2008 as compared to 744 boe per day during the same period in 2007. Production for the quarter ended March 31, 2008 was weighted approximately 90% to natural gas and 10% to crude oil. Total average production for the three months ended March 31, 2008 was 9% lower than the three months ended December 31, 2007. The reduction is mainly attributable to lengthy third party gas plant turnarounds at Mackay and Cypress. Extreme cold temperatures in January and February also contributed to some downtime.

Grouard

Grouard continues to be our largest producing asset with average production from the Bluesky pool of 580 boe per day for the quarter ended March 31, 2008. Production at Grouard during the first quarter of 2008 showed a 9% decline from the first quarter of 2007 due to normal production declines and some production interruptions due to the extreme cold temperatures in January and February.

Early indications of the Grouard waterflood are encouraging as the decline in oil production has been completely arrested. Oil production is expected to increase during the second quarter of 2008 as the influence of the waterflood increases. Water injection rates have recently been increased from 20 cubic meters per day to 45 cubic meters per day to further support potential increases in production and reserves.

Mackay

Average production at MacKay was 254 boe per day during the quarter ended March 31, 2008 as compared to four boe per day during the first quarter of 2007. During the first quarter of 2008, Trafalgar completed a nine well drilling program at Mackay. Trafalgar was successful with eight natural gas wells. Subsequent to March 31, 2008, Trafalgar acquired one recently drilled competitor gas well in the Mackay area at a cost of \$1.5 million. A total of six natural gas wells, including the acquired well, were tied into the Mackay gathering system during the first quarter of 2008. The remaining three gas wells will be re-evaluated in 2009 for potential tie in. Trafalgar has 10 producing natural gas wells at Mackay with current production exceeding our original target of 500 boe per day.

An additional six to eight drilling locations have been identified on Mackay lands through this year's drilling and seismic programs. These locations will form the core of our drilling at Mackay during the winter of 2009.

Cypress

Average natural gas production at Cypress was 69 boe per day for the quarter ended March 31, 2008 as compared to 100 boe per day during the same period in 2007. The reduction is mainly due to a third party plant turnaround during the first quarter of 2008. The Cypress property continues to be a reliable cash flow generator for Trafalgar and no capital expenditures are planned for the area for the balance of 2008.

Production by Product	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Light Oil (bbls/day)	39	44	51
Heavy Oil (bbls/day)	52	63	45
Total Oil (bbls/day)	91	107	96
Natural Gas (mcf/day)	4,872	5,325	3,886
Total (boe/d) (6:1)	903	994	744

Production by Area (boe/d)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Grouard, Alberta	580	606	640
MacKay, Alberta	254	298	4
Cypress, British Columbia	69	90	100
Total (boe/d) (6:1)	903	994	744

Outlook

Consistent with our year end 2007 guidance, Trafalgar expects average production to be in the range of 1,225 – 1,325 boe per day for calendar 2008 and to exit the year between 1,425 and 1,525 boe per day.

Revenue

Petroleum and natural gas revenues (net of transportation) were \$3.7 million for the three months ended March 31, 2008 representing a 26% increase over the three months ended March 31, 2007 due to higher natural gas production at Mackay and higher realized light and heavy oil prices, partially offset by lower realized natural gas prices.

Petroleum and Natural Gas Revenues (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Oil	590	636	427
Natural Gas	3,082	2,828	2,487
Total Revenue	3,672	3,464	2,914
\$/boe (6:1) ⁽¹⁾	44.69	37.87	43.54

⁽¹⁾ per financial statements, petroleum and natural gas revenue is reported net of transportation costs as the risks and rewards transfer at the wellhead.

Trafalgar's light and heavy oil production is located exclusively in the Grouard area. Trafalgar's realized price for light crude oil during the first quarter of 2008 was \$82.62 per bbl or 84% of Edmonton Par, representing a 23% increase over realized light crude oil prices in the first quarter of 2007.

Realized heavy crude prices were \$65.17 per bbl for the first quarter of 2008 or 84% of Bow River representing a 97% increase over the first quarter of 2007. Realized crude oil prices have been influenced primarily by the increase in the market price of light crude oil quarter over quarter and the narrowing of heavy oil differentials. The market price of WTI crude oil was US\$97.87 per bbl during the first quarter of 2008 representing a 69% increase over the first quarter of 2007.

Trafalgar's natural gas production comes from the Grouard, Mackay and Cypress areas. Realized natural gas prices were \$7.29 per mcf during the first quarter of 2008, a slight premium to AECO, as compared to a price of \$7.40 per mcf during the first quarter of 2007.

Trafalgar Realized Prices ⁽¹⁾	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Light Crude Oil (\$/bbl)	82.62	82.41	67.32
Heavy Crude Oil (\$/bbl)	65.17	54.88	32.93
Natural Gas (\$/mcf)	7.29	6.18	7.40
\$/boe (6:1)	46.69	40.22	45.30

⁽¹⁾ Average realized prices are before transportation expenses.

