

SECOND QUARTER REPORT
 For the Three and Six Months Ended June 30, 2008

Trafalgar Energy Ltd. (TSX:TFL) ("Trafalgar" or the "Company") is pleased to present the unaudited financial results for the quarter ended June 30, 2008.

The balance of 2008 will be a very exciting time for the Company as production begins from our recently announced gas discovery at Stowe, Alberta; our high impact oil prospects at Beaton, Rich and House Mountain, Alberta are drilled and evaluated; and the preliminary resource evaluation of our Grosmont bitumen rights at Mackay, Alberta is completed. Each of these activities has the potential to significantly accelerate Trafalgar's growth.

CORPORATE HIGHLIGHTS

<i>(000's, except for per share and production data)</i>	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Petroleum and natural gas revenues (\$)	6,521	3,672	3,832	10,193	6,746
Funds from operations (\$)	4,200	1,707	1,680	5,907	3,233
Basic and diluted per share (\$)	0.33	0.14	0.14	0.48	0.27
Net earnings (loss) (\$)	1,497	(232)	(273)	1,265	1,025
Basic and diluted per share (\$)	0.12	(0.02)	(0.02)	0.10	0.09
Working capital (deficit) (\$) ⁽¹⁾	1,294	(4,278)	2,653	1,294	2,653
Long-term debt (\$)	6,612	5,803	-	6,612	-
Net debt (\$) ⁽¹⁾	5,318	10,081	-	5,318	-
Capital expenditures (\$)	5,937	11,439	2,610	17,376	13,544
Weighted average number of shares outstanding					
Basic and diluted	12,629	11,836	11,836	12,232	11,836
Shares outstanding					
Basic	13,405	11,836	11,836	13,405	11,836
Diluted	14,675	12,957	12,927	14,675	12,927
Average Production					
Light Oil (bbls/d)	38	39	41	39	46
Heavy Oil (bbls/d)	57	52	52	54	48
Total Oil (bbls/d)	95	91	93	93	94
Natural Gas (mcf/d)	6,034	4,872	5,367	5,453	4,630
BOE (boe/d)	1,100	903	987	1,002	866
Average Realized Prices ⁽²⁾					
Light Oil (\$/bbl)	139.43	82.62	71.24	110.59	69.08
Heavy Oil (\$/bbl)	78.89	65.17	47.65	72.34	40.84
Natural Gas (\$/mcf)	10.76	7.29	7.13	9.21	7.24
\$/boe (6:1)	67.89	46.69	44.22	58.33	44.68
Netback (\$/boe)					
Petroleum and natural gas revenue	67.89	46.69	44.22	58.33	44.68
Royalties	7.44	9.01	9.21	8.15	9.26
Operating expenses	9.85	9.42	8.69	9.66	9.06
Transportation expenses	2.77	2.00	1.56	2.42	1.64
Operating netback	47.83	26.26	24.76	38.10	24.72

(1) Working capital (deficit) and net debt excludes the fair value of financial instruments.

(2) Average realized prices are before transportation expenses.

LETTER TO SHAREHOLDERS

With strong commodity prices and record levels of production, the second quarter of 2008 has been Trafalgar's best to date. Second quarter highlights include:

- Record production of 1,100 boe per day.
- Record funds from operations of \$4.2 million.
- Record netback of \$47.83 per boe.
- Record net earnings of \$1.5 million.
- Significant natural gas discovery at Stowe, Alberta.
- Operating costs remain under \$10.00 per boe.
- Strong balance sheet maintained.

Our approach remains consistent. Build a proven, experienced team. Develop a 100% working interest prospect inventory with material upside. Drill, evaluate and start production in as short a time frame as possible.

The drilling activity for the balance of 2008 is the result of two years of inventory building. At Stowe in north central Alberta, our first well tested 2.3 million cubic feet per day of natural gas with 40 barrels per day of associated condensate and is anticipated to be on-stream by the end of August, 2008. Future drilling at Stowe is scheduled for the first quarter of 2009. Drilling and initial results are expected on our Beaton, Rich, and House Mountain oil prospects during the third quarter of this year. Collectively these projects expose the Company to in excess of 30 potential follow up locations on existing 100% working interest lands and the potential to materially increase production levels.

The Mackay carbonate bitumen project is gaining momentum as our independent engineering consultants have been engaged to complete a preliminary resource evaluation during the third quarter of this year. This is a multi year project that provides our shareholders with significant resource exposure. Several industry projects targeting bitumen recovery in the carbonates are moving into the pilot project stage over the next year and Trafalgar is well positioned to capitalize on the success of any of these projects.


Trafalgar achieved record average production of 1,100 boe per day for the second quarter of 2008 and we are pleased to report that previously announced production disruptions at Mackay during the first and second quarter of 2008 have been resolved. These disruptions, and surface access delays associated with our summer program, will impact annual average production rates. We have revised our annual average production guidance to 1,125-1,225 boe per day from the original 1,225-1,325 boe per day. Our year end 2008 exit production target remains unchanged at 1,425-1,525 boe per day. 2008 funds from operations guidance remains unchanged at \$12-14 million dollars based on annual commodity price assumptions of US\$115.00 WTI and \$115.00 Edmonton par for crude oil, US\$9.99 NYMEX and \$9.22 AECO for natural gas.

The board of directors of Trafalgar has approved an expanded capital budget totaling \$25 million dollars for 2008. This expanded budget will provide the opportunity to exploit and quickly follow up exploratory drilling success, and continue to build our prospect inventory while maintaining a strong balance sheet and financial flexibility.

Consolidation in the junior sector of the Canadian oil and gas industry continues as several private and public companies lost momentum over the past year. If the right opportunity is identified, Trafalgar, with our solid production base, strong balance sheet, deep exploration inventory and committed shareholder base, is in an enviable position to act.

The next few months will be a very exciting time for Trafalgar and I look forward to reporting on our progress and seeing our successes reflected in an improving capital market.

