

SECOND QUARTER REPORT
 For the three and six months ended June 30, 2007

CORPORATE HIGHLIGHTS

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
Petroleum and natural gas revenues (\$)	3,832,034	6,746,054
Cash flow from operations (\$)	1,681,655	3,233,449
Basic and diluted per share (\$)	0.14	0.27
Net income (loss) (\$)	(272,642)	1,024,959
Basic and diluted per share (\$)	(0.02)	0.09
Working capital (\$)	2,653,386	2,653,386
Capital expenditures (\$)	2,609,782	13,543,998
Weighted number of shares outstanding Basic and diluted	11,835,883	11,835,883
Shares outstanding as at June 30, 2007		
Basic	11,835,883	11,835,883
Diluted	12,927,133	12,927,133
Average Production		
Light Oil (bbls/d)	41	46
Heavy Oil (bbls/d)	52	48
Total Oil (bbls/d)	93	94
Natural Gas (mcf/d)	5,367	4,630
BOE (boe/d)	987	866
Average Realized Prices*		
Light Crude Oil (\$/bbl)	71.24	69.08
Heavy Crude Oil (\$/bbl)	47.65	40.84
Natural Gas (\$/mcf)	7.13	7.24
\$/boe (6:1)	44.22	44.68
Netback per boe		
Petroleum and natural gas revenue	44.22	44.68
Royalties	9.21	9.26
Operating expenses	8.69	9.06
Transportation expenses	1.56	1.64
Operating Netback	24.76	24.72

* Average realized prices are before transportation expenses.

LETTER TO SHAREHOLDERS

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

- Production up 33% with Q2 production of 987 boe/d compared to Q1 production of 744 boe/d.
- Proven plus probable reserves up 83% to 2.6 mmmboe since year end based upon our mid year reserve report.
- Mid year finding and development costs on a proven plus probable basis excluding revisions were \$11.87 per boe (\$9.69 per boe including revisions).
- Operating costs decreased 9% in Q2 to \$8.69 per boe from \$9.57 in Q1.
- Maintained solid balance sheet with \$2.7 million of positive working capital and zero debt at the end of Q2.
- Increased bank credit facility from \$8 million to \$12 million.
- Added to our exploitation and exploration portfolio increasing undeveloped land to 88,000 net acres.

Trafalgar continues to grow quickly. Current production is averaging 1,000 boe/d and Trafalgar remains on track to achieve its 2007 average and exit production forecasts of 900-950 and 950-1,050 boe/d, respectively. Trafalgar has decided to increase its 2007 capital budget from \$14.2 million to \$18.8 million dollars to accelerate exploration activities on recently acquired lands, exploitation work on the Grouard waterflood and gas recompletions at Cypress, and to take advantage of the decrease in service costs related to the downturn in conventional gas activity in the Western Canadian sedimentary basin over the past year.

Properties

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

Grouard, Alberta

Grouard production at time of acquisition in September of 2006 was just over 500 boe/d which we have grown 35% to 676 boe/d for the three months ended June 30, 2007. This summer, Trafalgar is initiating a waterflood program on the main Bluesky oil pool. Estimated original oil in place is approximately 17 million barrels with cumulative recovery to date of only 510,000 barrels or approximately 3%. Similar pools in the area have shown significant success with waterflood technology and we believe, if successful, ultimate recovery could reach 6-10% of oil in place or an incremental 500 thousand to one million barrels. We expect to complete the field work in September and would hope to see response from the waterflood late in 2007 or early 2008.

MacKay, Alberta

During the fourth quarter of 2006 and the first quarter of 2007, Trafalgar established a new core area at MacKay, Alberta. Trafalgar drilled four 100% interest shallow gas wells in the area this past winter, all of which were tied in and placed on production during the first quarter of 2007. Production volumes were brought up slowly with current production at MacKay in the 280-300 boe/d range. Through a series of crown land sales during the second quarter, Trafalgar has increased its land position from six sections at 100% working interest to 22 sections at an average 85% working interest. Additionally we have reached farmin terms on ten sections of land. With in excess of 20 locations now identified at MacKay, we are planning a very active 2007/2008 winter drilling program and anticipate substantial production growth.

In the general MacKay vicinity we have identified several other exploration features and look forward to reporting on their status in the near future once land positions have been fully assembled.

Cypress, British Columbia

Cypress continues to be a solid cash flow generator. Production has been stable with current rates in the 90-95 boe/d range with zero capital spent by Trafalgar since acquisition of the asset in September 2006. We have identified several re-completion opportunities, the first of which we intend to complete this fall.

