Traverse Energy Ltd.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS AT AND FOR YEAR ENDED**

**DECEMBER 31, 2009**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This management's discussion and analysis (MD&A) dated April 21, 2010 should be read in conjunction with the audited consolidated financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the years ended December 31, 2009 and 2008. The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all figures provided herein and in the December 31, 2009 consolidated financial statements are reported in Canadian dollars. Additional information relating to Traverse, including Traverse's Annual Information Form, is available on SEDAR at www.sedar.com.

The MD&A contains the term funds flow from operations which is not a Canadian GAAP standard and therefore may not be comparable to performance measures presented by others. Funds flow from operations represents cash flow from operating activities prior to changes in non-cash working capital. Management believes that in addition to net income, funds flow from operations is a useful supplemental measure as it provides an indication of Traverse's operating performance. Investors should be cautioned, however, that this measure should not be construed as an alternative to both net income and cash flow from operating activities, which are determined in accordance with GAAP, as indicators of Traverse's performance.

Where amounts are expressed on a barrel of oil equivalent basis (BOE), natural gas volumes have been converted to BOE using a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. BOE figures may be misleading, particularly if used in isolation.

**Forward-looking Information**

This MD&A contains forward-looking information. Forward-looking information is based upon the opinions, expectations and estimates of management as at the date the information is provided and, in some cases, information received from or disseminated by third parties. In particular, the Company's statements with respect to new and existing production volumes, volatility in commodity markets, increasing operating costs, expected declines in general and administrative costs and intentions for funding capital expenditures are forward-looking information. This forward-looking information is subject to a variety of substantial known and unknown risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking information. The Company's Annual Information Form filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describes the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

| HIGHLIGHTS | Three Months Ended December 31 (unaudited) | | Year Ended December 31 (audited) | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | 2007 |
| Financial *($ thousands, except per share amounts)* | | | | | |
| Revenue | **$ 156** | $ 249 | **$ 547** | $ 1,372 | $ 1,292 |
| Net income (loss) | **(178)** | (5) | **(722)** | 408 | 432 |
| Per share – basic and diluted | **(0.01)** | 0.00 | **(0.04)** | 0.03 | 0.03 |
| Funds flow from operations | **(29)** | 151 | **128** | 847 | 1,004 |
| Net capital expenditures | **1,290** | 165 | **1,790** | 457 | 966 |
| Total assets | **10,241** | 6,193 | **10,241** | 6,193 | 5,736 |
| Shareholders' equity | **8,718** | 5,236 | **8,718** | 5,236 | 4,828 |
| Working capital | **4,546** | 2,501 | **4,546** | 2,501 | 2,110 |
| Common shares | | | | | |
| Outstanding *(millions)* | **24.9** | 12.9 | **24.9** | 12.9 | 12.9 |
| Weighted average *(millions)* | **24.1** | 12.9 | **18.2** | 12.9 | 12.9 |
| Operations *(Units as noted)* | | | | | |
| Production *(BOE/d)* | **48** | 59 | **48** | 65 | 81 |
| Natural gas *(Mcf per day)* | **233** | 315 | **237** | 346 | 437 |
| Oil and NGL *(bbls per day)* | **9** | 7 | **9** | 7 | 8 |
| Average sale price | | | | | |
| Natural gas *($/Mcf)* | **4.29** | 7.67 | **4.11** | 9.04 | 6.74 |
| Oil and NGL *($/bbl)* | **73.85** | 49.21 | **60.44** | 89.93 | 74.22 |

2009 was a year of transition for the Company. Historically the Company's business model was based on acquiring undeveloped land holdings in under developed areas of Alberta and then entering into farm-out arrangements with industry partners where the partners contributed seismic and or drilling in exchange for an interest in those lands. After successful exploration, the Company would in some cases participate in lower risk development activities.

In June 2009 at the annual and special meeting of the shareholders a private placement of 8,000,000 common shares was approved, new management was appointed and the Company changed its name to Traverse Energy Ltd. The Company is now actively participating in exploration and production activities. During the third quarter of 2009 the Company's existing asset base was evaluated by the new management and preparations were made to begin the new capital program. These preparations included acquiring additional office space, computer systems and personnel and implementing the various systems.

In the fourth quarter of 2009 Traverse began its current capital program. Additional undeveloped lands were purchased in areas of interest while other undeveloped lands within the previously existing land base were sold. Seismic data was acquired and late in the quarter, drilling commenced. Traverse participated in the drilling of 2 gross (0.75 net) wells resulting in one oil well (0.5 net) and one natural gas well (0.25 net). Initial production from these wells commenced in 2010.