Market Prices	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Oil WTI (US\$/bbl)	97.87	90.77	57.98
Edmonton Par (C\$/bbl)	98.16	87.18	67.76
Bow River (C\$/bbl)	77.47	56.61	49.79
Gas AECO (\$/mcf)	7.20	6.96	7.39
Exchange Rate (US\$/C\$)	0.9956	1.02	0.8537

The Company has attempted to mitigate commodity price risk through the use of various financial derivative contracts. The Company's policy is to enter into commodity contracts considered appropriate to a maximum of 50% of forecasted net production volumes.

Contracts outstanding as at March 31, 2008 in respect to financial instruments, are as follows:

Natural Gas	Volume	Point	Pricing Strike Price (\$/gj)	Cost/ Premium	Term
Summer 2008					
Swap - costless collars	1,050 gj/day	AECO	C\$7.00-C\$9.15/gj	zero	May 2008-October 2008
Swap - bull spread	550 gj/day	AECO	C\$8.08-C\$9.08/gj	C\$50,600	May 2008-October 2008
Swap - bull spread	500 gj/day	AECO	C\$8.315-C\$9.315/gj	C\$46,000	May 2008-October 2008

***strike prices indicate minimum floor and maximum ceiling*

Trafalgar has entered into derivative natural gas financial instruments for the purpose of protecting its funds from operations from the volatility of natural gas prices. For the three months ended March 31, 2008, the Company's natural gas price risk management program had a net realized loss of \$96,600 (2007 - nil). The Company recognizes the fair value of its commodity price contracts on the balance sheet each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of operations. At March 31, 2008 the fair value of the commodity price contracts was a liability of \$159,477 (2007 - nil).

The Company paid the premiums of \$96,600 but did not realize any settlement gains or losses on its financial instruments during the three months ended March 31, 2008 or 2007.

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold land owners and overriding royalty owners. For the three months ended March 31, 2008 royalties were \$740,000 or \$9.01/boe or approximately 20% of revenue.

The lower royalty rate recognized in the fourth quarter of 2007 was largely due to Gas Cost Allowance recognized and recorded during this period.

Royalties (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Royalties	740	602	624
As a % of oil and gas revenue	20.2	17.4	21.4
\$/boe (6:1)	9.01	6.58	9.33

On October 25, 2007, the Government of Alberta released a New Royalty Framework ("Royalty Framework"). The Royalty Framework was released in response to a report issued by the Alberta Royalty Review Panel, which was commissioned by the Government of Alberta to perform a review of Alberta's oil and natural gas royalty system. The Royalty Framework is currently scheduled to take effect on January 1, 2009.

Over 90% of Trafalgar's current reserves and production are within the Province of Alberta and are subject to the Royalty Framework. Prior to the year ended December 31, 2007, Trafalgar undertook a review of the royalty modifications proposed by the Government of Alberta and its potential impact on the Company. The Government of Alberta has not yet clarified certain aspects of the new royalty calculations. Accordingly, the potential impact on Trafalgar of the Royalty Framework was completed as a range. The net present value (10% discount) of our existing proven plus probable reserve base could potentially change from an existing \$44.9 million to \$46.2 million on the high case and \$44.6 million on the low case. Both cases are based upon information then available and using a price

forecast consistent with our December 31, 2007 year end reserve report. Trafalgar expects minimal economic impact on its drilling plans and inventory resulting from the implementation of the NRF using a price forecast consistent with our December 31, 2007 year end reserve report.

On April 10, 2008, the Government of Alberta released new deep resource programs designed to encourage the continued development of deep high cost oil and natural gas reserves and address certain "unintended consequences" of the Royalty Framework. Trafalgar has completed a preliminary internal analysis of these deep resource programs and expects minimal economic impact resulting from their implementation.

Interest and Other Income

Interest and other income is comprised primarily of interest on Trafalgar's cash balances. For the three months ended March 31, 2008, interest and other income totaled \$4,000 as compared to \$136,000 for the first quarter of 2007. The reduction is due to reduced cash balances quarter over quarter.

Interest and Other Income (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Interest and Other Income	4	13	136

Operating Expenses

For the three months ended March 31, 2008, operating expenses were \$774,000 or \$9.42 per boe as compared to operating expenses of \$640,000 or \$9.57 per boe for the three months ended March 31, 2007 representing a decrease of 1.6% on a boe basis. Operating expenses on a boe basis for the three months ended March 31, 2008 were approximately 1% higher than the three months ended December 31, 2007 due to lower production experienced during the first quarter of 2008.

Operating Expenses (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Operating Expenses	774	855	640
\$/boe (6:1)	9.42	9.34	9.57

General and Administrative Expenses

General and administrative expenses ("G&A") net of overhead recoveries and capitalized geological and geophysical ("G&G") expenses for the three months ended March 31, 2008 were \$348,000 or \$4.22 per boe compared to \$231,000 or \$3.47 per boe for first quarter of 2007. The increase in G&A is the result of additional staff costs and costs accrued for 2008 quarterly and annual reporting. Net G&A expenses were 20% lower in the first quarter of 2008 compared to the fourth quarter of 2007 due to higher overhead recoveries resulting from higher capital expenditures during the first quarter of 2008.