Exploration

Since the completion of our winter drilling program, the Trafalgar team has been assembling land positions on four new exploratory prospects. These prospects have five bcf or greater reserve potential, are close to existing, underutilized infrastructure, and have attractive risked economics. Trafalgar's intent will be to evaluate two to three of these prospects over the next 12 months. Further information will be provided when ongoing land work has been completed.

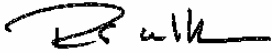
Acquisitions

There have been numerous property and corporate assets for sale over the past six to nine months and Trafalgar has been actively evaluating prospective transactions. To date, the assets in our view have been overpriced with limited upside. With the downturn in gas prices we anticipate more assets to become available over the next couple of quarters. If and when we find the right asset, we will aggressively pursue it, until then we will continue to grow value organically.

Outlook

With our strong balance sheet, and deep exploitation and exploration inventory, Trafalgar is in an enviable position. We currently have the inventory and the financial means to substantially grow the Company over the next 12-24 months and weather the current short term slide in natural gas prices without having to issue low priced equity or over lever the Company with debt.

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 and six months ended June 30, 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 August 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 is detailed on the Statements 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.

Cash flow 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.

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.

DESCRIPTION OF COMPANY

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

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

For the three months ended June 30, 2007, production from Trafalgar's assets has increased 33% over the first quarter of 2007 as a result of new production coming on stream at Grouard and MacKay. Production averaged 987 boe/d for the three months ended June 30, 2007. Grouard continues to be our largest producing asset at 676 boe/d followed by MacKay at 214 boe/d and Cypress at 97 boe/d. Production for the quarter ended June 30, 2007 was weighted approximately 91% to natural gas and 9% to crude oil.

Average daily production for the six months ended June 30, 2007 was 866 boe/d including 94 bbls per day of oil and 4,630 mcf per day of natural gas. The Company's production portfolio for the six months ended June 30, 2007 was weighted 89% to natural gas and 11% to crude oil.

Production by Product	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Oil (bbls/day)	93	96	94
Natural Gas (mcf/day)	5,367	3,886	4,630
Total (boe/d) (6:1)	987	744	866

Production by Area (boe/d)	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Grouard, Alberta	676	640	658
MacKay, Alberta	214	4	109
Cypress, British Columbia	97	100	99
Total (boe/d) (6:1)	987	744	866

Reserves

On August 9, 2007, the Trafalgar Board of Directors approved an updated independent reserve report (the "Interim GLJ Report"). The reserves have been evaluated by GLJ Petroleum Consultants ("GLJ"), the independent reserve evaluator for all of Trafalgar's oil and natural gas properties. The Interim GLJ Report is effective June 30, 2007 and has been prepared in accordance with National Instrument 51-101. The reserves include the impact of Trafalgar's 2006/2007 winter drilling program.

The reserves data summarizes our crude oil and natural gas reserves and the net present values of future net revenue for these reserves using forecast prices and costs. The information set forth below is derived from the Interim GLJ Report that was prepared in accordance with the standards contained in the COGE Handbook and the reserves definitions contained in NI 51-101 and the COGE Handbook.

All evaluations of future revenue are before the deduction of future income tax expenses, administrative costs, overhead costs and miscellaneous expenses but after royalties, development costs, production costs and well abandonment costs. It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market

value of the reserves. There is no assurance that the forecast price and cost assumptions will be attained and variances could be material. The recovery and reserve estimates of our crude oil and natural gas reserves provided below are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil and natural gas reserves may be greater than or less than the estimates provided. Forecast prices used are as published by GLJ as of July 1, 2007.

A summary of reserves and values are as follows:

**SUMMARY OF OIL AND GAS RESERVES
AND NET PRESENT VALUES OF FUTURE NET REVENUE
AS OF JUNE 30, 2007
FORECAST PRICES AND COSTS**

Reserves Category	Light and Medium Oil		Heavy Oil		Natural Gas	
	Gross ⁽¹⁾ (Mbbbls)	Net ⁽²⁾ (Mbbbls)	Gross ⁽¹⁾ (Mbbbls)	Net ⁽²⁾ (Mbbbls)	Gross ⁽¹⁾ (MMcf)	Net ⁽²⁾ (MMcf)
Proved Producing	64	57	65	61	7,461	5,945
Total Proved	64	57	65	61	8,546	6,796
Probable	9	9	156	145	5,393	4,279
Total Proved plus Probable	73	66	221	206	13,939	11,075

