

FIRST QUARTER REPORT
 For the three months ended March 31, 2007

CORPORATE HIGHLIGHTS

	Three Months Ended March 31, 2007
Petroleum and natural gas revenues (\$)	2,914,020
Cash flow from operations (\$)	1,551,794
Basic and diluted per share (\$)	0.13
Net income (\$)	1,297,601
Basic and diluted per share (\$)	0.11
Working capital (\$)	3,581,513
Capital expenditures (\$)	10,934,216
Weighted number of shares outstanding	
Basic and diluted	11,835,883
Shares outstanding as at March 31, 2007	
Basic	11,835,883
Diluted	12,757,633
Average Production	
Light Oil (bbls/d)	51
Heavy Oil (bbls/d)	45
Total Oil (bbls/d)	96
Natural Gas (mcf/d)	3,886
BOE (boe/d)	744

LETTER TO SHAREHOLDERS

Report to Shareholders

We are very pleased to report on Trafalgar's progress through the first quarter of 2007. First quarter highlights include:

- Achieving Q1 exit production in excess of 900 boepd.
- Increasing production at Grouard to 700-750 boepd from its acquisition level of 500-525 boepd in September 2006.
- Initial success at Mackay with all four wells drilled and tied in, and now producing at a combined rate of 100-200 boepd.
- Maintaining Cypress production at 90-100 boepd with no capital expenditures.
- Executing our winter program and maintaining financial discipline leaving Trafalgar with no debt and positive working capital of \$3.6 million at the end of Q1.

Current production is now 950-1000 boepd leaving Trafalgar on track to achieve its 2007 average and exit production forecasts of 900-950 boepd and 950-1050 boepd, respectively. Moving into the summer months the Company is focused on expanding its land base both in existing producing areas as well as on new exploratory projects developed over the past few months. In the field we are on track to proceed with construction and initial injection for the waterflood pilot on the Bluesky oil pool at Grouard which, if successful, will provide production growth late in 2007 to early in 2008.

Acquisition metrics have fallen significantly over the past year due to the decline in gas prices last fall, the federal government's taxation plan for royalty trusts, and generally poor industry performance in 2006. Trafalgar, with its strong balance sheet and successful start, is well positioned to take advantage of more reasonably priced acquisitions. Currently there are numerous assets and companies for sale, and though most do not meet our stringent acquisition criteria (high working interest, operated, focused, stable base production, reasonable operating costs, with upside to grow the asset to over 500 boepd), we remain confident that there will be some high quality assets to acquire.

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



Rob Wollmann
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") reviews Trafalgar Energy Ltd. ("Trafalgar" or the "Company") activities and results of operations for the three months ended March 31, 2007. The MD&A should be read in conjunction with the audited financial statements of Trafalgar from incorporation on April 25, 2006 to December 31, 2006. 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 Board of Directors on May 9, 2007.

NON-GAAP FINANCIAL MEASURES

Trafalgar evaluates performance based on net income and cash flow from operations. Cash flow from operations and cash flow from operations per share are not measurements based on GAAP, but are financial terms commonly used in the oil and gas industry. The Company's cash flow from operations are detailed on the Statement of Cash Flows and may not be comparable to other companies. Trafalgar calculates cash flow from operations per share using the same method and shares outstanding which are used in the determination of net income (loss) per share. The Company considers it a key measure as it demonstrates the ability of the Company to generate the funds necessary to finance future capital investments.

Trafalgar also uses "operating netbacks" as a key performance indicator. Operating netbacks do not have a standardized meaning prescribed by Canadian 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 flow provided by operating activities, net income or other measures of financial performance calculated in accordance with GAAP.

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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This discussion and analysis contains forward-looking statements related to future events or future performance. 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

Trafalgar's oil and natural gas producing assets are located in three primary areas Grouard and Mackay, Alberta and Cypress, British Columbia.

Grouard is located near High Prairie, Alberta and produces light oil from the Gilwood formation, heavy oil from the Bluesky zone and natural gas from several Cretaceous horizons. Trafalgar owns and operates most of the production from this area. Trafalgar also owns and operates a gas plant, two oil batteries and approximately 120 kms of pipeline.