G & A Expenses (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Gross G&A Expenses	623	595	505
Capitalized G&G Expenses	(113)	(105)	(93)
Overhead Recovery	(162)	(54)	(181)
Net G&A Expenses	348	436	231
\$/boe (6:1)	4.22	4.76	3.47

Stock-based Compensation Expense

For the three months ended March 31, 2008, the Company recorded \$106,000 of stock-based compensation for stock options outstanding during the period as compared to \$187,000 for the first quarter of 2007. The reduction is the result of the capitalization of stock-based compensation for Trafalgar's G&G staff which began during the second quarter of 2007.

Stock-based Compensation Expense (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Stock-based Compensation	106	124	187
\$/boe (6:1)	1.29	1.35	2.79

Interest Expense

For the three months ended March 31, 2008, the Company recorded interest expense of \$10,000 representing standby fees and interest related to the existing \$15.0 million credit facility. Trafalgar began using the credit facility late in the first quarter 2008, and therefore minimal interest costs have been recorded.

Depletion, Depreciation and Accretion

Depletion and depreciation ("DD&A") are calculated based upon capital expenditures, production rates and reserves. Trafalgar excludes undeveloped land, seismic and salvage value but includes future development costs in the capital base used in this calculation.

Trafalgar recorded \$1.7 million or \$20.37 per boe in DD&A in the first quarter of 2008 based on production volumes of 82,176 boe, compared to \$2.5 million or \$37.36 per boe and production of 66,928 boe in the first quarter of 2007. The 45% decrease to the DD&A rate in the first quarter of 2008 compared to the first quarter of 2007 was due to a higher reserve base largely from the success of the Company's 2007/2008 winter drill program offset by increased production from that of 2007.

The accretion expense is included in the depletion, depreciation and accretion expense. Trafalgar's asset retirement obligations ("ARO") are a balance sheet provision based on the Company's net ownership in wells and facilities. Management estimates the cost to abandon and reclaim the wells and facilities and the estimated time period during which these costs will be incurred in the future. Management estimates the total undiscounted amount of future cash flows required to abandon and reclaim wells and facilities as at March 31, 2008 to be approximately \$4.8 million, to be incurred over the next three to 20 years. Trafalgar uses a discount rate of 7.8% to calculate ARO obligations.

Accretion represents the change in the time value of the ARO. The underlying ARO may be increased over the period based on new obligations incurred from drilling wells or constructing facilities. Similarly, this obligation can be reduced as a result of abandonment work undertaken thereby reducing future obligations. There has been \$29,000 recognized as accretion expense for the three months ended March 31, 2008 compared to \$27,000 for the three months ended March 31, 2007.

Depletion, Depreciation and Accretion (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Depletion, Depreciation and Accretion	1,674	1,732	2,501
\$/boe (6:1)	20.37	18.94	37.36

Income Taxes

Trafalgar has approximately \$69.0 million of tax pools available to be applied against future income for tax purposes net of all flow through obligations.

Based on these available pools, Trafalgar does not expect to pay current income taxes in 2008. Taxes payable beyond 2008 will become a function of commodity prices, production volumes and capital expenditures.

Funds from Operations and Net Earnings (Loss) and Comprehensive Income (Loss)

Funds from operations for the three months ended March 31, 2008 was \$1.7 million representing a 10% increase over funds from operations for the three months ended March 31, 2007. The increase is largely due to the increased natural gas production at Mackay, higher realized oil prices and partially offset by higher G&A costs and lower realized natural gas prices. Funds from operations differ from reported cash flow per GAAP, as funds from operations also considers changes that have occurred in non-cash operating working capital items.

The net loss for the three months ended March 31, 2008 was \$232,000 as compared to net earnings of \$1.3 million for the three months ended March 31, 2007. The net loss during the first quarter of 2008 is largely due to the realized and unrealized losses reported on financial instruments. The earnings reported in the first quarter of 2007 reflect recovery of tax related to the 2006 flow-through share renouncement completed in February 2007.

Funds from Operations and Net Earnings (Loss) (\$)	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Funds from Operations	1,707	1,576	1,553
\$/boe (6:1)	20.78	17.23	23.19
\$/share:			
Basic and diluted	0.14	0.13	0.13
Net Earnings (Loss)	(232)	(279)	1,298
\$/share:			
Basic and diluted	(0.02)	(0.02)	0.11

Capital Expenditures

Most of our drilling activity is concentrated during the first quarter of the year, as most activity is winter access only. Therefore, capital expenditures are much higher during the winter months, compared to the balance of the year.

During the first quarter of 2008, Trafalgar completed a ten well drill program. Subsequent to March 31, 2008, the Company acquired a competitor well in the same drill area. Of the ten drill locations and the acquired well, six wells were completed and tied into the Mackay gathering system.