	Natural Gas Liquids		BOE ⁽³⁾		Value (\$000's) Before Income Tax			
	Gross ⁽¹⁾ (Mbbbls)	Net ⁽²⁾ (Mbbbls)	Gross ⁽¹⁾ (Mbbbls)	Net ⁽²⁾ (Mbbbls)	0%	8%	10%	12%
Proved Producing	-	-	1,372	1,109	33,501	27,328	26,156	25,093
Total Proved	-	-	1,553	1,251	38,001	30,589	29,181	27,905
Probable	-	-	1,065	867	25,217	12,524	10,833	9,457
Total Proved plus Probable	-	-	2,618	2,118	63,218	43,113	40,014	37,362

⁽¹⁾ In relation to the above table, "Gross" reserves means, in relation to our interest in production and reserves, our interest (operating and non-operating) before deduction of royalties and without including any of our royalty interests.

⁽²⁾ In relation to the above table, "Net" means, in relation to our interest in production and reserves, our interest (operating and non-operating) after deduction of royalty obligations, plus our royalty interest in production or reserves.

⁽³⁾ Oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. BOE's may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

As compared to the 2006 year end reserve report total proved reserves increased 71% to 1.6 million boe from 0.9 million boe. On a proved + probable basis, reserves increased 83% to 2.6 million from 1.4 million boe.

Proved finding and development costs including changes to future development capital for the first half of 2007 were \$16.26 per boe. Proved + probable finding and development costs (including future development capital) were \$9.69 per boe.

Reserves Reconciliation for 2007 Mid Year Update

FACTORS	Light and Medium Oil			Heavy Oil		
	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)
December 31, 2006	71	5	76	11	169	179
Discoveries	0	0	0	0	0	0
Extensions	0	0	0	0	0	0
Infill Drilling	0	0	0	0	0	0
Improved Recovery	0	0	0	64	(12)	52
Technical Revisions	1	5	6	0	0	0
Acquisitions	0	0	0	0	0	0
Dispositions	0	0	0	0	0	0
Economic Factors	0	0	0	0	0	0
Production	(8)	0	(8)	(9)	0	(9)
June 30, 2007	64	10	73	65	156	221

FACTORS	Conventional Natural Gas			BOE		
	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mboe)	Probable (Mboe)	Proved Plus Probable (Mboe)
December 31, 2006	4,957	2,090	7,047	908	521	1,429
Discoveries	0	0	0	0	0	0
Extensions	3,784	3,051	6,835	631	508	1,139
Infill Drilling	0	0	0	0	0	0
Improved Recovery	419	84	503	134	1	135
Technical Revisions	225	169	394	37	35	72
Acquisitions	0	0	0	0	0	0
Dispositions	0	0	0	0	0	0
Economic Factors	0	0	0	0	0	0
Production	(840)	0	(840)	(157)	0	(157)
June 30, 2007	8,546	5,393	13,939	1,553	1,065	2,618

Net Asset Value

Net Asset Value before tax increased 10% from \$3.97/share as at December 31, 2006 to \$4.37/share as at June 30, 2007, reflecting the substantial growth in reserves partially offset by the decline in forecasted natural gas pricing and a decrease in the value of undeveloped land.

	June 30, 2007	December 31, 2006
Proved + Probable NPV ¹⁰ (\$MM) ⁽¹⁾	40.0	24.5
Inventory (\$ MM) ⁽²⁾	0.7	0.7
Working Capital (\$ MM)	2.6	13.0
Land (\$ MM) ⁽³⁾	8.3	8.6
	51.7	46.8
Common & non-voting common shares (MM)	11.8	11.8
NAV per share (\$/share)	4.37	3.97

⁽¹⁾ As evaluated by GLJ as at June 30, 2007 and December 31, 2006. Net present value of future net reserves does not represent fair market value of the reserves.

⁽²⁾ Value at cost of a natural gas compressor held in inventory.

⁽³⁾ As at June 30, 2007, 87,605 acres of undeveloped land was evaluated by Trafalgar at \$95 per acre. As at December 31, 2006, 68,565 acres of undeveloped land was evaluated by Trafalgar at \$125 per acre.

Revenue

Petroleum and natural gas revenues were \$3.8 million for the three months ended June 30, 2007 representing a 32% increase over the three months ended March 31, 2007 primarily from higher natural gas production at MacKay. Natural gas revenues for the three months ended June 30, 2007 were 35% higher than the first quarter of 2007 due to the substantial volume growth despite lower realized natural gas prices quarter over quarter. Oil revenues were 12% higher than the first quarter of 2007 due to higher realized prices for crude oil. For the six months ended June 30, 2007, petroleum and natural gas revenues totaled \$6.7 million.

