

FIRST QUARTER REPORT

For the Three Months Ended March 31, 2009

Trafalgar Energy Ltd. (TSX:TFL) ("Trafalgar" or the "Company") is pleased to present the unaudited financial results for the quarter ended March 31, 2009.

CORPORATE HIGHLIGHTS

(000's, except for per share and production data)	Q1 2009	Q4 2008	Q1 2008
Petroleum and natural gas revenues	2,882	3,133	3,672
Funds from operations (\$)	590	815	1,707
Basic and diluted per share (\$)	0.04	0.06	0.14
Net earnings (loss) (\$)	137	(1,364)	(232)
Basic and diluted per share (\$)	0.01	(0.10)	(0.02)
Working capital (deficit) (\$) ⁽¹⁾	356	280	(4,278)
Bank debt (\$)	13,024	13,050	5,803
Net debt (\$)	12,668	12,770	10,081
Capital expenditures (\$)	488	2,872	11,439
Weighted average number of shares outstanding			
Basic and diluted	13,404,883	13,404,883	11,835,883
Shares outstanding			
Basic	13,404,883	13,404,883	11,835,883
Diluted	14,674,133	14,674,133	12,957,133
Average Production			
Light Oil (bbls/d)	147	100	39
Heavy Oil (bbls/d)	42	44	52
Total Oil (bbls/d)	189	144	91
Natural Gas (mcf/d)	5,076	4,940	4,872
BOE (boe/d)	1,035	969	903
Average Realized Prices ⁽²⁾			
Light Oil (\$/bbl)	49.70	50.81	82.62
Heavy Oil (\$/bbl)	35.56	26.60	65.17
Natural Gas (\$/mcf)	4.79	6.55	7.29
\$/boe (6:1)	31.98	39.85	46.69
Netback (\$/boe)			
Petroleum and natural gas revenue	31.98	39.85	46.69
Royalties	5.62	7.37	9.01
Operating expenses	12.22	12.65	9.42
Transportation expenses	1.04	4.70	2.00
Operating netback	13.10	15.13	26.26

(1) Excludes the fair value of financial instruments and current portion of bank debt.

(2) Average realized prices are before transportation expenses.

LETTER TO SHAREHOLDERS

Trafalgar produced an average 1,035 boe per day during Q1 2009, up 7% from Q4 2008. The increase is due to the addition of our House Mountain, Alberta light oil well in November 2008 and the low decline rate of our base production.

The Company has significant upside in its existing asset base. At Cypress B.C., drilling operations were completed for the B-65-C farmout well in April. This Montney/Doig directional well is currently scheduled to be completed with a multistage frac operation late in Q2. Additional activity by the operator is being evaluated with a final decision anticipated in Q4. The Cypress farmout provides Trafalgar and its shareholders exposure to a material natural gas resource within an existing infrastructure with significant production potential.

At House Mountain, our land position has expanded to 1,600 net acres on which the Company has identified up to 10 light oil drilling locations. New drilling at House Mountain is planned to resume, contingent on cash flow and commodity prices, late this year. At Mackay/Saleski, Trafalgar has an inventory of 10 natural gas locations defined and ready to drill along with the large bitumen resource controlled on Company lands.

For the last six months, Trafalgar has focused its efforts on developing oil resource opportunities. To date, the Company has identified three such projects. We have acquired initial land positions at 100% working interest on two of these projects. Trafalgar has selectively posted additional Crown land for potential purchase this summer. Land prices have fallen significantly over the past year and Trafalgar believes now is the time to build strategic land positions in expectation of an economic rebound in 2010.

On April 29, 2009 Trafalgar announced the establishment of a new \$18.0 million credit facility which provides the Company with \$5.3 million of credit availability. Trafalgar is planning minimal drilling activity in the next few months to maintain our financial position. As at the date hereof, the Company estimates remaining flow-through obligations of approximately \$1.5 million. The Company has the financial flexibility and projects to satisfy our flow-through commitment by year end.

Merger and acquisitions opportunities continue to be identified, reviewed and evaluated. The energy business is cyclical and the Management and Directors of the Company are focused on positioning our shareholders for the next upturn.

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



May 12, 2009

Rob Wollmann
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") reviews and compares Trafalgar Energy Ltd.'s ("Trafalgar" or the "Company") activities and results of operations for the three months ended March 31, 2009 and 2008. The MD&A should be read in conjunction with the unaudited financial statements of Trafalgar for the three months ended March 31, 2009 and 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 and is dated May 12, 2009.

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

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 trades on the Toronto Stock Exchange ("TSX") 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. All references to funds from operations throughout this MD&A are based on cash provided by operating activities before the change in non-cash operating working capital since Trafalgar believes the timing of collection, payment or incurrence of these items involves a high degree of discretion and as such these items are not useful for evaluating Trafalgar's operating performance.

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

	Q1 2009	Q4 2008	Q1 2008
Cash provided by operating activities (\$)	714	533	1,979
Change in non-cash operating working capital (\$)	(124)	282	(272)
Funds from operations (\$)	590	815	1,707

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. The term is utilized by Trafalgar to evaluate the operating performance of petroleum and natural gas assets.

Operating netbacks are determined by deducting royalties and operating expenses 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 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.

RESULTS OF OPERATIONS**Production**

Total average production was 1,035 boe per day for the three months ended March 31, 2009 as compared to 903 boe per day during the same period in 2008 representing an increase of 15%. Production for the first quarter of 2009 was weighted approximately 82% to natural gas and 18% to crude oil.

Mackay

Average production from Trafalgar's 10 natural gas producing wells at MacKay was 444 boe per day for the first quarter of 2009 as compared to 254 boe per day for the first quarter of 2008 and 433 boe per day for the fourth quarter of 2008 representing increases of 75% and 3% respectively. The increase from the first quarter of last year is due to production from new wells drilled during the first quarter of 2008 that were brought on production in the second quarter of 2008. The slight increase in production from the fourth quarter of 2008 is due to the resolution of minor weather related production issues experienced during the fourth quarter of 2008. Trafalgar is planning a 6 to 10 well natural gas development program at Mackay for the winter of 2009/2010 contingent upon natural gas prices. The Company has 38 net sections of land in the area with an average 85% working interest.