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



August 12, 2008

Rob Wollmann
President and CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following management's discussion and analysis ("MD&A") reviews and compares Trafalgar Energy Ltd.'s ("Trafalgar" or the "Company") activities and results of operations for the three and six months ended June 30, 2008 and 2007. The MD&A should be read in conjunction with the unaudited financial statements of Trafalgar for the three and six months ended June 30, 2008 and 2007. 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 August 12, 2008.

DESCRIPTION OF COMPANY

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

NON-GAAP FINANCIAL MEASURES

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

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

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

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Cash provided by operating activities	2,536	1,979	731	4,515	2,058
Change in non-cash operating working capital	1,664	(272)	949	1,392	1,175
Funds from operations	4,200	1,707	1,680	5,907	3,233

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

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

BOE PRESENTATION

In conformity with National Instrument 51-101, Standards for Disclosure of Oil and Gas Activities ("NI 51-101"), natural gas volumes have been converted to barrels of oil equivalent ("boe") using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil. This ratio is based on an energy equivalency conversion method primarily

applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that the term "boe" may be misleading, particularly if used in isolation.

RESULTS OF OPERATIONS

Production

Production for the three months ended June 30, 2008 has increased approximately 11% over the second quarter of 2007 due to continued increases in natural gas production at Mackay. Total production averaged 1,100 boe per day for the three months ended June 30, 2008 as compared to 987 boe per day during the same period in 2007. Average production during the second quarter of 2008 was 22% higher than the first quarter of 2008 as the result of new natural gas wells drilled and tied in at Mackay during the first quarter. Total average production year to date was 1,002 boe per day as compared to 866 boe per day for the same period in 2007, representing a 16% increase due to increased production at Mackay. Total average production for the quarter ended June 30, 2008 was weighted approximately 91% to natural gas and 9% to crude oil.

Mackay

Average production at Mackay was 497 boe per day for the second quarter ended June 30, 2008 as compared to 214 boe per day during the second quarter of 2007 and 254 boe per day during the first quarter of 2008 representing increases of 132% and 96% respectively. Year to date, production at Mackay was 375 boe per day as compared to 109 boe per day for the same period in 2007 representing an increase of 244%.

During the first quarter of 2008, Trafalgar completed a nine well drilling program at Mackay which resulted in eight natural gas wells. In April 2008, Trafalgar acquired one recently drilled competitor gas well at Mackay for a cash cost of \$1.5 million. A total of six natural gas wells were tied into the Mackay gathering system by the end of the first quarter of 2008. The remaining three gas wells are being re-evaluated for potential tie in for 2009.

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

Grouard

Production from Grouard averaged 535 boe per day for the quarter ended June 30, 2008 representing a 21% reduction from the second quarter of 2007 and an 8% reduction from the first quarter of 2008. Year to date, average production at Grouard was 558 boe per day as compared to 658 boe per day for the same period in 2007. The reductions are due to natural declines in oil and natural gas production and the impact of extreme cold weather in the Grouard area during the first quarter of 2008.

Trafalgar started a waterflood project at Grouard in late 2007 which included the construction of facilities at the Bluesky "B" pool including the conversion of a suspended horizontal oil well into a water injector. Water injection began in November 2007 and has recently been increased to approximately 90 cubic meters per day (540 bbls per day). Similar pools in the area have shown significant success with the application of waterflood technology. Results of the Grouard waterflood continue to be encouraging as the natural decline of oil production from the Bluesky pool has been completely arrested with no increased water production. Oil production is expected to increase with the influence of the waterflood. Success of the waterflood has the potential to significantly increase proven and probable reserves at Grouard.

Cypress

Average natural gas production at Cypress was 68 boe per day for the quarter ended June 30, 2008 as compared to 97 boe per day during the second quarter of 2007 and 69 boe per day during the first quarter of 2008. Year to date, natural gas production at Cypress was 69 boe per day as compared to 99 boe per day during the same period in 2007. The reduction is mainly due to a third party plant turnaround during the first quarter of 2008 and natural production declines. The Cypress property continues to be a reliable cash flow generator for Trafalgar and no capital expenditures are planned in this area for the balance of 2008. Trafalgar is currently pursuing farm-out opportunities at Cypress.

Production by Product	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Light Oil (bbls/day)	38	39	41	39	46
Heavy Oil (bbls/day)	57	52	52	54	48
Total Oil (bbls/day)	95	91	93	93	94
Natural Gas (mcf/day)	6,034	4,872	5,367	5,453	4,630
Total (boe/d) (6:1)	1,100	903	987	1,002	866

Production by Area (boe/d)	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Grouard, Alberta	535	580	676	558	658
MacKay, Alberta	497	254	214	375	109
Cypress, British Columbia	68	69	97	69	99
Total (boe/d) (6:1)	1,100	903	987	1,002	866

Outlook

Average production was impacted by previously reported production disruptions at Mackay during the first and second quarter of 2008. These production disruptions have been resolved and production is expected to average 1,125-1,225 boe per day for the full year ended December 31, 2008. Year end 2008 exit production guidance is unchanged at 1,425-1,525 boe per day.

Revenue

Petroleum and natural gas revenue was \$6.5 million for the three months ended June 30, 2008 representing a 70% increase over the three months ended June 30, 2007 and a 78% increase over the first quarter of 2008. Year to date, petroleum and natural gas revenue was \$10.2 million as compared to \$6.7 million for the same period in 2007 representing an increase of 51%. The increase in revenue was due primarily to higher natural gas production at Mackay and substantially higher realized oil and natural gas prices. Natural gas revenue was \$5.6 million for the second quarter of 2008 compared to \$3.1 million during the first quarter of 2008 and \$3.4 million for the second quarter of 2007. Year to date natural gas revenue was \$10.2 million compared to \$6.7 million for the same period in 2007. The increase in natural gas revenue is due to higher natural gas production at Mackay coupled with higher realized natural gas prices. Crude oil revenue was \$878,000 for the second quarter of 2008 as compared to \$476,000 for the second quarter of 2007 and \$590,000 for the first quarter of 2008 representing increases of 84% and 49% respectively. Year to date, crude oil revenue was \$1.5 million compared to \$903,000 for the same period in 2007 representing an increase of 63%. The increase in crude oil revenue was primarily due to higher realized crude oil prices.