Petroleum and Natural Gas Revenues (\$)	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Oil	476,023	426,630	902,653
Natural Gas	3,356,011	2,487,390	5,843,401
Total Revenue	3,832,034	2,914,020	6,746,054
\$/boe (6:1)	42.66	43.54	43.04

Trafalgar Realized Prices	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Light Crude Oil (\$/bbl)	69.57	65.66	67.41
Heavy Crude Oil (\$/bbl)	46.00	30.90	39.01
Natural Gas (\$/mcf)	6.87	7.11	6.97
\$/boe (6:1)	42.66	43.54	43.04

Market Prices	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Oil WTI (US\$/bbl)	64.94	57.98	61.46
Edmonton Par (C\$/bbl)	72.66	67.76	70.21
Lloydblend (C\$/bbl)	49.40	48.45	48.92
Gas AECO (\$/mcf)	7.46	7.39	7.44
Exchange Rate (US\$/C\$)	0.9104	0.8537	0.8821

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold land owners and overriding royalty owners. For the three months ended June 30, 2007 royalties were \$827,059 or \$9.21 per boe or 21% of revenue. Royalties were 32% higher in the second quarter of 2007 compared to the first quarter of 2007 due to higher revenues resulting from higher production levels. For the six months ended June 30, 2007, royalties were \$1.5 million or \$9.26 per boe or 21% of revenue. Based on current commodity prices, management anticipates that the average royalty rate for the remainder of 2007 will remain in the 21% range.

Royalties	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Royalties (\$)	827,059	624,302	1,451,361
As a % of oil and gas revenue	21	21	21
\$/boe (6:1)	9.21	9.33	9.26

Interest and Other Income

Interest and other income is comprised primarily of interest on Trafalgar's cash balances. For the three months ended June 30, 2007, interest and other income totaled \$39,687 as compared to \$136,281 for the first quarter of 2007. For the six months ended June 30, 2007, interest and other income totaled \$175,968.

Interest and Other Income	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Interest and Other Income (\$)	39,687	136,281	175,968

Operating Expenses

For the three months ended June 30, 2007, operating expenses were \$780,403 or \$8.69 per boe as compared to operating expenses of \$640,205 or \$9.57 per boe during the first three months of 2007. On a boe basis, operating expenses for the three months ended June 30, 2007 were approximately 9% lower than the three months ended March 31, 2007. Lower per boe operating expenses are due to increased volumes and operating efficiencies in Trafalgar's core areas. For the six months ended June 30, 2007, operating expenses were \$1.4 million or \$9.06 per boe. Trafalgar anticipates average production expenses below \$10.00 per boe for the remainder of 2007, in line with our original guidance.

Operating Expenses	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Operating Expenses (\$)	780,403	640,205	1,420,608
\$/boe (6:1)	8.69	9.57	9.06

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 June 30, 2007 were \$577,041 or \$6.42 per boe as compared to \$231,945 or \$3.47 per boe for the first three months of 2007. The increase in G&A quarter over quarter is the result of lower overhead recoveries due to low Q2 field activity, higher professional and consulting fees associated with Trafalgar's year end reporting and annual bonuses paid to management and staff during the quarter. For the six months ended June 30, 2007, net G&A expenses were \$808,986 or \$5.16 per boe. Management expects future G&A expenses on a boe basis to decline as production volumes increase.

G & A Expenses	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Gross G&A Expenses(\$)	722,680	505,406	1,228,086
Capitalized G&G Expenses (\$)	(128,386)	(93,237)	(221,623)
Overhead Recovery(\$)	(17,253)	(180,224)	(197,477)
Net G&A Expenses(\$)	577,041	231,945	808,986
\$/boe (6:1)	6.42	3.47	5.16

Stock-based Compensation Expense

For the three months ended June 30, 2007, the Company recorded \$164,783 of stock-based compensation for stock options outstanding during the period. For the six months ended June 30, 2007, the Company recorded \$351,469 of stock-based compensation.

Stock-Based Compensation Expense	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Stock-Based Compensation(\$)	164,783	186,686	351,469
\$/boe (6:1)	1.83	2.79	2.24

Interest Expense

For the three months ended June 30, 2007, the Company recorded interest expense of \$5,563 representing interest on financed insurance premiums and standby fees paid on the existing bank credit facility. For the six months ended June 30, 2007, interest expenses were \$7,618.