Grouard

Production from Grouard averaged 415 boe per day for the first quarter of 2009 representing a 28% reduction from the first quarter of 2008 but a 3% increase from the fourth quarter of 2008. The decrease in production from the first quarter of 2008 is due to natural field decline. The increase in production from the fourth quarter of 2008 is due to the impact of facility maintenance during the fourth quarter of 2008.

Trafalgar continues its waterflood project at the Grouard Bluesky oil pool. This pool is relatively shallow at 750 meters and has a 10 meter thick high quality sandstone reservoir. As a result of the waterflood project, the natural decline of the heavy oil production from the Bluesky pool has been arrested. Oil production from the pool has stabilized and is beginning to increase with the influence of the waterflood. The waterflood project has the potential to significantly increase proved and probable reserves at Grouard.

Cypress

As previously announced, the B-65-C Cypress farmout well has reached total depth. A multi-stage completion operation targeting natural gas in the Montney formation is scheduled for June 2009. The B-65-C well is located approximately 200 meters from existing underutilized pipeline infrastructure which is 100% owned and operated by Trafalgar. We look forward to reporting completion results this summer.

The Cypress farmout has the potential to provide Trafalgar with material additional northeast British Columbia natural gas exposure at no capital cost. Discussions with the operator are ongoing with respect to timing and scope of potential additional earning activity. Trafalgar owns approximately 33,600 gross acres (14,800 net) of undeveloped Montney rights at Cypress with an average 44% working interest. Subsequent to the potential completion of a multi-well drilling program, Trafalgar will retain an 8% to 10% working interest in the Montney rights at Cypress.

Average natural gas production from Cypress was 62 boe per day for the first quarter of 2009 as compared to 69 boe per day during the first quarter of 2008 and 56 boe per day for the fourth quarter of 2008. Production at Cypress during the fourth quarter of 2008 was impacted by temporary weather related operational issues. Production at Cypress during the first quarter of 2009 was 10% lower than the same quarter in 2008 due to normal field decline.

House Mountain

During the fourth quarter of 2008, Trafalgar established a new light oil producing area at House Mountain, Alberta. During the first quarter of 2009, Trafalgar significantly expanded its 100% working interest land position at House Mountain to approximately 1,600 net undeveloped acres. The Company now has 10 light oil development drilling locations in inventory at House Mountain. The majority of these locations are drill-ready, accessible all year and have the potential to be highly economic at today's prices, particularly in light of the recently announced Alberta royalty incentives.

Trafalgar's first House Mountain well was brought on production in November 2008 at rates exceeding 250 bbls per day of light oil with less than 10% water cut. During the first quarter of 2009, the 3-36 well stabilized at approximately 140 bbls per day with water cuts remaining at less than 10%. Current production from the 3-36 well is rate restricted to approximately 80 bbls per day in compliance with government rate limitations. Trafalgar is planning to commence development drilling at House Mountain in the third quarter of 2009.

Production by Product	Q1 2009	Q4 2008	Q1 2008
Light Oil (bbls/day)	147	100	39
Heavy Oil (bbls/day)	42	44	52
Total Oil (bbls/day)	189	144	91
Natural Gas (mcf/day)	5,076	4,940	4,872
Total (boe/d) (6:1)	1,035	969	903

Production by Area (boe/d)	Q1 2009	Q4 2008	Q1 2008
Grouard, Alberta	415	402	580
Mackay, Alberta	444	433	254
Cypress, British Columbia	62	56	69
House Mountain, Alberta	114	77	-
Other non-core	-	1	-
Total (boe/d) (6:1)	1,035	969	903

Commodity Prices

Natural Gas

Market prices for natural gas are influenced by North American supply and demand, seasonal weather conditions, storage levels, transportation capacity and US and Canadian dollar exchange rates. Trafalgar's realized natural gas prices have a high correlation to the Alberta benchmark price ("AECO") which provides pricing for natural gas based on heating value.

Generally, Trafalgar's realized natural gas prices are at a small discount to AECO. Realized natural gas prices were \$4.79 per mcf during the first quarter of 2009, a 1% discount to the average AECO market price, as compared to a realized price of \$7.29 per mcf during the first quarter of 2008 and \$6.55 per mcf during the fourth quarter of 2008.

Crude Oil

Crude oil prices are generally influenced by global supply and demand conditions and the world economic/geopolitical environment. Trafalgar's realized light oil price has a high correlation to the US benchmark West Texas Intermediate at Cushing, Oklahoma ("WTI") price and the Canadian to US dollar exchange rate. Canadian light oil prices correlate to refinery postings, which includes the Edmonton par price that adjusts WTI for the Canadian to US dollar exchange rate as well as transportation costs and quality adjustments.

Trafalgar's realized price for light crude oil during the first quarter of 2009 was \$49.70 per bbl or 99% of Edmonton Par, representing a 40% decrease over realized light crude oil prices in the first quarter of 2008 and a 2% decrease from the fourth quarter of 2008.

Heavy oil prices are generally lower than light oil prices as heavy oil requires increased refining and other costs, which reduce the realized price. Trafalgar's realized heavy crude oil prices were \$35.56 per bbl for the first quarter of 2009 or 81% of Bow River representing a 45% decrease from the first quarter of 2008 but a 34% increase from the fourth quarter of 2008. The increase in realized prices from the fourth quarter of 2008 is due to the resolution of temporary market disruptions in our heavy oil producing areas experienced during the fourth quarter of last year.

Trafalgar Realized Prices ⁽¹⁾	Q1 2009	Q4 2008	Q1 2008
Light Crude Oil (\$/bbl)	49.70	50.81	82.62
Heavy Crude Oil (\$/bbl)	35.56	26.60	65.17
Natural Gas (\$/mcf)	4.79	6.55	7.29
\$/boe (6:1)	31.98	39.85	46.69

⁽¹⁾ Average realized prices are before transportation expenses.

Average Market Prices	Q1 2009	Q4 2008	Q1 2008
Oil WTI (US\$/bbl)	42.86	58.33	97.87
Edmonton Par (\$/bbl)	50.15	63.94	98.16
Bow River (\$/bbl)	43.77	48.86	77.47
Gas NYMEX (US\$/MMBtu)	4.89	6.94	8.03
Gas AECO (\$/mcf)	4.85	6.72	7.20
Exchange Rate (US\$/C\$)	0.80	0.83	0.99

Revenue

Petroleum and natural gas revenue was \$2.9 million for the three months ended March 31, 2009 representing a 22% decrease from the first quarter of 2008 and an 8% decrease from the fourth quarter of 2008. The decrease is due to lower commodity prices partially offset by higher average production.