Petroleum and Natural Gas Revenues (\$)	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Oil	878	590	476	1,468	903
Natural Gas	5,643	3,082	3,356	8,725	5,843
Total Revenue	6,521	3,672	3,832	10,193	6,746
\$/boe (6:1) ⁽¹⁾	65.12	44.69	42.66	55.91	43.04

⁽¹⁾ Petroleum and natural gas revenue is reported net of transportation costs as the risks and rewards transfer at the wellhead.

Commodity Prices

Trafalgar's oil price is significantly influenced by global supply and demand conditions. 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 second quarter of 2008 was \$139.43 per bbl or 103% of Edmonton par, representing a 96% increase over realized light crude oil prices in the second quarter of 2007 and a 69% increase over the first quarter of 2008. Year to date, realized light oil prices averaged \$110.59 as compared to \$69.08 for the same period in 2007 representing an increase of 60%.

Trafalgar's realized heavy oil price is lower than its light oil price and the historical correlation with Edmonton par price and Bow River price, a heavy oil benchmark, is not overly strong. Heavy oil requires increased refining and other costs, which reduce the realized price of this product. Realized heavy crude prices were \$78.89 per bbl for the second quarter of 2008 or 76% of Bow River representing a 66% increase over the second quarter of 2007 and a 21% increase over the first quarter of 2008. Year to date, realized heavy crude prices were \$72.34 as compared to \$40.84 during the same period in 2007 representing an increase of 77%.

Trafalgar's natural gas prices are influenced generally by North American supply and demand balance, seasonal conditions, storage levels and transportation capacity. Trafalgar's realized natural gas price has a high correlation to the Alberta benchmark price ("AECO") which provides pricing for natural gas based on heating value. Realized natural gas prices were \$10.76 per mcf during the second quarter of 2008, a slight premium to AECO, as compared to a realized price of \$7.13 per mcf during the second quarter of 2007. Historically, our realized natural gas prices have been at a small discount to AECO.

Trafalgar Realized Prices ⁽¹⁾	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Light Crude Oil (\$/bbl)	139.43	82.62	71.24	110.59	69.08
Heavy Crude Oil (\$/bbl)	78.89	65.17	47.65	72.34	40.84
Natural Gas (\$/mcf)	10.76	7.29	7.13	9.21	7.24
\$/boe (6:1)	67.89	46.69	44.22	58.33	44.68

⁽¹⁾ Average realized prices are before transportation expenses.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Market Prices					
Oil WTI (US\$/bbl)	123.95	97.87	64.94	110.91	61.46
Edmonton Par (\$/bbl)	126.38	98.16	72.66	112.30	70.21
Bow River (\$/bbl)	103.98	77.47	49.40	90.74	48.92
Gas AECO (\$/mcf)	10.42	7.92	7.14	9.17	7.36
Exchange Rate (US\$/C\$)	0.9906	0.9956	0.9104	0.9931	0.8821

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

Contracts outstanding as at June 30, 2008 in respect to financial instruments, are as follows:

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

⁽¹⁾ Strike prices indicate minimum floor and maximum ceiling.

Trafalgar has entered into derivative natural gas financial instruments for the purpose of protecting its funds from operations from the volatility of natural gas prices. For the three months ended June 30, 2008, the Company's natural gas price risk management program had a net realized loss of \$25,000. The Company recognizes the fair value of its commodity price contracts on the balance sheet each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of operations. At June 30, 2008 the fair value of the commodity price contracts was a liability of \$563,000. (2007 - nil). With the reduction of natural gas prices since June 30, 2008, the fair value of the commodity price contracts is currently an asset of \$63,000.

Realized and Unrealized Gain (Loss) on Commodity Derivatives (\$)	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Realized gain (loss)	(25)	(97)	-	(122)	-
Unrealized gain (loss)	(404)	(159)	-	(563)	-
Total	(429)	(256)	-	(685)	-
Realized gain (loss) (\$/boe)	(0.25)	(1.18)	-	(0.67)	-
Unrealized gain (loss) (\$/boe)	(4.03)	(1.94)	-	(3.09)	-
Total (\$/boe)	(4.28)	(3.12)	-	(3.76)	-

Royalties

Royalty expense consists of royalties paid to provincial governments, freehold land owners and overriding royalty owners. For the three months ended June 30, 2008 total royalties were \$745,000 or \$7.44 per boe or approximately 11% of gross revenue. Royalty expense as a percent of revenue decreased in the second quarter of 2008 due to the annual assessment and adjustment of capital cost and custom processing fees recognized and refunded by the government for approximately \$467,000. Royalty expenses are generally in the range of 18% to 20% of gross petroleum and natural gas revenue.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Royalties (\$)	745	740	827	1,485	1,451
As a % of oil and gas revenue	11.4	20.2	21.6	14.6	21.5
\$/boe (6:1)	7.44	9.01	9.21	8.15	9.26

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

Over 90% of Trafalgar's reserves and production are within the Province of Alberta and are subject to the Royalty Framework. Prior to the year ended December 31, 2007, Trafalgar undertook a review of the royalty modifications proposed by the Government of Alberta and its potential impact on the Company. The Government of Alberta has yet to clarify certain aspects of the new royalty calculations. Accordingly, the potential impact on Trafalgar's year end 2007 reserves relating to the Royalty Framework was completed as a range. The net present value (10% discount) of our proven plus probable reserve base as at December 31, 2007 could potentially change from \$44.9 million to \$46.2 million on the high case and \$44.6 million on the low case. Both cases are based upon information then available and using a price forecast consistent with our December 31, 2007 year end reserve report. Based on this analysis, Trafalgar expects minimal economic impact on its drilling plans and inventory resulting from the implementation of the Royalty Framework using a price forecast consistent with our December 31, 2007 year end reserve report. On April 10, 2008, the Government of Alberta released new deep resource programs designed to encourage the continued development of deep high cost oil and natural gas reserves and address certain "unintended consequences" of the Royalty Framework. Trafalgar's exploratory oil projects at Beaton and Rich, Alberta should benefit from these deep resource programs.