Depletion, Depreciation and Accretion

The provision for depletion, depreciation and accretion for the three months ended June 30, 2007 was \$1,789,514 as compared to \$2,500,541 for the three months ended March 31, 2007. 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 for the three months ended June 30, 2007 utilized figures from an updated independent reserve report which includes higher reserve levels resulting from the 2006/2007 winter drilling program. This results in lower depletion and depreciation expenses for the three months ended June 30, 2007 as compared to the first three months of 2007. For the six months ended June 30, 2007 depletion and depreciation expenses were \$4,290,055 or \$27.37 per boe.

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 June 30, 2007 to be approximately \$4.2 million, to be incurred over the next three to 20 years. Trafalgar uses a discount rate of 7.8% to calculate ARO obligations.

Accretion represents the change in the time value of the ARO. The underlying ARO may be increased over the period based on new obligations incurred from drilling wells or constructing facilities. Similarly, this obligation can be reduced as a result of abandonment work undertaken thereby reducing future obligations. There has been \$26,514 recognized as an accretion expense for the three months ended June 30, 2007 and \$53,026 for the six months ended June 30, 2007. The accretion expense is included in the depletion, depreciation and accretion expense.

The petroleum and natural gas properties were subject to a ceiling test as at June 30, 2007. No write-down was required as a result of this calculation.

Depletion, Depreciation and Accretion	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Depletion, Depreciation and Accretion (\$)	1,789,514	2,500,541	4,290,055
\$/boe (6:1)	19.92	37.36	27.37

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 and Comprehensive Income

Cash flow from operations for the three months ended June 30, 2007 was \$1,681,655 representing an 8% increase over cash flow from operations for the three months ended March 31, 2007. The increase is due to a higher average production and lower operating expenses for the period offset by higher G&A expenses.

Net loss for the three months ended June 30, 2007 was \$272,642 as compared to net income of \$1,297,601 for the three months ended March 31, 2007. Net income and comprehensive income for the first quarter of 2007 included an 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 June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Cash flow from operations (\$)	1,681,655	1,551,794	3,233,449
\$/boe (6:1)	18.72	23.19	20.63
\$/share:			
Basic and diluted	0.14	0.13	0.27
Net Income (Loss) (\$)	(272,642)	1,297,601	1,024,959
\$/share:			
Basic and diluted	(0.02)	0.11	0.09

Capital Expenditures

Capital Expenditures	Three months ended June 30, 2007	Three months ended March 31, 2007	Six months ended June 30, 2007
Land	1,305,111	531,144	1,836,255
Seismic	485,818	413,218	899,036
Drilling and Completion	574,395	6,288,654	6,863,049
Equipment Facilities and Pipelines	240,603	3,698,434	3,939,037
Other Assets	3,855	2,766	6,621
Total Exploration and Development Expenditures	2,609,782	10,934,216	13,543,998
Acquisitions	-	-	-
Total Capital Expenditures	2,609,782	10,934,216	13,543,998

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2007, Trafalgar had a positive working capital of \$2.7 million. In addition, Trafalgar has a \$12.0 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 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.

OUTSTANDING SHARE DATA

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

Per Share	Q2 2007	Q1 2007	Q4 2006
High	4.70	4.43	4.60
Low	3.80	3.50	3.27
Close	4.14	4.05	4.10
Average Daily Volume	15,809	14,887	52,067

As at June 30, 2007, there were 9,594,590 voting common shares outstanding, 2,241,293 non-voting common shares outstanding and 1,091,250 options to purchase common shares outstanding.

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	87,936	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 June 30, 2007 under the supervision and with the participation of the President and CEO and the Vice President Finance and CFO.

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

The only issue identified during the process was related to internal control over financial reporting. The issue identified, the concentration of some duties, is one that affects small companies. As a small organization, the Company's management is composed of a small number of key individuals, resulting in 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.

For a detailed discussion of Risks and Uncertainties, refer to the Trafalgar Annual Information Form filed on SEDAR at www.sedar.com.

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.