Natural gas revenue was \$2.1 million for the first quarter of 2009 compared to \$3.1 million during the first quarter of 2008 and \$2.6 million for the fourth quarter of 2008. The decrease in natural gas revenue is due lower natural gas prices.

Crude oil revenue was \$777,000 for the first quarter of 2009 as compared to \$590,000 for the first quarter of 2008 and \$562,000 for the fourth quarter of 2008. Higher oil revenue in the first quarter of 2009 as compared to the first quarter of 2008 was due to increased light oil production partially offset by lower realized oil prices. The increase in oil revenue as compared to the fourth quarter of 2008 was due to a combination of higher light oil production from the House Mountain property and improved realized heavy oil prices.

Petroleum and Natural Gas Revenues (\$)	Q1 2009	Q4 2008	Q1 2008
Oil	777	562	590
Natural Gas	2,105	2,571	3,082
Total Revenue	2,882	3,133	3,672
\$/boe (6:1)	30.94	35.15	44.69

Risk Management

Management is authorized to enter into commodity, interest rate and currency hedging contracts to manage market risk. With respect to commodity price risk management, the Company's policy is to enter from time to time into commodity contracts to a maximum of 50% of net production volumes for a maximum term of one year.

As at March 31, 2009, Trafalgar had no risk management contracts in place.

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold land owners and overriding royalty owners. For the three months ended March 31, 2009 total royalties were \$524,000 or \$5.62 per boe or approximately 18% of gross revenue as compared to approximately 20% of total revenue during the first and fourth quarters of 2008.

Royalties (\$)	Q1 2009	Q4 2008	Q1 2008
Royalties	524	657	740
As a % of petroleum and natural gas revenues	18.2	21.0	20.0
\$/boe (6:1)	5.62	7.37	9.01

On March 3, 2009, the Government of Alberta announced a three-point incentive program to stimulate new and continued economic activity in Alberta which included a drilling royalty credit for new conventional oil and natural gas wells and a new well royalty incentive program. Under the drilling royalty credit program, a \$200 per meter royalty credit will be available on new conventional oil and natural gas wells drilled between April 1, 2009 and March 31, 2010, subject to certain maximum amounts. The maximum credits available will be determined by the company's production level in 2008 and its drilling activity between April 1, 2009 and March 31, 2010. Based on Trafalgar's 2008 production it will be entitled to a maximum credit of 50% of royalties payable in the period April 1, 2009 to March 31, 2010. The new well incentive program will apply to wells beginning production of conventional oil and natural gas between April 1, 2009 and March 31, 2010 and provides for a maximum 5% royalty rate for the first 12 months of production, up to a maximum of 50,000 barrels or 500 MMcf of natural gas.

The Royalty Framework and related programs took effect on January 1, 2009. Over 90% of Trafalgar's current reserves and production are located within the Province of Alberta and subject to the Royalty Framework. Trafalgar will apply 2009 capital spending plans to maximize royalty benefits to the Company and its shareholders.

As royalties under the Royalty Framework are sensitive to both commodity prices and production levels, Trafalgar's corporate royalty rates will fluctuate with commodity prices, well production rates, production decline of existing wells, performance and the location of new wells drilled. Depending upon future commodity prices and drilling plans, it is possible that the Royalty Framework could increase future royalty rates with a corresponding decrease to future operating netbacks, funds from operations and the net present value of reserves. Future reserve and production addition activities could be impacted by the Royalty Framework. Trafalgar will continue to select capital expenditure programs that provide the greatest value to its shareholders in the context of the Royalty Framework.

Interest Income

Interest income is comprised primarily of interest on cash balances. For the three months ended March 31, 2009, Trafalgar had \$72,000 of interest income as compared to \$4,000 for the first quarter of 2008 and nil in the fourth quarter of 2008. The interest income reported for the first quarter of 2009 relates to interest on outstanding GST amounts owed to Trafalgar. All outstanding GST amounts were paid to Trafalgar in March 2009.

Interest (\$)	Q1 2009	Q4 2008	Q1 2008
Interest	72	-	4

Operating Expenses

Operating expenses include activities in the field required to operate wells and facilities, lift to surface, gather, process, treat and store production. For the first three months of 2009, operating expenses were \$1.1 million or \$12.22 per boe as compared to operating expenses of \$774,000 or \$9.42 per boe for the first quarter of 2008 representing an increase of 30% on a boe basis. The increase in operating costs as compared to the first quarter of 2008 is due to additional expenditures related to bringing on new light oil production at House Mountain and temporarily higher natural gas processing fees at Mackay. Operating expenses on a boe basis for the first quarter of 2009 were slightly lower than the fourth quarter of 2008 due to lower natural gas processing fees at Mackay and higher average production.

Operating Expenses (\$)	Q1 2009	Q4 2008	Q1 2008
Operating Expenses	1,139	1,126	774
\$/boe (6:1)	12.22	12.65	9.42

Operating Netback

Trafalgar's operating netback per boe (defined as petroleum and natural gas revenue net of royalties and operating expenses all on a per boe basis) was \$13.10 per boe in for the first quarter of 2009. This represents a 50% decrease from the first quarter of 2008 and a 13% decrease from the fourth quarter of 2008. The decrease in operating netback is due to decreases in revenue per boe from the first quarter of 2008 and the fourth quarter of 2008 due largely to lower commodity prices. Operating netbacks on a boe basis for the first quarter of 2009 were also influenced by increased operating expenses partially offset by lower royalties.

Operating Netback (\$ per boe)	Q1 2009	Q4 2008	Q1 2008
Petroleum and Natural Gas Revenue	30.94	35.15	44.69
Royalties	5.62	7.37	9.01
Operating Costs	12.22	12.65	9.42
Operating Netback	13.10	15.13	26.26

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, 2009 were \$560,000 or \$6.01 per boe compared to \$348,000 or \$4.22 per boe for the first quarter of 2008. The increase in net G&A expenses on a boe basis from the first quarter of 2008 is largely due to higher insurance and public reporting costs and lower overhead recovery partially offset by higher production levels. G&A expenses for the first quarter of 2009 were 4% lower on a boe basis than the fourth quarter of 2008 due to lower compensation costs and higher production levels. As at March 31, 2009, Trafalgar had nine full time and two part time employees.