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 netback, 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 Trafalgar's cash balances. For the three months ended June 30, 2008, Trafalgar had no interest income as compared to \$40,000 for the second quarter of 2007. The reduction is due to reduced cash balances quarter over quarter.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Interest and Other Income (\$)	Nil	4	40	4	176

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 three months ended June 30, 2008, operating expenses were \$986,000 or \$9.85 per boe as compared to operating expenses of \$781,000 or \$8.69 per boe for the three months ended June 30, 2007 representing an increase of 13% on a per boe basis. Operating expenses on a boe basis for the second quarter of 2008 were approximately 5% higher than the first quarter of 2008 due to increased costs for the new production added in the Mackay area and increased processing and gathering costs to the third party facility.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Operating Expenses (\$)	986	774	781	1,760	1,421
\$/boe (6:1)	9.85	9.42	8.69	9.66	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, 2008 were \$489,000 or \$4.88 per boe compared to \$348,000 or \$4.22 per boe for the first quarter of 2008 and \$578,000 or \$6.42 per boe for the second quarter of 2007. The increase in net G&A expenses on a boe basis from the first quarter of 2008 is largely due to significantly lower overhead recovery in the second quarter partially offset by higher average production. It is normal for the Company to experience lower overhead recovery in the second quarter of the year compared to the first quarter as operational activity is concentrated in the first quarter thereby generating higher overhead recovery. The decrease in second quarter net G&A on a boe basis compared to the second quarter of 2007 is due to higher average production and higher overhead recovery in the second quarter of 2008. Year to date, net G&A expenses were \$837,000 or \$4.58 per boe as compared to \$809,000 or \$5.16 per boe for the same period in 2007. The decrease on a boe basis is due to higher oil and natural gas production, higher capitalized G&G expenses and higher overhead recovery year over year.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
G & A Expenses (\$)					
Gross G&A Expenses	658	623	722	1,283	1,228
Capitalized G&G Expenses	(121)	(113)	(127)	(235)	(222)
Overhead Recovery	(48)	(162)	(17)	(211)	(197)
Net G&A Expenses	489	348	578	837	809
\$/boe (6:1)	4.88	4.22	6.42	4.58	5.16

Stock-based Compensation Expense

For the three months ended June 30, 2008, the Company recorded \$108,000 of stock-based compensation for stock options outstanding during the period as compared to \$164,000 for the second quarter of 2007. The reduction is the result of differences in option allocation and prices quarter over quarter.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Stock-based Compensation Expense (\$)					
Stock-based Compensation	108	106	164	214	351
\$/boe (6:1)	1.06	1.29	1.83	1.16	2.24

Interest Expense

For the three months ended June 30, 2008, the Company recorded interest expense of \$76,000 representing standby fees and interest related to the existing \$18.0 million credit facility. Trafalgar began using the credit facility late in the first quarter 2008.

Depletion, Depreciation and Accretion

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

Trafalgar recorded \$2.2 million or \$21.88 per boe in DD&A in the second quarter of 2008 based on production volumes of 100,136 boe, compared to \$1.8 million or \$19.92 per boe and production of 89,829 boe in the second quarter of 2007. The 10% increase to the DD&A in the second quarter of 2008 compared to the second quarter of 2007 is due to a minor re-allocation of reserves and associated costs recognized during the second quarter of 2008.

The accretion expense is included in the depletion, depreciation and accretion expense. Trafalgar's asset retirement obligations ("ARO") are a balance sheet provision based on the Company's net ownership in wells and facilities. Management estimates the cost to abandon and reclaim the wells and facilities and the estimated time period during which these costs will be incurred in the future. Management estimates the total undiscounted amount of future cash flows required to abandon and reclaim wells and facilities as at June 30, 2008 to be approximately \$4.9 million, to be incurred over the next three to 20 years. Trafalgar uses a discount rate of 7.8% to calculate ARO obligations.

Accretion represents the change in the time value of the ARO. The underlying ARO may be increased over the period based on new obligations incurred from drilling wells or constructing facilities. Similarly, this obligation can be reduced as a result of abandonment work undertaken thereby reducing future obligations. There has been \$29,000 recognized as accretion expense for the three months ended June 30, 2008 compared to \$27,000 for the three months ended June 30, 2007.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Depletion, Depreciation and Accretion (\$)					
Depletion, Depreciation and Accretion	2,191	1,674	1,789	3,865	4,290
\$/boe (6:1)	21.88	20.37	19.92	21.20	27.37

Income Taxes

Trafalgar has approximately \$65.0 million of tax pools available to be applied against future income for tax purposes net of all flow through obligations.

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

Funds from Operations and Net Earnings and Comprehensive Income

Funds from operations for the three months ended June 30, 2008 was \$4.2 million representing a 150% increase over funds from operations for the three months ended June 30, 2007. The increase is largely due to the increased natural gas production at Mackay and higher realized oil and natural gas prices.

Funds from operations differ from reported cash flow per GAAP. Funds from operations include changes that have occurred in non-cash operating working capital items.

Net earnings for the three months ended June 30, 2008 was \$1.5 million as compared to a net loss of \$273,000 for the three months ended June 30, 2007. The increase is largely due to the increased natural gas production at Mackay and higher realized oil and natural gas prices, partially offset by increased realized and unrealized losses on financial instruments.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Funds from Operations and Net Earnings (Loss) (\$)					
Funds from Operations	4,200	1,707	1,680	5,907	3,233
\$/boe (6:1)	41.95	20.78	18.72	32.41	20.63
\$/share:					
Basic and diluted	0.33	0.14	0.14	0.48	0.27
Net Earnings (Loss)	1,497	(232)	(273)	1,265	1,025
\$/share:					
Basic and diluted	0.12	(0.02)	(0.02)	0.10	0.09

Capital Expenditures

Trafalgar invested \$5.9 million on its capital expenditure program during Q2 2008 compared to \$11.4 million in Q1 2008 and \$2.6 million in Q2 2007. The majority of Trafalgar's annual capital budget is spent during the first quarter of the year as the majority of the Company's drilling to date has taken place during the winter months. Trafalgar invested \$17.4 million on capital expenditures during the first six months ended June 30 2008 as compared to \$13.5 million for the same period in 2007. Including Trafalgar's drilling program for the summer of 2008, the Company expects capital expenditures to total \$25.0 million for the year ended December 31, 2008.