Capital Expenditures	Three months ended March 31, 2008	Three months ended December 31, 2007	Three months ended March 31, 2007
Land	137	774	531
Seismic	496	(199)	413
Drilling and Completion	7,433	2,709	6,289
Equipment Facilities and Pipelines	3,364	407	3,698
Other Assets	9	3	3
Total Exploration and Development Expenditures	11,439	3,694	10,934
Acquisitions	-	-	-
Total Capital Expenditures	11,439	3,694	10,934

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2008, Trafalgar had a working capital deficit of \$4.3 million, excluding the fair value of financial instruments. Given the nature of Trafalgar's oil and natural gas operations, the majority of our capital expenditures take place within the first quarter of the year. Trafalgar uses a combination of funds from operations, bank debt and equity issues to finance its capital expenditure program. Trafalgar spent \$11.4 million on oil and natural gas operations during the first quarter of 2008 which represents 60% of the current annual budgeted program. Trafalgar has a \$15.0 million revolving term credit facility with a major Canadian Bank for general corporate purposes including capital expenditures. Combined with funds from operations, the credit facility has been utilized to finance a portion of our capital expenditures for the first quarter of 2008. The credit facility revolves for a period of 364 days followed by a one year term out period. The revolving period may be extended annually at the option of the lender. Rates of interest on the credit facility vary depending on Trafalgar's debt to cash flow ratio. The credit facility is secured by a floating charge debenture over all of Trafalgar's assets and a general security agreement.

Subsequent to March 31, 2008, Trafalgar closed a bought deal private placement issuing 1,569,000 common shares on a flow-through basis at an issue price of \$4.40 per share for gross proceeds of \$6.9 million.

RELATED-PARTY and OFF-BALANCE-SHEET TRANSACTIONS

Trafalgar was not involved in any off-balance-sheet transactions nor in any transactions with related parties during the quarter ended March 31, 2008.

OUTSTANDING SHARE TRADING DATA

Trafalgar began trading on the TSX on September 26, 2006 and its common voting shares trade on the TSX under the symbol TFL. A summary of Trafalgar's trading history on the TSX is as follows:

\$ Per Share	Q1 2008	Q4 2007	Q1 2007
High	3.99	4.25	4.43
Low	2.27	2.80	3.50
Close	3.61	2.80	4.05
Average Daily Volume	16,831	11,233	14,887

At March 31, 2008 Trafalgar had 9,594,590 voting common shares outstanding, 2,241,293 non-voting common shares outstanding and 1,121,250 options outstanding.

On May 13, 2008, there were 9,594,590 voting common shares outstanding, 2,241,293 non-voting common shares outstanding and 1,121,250 options to purchase common shares outstanding.

CONTRACTUAL OBLIGATIONS

Trafalgar has various contractual obligations and commitments arising in the normal course of operations and financing activities. These obligations and commitments have been considered when assessing the cash requirements in the above discussion of future liquidity.

The Company's bank credit facilities are subject to periodic review. Trafalgar does not expect any material changes to the bank credit facility resulting from these reviews.

Obligations with a fixed term for the remainder of 2008 and the next three years are as follows:

	2008	2009	2010
Office Lease Base Rent (\$)	86	114	114

Trafalgar does not have any arrangements or obligations that are not reflected or disclosed in the financial statements.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 - Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentations. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Company's financial results, however did result in additional disclosures – refer to Note 7.

Derivatives

The Company uses various types of derivative financial instruments to manage risk associated with crude oil and natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized in petroleum and natural gas revenues at the time that each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value of derivative contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date.

DISCLOSURE CONTROLS AND PROCEDURES

As required by Multilateral Instrument 52-109, the Company evaluated the effectiveness of its disclosure controls and procedures and the internal control over financial reporting as of March 31, 2008 under the supervision and with the participation of the President and CEO and the Vice President Finance and CFO.

Based on the results of this evaluation, the President and CEO, the Vice President Finance and CFO, and the Audit Committee of the Board of Directors concluded that the design and operation of these disclosure controls and procedures were generally effective.

The only issue identified during the process was related to internal control over financial reporting. The issue identified, the concentration of some duties, is one that affects small companies. As a small organization, the Company's management is composed of a small number of key individuals, resulting in limited segregation of duties. Management compensates for the limited segregation of duties through extensive supervision and monitoring by the CEO, CFO and other officers. The Company's officers will continue to closely monitor all financial activities of the Company and increase the level of supervision in key areas when required. Alternatively, further mitigation would require the Company to hire additional staff in order to provide greater segregation of duties. Since the increased cost of such hiring could negatively affect the Company's financial position, the Company's management has chosen to disclose the potential risk and proceed with increased staffing when budgets enable.

Because of their inherent limitations, disclosure controls and procedures and internal controls over financial reporting may not prevent or detect misstatements, error or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the control system are met.

There were no changes to the material weaknesses in the internal controls over financial reporting that were identified from the December 31, 2007 MD&A.

Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulations pursuant to a variety of local, provincial and federal legislation and regulation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

The Alberta government announced legislation (Bill 3) to reduce greenhouse gas emissions on March 8, 2007. At this time, Trafalgar has determined that the impact of this legislation is minimal and limited to Trafalgar's very minor working interest in certain facilities subject to this legislation.

As a follow-up to the Federal Government's previously announced "Greenhouse Gas Regulatory Framework" additional information has been provided as of March 2008. Proposed regulations are expected to come into force on January 1, 2010. In all sectors, the required reduction from 2006 emission intensity will be 18 per cent by the beginning of 2010, with two per cent continuous improvement every year after that, as laid out in the April 2007 framework. For the upstream oil and gas sector, each facility receives an individual target of an 18 per cent reduction from its own 2006 emission intensity.