G&A Expenses (\$)	Q1 2009	Q4 2008	Q1 2008
Gross G&A Expenses	682	750	623
Capitalized G&G Expenses	(114)	(125)	(113)
Overhead Recovery	(8)	(71)	(162)
Net G&A Expenses	560	554	348
\$/boe (6:1)	6.01	6.23	4.22

Stock-Based Compensation Expense

For the three months ended March 31, 2009, the Company recorded \$59,000 of stock-based compensation for stock options outstanding during the period as compared to \$106,000 for the first quarter of 2008 and \$70,000 for the fourth quarter of 2008. The reduction of stock-based compensation is the result of outstanding options reaching their vesting periods and no new options being granted. Stock-based compensation is calculated using the Black-Scholes pricing model using a risk-free rate of 3.2%, volatility of 40%, expected life of five years and a zero dividend yield.

Stock-based Compensation Expense (\$)	Q1 2009	Q4 2008	Q1 2008
Stock-based Compensation	59	70	106
\$/boe (6:1)	0.63	0.79	1.29

Interest Expense

For the three months ended March 31, 2009, the Company recorded interest expense of \$141,000 representing standby fees and interest on the Company's \$18.0 million credit facility (the "Term Facility"). The increase in interest expense for the first quarter of 2009 as compared to the first quarter 2008 and the fourth quarter of 2008 is due to higher outstanding amounts under the Term Facility. As at March 31, 2009, Trafalgar had \$13.0 million outstanding under the Term Facility.

Interest Expense (\$)	Q1 2009	Q4 2008	Q1 2008
Interest Expense	141	90	10
\$/boe (6:1)	1.51	1.01	0.12

Depletion, Depreciation and Accretion

Depletion and depreciation of property, plant and equipment ("DD&A") are calculated based upon capital expenditures, production rates and reserves. Trafalgar excludes unproved property costs, seismic and salvage values in its calculation of DD&A but includes future development costs in the capital base.

Trafalgar recorded \$2.1 million or \$22.84 per boe in DD&A in the first quarter of 2009, compared to \$1.7 million or \$20.37 per boe in the first quarter of 2008 and \$2.0 million or \$22.57 per boe during the fourth quarter of 2008. The increase in DD&A in the first quarter of 2009 compared to the first and fourth quarters of 2008 is the result of higher production volumes combined with lower field activity.

Accretion

Accretion of asset retirement obligations 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, 2009 to be approximately \$5.2 million, to be incurred over the next three to 20 years. Trafalgar used a discount rate of 8% - 10% to calculate its 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 \$30,000 recognized as accretion expense for the three months ended March 31, 2009 compared to \$29,000 for the three months ended March 31, 2008.

Depletion, Depreciation and Accretion (\$)	Q 1 2009	Q 4 2008	Q 1 2008
Depletion and Depreciation	2,097	1,983	1,645
Accretion	30	29	29
Total	2,127	2,012	1,674
Depletion and Depreciation \$/boe (6:1)	22.52	22.25	20.02
Accretion \$/boe (6:1)	0.32	0.32	0.35
Total \$/boe (6:1)	22.84	22.57	20.37

Income Taxes

The Company has a future income tax asset of \$2.9 million as at March 31, 2009. This figure has not been recognized in the financial statements, as the Company does not consider it more likely than not that the benefit associated with the asset will be realized.

Trafalgar recognized a future tax reduction in the first quarter of 2009 of \$1.7 million. This future tax reduction is associated with \$6.9 million of flow-through shares issued in May 2008 with associated expenditures renounced in the first quarter of 2009. There were no flow-through shares issued in 2007 to create a renouncement and resulting future tax reduction in 2008. As at March 31, 2009, the Company had incurred \$5.2 million of qualifying expenditures and is required to incur an additional \$1.7 million of expenditures prior to December 31, 2009.

The Company has \$69.0 million of tax pools available to be applied against future income for tax purposes net of all flow-through obligations. Based on the available pools and current commodity prices, Trafalgar does not expect to pay current income taxes in 2009 or 2010. Taxes payable beyond 2010 will be a function of commodity prices, capital expenditures and production volumes.

Net Earnings (Loss), Funds from Operations, and Cash Provided by Operating Activities

Net earnings for the three months ended March 31, 2009 were \$137,000 as compared to net losses of \$232,000 for the first quarter of 2008 and \$1.4 million for the fourth quarter of 2008. The increase in net earnings for the first quarter of 2009 is due to a future tax reduction related to flow-through shares issued during 2008 and renounced during the first quarter of 2009.

Funds from operations for the three months ended March 31, 2009 were \$590,000 representing a 65% decrease from funds from operations for the first quarter of 2008 and a 28% reduction from the fourth quarter of 2008. The decrease is largely due to lower realized commodity prices and higher operating and G&A costs.

Net Earnings, Cash Provided by Operating Activities, Funds from Operations	Q1 2009	Q4 2008	Q1 2008
Net earnings (loss) (\$)	137	(1,364)	(232)
\$/boe (6:1)	1.47	(15.33)	(2.82)
\$/share			
Basic and diluted	0.01	(0.10)	(0.02)
Cash provided by operating activities (\$)	714	533	1,979
\$/boe (6:1)	7.67	5.98	24.08
\$/share			
Basic and diluted	0.05	0.04	0.17
Funds from operations (\$)	590	815	1,707
\$/boe (6:1)	6.33	9.13	20.78
\$/share			
Basic and diluted	0.04	0.06	0.14

Capital Expenditures

Trafalgar invested \$488,000 on its capital expenditure program during the first quarter of 2009 compared to \$11.4 million in the first quarter of 2008 and \$2.9 million during the fourth quarter of 2008. The Company expects capital expenditures to remain within cash flow for the remainder of 2009.

Capital Expenditures (\$)	Q1 2009	Q4 2008	Q1 2008
Land	172	431	137
Seismic	50	475	496
Drilling and Completion	194	2,088	7,433
Equipment Facilities and Pipelines	72	(122)	3,364
Other Assets	-	-	9
Total Petroleum and Natural Gas Expenditures	488	2,872	11,439

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2009, Trafalgar had positive working capital of \$356,000 excluding the current portion of bank debt totaling \$13.0 million. Trafalgar uses a combination of funds from operations, bank debt and equity issues to finance its capital expenditure program.