	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
Capital Expenditures (\$)					
Land	566	137	1,305	703	1,836
Seismic	37	496	486	533	899
Drilling and Completion	2,142	7,433	574	9,575	6,863
Equipment Facilities and Pipelines	1,741	3,364	241	5,105	3,939
Other Assets	1	9	4	10	7
Total Exploration and Development Expenditures	4,487	11,439	2,610	15,926	13,544
Acquisitions	1,450	-	-	1,450	-
Total Capital Expenditures	5,937	11,439	2,610	17,376	13,544

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2008, Trafalgar had a working capital surplus of \$1.3 million, excluding the fair value of financial instruments. Trafalgar uses a combination of funds from operations, bank debt and equity issues to finance its capital expenditure program. Trafalgar spent \$5.9 million on oil and natural gas operations during the second quarter of 2008 and \$17.4 million for the six months ended June 30, 2008.

Trafalgar has an \$18.0 million revolving term credit facility with a major Canadian Bank for general corporate purposes including capital expenditures. Combined with funds from operations, the credit facility has been utilized to finance a portion of the capital expenditures for the first half of 2008. The credit facility revolves for a period of 364 days followed by a one year term out period. The revolving period may be extended annually at the option of the lender. Rates of interest on the credit facility vary depending on Trafalgar's debt to cash flow ratio. The credit facility is secured by a floating charge debenture over all of Trafalgar's assets and a general security agreement.

RELATED-PARTY and OFF-BALANCE-SHEET TRANSACTIONS

Trafalgar was not involved in any off-balance-sheet transactions for the three and six months ended June 30, 2008.

During the six months ended June 30, 2008, the Company utilized legal services totaling \$9,000 (2007 - \$21,000). Legal services were provided by a firm in which two Directors of the Company are partners. As at June 30, 2008, there is \$21,000 in accounts payable as an accrued value for future legal services with this firm.

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

OUTSTANDING SHARE TRADING DATA

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

\$ Per Share	Q2 2008	Q1 2008	Q2 2007	YTD 2008	YTD 2007
High	3.99	3.99	4.70	3.99	4.70
Low	3.37	2.27	3.75	2.27	3.50
Close	3.91	3.61	4.14	3.91	4.14
Average Daily Volume	8,670	16,831	15,809	12,654	15,351

At June 30, 2008, Trafalgar had 11.2 million voting common shares outstanding, 2.2 million non-voting common shares outstanding and 1.3 million options outstanding.

On August 12, 2008, there were 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.

CONTRACTUAL OBLIGATIONS

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

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

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 June 30, 2008, the Company has incurred \$1.0 million of qualifying expenditures and is required to incur an additional \$5.9 million of expenditures prior to December 31, 2009. Trafalgar expects that approximately 75% of the remaining \$5.9 million of expenditures will be incurred prior to the year ended December 31, 2008 with the remainder to be satisfied by the 2009 capital expenditure program.

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

	2008	2009	2010
Office Lease Base Rent (\$)	57	114	114

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

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted Section 1535 – Capital Disclosures, Section 3862 - Financial Instruments Disclosures and Section 3863 – Financial Instruments Presentation. Section 1535 establishes standards for disclosing information about an entity's capital and how it is managed. This Section specifies disclosure about objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with all capital requirements, and if it has not complied, the consequences of such non-compliance. Sections 3862 and 3863 establish standards for the presentation and disclosure of information that

enable users to evaluate the significance of financial instruments to the entity's financial position, and the nature and extent of risks arising from financial instruments and how the entity manages those risks. The implementation of these new standards did not impact the Company's financial results, however did result in additional disclosures – refer to Note 7.

Derivatives

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

DISCLOSURE CONTROLS AND PROCEDURES

As required by Multilateral Instrument 52-109, the Company evaluated the effectiveness of its disclosure controls and procedures and the internal control over financial reporting as of June 30, 2008 under the supervision and with the participation of the President and CEO and the Vice President Finance and CFO.

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

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

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

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

IFRS

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011. The AcSB issued the "omnibus" exposure draft of IFRS with comments due by July 31, 2008, wherein early adoption by Canadian entities is also permitted. The Canadian Securities Administrators ("CSA") has also issued Concept Paper 52-402, which requested feedback on the early adoption of IFRS as well as the continued use of US GAAP by domestic issuers. The eventual changeover to IFRS represents a change due to new accounting standards. The transition from current Canadian GAAP to IFRS is a significant undertaking that may materially affect the Company's reported financial position and results of operations.

The IASB has stated that it plans to issue an exposure draft relating to certain amendments and exemptions to IFRS 1 in order to make it more useful to Canadian entities adopting IFRS for the first time. One such exemption relating to full cost oil and gas accounting is expected to reduce the administrative burden in the transition from the current Canadian Accounting Guideline 16 to IFRS. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment will potentially permit the Company to apply IFRS prospectively to their full cost pool, rather than the retrospective assessment of capitalized exploration and development expenses, with the proviso that a ceiling test, under IFRS standards, be conducted at the transition date.

Although, the Company has not completed development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS as well as potential IFRS 1 exemptions. The Company anticipates completing its project scoping, which will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, by the fourth quarter of 2008.

Environmental Regulation and Risk

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

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

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

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

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

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

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 funds from operations;
- 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;

- the timing of the tie-in of wells at Stowe and Mackay;
- planned waterflood activities at Grouard and anticipated results therefrom;
- abandonment and reclamation costs of Trafalgar;
- 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 information 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.