Cypress is located approximately 150 kms northwest of Fort St. John, British Columbia. Production in this area is primarily natural gas from the Baldonnel, Halfway and Debolt formations. At Cypress, Trafalgar also has operatorship of a compressor station and a significant gas gathering system.

During the fourth quarter of 2006 and the first quarter of 2007, Trafalgar established a new core area at MacKay, Alberta. MacKay is located approximately 90 kms west of Fort McMurray, Alberta. Trafalgar has drilled four shallow gas wells in the area which were tied in and placed on production in the first quarter. Trafalgar has a 100% working

interest and operatorship of the MacKay area and further drilling operations are expected for the 2007/2008 winter drilling season.

Current production from Trafalgar's assets has increased to 950-1000 boe per day as a result of a successful workover program at Grouard during the fourth quarter of 2006 and new production from Grouard and Mackay.

Production by Product	Three months ended March 31, 2007
Oil (bbls/day)	96
Natural Gas (mcf/day)	3,886
Total (boe/d) (6:1)	744

Production by Area (boe/d)	Three months ended March 31, 2007
Grouard, Alberta	640
Mackay, Alberta	4
Cypress, British Columbia	100
Total (boe/d) (6:1)	744

Realized Product Prices	Three months ended March 31, 2007
Oil (\$/bbl)	49.37
Natural Gas (\$/mcf)	7.11
\$/boe (6:1)	43.54

Revenue

Total oil and gas revenue for the three months ended March 31, 2007 was \$2,914,020.

Oil and Natural Gas Revenue (\$)	Three months ended March 31, 2007
Oil	426,630
Natural Gas	2,487,390
Total Revenue	2,914,020
\$/boe (6:1)	43.54

Royalties

For the three months ended March 31, 2007 royalties were \$624,302 or \$9.33 per boe or 21% of revenue.

Royalties	Three months ended March 31, 2007
Royalties (\$)	624,302
As a % of oil and gas revenue	21
\$/boe (6:1)	9.33

Interest and Other Income

Interest and other income of \$136,281 for the three months ended March 31, 2007 represents interest on Trafalgar's cash balances.

Operating Expenses

For the three months ended March 31, 2007, operating expenses were \$640,205 or \$9.57 per boe. Trafalgar anticipates average production expenses of approximately \$10.00 per boe in 2007.

Operating Expenses	Three months ended March 31, 2007
Operating Expenses (\$)	640,205
\$/boe (6:1)	9.57

General and Administrative Expenses

General and administrative expenses ("G&A") for the three months ended March 31, 2007 were \$231,945 or \$3.47 per boe. Management expects future G&A expenses per boe to generally decline as production volume increases continue to offset G&A costs.

G & A Expenses	Three months ended March 31, 2007
G&A Expenses(\$)	231,945
\$/boe (6:1)	3.47

Stock-based Compensation

For the three months ended March 31, 2007, the Company recorded \$186,686 of stock-based compensation for stock options outstanding during the period.

Interest Expense

For the three months ended March 31, 2007, the Company recorded interest expense of \$2,055 representing interest on financed insurance premiums and standby fees paid on the existing bank credit facility.

Depletion and Depreciation

The provision for depletion, depreciation and accretion for the three months ended March 31, 2007 was \$2,500,541. Depletion and depreciation are calculated based upon capital, production rates and reserves. Trafalgar estimates depletion on a quarterly basis throughout the year using independent reserve and land reports when available. Trafalgar excludes undeveloped land, seismic and salvage value but includes future development costs in the capital base used in this calculation.

The depletion and depreciation calculation reflects higher rates per boe during the first quarter of 2007. Capital expenditures relating to winter drill activities are included in the asset base with a reserve base as at December 31, 2006. Reserves associated with the Company's winter drill success have yet to be assigned.

The petroleum and natural gas properties were subject to a ceiling test as at March 31, 2007. No write-down was required as a result of this calculation.