As at March 31, 2009, Trafalgar had a revolving Term Facility for \$18.0 million with a Canadian chartered bank. This Term Facility was available on a revolving basis up to June 30, 2009. The Term Facility could then be extended for another 364 day period at the request of the Company and subject to approval by the bank. In the event of non-renewal, at the Company's option the available Term Facility was to reduce the amounts drawn and remain available on a non-revolving basis for a period of 365 days, at which time the Term Facility would be due and payable. Any amounts repaid by the Company during the non-revolving period would be permanent reductions to the available Term Facility.

In April 2009, Trafalgar entered into a new \$18.0 million revolving demand loan facility (the "Revolving Facility") with an Alberta based financial institution. Amounts outstanding under the Term Facility were repaid and the Term Facility was cancelled.

The Revolving Facility bears interest at market rates plus applicable margins and is secured by a general security agreement. The borrowing base is subject to periodic review based upon annual independent engineering reports with the next scheduled review to be completed by April 30, 2010. There can be no assurance that amounts available under the Revolving Facility will not decrease at the next scheduled review.

Under the Revolving Facility, the Company must maintain a working capital ratio of not less than one to one. The working capital ratio is defined as current assets (plus the undrawn availability under the Revolving Facility) to current liabilities (less any amount drawn under the Revolving Facility). The Company is in compliance with all debt covenants.

As at March 31, 2009, \$13.0 million (December 31, 2008 - \$13.1 million) was drawn against the Term Facility, and letters of credit in the amount of \$238,000 were held against the Term Facility. The effective interest rate was 4.25% (2008 - 5.25%) for the three months ended March 31, 2009.

Management anticipates that Trafalgar will continue to have adequate liquidity to fund future working capital and capital expenditures. In this period of lower commodity prices and challenging economic environment, Trafalgar will place increased emphasis on maintaining its financial flexibility. Trafalgar plans to closely monitor its 2009 business plan and adjust capital programs in the context of commodity prices and access to debt and equity capital. Capital expenditures during 2009 will be generally limited to cash flow.

RELATED-PARTY AND OFF-BALANCE-SHEET TRANSACTIONS

Trafalgar was not involved in any off-balance-sheet transactions for the three months ended March 31, 2009.

Legal services are provided by a firm in which two Directors of the Company are partners. An accrual of \$12,000 for legal services incurred but not billed at March 31, 2009 (2008 - nil) is included in Trafalgar's total accounts payable balance as at March 31, 2009.

The related party transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties.

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

OUTSTANDING SHARE TRADING DATA

Trafalgar's 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 2009	Q4 2008	Q1 2008
High	0.75	2.95	3.99
Low	0.30	0.47	2.27
Close	0.58	0.52	3.61
Average Daily Volume	36,273	16,225	16,831

At March 31 and May 12, 2009, Trafalgar had 11.2 million voting common shares outstanding, 2.2 million non-voting common shares outstanding and 1.3 million options to purchase common shares outstanding. The outstanding options have a weighted average exercise price of \$4.05 per share.

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 liquidity and capital resources.

The Company's Term Facility was repaid and cancelled on April 29, 2009. On the same day, Trafalgar entered into agreements respecting the Revolving Facility with an Alberta based financial institution. The Revolving Facility bears interest at market rates plus applicable margins and is secured by a general security agreement. The borrowing base is subject to periodic review based upon annual independent engineering reports with the next scheduled review to be completed by April 30, 2010. There can be no assurance that amounts available under the Revolving Facility will not decrease at the next scheduled review.

Under the Revolving Facility, the Company must maintain a working capital ratio of not less than one to one. The working capital ratio is defined as current assets (plus the undrawn availability under the Revolving Facility) to current liabilities (less any amounts drawn under the Revolving Facility). The Company is in compliance with all debt covenants.

On May 15, 2008, the Company issued 1,569,000 flow-through common shares for gross proceeds of \$6.9 million. Under the terms of the flow-through share agreements, the Company is required to renounce \$6.9 million of qualifying oil and natural gas expenditures effective December 31, 2008 and has until December 31, 2009 to incur the expenditures. As at March 31, 2009, the Company has incurred \$5.2 million of qualifying oil and natural gas expenditures and is required to incur an additional \$1.7 million of expenditures prior to December 31, 2009. The Company will use a combination of funds from operations, bank debt or equity to finance its required capital expenditures.

Obligations with a fixed term for the remainder of 2009 and the next year are as follows:

	2009	2010
Office Lease Base Rent (\$)	85,500	114,000

ADDITIONAL INFORMATION

Disclosure Controls and Procedures ("DC&P")

Trafalgar's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, disclosure controls and procedures that ensure that information required to be disclosed by Trafalgar is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. Trafalgar's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the interim filing, that Trafalgar's disclosure controls and procedures for the three months ended March 31, 2009 are designed to provide reasonable assurance that material information related to Trafalgar is made known to them.

Internal Controls Over Financial Reporting ("ICFR")

The President and CEO and Vice President Finance and CFO of the Company are responsible for the design of ICFR or causing the controls to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

The Company assessed the design of its ICFR for the first quarter ended March 31, 2009. Based upon the results of this assessment, the President and CEO, the Vice President Finance and CFO and the Audit Committee of the Board of Directors concluded that the design of the ICFR were sufficient to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. However, the Company has identified a design challenge respecting the segregation of duties. Specifically, due to the limited number of finance personnel at the Company, it is not feasible to achieve complete segregation of duties with regard to accounting transactions. The design challenge identified could result in a greater likelihood that a material misstatement would not be prevented or detected.

The President and CEO and Vice President Finance and CFO oversee all material transactions of the Company. The Audit Committee and Board of Directors review, on a quarterly basis, the financial statements and key risks of the Company and queries management regarding significant matters.

Because of their inherent limitations, ICFR and DC&P may not prevent or detect misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute assurance, that the objectives of the controls are met.

No changes in Trafalgar's ICFR were identified during the three months ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, the ICFR.

International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

In response, Trafalgar has developed a changeover plan and established a timeline for the execution and completion of the conversion project. The Company continues to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

ENVIRONMENTAL REGULATION AND RISK

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. 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.