	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3 ⁽¹⁾
Production (boe/d)	1,100	903	994	1,015	987	744	662	625
Petroleum and natural gas revenue, net of transportation	6,521	3,672	3,464	2,825	3,832	2,914	2,612	185
Realized product prices, net of transportation								
Oil (\$/bbl)	101.78	71.16	64.69	58.96	56.43	49.37	44.36	60.00
Natural gas (\$/mcf)	10.28	6.95	5.77	4.58	6.87	7.11	6.86	4.54
\$/boe (6:1)	65.12	44.69	37.87	30.28	42.66	43.54	41.65	32.87
Royalties (\$/boe)	7.44	9.01	6.58	6.00	9.21	9.33	8.86	5.60
Operating expense (\$/boe)	9.85	9.42	9.34	8.84	8.69	9.57	12.18	12.00
Netback (\$/boe)	47.83	26.26	21.95	15.44	24.76	24.64	20.61	15.27
Funds from operations	4,200	1,707	1,576	1,079	1,680	1,553	1,037	(288)
Per share, basic and diluted	0.33	0.14	0.13	0.09	0.14	0.13	0.10	(0.06)
Net earnings (loss)	1,497	(232)	(279)	(998)	(273)	1,298	(671)	(540)
Per share, basic and diluted	0.12	(0.02)	(0.02)	(0.08)	(0.02)	0.11	(0.07)	(0.10)
Capital expenditures	5,937	11,439	3,694	1,964	2,610	10,934	5,424	2,572
Working capital (deficit) ⁽²⁾	1,294	(4,278)	(349)	1,768	2,653	3,582	12,972	9,685

note: numbers may not add due to rounding

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

⁽²⁾ Excludes the fair value of financial instruments.

Net earnings (loss) on a quarter over quarter basis is consistent with normal oil and gas operations, with the exception of 2007 Q1, where the Company recognized and recorded a tax recovery related to the 2006 flow-through share issue. 2008 Q2 net earnings were positive as the Company had increased production with corresponding increases to natural gas and oil prices.

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

For further information, please contact:

TRAFALGAR ENERGY LTD.

Robert Wollmann, President and CEO
Telephone (403) 216-2706
Email rwollmann@trafalgarenergy.ca

Daniel Belot, Vice President Finance and CFO
Telephone (403) 216-2707
Email dbelot@trafalgarenergy.ca

or visit www.trafalgarenergy.ca

Toll-free: 1-877-216-2705

Investor Relations info@trafalgarenergy.ca

BALANCE SHEETS
Trafalgar Energy Ltd.

unaudited (stated in thousands of dollars)	June 30, 2008	December 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$ -	\$ 613
Accounts receivable	3,949	2,947
Prepaid expenses and deposits	730	212
	4,679	3,772
Petroleum and natural gas assets (note 2)	54,271	40,477
	\$ 58,950	\$ 44,249
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 3,385	\$ 4,121
Fair value of financial instruments (note 7)	563	-
	3,948	4,121
Long-term debt (note 3)	6,612	-
Asset retirement obligations (note 4)	1,879	1,650
	12,439	5,771
SHAREHOLDERS' EQUITY (note 5)		
Share capital	46,678	40,178
Contributed surplus	1,492	1,224
Deficit	(1,659)	(2,924)
	46,511	38,478
Commitments (note 8)		
	\$ 58,950	\$ 44,249

see accompanying notes to the interim financial statements

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

Trafalgar Energy Ltd.

unaudited (stated in thousands of dollars, except per share amounts)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
REVENUES				
Petroleum and natural gas	\$ 6,521	\$ 3,832	\$ 10,193	\$ 6,746
Royalties	(745)	(827)	(1,485)	(1,451)
Loss on financial instruments (note 7)	(429)	-	(685)	-
Interest	-	40	4	176
	5,347	3,045	8,027	5,471
EXPENSES				
Operating	986	781	1,760	1,421
General and administrative	489	578	837	809
Stock-based compensation (note 5)	108	164	214	351
Interest	76	6	86	8
Depletion, depreciation and accretion (note 2)	2,191	1,789	3,865	4,290
	3,850	3,318	6,762	6,879
Earnings (loss) before taxes	1,497	(273)	1,265	(1,408)
Future tax reduction	-	-	-	2,433
Net earnings (loss) and comprehensive income (loss)	1,497	(273)	1,265	1,025
Deficit, beginning of period	(3,156)	(1,374)	(2,924)	(2,672)
Deficit, end of period	\$ (1,659)	\$ (1,647)	\$ (1,659)	\$ (1,647)
Earnings (loss) per share (note 5)				
Basic and diluted	\$ 0.12	\$ (0.02)	\$ 0.10	\$ 0.09
Weighted average number of shares outstanding (note 5)				
Basic and diluted	12,629,004	11,835,883	12,232,443	11,835,883

see accompanying notes to the interim financial statements

STATEMENTS OF CASH FLOWS

Trafalgar Energy Ltd.

unaudited (stated in thousands of dollars)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months Ended June 30, 2007
OPERATING				
Net earnings (loss)	\$ 1,497	\$ (273)	\$ 1,265	\$ 1,025
Items not involving cash:				
Unrealized loss on financial instruments (note 7)	404	-	563	-
Depletion, depreciation and accretion	2,191	1,789	3,865	4,290
Stock-based compensation	108	164	214	351
Future tax reduction	-	-	-	(2,433)
	4,200	1,680	5,907	3,233
Change in non-cash working capital (note 6)	(1,664)	(949)	(1,392)	(1,175)
	2,536	731	4,515	2,058
FINANCING				
Bank indebtedness	809	-	6,612	-
Issuance of shares	6,904	-	6,904	-
Share issue costs	(404)	-	(404)	(8)
	7,309	-	13,112	(8)
INVESTING				
Capital expenditures	(4,487)	(2,610)	(15,926)	(13,544)
Property acquisition (note 2)	(1,450)	-	(1,450)	-
Change in non-cash working capital (note 6)	(3,908)	(5,027)	(864)	(3,562)
	(9,845)	(7,637)	(18,240)	(17,106)
Changes in cash	-	(6,906)	(613)	(15,056)
Cash, beginning of period	-	7,555	613	15,705
Cash, end of period	\$ -	\$ 649	\$ -	\$ 649

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 and six months ended June 30, 2008 and 2007
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, 2007, except as disclosed below. The disclosures provided below are incremental to those included with the annual financial statements and certain disclosures which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2007.