	2006 Q3 ⁽¹⁾	2006 Q4	2007 Q1	2007 Q2
Production (boe/d)	625	662	744	987
Petroleum and natural gas revenue (\$)	184,833	2,532,804	2,914,020	3,832,034
Realized product prices				
Oil (\$/bbl)	59.57	44.36	49.37	56.43
Natural gas (\$/mcf)	4.54	6.86	7.11	6.87
\$/boe (6:1)	32.87	41.65	43.54	42.66
Royalties (\$/boe)	5.60	8.86	9.33	9.21
Operating expense (\$/boe)	12.00	12.18	9.57	8.69
Netback (\$/boe)	15.27	20.60	24.65	24.76
Cash flows from operations (\$)	(357,794)	1,037,294	1,551,794	1,681,655
Per share, basic and diluted	(0.10)	0.10	0.13	0.14
Net income (loss) (\$)	(4,109,183)	(670,975)	1,297,601	(272,642)
Per share, basic and diluted	(1.10)	(0.07)	0.11	(0.02)
Capital expenditures (\$)	2,852,864	5,424,221	10,934,216	2,609,782
Working capital (\$)	9,684,557	12,971,751	3,581,513	2,653,386

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.

For further information, please contact:

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BALANCE SHEETS

<i>(unaudited)</i>	June 30, 2007 \$	December 31, 2006 \$
ASSETS		
Current		
Cash and cash equivalents	649,395	15,705,365
Accounts receivable	3,118,917	2,605,143
Prepaid expenses and deposits	603,530	450,134
	4,371,842	18,760,642
Petroleum and natural gas assets (Note 2)	38,366,075	28,881,664
	42,737,917	47,642,306
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	1,718,456	5,788,891
	1,718,456	5,788,891
Asset retirement obligations (Note 4)	1,597,464	1,413,444
	3,315,920	7,202,335
Commitments (Note 7)		
Shareholders' equity (Note 5)		
Share capital	40,176,919	42,617,771
Contributed surplus	891,957	494,038
Deficit	(1,646,879)	(2,671,838)
	39,421,997	40,439,971
	42,737,917	47,642,306

see accompanying notes to the financial statements

approved by the Board of Directors:

"signed"

Murray Nunns

"signed"

Steven Nielsen

TRAFALGAR ENERGY LTD.
STATEMENTS OF NET INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND DEFICIT

<i>(unaudited)</i>	Three months ended June 30, 2007 \$	From incorporation on April 25, 2006 to June 30, 2006 \$	Six months ended June 30, 2007 \$	From incorporation on April 25, 2006 to June 30, 2006 \$
Revenue				
Oil and natural gas revenue	3,832,034	-	6,746,054	-
Less: Royalties	(827,059)	-	(1,451,361)	-
	3,004,975		5,294,693	
Interest and other income	39,687	39,848	175,968	39,848
	3,044,662	39,848	5,470,661	39,848
Expenses				
Operating	780,403	-	1,420,608	-
General and administrative	577,041	102,312	808,986	102,312
Interest expense	5,563	7,133	7,618	7,133
Stock-based compensation (Note 5)	164,783	3,500,000	351,469	3,500,000
Depletion, depreciation and accretion (Notes 2 and 4)	1,789,514	-	4,290,055	-
	3,317,304	3,609,445	6,878,736	3,609,445
Net loss before taxes	(272,642)	(3,569,597)	(1,408,075)	(3,569,597)
Future income taxes (recovery) (Note 5)	-	-	(2,433,034)	-
Net income (loss) and comprehensive income (loss)	(272,642)	(3,569,597)	1,024,959	(3,569,597)
Deficit, beginning of period	(1,374,237)	-	(2,671,838)	-
Adjustment relating to business combination	-	2,108,320	-	2,108,320
Deficit, end of period	(1,646,879)	(1,461,277)	(1,646,879)	(1,461,277)
Net income (loss) per share (Note 5)				
Basic and diluted	(0.02)	(0.70)	0.09	(0.70)
Weighted average number of shares outstanding (Note 5)				
Basic and diluted	11,835,883	5,126,081	11,835,883	5,126,081