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 relating to Trafalgar, refer to the risks identified in Trafalgar's annual information form filed on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking information is often, but not always, identified by the use of words such as "anticipate", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "expect", "may", "will", "project", "should", or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to:

- forecast capital expenditures and drilling plans;
- anticipated production rates and production mix;
- anticipated expenses, funds from operations and other financial results;
- Trafalgar's business strategy;
- future development and growth opportunities;
- Trafalgar's asset base and future prospects;
- exploration, drilling and development plans and the results anticipated therefrom;
- development plans at Mackay and House Mountain;
- timing and results of completion activity at Cypress;
- funding or remaining flow through obligations;
- planned waterflood activities at Grouard and anticipated results therefrom;
- estimated abandonment and reclamation costs;
- anticipated royalty rates and the impact of royalties on Trafalgar's planned capital spending, financial results and reserves;
- expectations regarding taxation;
- plans regarding Trafalgar's IFRS activities;
- the impact of any changes to credit facilities resulting from periodic review.

In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

Forward-looking statements regarding Trafalgar are based on certain key expectations and assumptions of Trafalgar concerning anticipated financial performance, business prospects, strategies, regulatory developments, current commodity prices and exchange rates, applicable royalty rates, tax laws, future well production rates and reserve volumes, future operating costs, the performance of existing wells, the success of its exploration and development activities, the sufficiency and timing of budgeted capital expenditures in carrying out planned activities, the availability and cost of labor and services, the impact of increasing competition, conditions in general economic and financial markets, availability of drilling and related equipment effects of regulation by governmental agencies, the ability to obtain financing on acceptable terms which are subject to change based on commodity prices, market conditions, drilling success and potential timing delays.

These forward-looking statements are subject to numerous risks and uncertainties, certain of which are beyond Trafalgar's control, including the impact of general economic conditions; volatility in market prices for crude oil and natural gas; industry conditions; currency fluctuation; imprecision of reserve estimates; liabilities inherent in crude oil and natural gas operations; environmental risks; incorrect assessments of the value of acquisitions and exploration and development programs; competition from other producers; the lack of availability of qualified personnel or management; changes in income tax laws or changes in royalty rates and incentive programs relating to the oil and gas industry; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; stock market volatility; and ability to access sufficient capital from internal and external sources.

Management has included the above summary of assumptions and risks related to forward-looking statements provided in this MD&A in order to provide readers with a more complete perspective on Trafalgar's future operations and such information may not be appropriate for other purposes. Trafalgar's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Trafalgar will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and Trafalgar disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws. However, in the event that subsequent events are reasonably likely to cause actual results to differ materially from material forward-looking information previously disclosed by Trafalgar for a period that is not yet complete, Trafalgar will provide disclosure on such events and the anticipated impact of such events.

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

SELECTED QUARTERLY DATA

The following table provides selected quarterly information for Trafalgar.

	2009		2008			2007		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Production (boe/d)	1,035	969	1,064	1,100	903	994	1,015	987
Petroleum and natural gas revenue, net of transportation	2,882	3,133	4,365	6,521	3,672	3,464	2,825	3,832
Realized product prices, net of transportation								
Oil (\$/bbl)	45.74	42.26	98.93	101.78	71.16	64.69	58.96	56.43
Natural gas (\$/mcf)	4.61	5.66	6.81	10.28	6.95	5.77	4.58	6.87
\$/boe (6:1)	30.94	35.15	44.62	65.12	44.69	37.87	30.28	42.66
Royalties (\$/boe)	5.62	7.37	9.58	7.44	9.01	6.58	6.00	9.21
Operating expense (\$/boe)	12.22	12.65	10.48	9.85	9.42	9.34	8.84	8.69
Netback (\$/boe)	13.10	15.13	24.56	47.83	26.26	21.95	15.44	24.76
Cash provided by operating activities (\$)	714	533	3,330	2,536	1,979	1,404	1,720	731
Per share, basic and diluted (\$)	0.05	0.04	0.25	0.20	0.17	0.12	0.15	0.06
Funds from operations (\$)	590	815	1,770	4,200	1,707	1,576	1,079	1,680
Per share, basic and diluted (\$)	0.04	0.06	0.13	0.33	0.14	0.13	0.09	0.14
Net earnings (loss) (\$)	137	(1,364)	280	1,497	(232)	(279)	(998)	(273)
Per share, basic and diluted (\$)	0.01	(0.10)	0.02	0.12	(0.02)	(0.02)	(0.08)	(0.02)
Capital expenditures (\$)	488	2,872	7,128	5,937	11,439	3,694	1,964	2,610
Working capital (deficit) ⁽¹⁾ (\$)	356	280	(3,268)	1,294	(4,278)	(349)	1,768	2,653

note: numbers may not add due to rounding

⁽¹⁾ Excludes the fair value of financial instruments and current portion of bank debt.

Net earnings (loss) on a quarter over quarter basis is consistent with normal oil and gas operations. In Q2 2008, the Company returned to profitability due to increased production volumes and higher commodity prices. During Q3 2008, the Company remained profitable despite slightly lower production volumes and lower commodity prices. Also during Q3 2008, net earnings included an unrealized gain on financial instruments. For Q4 2008, a net loss was generated due to lower commodity prices, production volumes and operating expenses. Net earnings for Q1 2009 includes a future tax reduction of \$1.7 million relating to the May 2008 flow-through share issue.

Capital expenditures were higher in Q3 of 2008, compared to the same quarter of 2007, as Trafalgar initiated a summer drill program for the first time in Company history. Capital expenditures for the Q1 2009 are lower than Q1 2008 and Q4 2008 reflecting lower drilling activity. Capital expenditures will remain in line with cash flow until commodity prices and capital markets recover.

For further information, please contact:

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BALANCE SHEETS
Trafalgar Energy Ltd.

unaudited			
(stated in thousands of dollars)		March 31, 2009	December 31, 2008
ASSETS			
Current			
Accounts receivable	\$	1,090	\$ 2,587
Prepaid expenses and deposits		420	536
		1,510	3,123
Petroleum and natural gas assets (note 1)		58,780	60,379
	\$	60,290	\$ 63,502
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$	1,154	\$ 2,843
Bank debt (note 2)		13,024	-
		14,178	2,843
Bank debt (note 2)		-	13,050
Asset retirement obligations (note 3)		2,013	2,002
		16,191	17,895
SHAREHOLDERS' EQUITY			
Share capital (note 4)		44,908	46,641
Contributed surplus (note 4)		1,797	1,709
Deficit		(2,606)	(2,743)
		44,099	45,607
Commitments (note 7)			
	\$	60,290	\$ 63,502

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)