On February 19, 2008 the British Columbia government introduced a consumer-based carbon tax. Trafalgar will be required to pay tax on all fuel used in the course of operations in that province. The legislation takes effect on July 1, 2008.

Trafalgar continues to monitor the regulatory landscape in order to assess current and potential future impacts on our business.

For a detailed discussion of these regulations and other risks and uncertainties, refer to Trafalgar's revised annual information form filed on SEDAR at www.sedar.com.

SELECTED QUARTERLY DATA

The following table provides selected quarterly information for Trafalgar.

	2008	2007				2006	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3 ⁽¹⁾
Production (boe/d)	903	994	1,015	987	744	662	625
Petroleum and natural gas revenue, net of transportation	3,672	3,464	2,825	3,832	2,914	2,612	185
Realized product prices, net of transportation							
Oil (\$/bbl)	71.16	64.69	58.96	56.43	49.37	44.36	60.00
Natural gas (\$/mcf)	6.95	5.77	4.58	6.87	7.11	6.86	4.54
\$/boe (6:1)	44.69	37.87	30.28	42.66	43.54	41.65	32.87
Royalties (\$/boe)	9.01	6.58	6.00	9.21	9.33	8.86	5.60
Operating expense (\$/boe)	9.42	9.34	8.84	8.69	9.57	12.18	12.00
Netback (\$/boe)	26.26	21.95	15.44	24.76	24.64	20.61	15.27
Funds from operations	1,707	1,576	1,079	1,682	1,553	1,037	(288)
Per share, basic and diluted	0.14	0.13	0.09	0.14	0.13	0.10	(0.06)
Net earnings (loss)	(232)	(279)	(998)	(273)	1,298	(671)	(540)
Per share, basic and diluted	(0.02)	(0.02)	(0.08)	(0.02)	0.11	(0.07)	(0.10)
Capital expenditures	11,439	3,694	1,964	2,610	10,934	5,424	2,572
Working capital (excluding financial instrument value)	(4,278)	(349)	1,768	2,653	3,582	12,972	9,685

note: numbers may not add due to rounding

⁽¹⁾ The 625 boe/d of production is for the last nine days of activity from September 21, 2006 to September 30, 2006.

Net earnings (loss) on a quarter over quarter basis is consistent with normal oil and gas operations, with the exception of 2007 Q1, where the Company recognized and recorded a tax recovery related to the 2006 flow-through share issues.

Capital expenditures peak in the first quarters of the year due to the concentrated winter access only drilling programs completed.

For further information, please contact:

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BALANCE SHEETS

Trafalgar Energy Ltd.

unaudited (stated in thousands of dollars)	March 31, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$ -	\$ 613
Accounts receivable	2,928	2,947
Prepaid expenses and deposits	188	212
	3,116	3,772
Petroleum and natural gas assets (note 2)	50,448	40,477
	\$ 53,564	\$ 44,249
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 7,394	\$ 4,121
Fair value of financial instruments (note 7)	159	-
	\$ 7,553	4,121
Long-term debt (note 3)	5,803	-
Asset retirement obligations (note 4)	1,829	1,650
	15,185	5,771
SHAREHOLDERS' EQUITY (note 5)		
Share capital	40,178	40,178
Contributed surplus	1,357	1,224
Deficit	(3,156)	(2,924)
	38,379	38,478
Commitments (note 8)		
Subsequent event (note 9)		
	\$ 53,564	\$ 44,249

see accompanying notes to the interim financial statements

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

Trafalgar Energy Ltd.

Three months ended March 31,
unaudited

(stated in thousands of dollars, except per share amounts)

	2008		2007	
REVENUES				
Petroleum and natural gas	\$	3,672	\$	2,914
Royalties		(740)		(624)
Realized loss on financial instruments (note 7)		(97)		-
Unrealized loss on financial instruments (note 7)		(159)		-
Interest		4		136
		2,680		2,426
EXPENSES				
Operating		774		640
General and administrative		348		231
Stock-based compensation (note 5)		106		187
Interest		10		2
Depletion, depreciation and accretion (note 2)		1,674		2,501
		2,912		3,561
Loss before taxes		(232)		(1,135)
Future tax reduction		-		2,433
Net earnings (loss) and comprehensive income (loss)		(232)		1,298
Deficit, beginning of period		(2,924)		(2,672)
Deficit, end of period	\$	(3,156)	\$	(1,374)
Earnings (loss) per share (note 5)				
Basic and diluted	\$	(0.02)	\$	0.11
Weighted average number of shares outstanding (note 5)				
Basic and diluted		11,836		11,836

see accompanying notes to the interim financial statements

STATEMENTS OF CASH FLOWS

Trafalgar Energy Ltd.