see accompanying notes to the financial statements

**TRAFALGAR ENERGY LTD.
STATEMENTS OF CASH FLOWS**

<i>(unaudited)</i>	Three months ended June 30, 2007 \$	From incorporation on April 25, 2006 to June 30, 2006 \$	Six months ended June 30, 2007 \$	From incorporation on April 25, 2006 to June 30, 2006 \$
Operating activities				
Net income (loss) for the period	(272,642)	(3,569,597)	1,024,959	(3,569,597)
Add items not involving cash:				
Depletion, depreciation and accretion	1,789,514	-	4,290,055	-
Stock-based compensation	164,783	3,500,000	351,469	3,500,000
Future income tax recovery	-	-	(2,433,034)	-
	1,681,655	(69,597)	3,233,449	(69,597)
Change in non-cash working capital items related to operating activities (Note 6)	(950,239)	366,753	(1,175,287)	366,753
	731,416	297,156	2,058,162	297,156
Financing activities				
Cash received upon business combination	-	276,816	-	276,816
Repayment of intercompany loan	-	(146,357)	-	(146,357)
Repayment of shareholder loan	-	(170,000)	-	(170,000)
Issuance of shares	-	15,054,765	-	15,054,765
Share issue costs	-	-	(7,818)	-
	-	15,015,224	(7,818)	15,015,224
Investing activities				
Acquisition of property and equipment	(2,609,782)	(280,393)	(13,543,998)	(280,393)
Deferred charges	-	(214,000)	-	(214,000)
Change in non-cash working capital items related to investing activities (Note 6)	(5,027,910)	214,000	(3,562,316)	214,000
	(7,637,692)	(280,393)	(17,106,314)	(280,393)
Increase in cash and cash equivalents	(6,906,276)	15,031,987	(15,055,970)	15,031,987
Cash and cash equivalents, beginning of period	7,555,671	-	15,705,365	-
Cash and cash equivalents, end of period	649,395	15,031,987	649,395	15,031,987

see accompanying notes to the financial statements

Trafalgar Energy Ltd.
Notes to the Financial Statements
For three and six months ended June 30, 2007

(unaudited)

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.

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 and six months ending June 30, 2007.

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

Classification	Carrying value \$	Fair value \$
Held-for-trading	649,395	649,395
Loans and receivables	3,118,917	3,118,917
Held-to-maturity	-	-
Available-for-sale	-	-
Other liabilities	1,718,456	1,718,456

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.

2. PETROLEUM AND NATURAL GAS ASSETS

	June 30, 2007	December 31, 2006
Petroleum and natural gas assets	\$ 44,173,057	\$ 30,458,268
Equipment	106,641	99,990
Accumulated depletion and depreciation, petroleum and natural gas assets	(5,886,000)	(1,661,000)
Accumulated amortization and depreciation, equipment	(27,623)	(15,594)
	\$ 38,366,075	\$ 28,881,664

For the six months ended June 30, 2007, \$268,073 was capitalized (2006-nil). Of this amount, \$46,450 is associated with stock-based compensation.

As at June 30, 2007, \$6,900,000 (2006 - \$6,000,000) of costs related to undeveloped lands and \$1,832,000 (2006 - \$1,100,000) of seismic expenses were excluded from costs subject to depletion. Future development costs of proven reserves of \$811,000 (2006 - \$1,500,000) 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 \$12.0 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 June 30, 2007, no amounts were drawn against this facility other than a letter of credit in the amount of \$238,481 as a drilling deposit with the Province of British Columbia.

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

4. ASSET RETIREMENT OBLIGATIONS

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 June 30, 2007 is approximately \$4.2 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 June 30, 2007. There has been \$53,026 recognized as an accretion expense for the six months ended June 30, 2007 and for the three months ended June 30, 2007 \$26,514 has been recognized (2006-nil).

A reconciliation of the asset retirement obligation is provided below:

	June 30, 2007	December 31, 2006
Balance, beginning of period	\$ 1,413,444	\$ -
Liabilities incurred	130,994	12,401
Acquired on property acquisition	-	1,328,382
Accretion expense	53,026	24,581
Changes in estimates	-	48,080
Balance, end of period	\$ 1,597,464	\$ 1,413,444

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 June 30, 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 June 30, 2007	2,241,293	3,864,600
Share capital, as at June 30, 2007	11,835,883	40,176,919

Contributed surplus:

The following table reconciles Trafalgar's contributed surplus:

	June 30, 2007	December 31, 2006
Balance, beginning of period	\$ 494,038	\$ -
Stock-based compensation expense (iii)	397,919	258,483
Cancellation of warrants	-	235,555
Balance, end of period	\$ 891,957	\$ 494,038

- (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, and all required capital commitments have been met.
- (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, with all capital commitments met.
- (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 and six months ended June 30, 2007:

	Three months ended June 30, 2007	From incorporation on April 25, 2006 to June 30, 2006	Six months ended June 30, 2007	From incorporation on April 25, 2006 to June 30, 2006
Weighted average shares outstanding, voting and non-voting:				
Basic and diluted	11,835,883	5,126,081	11,835,883	5,126,081

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:

	Number of Options	Weighted Average Exercise Price (\$)
Balance, beginning of period	894,750	4.02
Granted	196,500	4.49
Balance, end of period	1,091,250	4.10