	2009	2008
REVENUES		
Petroleum and natural gas	\$ 2,882	\$ 3,672
Royalties	(524)	(740)
Realized loss on financial instruments (note 6)	-	(97)
Unrealized loss on financial instruments (note 6)	-	(159)
Interest	72	4
	2,430	2,680
EXPENSES		
Operating	1,139	774
General and administrative	560	348
Stock-based compensation (note 4)	59	106
Interest	141	10
Depletion, depreciation and accretion	2,127	1,674
	4,026	2,912
Loss before taxes	(1,596)	(232)
Future tax reduction (note 4)	1,733	-
Net earnings (loss) and comprehensive income (loss)	137	(232)
Deficit, beginning of period	(2,743)	(2,924)
Deficit, end of period	\$ (2,606)	\$ (3,156)
Earnings (loss) per share (note 4)		
Basic and diluted	\$ 0.01	\$ (0.02)

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)

	2009	2008
OPERATING		
Net earnings (loss)	\$ 137	\$ (232)
Items not involving cash:		
Depletion, depreciation and accretion	2,127	1,674
Stock-based compensation	59	106
Future tax reduction	(1,733)	-
Unrealized loss on financial instruments (note 6)	-	159
	590	1,707
Change in non-cash working capital (note 5)	124	272
	714	1,979
FINANCING		
Bank indebtedness	(26)	5,803
INVESTING		
Petroleum and natural gas expenditures	(488)	(11,439)
Change in non-cash working capital (note 5)	(200)	3,044
	(688)	(8,395)
Changes in cash	-	(613)
Cash, beginning of period	-	613
Cash, end of period	\$ -	\$ -

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, 2009 and 2008

unaudited

(tabular amounts in thousands, except per share amounts and number of shares)

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, 2008. 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, 2008.

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. PETROLEUM AND NATURAL GAS ASSETS

	March 31, 2009	December 31, 2008
Cost	\$ 78,210	\$ 77,712
Accumulated depletion and depreciation	(19,430)	(17,333)
Net book value	\$ 58,780	\$ 60,379

For the three months ended March 31, 2009, the Company capitalized general and administrative costs and stock-based compensation that were directly attributable to exploration and development activities of \$114,000 and \$ 29,000, respectively (March 31, 2008 - \$113,000 and \$26,000).

As at March 31, 2009, \$8.7 million (March 31, 2008 - \$8.2 million) of costs related to unproved property costs and seismic were excluded from costs subject to depletion. Future development costs of \$1.8 million (March 31, 2008 - \$1.6 million) were included in the costs subject to depletion.

2. BANK DEBT

As at March 31, 2009, Trafalgar had a revolving term credit facility (the "Term Facility") for \$18.0 million with a Canadian chartered bank. This Term Facility was available on a revolving basis up to June 30, 2009. The Term Facility could then be extended for another 364 day period at the request of the Company and subject to approval by the bank. In the event of non-renewal, at the Company's option, the available Term Facility was to reduce to amounts drawn and remain available on a non-revolving basis for a period of 365 days, at which time the Term Facility would be due and payable. Any amounts repaid by the Company during the non-revolving period would be permanent reductions to the available Term Facility.

In April 2009, Trafalgar entered into a new \$18.0 million revolving demand loan facility (the "Revolving Facility") with an Alberta based financial institution. Amounts outstanding under the Term Facility were repaid at that time and the Term Facility was cancelled.

The Revolving Facility bears interest at the bank's prime lending or bankers' acceptance rates plus applicable margins. The Company's Revolving Facility is secured by a general security agreement. The borrowing base is subject to re-determination annually, with the next scheduled review to be on or before April 30, 2010. As the available lending limits of the facility are based on the bank's interpretation of the Company's reserves and future commodity prices there can be no assurance that the amount of available facility will not decrease at the next scheduled review on April 30, 2010. Under the Revolving Facility, the Company must maintain a working capital ratio of not less than 1 to 1 at all times. The working capital ratio is defined as current assets (including the undrawn availability under the Revolving Facility) to current liabilities (excluding any current portion of bank debt). The Company is in compliance with all debt covenants.

At March 31, 2009, \$13.0 million (December 31, 2008 - \$13.1 million) was drawn against the Term Facility, and letters of credit in the amount of \$238,000 were held against this facility. The effective interest rate was 4.25% (2008 - 5.25%) for the three months ended March 31, 2009.

3. 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 \$5.2 million (December 31, 2008 - \$5.2 million) which is expected to be incurred over the next three to 20 years. An inflation factor of 2% has been applied to the estimated asset retirement cost at March 31, 2009 and December 31, 2008. A credit-adjusted risk-free rate of 8% - 10% was used to calculate the fair value of the asset retirement obligations at March 31, 2009 and December 31, 2008.

The following reconciles the Company's asset retirement obligations:

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 2,002	\$ 1,650
Liabilities incurred on acquisitions	-	14
Liabilities incurred	-	222
Changes in estimates	(19)	-
Accretion	30	116
Balance, end of period	\$ 2,013	\$ 2,002

4. 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

Common Shares, voting	Number	2009	Number	2008
Balance, beginning of period	11,163,590	\$ 42,776	9,594,590	\$ 36,313
Issuance of flow-through common shares (i)	-	-	1,569,000	6,904
Future taxes on flow-through common shares issued in 2008 (ii)	-	(1,733)	-	-
Issue costs	-	-	-	(441)
Balance, end of period	11,163,590	41,043	11,163,590	42,776

Common Shares, non-voting

Balance, beginning and end of period	2,241,293	3,865	2,241,293	3,865
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Total share capital	13,404,883	\$ 44,908	13,404,883	\$ 46,641
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- (i) On May 15, 2008, the Company issued, pursuant to a private placement, 1,569,000 flow-through common shares at a price of \$4.40 per share for gross proceeds of \$6.9 million.
- (ii) During the three months ended March 31, 2009, the \$1.7 million tax effect of the \$6.9 million of flow-through shares issued in 2008 was recognized when the expenditures were renounced.

Per share amounts

The weighted average number of common shares (voting and non-voting) outstanding for the three months ended March 31, 2009 and 2008 are as follows:

Weighted average common shares	March 31, 2009	March 31, 2008
Basic and diluted	13,404,883	11,835,883

Options to purchase 1,269,250 common shares for the three months ended March 31, 2009 (2008 – 1,121,250) were not included in the calculation of the weighted average diluted common shares outstanding, as they were not 'in-the-money'; therefore, options are considered 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. Options vest over a three-year period, with one third of the number granted vesting on each of the first, second and third anniversary dates from the date of grant. Options have a five year term to maturity.