Asset Retirement Obligations

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, 2007 to be approximately \$4.5 million, to be incurred over the next 20 years. Trafalgar uses a discount rate of 7.8% to calculate ARO obligations.

Accretion

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 \$26,512 recognized as an accretion expense for the three months ended March 31, 2007.

Income Taxes

Trafalgar has approximately \$55 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 2007. Taxes payable beyond 2007 will become a function of commodity prices, production volumes and capital expenditures.

Cash Flow from Operations and Net Income

Cash flow from operations for the three months ended March 31, 2007 was \$1,551,794 representing a 49.6% increase over cash flow from operations for the three months ended December 31, 2006. The increase is due to a higher average production and product prices and lower operating expenses for the period.

Net income for the three months ended March 31, 2007 was \$1,297,601 as compared to a net loss of \$670,975 for the three months ended December 31, 2006. The improvement in net income is largely due to higher revenue for the period and a future income tax recovery of \$2,433,034 representing a recovery of future taxes on flow through common shares (see Note 5 to the financial statements).

Cash Flow from Operations and Net Income	Three months ended March 31, 2007
Cash flow from operations (\$)	1,551,794
\$/boe (6:1)	23.19
\$/share:	
Basic and diluted	0.13
Net Income (\$)	1,297,601
\$/share:	
Basic and diluted	0.11

Capital Expenditures

Capital Expenditures	Three months ended March 31, 2007
Land	531,144
Seismic	413,218
Drilling and Completion	6,288,654
Equipment Facilities and Pipelines	3,698,434
Other Assets	2,766
Total Exploration and Development Expenditures	10,934,216
Acquisitions	-
Total Capital Expenditures	10,934,216

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2007, Trafalgar had a positive working capital of \$3.6 million. In addition, Trafalgar has an \$8.0 million revolving term credit facility with a major Canadian Bank for general corporate purposes including capital expenditures. The credit facility revolves for a period of 364 days from closing 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.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

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 2007 and the next four years are as follows:

	2007	2008	2009	2010	2011
Office Lease	131,904	175,870	175,870	175,870	-

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

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, 2007 under the supervision and with the participation of the President and Chief Executive Officer and the Vice President Finance and CFO.

Based on the results of this evaluation, the President and Chief Executive Officer, 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 a situation where limitations in segregation of duties have to be compensated by more effective supervision and monitoring by the CEO and CFO. The Company's officers will continue to monitor very closely all financial activities of the Company and increase the level of supervision in key areas. It is important to note that this issue would also require the Company to hire additional staff in order to provide greater segregation of duties. Since the increased funding costs 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.

Environmental Regulation and Risk

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. In 2002, the Government of Canada ratified the Kyoto Protocol (the "Protocol"), which calls for Canada to reduce its greenhouse gas emissions to specified levels. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Implementation of strategies for reducing greenhouse gases whether to meet the limits required by the Protocol or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of the Company.

The Federal Government released on April 26, 2007, its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "Action Plan"), also known as ecoACTION and which includes the Regulatory Framework for Air Emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy-using products. Regarding large industry and industry related projects the Government's Action Plan intends to achieve the following: (i) an absolute reduction of 150 megatonnes in greenhouse gas emissions by 2020 by imposing mandatory targets; and (ii) air pollution from industry is to be cut in half by 2015 by setting certain targets. New facilities using cleaner fuels and technologies will have a grace period of three years. In order to facilitate the companies' compliance of the Action Plan's requirements, while at the same time allowing them to be cost-effective, innovative and adopt cleaner technologies, certain options are provided. These are: (i) in-house reductions; (ii) contributions to technology funds; (iii) trading of emissions with below-target emission companies; (iv) offsets; and (v) access to Kyoto's Clean Development Mechanism.

On March 8, 2007, the Alberta Government introduced Bill 3, the *Climate Change and Emissions Management Amendment Act*, which intends to reduce greenhouse gas emission intensity from large industries. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12% starting July 1, 2007; if such reduction is not initially possible the companies owning the large emitting facilities will be required to pay \$15 per tonne for every tonne above the 12% target. These payments will be deposited into an Alberta-based technology fund that will be used to develop infrastructure to reduce emissions or to support research into innovative climate change solutions. As an alternate option, large emitters can invest in projects outside of their operations that reduce or offset emissions on their behalf, provided that these projects are based in Alberta. Prior to investing, the offset reductions, offered by a prospective operation, must be verified by a third party to ensure that the emission reductions are real.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact of those requirements on the Company and its operations and financial condition.