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

1. CHANGES IN ACCOUNTING POLICIES

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

Derivatives

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

2. PETROLEUM AND NATURAL GAS ASSETS

	June 30, 2008	December 31, 2007
Petroleum and natural gas assets	\$ 67,591	\$ 49,990
Accumulated depletion and depreciation, petroleum and natural gas assets	(13,320)	(9,513)
Net book value	\$ 54,271	\$ 40,477

For the three and six months ended June 30, 2008, the Company capitalized general and administrative costs and stock-based compensation that were directly attributable to exploration activities of \$121,000 and \$ 27,000, and \$235,000 and \$54,000, respectively (2007 - \$222,000 and \$47,000 for both periods).

As at June 30, 2008, \$8,615,000 (2007 - \$8,732,000) of costs related to undeveloped land and seismic were excluded from costs subject to depletion. Future development costs of \$2,003,000 (2007 - \$811,000) were included in the costs subject to depletion and depreciation.

On April 1, 2008, the Company acquired certain interests in a petroleum and natural gas well for cash consideration of \$1,450,000, with associated asset retirement obligations of \$14,000.

3. LONG-TERM DEBT

Trafalgar has a revolving term facility available for up to \$18.0 million with a Canadian chartered bank. This facility is available on a revolving basis up to June 30, 2009. After the review date, at the Bank's discretion, the facility is available on a non-revolving basis for a period of 365 days, at which time the facility would be due and payable. Alternatively, the facility may be extended for a further 364-day period at the request of the Company and subject to approval by the bank. The facility bears interest at the bank's prime lending or bankers' acceptance rates plus applicable margins. The Company's lending facility is secured by a floating charge debenture over all of the Borrower's assets and a general security agreement. The borrowing base is subject to re-determination semi-annually, with the next scheduled review to be on or before June 30, 2009.

At June 30, 2008, \$6,612,000 was drawn against this facility (2007 – nil), and letters of credit in the amount of \$238,000 were held against this facility. The facility had an effective interest rate of 5.25 percent (2007 – nil) for the six months ended June 30, 2008. The Company is in compliance with all debt covenants.

4. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimates the total undiscounted amount of cash flow required to settle its asset retirement obligation is approximately \$4.9 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 June 30, 2008 and December 31, 2007. A credit-adjusted risk-free rate of 7.8% was used to calculate the fair value of the asset retirement obligations at June 30, 2008 and December 31, 2007.

The following reconciles the Company's asset retirement obligations:

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ 1,650	\$ 1,413
Liabilities incurred	157	131
Liabilities incurred on acquisitions	14	-
Accretion	58	106
Balance, end of period	\$ 1,879	\$ 1,650

5. SHARE CAPITAL

Authorized

An unlimited number of voting common shares

An unlimited number of non-voting common shares

An unlimited number of first preferred shares, issuable in series

	Number	2008	Number	2007
Common Shares, voting				
Balance, beginning of period	9,594,590	\$ 36,313	9,594,590	\$ 37,618
Issuance of flow through common shares (i)	1,569,000	6,904	-	-
Future taxes on flow through common shares (ii)	-	-	-	(1,298)
Issue costs	-	(404)	-	(7)
Balance, end of period	11,163,590	42,813	9,594,590	36,313
Common Shares, non-voting				
Balance, beginning of period	2,241,293	3,865	2,241,293	5,000
Future taxes on flow through common shares (ii)	-	-	-	(1,135)
Balance, end of period	2,241,293	3,865	2,241,293	3,865
Total share capital	13,404,883	\$ 46,678	11,835,883	\$ 40,178

(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) Pursuant to the flow through common share offering in 2006, the Company renounced \$7.5 million of qualifying oil and natural gas expenditures effective December 31, 2006. The future income tax effect and reduction to share capital was recorded in the first quarter of 2007, the period in which the Company filed

the renoucement documents with tax authorities. All flow through expenditure requirements have been met.

Per share amounts

The weighted average number of common shares (voting and non-voting) outstanding for the three and six months ended June 30, 2008 and 2007 are as follows:

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Weighted average common shares				
Basic and diluted	12,629,004	11,835,883	12,232,443	11,835,883

Options to purchase 1,269,250 common shares for the three and six months ended June 30, 2008 (2007 – 1,091,250 for both periods) were not included in the calculation of the weighted average – diluted common shares outstanding, as they were anti-dilutive.

Stock options

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

The following table sets forth a reconciliation of the plan activity through June 30, 2008:

	Number	Weighted Average Exercise Price
Balance, December 31, 2006	894,750	\$ 4.02
Granted	226,500	4.36
Balance, December 31, 2007	1,121,250	\$ 4.09
Granted	148,000	3.80
Balance, June 30, 2008	1,269,250	\$ 4.05
Exercisable at June 30, 2008	363,750	\$ 4.10

Stock-based compensation

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

The following table reconciles the Company's contributed surplus:

	June 30, 2008	December 31, 2007
Balance, beginning of period	\$ 1,224	\$ 494
Stock-based compensation expense	268	730
Balance, end of period	\$ 1,492	\$ 1,224

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	2007
Weighted average fair value of option granted	\$1.40	\$1.38
Risk-free interest rate (%)	3.2	6.0
Volatility (%)	40	40
Expected life in years	5	3
Expected future dividends	Nil	Nil

There were 148,000 options granted during the six months ended June 30, 2008 (2007 – 196,500).