Three months ended March 31,
Unaudited
(stated in thousands of dollars)

	2008	2007
OPERATING		
Net earnings (loss)	\$ (232)	\$ 1,298
Items not involving cash:		
Unrealized loss on financial instruments (note 7)	159	-
Depletion, depreciation and accretion	1,674	2,501
Stock-based compensation	106	187
Future tax reduction	-	(2,433)
	1,707	1,553
Change in non-cash working capital (note 6)	272	(226)
	1,979	1,327
FINANCING		
Bank indebtedness	5,803	-
Share issue costs	-	(8)
	5,803	(8)
INVESTING		
Capital expenditures	(11,439)	(10,934)
Change in non-cash working capital (note 6)	3,044	1,465
	(8,395)	(9,469)
Changes in cash	(613)	(8,150)
Cash, beginning of period	613	15,705
Cash, end of period	\$ -	\$ 7,555

Cash is defined as cash and cash equivalents

see accompanying notes to the interim financial statements

NOTES TO INTERIM FINANCIAL STATEMENTS

Trafalgar Energy Ltd.

For the three months ended March 31, 2008 and 2007
 unaudited
 (tabular amounts in thousands of dollars, except per share amounts)

Trafalgar Energy Ltd. ("Trafalgar" or the "Company") is involved in the exploration, development and production of petroleum and natural gas in Alberta and British Columbia.

The unaudited interim financial statements for Trafalgar have been prepared by management in accordance with accounting principles generally accepted in Canada, following the same accounting policies and methods of computation as the audited financial statements of Trafalgar for the year ended December 31, 2007, except as disclosed below. 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. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2007.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results may differ from those estimates.

1. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 – Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentations. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Company's financial results, however did result in additional disclosures – refer to note 7.

Derivatives

The Company uses various types of derivative financial instruments to manage risk associated with crude oil and natural gas price fluctuations. These instruments are not used for trading or speculative purposes. Proceeds and costs realized from holding the related contracts are recognized in petroleum and natural gas revenues at the time that each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value of derivative contracts is determined by discounting the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date.

2. PETROLEUM AND NATURAL GAS ASSETS

	March 31, 2008	December 31, 2007
Petroleum and natural gas assets	\$ 61,606	\$ 49,990
Accumulated depletion and depreciation, petroleum and natural gas assets	(11,158)	(9,513)
Net book value	\$ 50,448	\$ 40,477

For the three months ended March 31, 2008, the Company capitalized general and administrative costs and stock-based compensation that were directly attributable to exploration activities of \$113,000 and \$26,000, respectively (2007 - \$93,000 and nil).

As at March 31, 2008, \$8,226,000 (2007 - \$7,893,000) of costs related to undeveloped land and seismic were excluded from costs subject to depletion. Future development costs of \$1,567,000 (2007 - \$1,486,000) were included in the costs subject to depletion and depreciation.

3. LONG-TERM DEBT

Trafalgar has a revolving term facility available for up to \$15.0 million with a Canadian chartered bank. This facility is available on a revolving basis up to the next scheduled review date. After the review date, at the Bank's discretion, the facility is available on a non-revolving basis for a period of 365 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to approval by the bank. The facility bears interest at the bank's prime lending or bankers' acceptance rates plus applicable margins. The Company's lending facility is secured by a floating charge debenture over all of the Borrower's assets and a general security agreement. The borrowing base is subject to re-determination semi-annually, with the next scheduled review to be on or before June 30, 2008.

At March 31, 2008, \$5,803,000 was drawn against this facility (2007 – nil), and letters of credit in the amount of \$601,000 were held against this facility. The facility had an effective interest rate of 5.25 percent (2006 – nil) for three months ended March 31, 2008. The Company is in compliance with all debt covenants.

4. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligation is approximately \$4.8 million which is expected to be incurred over the next three to twenty years. An inflation factor of 2% has been applied to the estimated asset retirement cost at March 31, 2008 and December 31, 2007. A credit-adjusted risk-free rate of 7.8% was used to calculate the fair value of the asset retirement obligations at March 31, 2008 and December 31, 2007.

The following reconciles the Company's asset retirement obligations:

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$ 1,650	\$ 1,413
Liabilities incurred	150	131
Accretion	29	106
Balance, end of period	<u>\$ 1,829</u>	<u>\$ 1,650</u>

5. SHARE CAPITAL

Authorized

An unlimited number of voting common shares

An unlimited number of non-voting common shares

An unlimited number of first preferred shares, issuable in series

	2008		2007	
Common Shares, voting	Number		Number	
Balance, beginning of period	9,595	\$ 36,313	9,595	\$ 37,618
Future taxes on flow through common shares	-	-		(1,298)
Issue costs	-	-		(7)
Balance, end of period	<u>9,595</u>	<u>36,313</u>	<u>9,595</u>	<u>36,313</u>
Common Shares, non-voting				
Balance, beginning of period	2,241	3,865	2,241	5,000
Future taxes on flow through common shares	-	-	-	(1,135)
Balance, end of period	<u>2,241</u>	<u>3,865</u>	<u>2,241</u>	<u>3,865</u>
Total share capital	<u>11,836</u>	<u>\$ 40,178</u>	<u>11,836</u>	<u>\$ 40,178</u>

Pursuant to the flow-through Common Share offering in 2006, the Company renounced \$7.5 million of qualifying oil and natural gas expenditures effective December 31, 2006. The future income tax effect and reduction to share capital was recorded in the first quarter of 2007, the period in which the Company filed the renouncement documents with tax authorities. All flow-through expenditure requirements have been met.