Review of Alberta Royalty and Tax Regime

On February 16, 2007, the Alberta Government announced that a review of the province's royalty and tax regime (including income tax and freehold mineral rights tax) pertaining to oil and gas resources, including oil sands, conventional oil and gas and coalbed methane, will be conducted by a panel of experts, with the assistance of individual Albertans and key stakeholders. The review panel is to produce a final report that will be presented to the Minister of Finance by August 31, 2007.

SELECTED QUARTERLY DATA

The following table provides selected quarterly information for Trafalgar.

2007	Q1	Q2	Q3	Q4
Production (boe/d)	744			
Petroleum and natural gas revenue (\$)	2,914,020			
Realized product prices				
Oil (\$/bbl)	49.37			
Natural gas (\$/mcf)	7.11			
\$/boe (6:1)	43.54			
Royalties (\$/boe)	9.33			
Operating expense (\$/boe)	9.57			
Netback (\$/boe)	24.65			
Cash flows from operations (\$)	1,551,794			
Per share, basic and diluted	0.13			
Net income (loss) (\$)	1,297,601			
Per share, basic and diluted	0.11			
Capital expenditures (\$)	10,934,216			
Working capital (\$)	3,581,513			
2006	Q1	Q2	Q3 (1)	Q4
Production (boe/d)			625	662
Petroleum and natural gas revenue (\$)			184,833	2,532,804
Realized product prices				
Oil (\$/bbl)			59.57	44.36
Natural gas (\$/mcf)			4.54	6.86
\$/boe (6:1)			32.87	41.65
Royalties (\$/boe)			5.60	8.86
Operating expense (\$/boe)			12.00	12.18
Netback (\$/boe)			15.27	20.60
Cash flow from operations (\$)			(357,794)	1,037,294
Per share, basic and diluted			(0.10)	0.10
Net income (loss) (\$)			(4,109,183)	(670,975)
Per share, basic and diluted			(1.10)	(0.07)
Capital expenditures (\$)			2,852,864	5,424,221
Working capital (\$)			9,684,557	12,971,751

note: numbers may not add due to rounding

(1) Q3 values are from incorporation on April 25, 2006 to September 30, 2006.

Trafalgar became a public reporting issuer effective September 26, 2006, with oil and gas activity commencing on September 21, 2006. The 625 boe/d of production is for the last nine days of activity from September 21, 2006 to September 30, 2006.

CONTRACTUAL OBLIGATIONS

Trafalgar has various contractual obligations and commitments arising in the normal course of operations and financing activities.

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.

OUTSTANDING SHARE DATA

As at March 31, 2007, there were 9,594,590 voting common shares outstanding, 2,241,293 non-voting common shares outstanding and 921,750 options to purchase common shares outstanding.

WEBCAST

To view a 90-day archived webcast version of the Annual General Meeting for Trafalgar Energy Ltd. held on May 9, 2007, please use the following link:

<http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=1836340>

For further information, please contact:

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**TRAFALGAR ENERGY LTD.
BALANCE SHEET**

<i>(unaudited)</i>	March 31, 2007	December 31, 2006
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	7,555,671	15,705,365
Accounts receivable	2,866,849	2,605,143
Prepaid expenses and deposits	439,395	450,134
	10,861,915	18,760,642
Petroleum and natural gas assets (Note 2)	37,472,843	28,881,664
	48,334,758	47,642,306
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	7,280,402	5,788,891
	7,280,402	5,788,891
Asset retirement obligations (Note 4)	1,570,950	1,413,444
	8,851,352	7,202,335
Commitments (Note 7)		
Shareholders' equity (Note 5)		
Share capital	40,176,919	42,617,771
Contributed surplus	680,724	494,038
Deficit	(1,374,237)	(2,671,838)
	39,483,406	40,439,971
	48,334,758	47,642,306

see accompanying notes to the financial statements

approved by the Board of Directors:

"signed"

Murray Nunns

"signed"

Steve Nielsen

TRAFALGAR ENERGY LTD.
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME AND DEFICIT
 (Note 1)

	For the three months ended March 31, 2007
<i>(unaudited)</i>	\$
Revenue	
Oil and natural gas revenue	2,914,020
Less: Royalties	(624,302)
	2,289,718
Interest and other income	136,281
	2,425,999
Expenses	
Operating	640,205
General and administrative	231,945
Stock-based compensation (Note 5)	186,686
Interest	2,055
Depletion, depreciation and accretion (Notes 2 and 4)	2,500,541
	3,561,432
Net income (loss) before taxes	(1,135,433)
Future income taxes (recovery) (Note 5)	(2,433,034)
Net income and comprehensive income	1,297,601
Deficit, beginning of period	(2,671,838)
Deficit, end of period	(1,374,237)
Net income per share (Note 5)	
Basic and diluted	0.11
Weighted average number of shares outstanding (Note 5)	
Basic and diluted	11,835,883
see accompanying notes to the financial statements	

TRAFALGAR ENERGY LTD.
STATEMENT OF CASH FLOWS
 (Note 1)

<i>(unaudited)</i>	For the three months ended March 31, 2007
	\$
Operating activities	
Net income for the period	1,297,601
Add items not involving cash	
Depletion, depreciation and accretion	2,500,541
Stock-based compensation	186,686
Future income tax (recovery)	(2,433,034)
	1,551,794
Change in non-cash working capital items related to operating activities (Note 6)	(225,048)
	1,326,746
Financing activities	
Share issue costs	(7,818)
	(7,818)
Investing activities	
Acquisition of property and equipment	(10,934,216)
Change in non-cash working capital items related to investing activities (Note 6)	1,465,594
	(9,468,622)
Decrease in cash and cash equivalents	(8,149,694)
Cash and cash equivalents, beginning of period	15,705,365
Cash and cash equivalents, end of period	7,555,671

see accompanying notes to the financial statements

TRAFALGAR ENERGY LTD.
NOTES TO THE FINANCIAL STATEMENTS
From January 1, 2007 to March 31, 2007

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The unaudited interim financial statements of Trafalgar Energy Ltd. have been prepared in accordance with Canadian generally accepted accounting principles, following the same accounting policies and methods of computation as the financial statements of the Company for the period from incorporation on April 25, 2006 to December 31, 2006 except as disclosed below. These unaudited financial statements do not include all disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements and notes thereto for the period from incorporation on April 25, 2006 to December 31, 2006.

Comparative quarterly financial statements are not shown, as the Company began operations effective April 25, 2006.

Changes in accounting policies

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet either at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classifications, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale and purchase exemption. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables. Bank indebtedness, operating bank loans, accounts payable and accrued charges, long-term debt, including interest payable, and redeemable preferred shares are classified as other liabilities, all of which are measured at amortized cost. The Company has elected to measure all derivatives and embedded derivatives at fair value and the Company has maintained its policy not to use hedge accounting.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability. As a result of the application of Section 3855, the Company does not have any unamortized financing costs of this nature and no reclassification has been required. The adoption of these new standards had no impact on the Company's deficit position at December 31, 2006 and for the three months ending March 31, 2007.

Carrying value and fair value of financial assets and liabilities are summarized as follows:

Classification	Carrying value	Fair value
Held-for-trading	7,555,671	7,555,671
Loans and receivables	2,866,849	2,866,849
Held-to-maturity	-	-
Available-for-sale	-	-
Other liabilities	7,280,402	7,280,402

The Company, also adopted Section 1506 – Accounting Changes – the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 3862 – Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentations – which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Company will adopt these standards on January 1, 2008 and it is expected the only effect on the Company will be incremental disclosures regarding the significance of financial instruments for the entity's financial position and performance; and the nature, extent and management of risks arising from financial instruments to which the entity is exposed.