6. SUPPLEMENTAL CASH FLOW INFORMATION**Changes in non-cash working capital**

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Changes in non-cash working capital – operating:				
Accounts receivable	\$ (1,446)	\$ (450)	\$ (964)	\$ (402)
Prepaid expenses and deposits	(542)	(164)	(518)	(153)
Accounts payable and accrued liabilities	324	(335)	90	(620)
	\$ (1,664)	\$ (949)	\$ (1,392)	\$ (1,175)
Changes in non-cash working capital – investing:				
Accounts receivable	\$ 425	\$ 200	\$ (38)	\$ (112)
Accounts payable and accrued liabilities	(4,333)	(5,227)	(826)	(3,450)
	\$ (3,908)	\$ (5,027)	\$ (864)	\$ (3,562)

Interest

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Interest paid	\$ 76	\$ 6	\$ 86	\$ 8
Interest received	-	40	4	176

7. FINANCIAL RISK MANAGEMENT**Overview**

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

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

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

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

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and petroleum and natural gas marketers. As at June 30, 2008 the Company's receivables consisted of approximately \$528,000 (2007 - \$888,000) from joint venture partners, \$2,521,000 (2007 - \$1,544,000) of receivables from petroleum and natural gas marketers and \$900,000 (2007 - \$515,000) of other trade receivables. Other trade receivables relate to net GST/ITC refunds.

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

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

The carrying amount of accounts receivable represent the maximum credit exposure. The Company does not have an allowance for doubtful accounts as at June 30, 2008 or December 31, 2007 and did not provide for any doubtful accounts nor was it required to write-off any receivables during these same reporting periods.

The Company considers the receivables to be aged as follows:

Aging	June 30, 2008	December 31, 2007
Not past due 0-90 day	\$ 3,124	\$ 2,261
More than 90 days	825	686
Total	\$ 3,949	\$ 2,947

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual 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 revolving credit facility 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 \$3.4 million and derivative contracts totaling \$0.6 million as at June 30, 2008 is within one year, while long-term debt totaling \$6.6 million could mature between one and two years.

Market risk

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

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

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the three and six months ended June 30, 2008 and 2007.

Commodity price risk

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

Contracts outstanding as at June 30, 2008 in respect to financial instruments, are as follows:

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

**strike prices indicate minimum floor and maximum ceiling

Trafalgar has entered into derivative natural gas financial instruments for the purpose of protecting its funds generated from operations from the volatility of natural gas prices. For the three and six months ended June 30, 2008, the Company's natural gas price risk management program had a net realized loss of \$25,000 and \$122,000 respectively (2007 - nil). The Company recognizes the fair value of its commodity price contracts on the balance sheet each reporting period with the change in fair value being recognized as an unrealized gain or loss on the statement of operations. At June 30, 2008 the fair value of the commodity price contracts was a liability of \$563,000 (2007 - nil). As at June 30, 2008, if natural gas prices had been \$0.10 per mcf lower or higher, net earnings for the period would not have been materially impacted due to changes in the fair value of derivatives.

The Company paid premiums of \$97,000 and recognized net settlement losses on its financial instruments during the three and six months ended June 30, 2008 of \$25,000 (2007 - nil).

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 June 30, 2008, the Company had \$6.6 million of bank debt (2007 - nil). As at June 30, 2008, if interest rates had been 50 basis points higher or lower, net earnings would not have been materially impacted.

Fair value of financial instruments

The Company's financial instruments as at June 30, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, derivatives contracts and long-term debt. The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

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

The Company monitors capital based on the ratio of net debt to annualized funds from operations. This ratio is calculated as net debt, defined as outstanding long-term debt plus or minus working capital, divided by cash flow from operations before changes in non-cash working capital for the most recent calendar quarter, annualized (multiplied by four). The Company's strategy is to maintain a ratio that is considered reasonable and prudent in the circumstances. This ratio may increase and/or decrease at certain times. In order to facilitate the management of this ratio, the Company prepares 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 June 30, 2008, the Company's ratio of net debt to annualized funds from operations was 0.32 to 1 (December 31, 2007 - 0.06 to 1), which the Company projects will decrease during the balance of 2008 as spending is reduced, cash flows are applied to outstanding debt balances.

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

	June 30, 2008	December 31, 2007
Long-term debt	\$ 6,612	\$ -
Working capital (excluding derivative fair value)	(1,294)	349
Net debt	5,318	349
Cash flow from operating activities	2,536	1,404
Change in non-cash working capital	1,664	172
Funds from operations	4,200	1,576
Annualizing factor	X4	X4
Annualized funds from operations	\$ 16,800	\$ 6,304
Ratio	0.32:1	0.06:1

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

There were no changes in the Company's approach to capital management during the three and six months ended June 30, 2008 from the year ending December 31, 2007.

8. COMMITMENTS

The Company has an operating lease for office premises expiring December 30, 2010 which requires minimum monthly payments of \$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 June 30, 2008, the Company has incurred \$1.0 million of qualifying expenditures and is required to incur an additional \$5.9 million of expenditures.

9. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2008, the Company utilized legal services totaling \$9,000 (2007 - \$21,000). Legal services were provided by a firm in which two Directors of the Company are partners. As at June 30, 2008, there are no amounts outstanding or owing for legal services in accounts payable and accrued liabilities.

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.

CORPORATE INFORMATION

DIRECTORS OF TRAFALGAR ENERGY LTD.

John Brussa ⁽³⁾
Director

Shannon Gangl ⁽³⁾
Director & Corporate Secretary

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

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

Gary Perron ⁽¹⁾
Director

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

Robert Wollmann
President & Chief Executive Officer

OFFICERS OF TRAFALGAR ENERGY LTD.

Robert Wollmann
President & Chief Executive Officer

Daniel Belot
VP Finance & Chief Financial Officer

Kevin Lee
VP Engineering

Peter Abercrombie
VP Land

Shannon Gangl
Corporate Secretary

TRUSTEE

Valiant Trust Company

BANKERS

Bank of Nova Scotia

AUDITORS

KPMG LLP

ENGINEERING CONSULTANTS

GLJ Petroleum Consultants Ltd.

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

STOCK EXCHANGE LISTING

The Toronto Stock Exchange:
Symbol: TFL

CONTACT INFORMATION

Suite 920, Eau Claire Place II
521 – 3 Avenue S.W.
Calgary, Alberta T2P 3T3

Telephone: (403) 216-2705
Facsimile: (403) 290-0587
Toll-Free: (877) 216-2705
Email: info@trafalgarenergy.ca
Website: www.trafalgarenergy.ca

INVESTOR RELATIONS

info@trafalgarenergy.ca
www.trafalgarenergy.ca

ABBREVIATIONS

/d	per day
bbbl(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