As at June 30, 2007, there were no options exercisable. The following table summarizes information about stock options outstanding at June 30, 2007:

Grant Price \$	Number	Weighted Average Exercise Price \$	Weighted Average Remaining Term (Years)	Fair Value Average Price \$
4.00-5.00	1,091,250	4.10	4.3	1.39

The fair value of stock options granted to employees, directors and consultants during the three and six months ended June 30, 2007 was estimated on the date prior to that of grant using the Black Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Weighted average fair value of option granted	\$ 1.39	\$ 1.36
Risk-free interest (%)	6	6
Volatility (%)	40	40
Expected life in years	3	3
Expected future dividends	\$ 0.00	\$ 0.00

A total of \$351,469 has been recognized as stock compensation expense. Offsetting credits of \$211,233 and \$397,919 has been charged to contributed surplus for the three and six months ended June 30, 2007, respectively (2006 - \$3,500,000). Of the \$397,919 of contributed surplus for the six months ended June 30, 2007, \$46,450 of this stock compensation has been capitalized.

6. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30, 2007	From incorporation on April 25, 2006 to June 30, 2006	Six months ended June 30, 2007	From incorporation on April 25, 2006 to June 30, 2006
Changes in non-cash operating working capital:				
Accounts receivable	\$ (451,731)	\$ (26,689)	\$ (402,021)	\$ (26,689)
Prepaid expenses and deposits	(164,135)	(62,635)	(153,396)	(62,635)
Accounts payable and accrued liabilities	(334,373)	456,077	(619,870)	456,077
	\$ (950,239)	\$ 366,753	\$ (1,175,287)	\$ 366,753
Changes in non-cash investing working capital:				
Accounts receivable	\$ 199,663	\$ -	\$ (111,753)	\$ -
Accounts payable and accrued liabilities	(5,227,573)	214,000	(3,450,563)	214,000
	\$ (5,027,910)	\$ 214,000	\$ (3,562,316)	\$ 214,000

There have not been any cash outlays for interest and/or current income taxes for the three and six months ended June 30, 2007, (2006 - nil).

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.

8. RELATED PARTY TRANSACTIONS

During the three and six month period ending June 30, 2007, the Company utilized legal services totaling \$21,000. Legal services were provided by a firm in which two Directors of the Company are partners. As at June 30, 2007, there are no amounts outstanding or owing for legal services in accounts payable and accrued liabilities.

The Company has a natural gas marketing contract with Daylight Energy Ltd. ("Daylight"). The Company has a director that is an officer of Daylight. Under the contract, Daylight accepts all of the Company's natural gas production into Daylight's supply portfolio and sells the Company's natural gas production with the same operational arrangements, transportation and pricing as Daylight receives. The original term of the contract is one year from November 1, 2006 to October 31, 2007. Either party may terminate the contract with 30 days written notice. The contract continues on a year to year basis unless terminated by either party. The Company pays a fee of \$2,500 per month for marketing services supplied under the contract. Included in accounts receivable as at June 30, 2007 is an amount of \$2.2 million representing one month of actual and one month of accrued revenue for natural gas marketed by Daylight.

The related 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.

9. FINANCIAL INSTRUMENTS

Fair value of financial instruments

Financial instruments recognized on the Balance Sheet consist of cash and cash equivalents, accounts receivable, deposits, accounts payable and accrued liabilities. As at June 30, 2007, there were no significant differences between the carrying amounts of these financial instruments reported on the Balance Sheet and their estimated fair values. It is management's opinion that the Company is not exposed to significant credit risk. (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. The Company closely monitors credit granted to each customer; therefore, credit risks are considered to be minimal. The Company routinely assesses the financial strength of its customers.

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 June 30, 2007, the Company has no outstanding revolving loan balances.

Commodity price risk management

As at June 30, 2007, the Company had no fixed price contracts associated with future production.

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

Murray Nunns ⁽¹⁾ ⁽²⁾
Director & Chairman of Board

Robert Wollmann
President & Chief Executive Officer

John Brussa ⁽³⁾
Director

Gary Perron ⁽¹⁾
Director

Steven Nielsen ⁽¹⁾ ⁽²⁾
Director

Bob Shaunessy ⁽²⁾ ⁽³⁾
Director

Shannon Gangl ⁽³⁾
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

CONTACT INFORMATION

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INVESTOR RELATIONS

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ABBREVIATIONS

/d	per day
bbl(s)	barrel(s)
mmbbls	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