The following table sets forth a reconciliation of the plan activity through March 31, 2009:

	Number	Weighted Average Exercise Price
Balance, December 31, 2007	1,121,250	\$ 4.09
Granted	148,000	3.80
Balance, December 31, 2008 and March 31, 2009	1,269,250	\$ 4.05
Exercisable at March 31, 2009	681,000	\$ 4.06

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.

	March 31, 2009	December 31, 2008
Balance, beginning of period	\$ 1,709	\$ 1,224
Stock-based compensation	88	485
Balance, end of period	\$ 1,797	\$ 1,709

The fair value of the options granted 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:

	2008
Weighted average fair value of option granted	\$ 1.40
Risk-free interest rate (%)	3.2
Volatility (%)	40
Expected life in years	5
Expected future dividends	Nil

There were no options granted during the three months ended March 31, 2009.

5. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital

Three months ended March 31,	2009	2008
Changes in non-cash working capital-operating:		
Accounts receivable	\$ 615	\$ 482
Prepaid expenses and deposits	116	24
Accounts payable and accrued liabilities	(607)	(234)
	\$ 124	\$ 272
Changes in non-cash working capital-investing:		
Accounts receivable	\$ 882	\$ (463)
Accounts payable and accrued liabilities	(1,082)	3,507
	\$ (200)	\$ 3,044

Interest

Three months ended March 31,	2009	2008
Interest paid	\$ 141	\$ 10
Interest received	72	4

6. 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, 2009 the Company's receivables consisted of approximately \$172,000 (December 31, 2008 - \$287,000) from joint venture partners and \$918,000 (December 31, 2008 - \$1.2 million) of receivables from petroleum and natural gas marketers. At December 31, 2008 \$1.1 million of other trade receivables, relating to net GST/ITC refunds, were outstanding and subsequently collected in 2009.

At the request of Trafalgar, the petroleum and natural gas marketer sells a portion of the Company's production to a pool of large creditworthy purchasers with proceeds entering a production sales account administered by a large independent trust company. In addition, the balance of Trafalgar's production is sold directly to a large investment grade purchaser on a monthly basis. The Company has not experienced any collection issues with its petroleum and natural gas sales. Receivables are normally collected on the 25th day of the month following production.

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 deposits by selecting counterparties based on credit ratings and monitoring these parties on an ongoing basis for potential indicators of default.

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, 2009. The Company did write-off accounts receivable totaling \$51,000 at December 31, 2008 that were included in general and administrative expenses following a joint venture partner bankruptcy. The Company will only choose to write-off accounts receivable (as opposed to providing an allowance) after all reasonable avenues of collection have been exhausted.

The Company considers the receivables to be aged as follows:

Aging	March 31, 2009		December 31, 2008	
Not past due 0-90 days	\$	1,012	\$	1,456
More than 90 days		78		1,131
Total	\$	1,090	\$	2,587

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come 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 and quarterly 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 reserve based revolving credit facility subject to certain financial covenants as described in note 2 that is reviewed at least 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 \$1.2 million as at March 31, 2009 (December 31, 2008 - \$2.8 million) is within one year, while bank debt totaling \$13.0 million (2008 - \$13.1 million) also shown as current is due on demand.

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, 2009 and 2008.

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 will from time to time attempt 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.

There were no financial derivative contracts outstanding at March 31, 2009. During 2008, the Company entered into a series of natural gas financial instruments for 2,100 gj per day for the May to October 2008 period. The Company paid premiums of \$97,000 but did not realize any settlement gains or losses on its financial instruments during the three months ended March 31, 2008. There was also an unrealized loss of \$159,000 recognized during the three months ended March 31, 2008.

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, 2009, the Company had outstanding \$13.0 million of bank debt (2008 – \$13.1 million). As at March 31, 2009, 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, 2009 and December 31, 2008 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 and accounts payable and accrued liabilities and bank indebtedness approximate their carrying amounts due to their short terms to maturity.

Bank debt bears interest at 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 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 as follows:

	March 31, 2009	December 31, 2008
Shareholders' equity	\$ 44,099	\$ 45,607
Bank debt	13,024	13,050
Working capital (excluding bank debt):		
Accounts receivable	1,090	2,587
Prepaid expenses and deposits	420	536
Accounts payable and accrued liabilities	(1,154)	(2,843)
Working capital	\$ 356	\$ 280

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 funds 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 quarterly and 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 updated budgets are approved by the Board of Directors on a quarterly basis.

As at March 31, 2009 the Company's ratio of net debt to annualized funds from operations was 5.37 to 1 (December 31, 2008 – 3.92 to 1), largely reflecting lower commodity prices.

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

	Quarter Ended March 31, 2009	Quarter Ended December 31, 2008
Bank debt	\$ 13,024	\$ 13,050
Working capital surplus (excluding bank debt)	(356)	(280)
Net debt	12,668	12,770
Cash provided by operating activities	714	533
Change in non-cash working capital	(124)	282
Funds from operations	590	815
Annualizing factor	X4	X4
Annualized funds from operations	\$ 2,360	\$ 3,260
Ratio	5.37:1	3.92:1

The Company's share capital is not subject to external restrictions; however, the bank credit facility is based on petroleum and natural gas reserves and is subject to certain financial covenants (see note 2). 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, 2009.

7. COMMITMENTS

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

On May 15, 2008, the Company issued 1,569,000 flow-through common shares for gross proceeds of \$6.9 million. Under the terms of the flow-through share agreements, the Company is required to renounce the \$6.9 million of qualifying oil and natural gas expenditures effective December 31, 2008 and has until December 31, 2009 to incur the expenditures. As at March 31, 2009, the Company has incurred \$5.2 million of qualifying expenditures and is required to incur an additional \$1.7 million of expenditures prior to December 31, 2009.

8. RELATED PARTY TRANSACTIONS

Legal services are provided by a firm in which two Directors of the Company are partners. An accrual of \$12,000 for legal services incurred but not billed at March 31, 2009 (2008 – nil) is included in Trafalgar's total accounts payable balance as at March 31, 2009.

The related party transactions were incurred during the normal course of operations on similar terms and conditions to those entered into with unrelated parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to between the related parties.

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

ATB Financial

AUDITORS

KPMG 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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INVESTOR RELATIONS

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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