The Company also adopted Section 3251, "Equity", Section 3251 replaces Section 3250, "Surplus", and describes standards for the presentation of equity and changes in equity for reporting period as a result of the application of Section 1530, "Comprehensive Income."

Business of the Company

Trafalgar is engaged in oil and gas exploration, development and production in Western Canada.

2. PETROLEUM AND NATURAL GAS ASSETS

As at March 31, 2007	\$
Petroleum and natural gas assets	41,520,710
Equipment	102,756
Accumulated depletion and depreciation, petroleum and natural gas assets	(4,129,000)
Accumulated amortization and depreciation, equipment	(21,623)
Net book value	37,472,843

As at December 31, 2006	\$
Petroleum and natural gas assets	30,458,268
Equipment	99,990
Accumulated depletion and depreciation, petroleum and natural gas assets	(1,661,000)
Accumulated amortization and depreciation, equipment	(15,594)
Net book value	28,881,664

For the three month period ended March 31, 2007, the Company capitalized \$93,237 of general and administrative expenses that were directly attributable to exploration activities.

As at March 31, 2007, \$6,318,955 of costs related to undeveloped lands and \$1,573,728 of seismic expenses were excluded from costs subject to depletion. Future development costs of \$1,486,000 were included in the costs subject to depletion.

3. CREDIT FACILITY

The Company has a revolving term credit facility with a Canadian chartered bank to a maximum of \$8.0 million. The facility bears interest at the bank's prime lending or banker's acceptance rates plus applicable margins. The borrowing base is subject to re-determination semi-annually. At March 31, 2007, no amounts were drawn against this facility.

The Company's lending facilities are secured by a floating charge debenture over all of the Trafalgar's assets, a general security agreement and a floating charge debenture.

4. ASSET RETIREMENT OBLIGATIONS

During the first three months of 2007, the Company's asset retirement obligations changed as follows:

	\$
Asset retirement obligations, December 31, 2006	1,413,444
Liabilities incurred	130,994
Accretion expense	26,512
Asset retirement obligations, March 31, 2007	1,570,950

The total future asset retirement obligations result from the Company's net ownership interest in wells and facilities. Management estimates the total undiscounted amount of future cash flows required to reclaim and abandon wells and facilities as at March 31, 2007 is approximately \$4.5 million, to be incurred over the next three to 20 years. Estimated cash flow has been discounted at a credit-adjusted risk free rate of 7.8% and an inflation rate of 2% to arrive at the recorded liability of \$1.6 million at March 31, 2007. There has been \$26,512 recognized as an accretion expense for the three months ended March 31, 2007.

5. SHARE CAPITAL

Authorized

Unlimited number of voting common shares

Unlimited number of non-voting common shares

Unlimited number of first preferred shares, issuable in series

Issued	Number of shares	\$
Common shares, voting		
Balance, as at January 1, 2007	9,594,590	37,617,771
Future taxes on flow through common shares (i)	-	(1,297,634)
Issue costs	-	(7,818)
Balance, as at March 31, 2007	9,594,590	36,312,319
Common shares, non-voting		
Balance, as at January 1, 2007	2,241,293	5,000,000
Future taxes on flow through common shares (ii)	-	(1,135,400)
Balance, as at March 31, 2007	2,241,293	3,864,600
Share capital, as at March 31, 2007	11,835,883	40,176,919

Contributed surplus

Balance, as at January 1, 2007

Non-cash compensation expense (iii)

Contributed surplus, as at March 31, 2007

Common shares

- (i) In December 2006, the Company issued under private placement a total of 792,100 flow through common shares at \$5.05 per share for proceeds of \$4,000,105 and 572,360 common shares at \$4.02 per share for proceeds of \$2,300,887. The tax benefit of the flow through shares was renounced in its entirety in February, 2007.
- (ii) In June 2006, the Company issued under private placement a total of 1,741,293 flow through common shares, non voting at \$2.01 per share for proceeds of \$3,499,999 and 2,874,297 common shares, voting for proceeds of \$11,554,674. The tax benefit of the flow through shares was renounced in its entirety in February, 2007.
- (iii) Non-cash compensation expense is comprised of the stock option benefit for all outstanding options amortized over the vesting period of the options.