Per share amounts

The weighted average number of common shares (voting and non-voting) outstanding for the three months ended March 31, 2008 and 2007 are as follows:

Weighted average common shares	March 31, 2008	March 31, 2007
Basic and diluted	11,836	11,836

Options to purchase 1,121,250 common shares for the three months ended March 31, 2008 (2007 – 921,720) were not included in the calculation of the weighted average – diluted common shares outstanding, as they were anti-dilutive.

Stock options

The Company has a stock option plan authorizing the grant of options to purchase shares to designated participants, being directors, officers, employees or consultants. Options are priced at the closing price of the shares one day prior to the grant date of the options. The vesting for options granted occurs over a three year period, with one third of the number granted vesting on each of the first, second and third anniversary dates of the grant, expiring over a five year period.

The following table sets forth a reconciliation of the Plan activity through March 31, 2008:

	Number	Weighted Average Exercise Price
Balance, December 31, 2006	895	\$ 4.02
Granted	226	4.36
Balance, December 31, 2007 and March 31, 2008	1,121	\$ 4.09
Exercisable at March 31, 2008	307	\$ 3.90

Stock-based compensation

The Company accounts for its stock-based compensation plan using the fair value method. Under this method, a compensation cost is charged over the vesting period for stock options granted to directors, officers, employees or consultants, with a corresponding increase to contributed surplus.

The following table reconciles the Company's contributed surplus:

	March 31, 2008	December 31, 2007
Balance, beginning of period	\$ 1,224	\$ 494
Stock-based compensation expense	133	730
Balance, end of period	\$ 1,357	\$ 1,224

The fair value of the options granted during the year ended December 31, 2007 were estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

Weighted average fair value of option granted	2007 \$1.38
Risk-free interest rate (%)	6
Volatility (%)	40
Expected life in years	3
Expected future dividends	Nil

There were no options granted during the three months ended March 31, 2008.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

Three months ended March 31,	2008		2007
Changes in non-cash working capital – operating:			
Accounts receivable	\$ 482	\$	48
Prepaid expenses and deposits	24		11
Accounts payable and accrued liabilities	(234)		(285)
	\$ 272	\$	(226)
Changes in non-cash working capital – investing:			
Accounts receivable	\$ (463)	\$	(312)
Accounts payable and accrued liabilities	3,507		1,777
	\$ 3,044	\$	1,465

Interest

Three months ended March 31,	2008		2007
Interest paid	\$ 10	\$	2
Interest received	4		136

7. FINANCIAL RISK MANAGEMENT

Overview

The Company has exposure to the following risks from its use of financial instruments:

- a) credit risk
- b) liquidity risk
- c) market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at March 31, 2008 the Company's receivables consisted of approximately \$721,000 (2007 - \$888,000) from joint venture partners, \$1,261,000 (2007 - \$1,544,000) of receivables from petroleum and natural gas marketers and \$946,000 (2007 - \$515,000) of other trade receivables. Other trade receivables relate to net GST/ITC refunds.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Company has not experienced any collection issues with its petroleum and natural gas marketers. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition further risk exists with joint venture partners as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

Cash and cash equivalents, when outstanding, consist of cash bank balances and short-term deposits maturing in less than 90 days. The Company manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper.

The carrying amount of accounts receivable represent the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at March 31, 2008 or December 31, 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during these same reporting periods. The fair value of these financial instruments approximate their carrying amounts due to their short terms to maturity.

The Company considers the receivables to be aged as follows:

Aging	March 31, 2008	December 31, 2007
Not past due 0-90 days	\$ 2,208	\$ 2,261
More than 90 days	720	686
Total	\$ 2,928	\$ 2,947

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's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving credit facility that is at least reviewed annually by the lender. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

The contractual maturities of accounts payable totaling \$7.4 million as at March 31, 2008 is within one year, while long-term debt totaling \$5.8 million matures between one and two years.

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.

From time to time, the Company utilizes financial derivative contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2008 and 2007.

Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also by world economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of various financial derivative contracts. The Company's policy is to enter into commodity contracts considered appropriate to a maximum of 50% of forecasted net production volumes for the period twelve months into the future.

Contracts outstanding as at March 31, 2008 in respect to financial instruments, are as follows:

Natural Gas	Volume	Point	Pricing Strike Price (\$/gj)	Cost/Premium	Term
Summer 2008					
Swap - costless collars	1,050 gj/day	AECO	C\$7.00-C\$9.15/gj	zero	May 2008-October 2008
Swap - bull spread	550 gj/day	AECO	C\$8.08-C\$9.08/gj	C\$50,600	May 2008-October 2008
Swap - bull spread	500 gj/day	AECO	C\$8.315-C\$9.315/gj	C\$46,000	May 2008-October 2008

**strike prices indicate minimum floor and maximum ceiling

Trafalgar has entered into derivative natural gas financial instruments for the purpose of protecting its funds generated from operations from the volatility of natural gas prices. For the three months ended March 31, 2008, the Company's natural gas price risk management program had a net realized loss of \$96,600 (2007 – nil). The Company recognizes the fair value of its commodity price contracts on the balance sheet each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of operations. At March 31, 2008 the fair value of the commodity price contracts was a liability of \$159,477 (2007 – nil). As at March 31, 2008, if natural gas prices had been \$0.10 per mcf lower or higher, net loss for the period would not have been materially impacted due to changes in the fair value of derivatives.