Per share amounts

Per share amounts have been calculated using the weighted average number of common shares (voting and non-voting) and options outstanding during the three months ended March 31, 2007:

Three months ended March 31, 2007	Number
Weighted average number of common shares outstanding (voting and non-voting)	11,835,883
Diluted effect of stock options	-
Weighted average number of diluted common shares outstanding, as at March 31, 2007	11,835,883

Stock option plan

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 is a continuity of stock options for which shares have been reserved:

March 31, 2007	Number of Options	Weighted Average Exercise Price
Stock options outstanding, beginning of period	894,750	4.02
Granted	27,000	4.02
Stock options outstanding, end of period	921,750	4.02

As at March 31, 2007, there were no options exercisable. The following table summarizes information about stock options outstanding at March 31, 2007:

Grant Price	Number	Weighted Average Exercise Price	Weighted Average Remaining Term (Years)	Fair Value Average Price
\$		\$		\$
4.02	921,750	4.02	4.5	1.36

The fair value of stock options granted to employees, directors and consultants during the three months ended March 31, 2007 was estimated on the date prior to that of grant using the Black Scholes option pricing model with the following weighted average assumptions:

At March 31,	2007
Risk-free interest (%)	6
Volatility (%)	40
Expected life in years	3
Expected future dividends	0

A total of \$186,686 has been recognized as stock compensation expense with an offsetting credit to contributed surplus for the three months ended March 31, 2007.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Three months ended March 31,	2007
Changes in non-cash operating working capital:	
Accounts receivable	49,710
Prepaid expenses and deposits	10,739
Accounts payable and accrued liabilities	(285,497)
	(225,048)
Changes in non-cash investing working capital:	
Accounts receivable	(311,416)
Accounts payable and accrued liabilities	1,777,010
	1,465,594

There have not been any cash outlays for interest and/or current income taxes for the three months ended March 31, 2007.

7. COMMITMENTS

The Company has an operating lease for office premises expiring December 30, 2010 which requires minimum monthly payments of \$14,656 or \$175,870 per year.

Corporate insurance for petroleum and operators extra expense coverage was financed beginning September 1, 2006, with the last payment to be made June 1, 2007. An amount of \$40,298 was financed at a rate of 11.6% per annum, with ten monthly payments (principal plus interest) of \$4,247. At March 31, 2007, a liability of \$12,090 has been included in the Balance Sheet under the accounts payable and accrued liabilities.

8. FINANCIAL INSTRUMENTS

Fair value of financial instrument

Financial instruments recognized on the Balance Sheet consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities. As at March 31, 2007, there were no significant differences between the carrying amounts of these financial instruments reported on the Balance Sheet and their estimated fair values. (Refer to Note 1)

Concentration of credit risk, economic dependence and related party transactions

The Company currently derives revenue primarily from customers in the oil and gas industry. These customers are geographically dispersed and the Company closely monitors credit granted to each customer. Therefore, credit risks are considered to be minimal. The Company has established guidelines relative to diversification and maturities that maintain safety and liquidity.

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense associated with any outstanding revolving operation loan balances. At March 31, 2007, the Company has no outstanding revolving loan balances.

Commodity price risk management

As at March 31, 2007, the Company had no fixed price contracts associated with future production.

CORPORATE INFORMATION**DIRECTORS OF
TRAFALGAR ENERGY LTD.**

Murray Nunns
Director & Chairman of Board

Robert Wollmann
President & Chief Executive Officer

John Brussa
Director

Gary Perron
Director

Steven Nielsen
Director

Bob Shaunessy
Director

Shannon Gangl
Director & Corporate Secretary

**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

Deloitte & Touche LLP

ENGINEERING CONSULTANTS

GLJ Petroleum Consultants Ltd.

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

STOCK EXCHANGE LISTING

The Toronto Stock Exchange:
Symbol: TFL

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