The Company paid premiums of \$96,600 but did not realize any settlement gains or losses on its financial instruments during the three months ended March 31, 2008 and 2007.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's outstanding revolving term balances are subject to interest charges calculated at the bank's prime lending rate. At March 31, 2008, the Company had \$5.8 million of bank debt (2007 – nil). As at March 31, 2008, if interest rates had been 50 basis points higher or lower, net earnings would not have been materially impacted.

Fair value of financial instruments

The Company's financial instruments as at March 31, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank indebtedness. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank indebtedness approximate their carrying amounts due to their short terms to maturity.

Bank debt bears interest a floating market rate and accordingly fair value approximates the carrying value.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity, bank debt and working capital. In order to maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels.

The Company monitors capital based on the ratio of net debt to annualized funds from operations. This ratio is calculated as net debt, defined as outstanding bank debt plus or minus working capital, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized (multiplied by four). The Company's strategy is to maintain a ratio that is considered reasonable and prudent in the circumstances. This ratio may increase and/or decrease at certain times. In order to facilitate the management of this ratio, the Company prepares annual capital expenditure budgets, which are updated as necessary depending on varying factors including current and forecast prices, successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

As at March 31, 2008, the Company's ratio of net debt to annualized funds from operations was 1.48 to 1 (December 31, 2007 – 0.06 to 1), which the Company projects will decrease during the balance of 2008 as spending is reduced, cash flows are applied to outstanding debt balances and financing is closed.

The net debt to annualized funds from operations has been calculated as follows:

	March 31, 2008	December 31, 2007
Long-term debt	\$ 5,803	\$ -
Working capital (excluding derivative fair value)	4,278	349
Net debt	10,081	349
Cash flow from operating activities	1,979	1,404
Change in non-cash working capital	(272)	172
Funds from operations	1,707	1,576
Annualizing factor	X4	X4
Annualized funds from operations	\$ 6,828	\$ 6,304
Ratio	1.48	0.06:1

The Company's share capital is not subject to external restrictions, however, the bank credit facility is based on petroleum and natural gas reserves (see note 3). The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2008 from the year ending December 31, 2007.

8. COMMITMENTS

The Company has an operating lease for office premises expiring December 30, 2010 which requires minimum monthly payments of basic rent in the amount of \$9,500 or \$114,000 per year.

9. SUBSEQUENT EVENT

Subsequent to March 31, 2008, the Company completed an acquisition to purchase an oil and gas asset in the amount of \$1.5 million.

Subsequent to March 31, 2008, the Company entered into a bought deal private placement of 1,569,000 flow-through common shares at a price of \$4.40 per share for gross proceeds of \$6.9 million. The financing did close on May 15, 2008.

CORPORATE INFORMATION

DIRECTORS OF TRAFALGAR ENERGY LTD.

John Brussa ⁽³⁾
Director

Shannon Gangl ⁽³⁾
Director & Corporate Secretary

Steven Nielsen ^{(1) (2)}
Director

Murray Nunns ^{(1) (2)}
Director & Chairman of Board

Gary Perron ⁽¹⁾
Director

Bob Shaunessy ^{(2) (3)}
Director

Robert Wollmann
President & Chief Executive Officer

OFFICERS OF TRAFALGAR ENERGY LTD.

Robert Wollmann
President & Chief Executive Officer

Daniel Belot
VP Finance & Chief Financial Officer

Kevin Lee
VP Engineering

Peter Abercrombie
VP Land

Shannon Gangl
Corporate Secretary

TRUSTEE

Valiant Trust Company

BANKERS

Bank of Nova Scotia

AUDITORS

KPMG LLP

ENGINEERING CONSULTANTS

GLJ Petroleum Consultants Ltd.

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

STOCK EXCHANGE LISTING

The Toronto Stock Exchange:
Symbol: TFL

CONTACT INFORMATION

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Website: www.trafalgarenergy.ca

INVESTOR RELATIONS

info@trafalgarenergy.ca
www.trafalgarenergy.ca

ABBREVIATIONS

/d	per day
bbl(s)	barrel(s)
mbbls	thousand barrels
mmbbls	million barrels
mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
boe	barrels of oil equivalent
mmboe	million barrels of oil equivalent
mmstb	million stock tank barrels of oil
ARTC	Alberta Royalty Tax Credit
Cdn	Canadian
NGLs	natural gas liquids
WTI	West Texas Intermediate crude oil
US	United States

MEMBERS OF THE FOLLOWING COMMITTEES

1. Audit
2. Reserves
3. Corporate Governance/Compensation