**Revenue and Production**

| | For the year ended December 31, 2009 | 2008 | Change |
|---|---|---|---|
| Petroleum and natural gas revenue | | | |
| Royalty income | $425,955 | $1,079,781 | (61%) |
| Production income | $121,305 | $292,337 | (59%) |
| Total | $547,620 | $1,372,118 | (60%) |
| | | | |
| Average production (including royalty interests) | | | |
| Natural gas *(Mcf per day)* | 237 | 346 | (32%) |
| Crude oil *(bbls per day)* | 9 | 7 | 29% |
| Total *(BOE per day)* | 48 | 65 | (26%) |
| | | | |
| Average sales price | | | |
| Natural gas *($ per Mcf)* | $4.11 | $9.04 | (55%) |
| Crude oil *($ per bbl)* | $60.44 | $89.93 | (33%) |
| Total *($ per BOE)* | $31.26 | $57.83 | (46%) |

The Company's revenue for 2009 consisted mainly of natural gas royalty income, all within the province of Alberta. Revenue has declined substantially from the comparative period due to declines in both commodity price and production volumes. Average production declined 26% from 65 barrels per day in 2008 to 48 barrels per day in 2009. No new production was added in 2009 and existing properties are continuing to naturally decline. Drilling by the Company late in 2009 will add new production volumes in 2010.

The average sales price received during 2009 decreased 46% from the prior year. The majority of the Company's production is natural gas; the decrease in the average natural gas sales price accounted for over 70% of the revenue decline. Volatility in the commodity markets will continue to impact realized prices in 2010. Traverse currently has no risk management program in place for commodity prices due to the small volumes of production. The combined decrease in production volumes and commodity pricing reduced petroleum and natural gas revenue to $547,620 for the year ended December 31, 2009.

Interest income has continued to decline over comparative periods due to the drop in interest rates.

**Royalties and Operating Expenses**

All of the Company's working interest properties produce at very low rates and as a result pay minimal royalties. Royalties on production from existing properties has remained virtually unaffected by changes to Alberta's royalty system.

Operating expenses decreased from $149,703 in 2008 to $116,813 in 2009 consistent with the decrease in volumes produced from working interest properties. On a unit basis, operating costs on the Company's existing working interest properties will increase as fixed costs are rationalized over smaller production volumes. Transportation costs declined in 2009 due to reduced volumes of natural gas and crude oil transported during the year.

**General and Administrative and Stock Based Compensation**

General and administrative expenses, net of recoveries, increased 65% in 2009 due to the change in Company operations to an active exploration and production company. In July 2009, additional office space was added and new accounting, land and seismic systems were implemented. Personnel related to these activities were also added in the third quarter of 2009. On a BOE basis, general and administrative expenses have increased from $11.25 in 2008 to $25.08 in 2009. As new production is added in 2010 general and administrative expenses on a BOE basis should begin to decline.

Compensation expense of $473,150 in 2009 relates to the Company's stock option plan. Compensation expense associated with the stock option plan is recognized over the vesting period of the options and is based on the estimated fair value of the options at the date of grant.

**Depletion, Depreciation and Accretion (DD&A)**

Traverse recorded $449,134 (2008 - $505,526) in depletion and depreciation of capital assets and accretion of asset retirement obligations during 2009. On a BOE basis, the DD&A rate of $25.64 per BOE in 2009 increased 20% from the 2008 rate of $21.31 per BOE due to increases in the depletable base with lower associated proved reserve additions.

At December 31, 2009 the calculation of depletion expense excluded undeveloped land costs of $2,004,000 (2008 - $2,262,703) and included future development costs of $200,750 (2008 - $nil) related to proved developed non-producing reserves. The excluded amounts, which represent costs incurred for unproved properties, will be added to the costs subject to depletion as proved reserves are assigned or as the property's value is assessed to be impaired. Accretion expense remains essentially unchanged from prior periods.

**Income Taxes and Net Loss**

A net loss before income taxes of $931,079 in 2009 resulted mainly from declining production and commodity prices and increasing general and administrative expenses. The Company was taxable in 2008 and as a result of the current loss a recovery of income taxes has been recorded.

**Shareholders' Equity**

In June 2009, as part of the annual and special meeting, shareholders approved the private placement of 8,000,000 shares for gross proceeds of $2.0 million. In October 2009 the Company completed a private placement of 2,000,000 units at a price of $0.90 per unit for gross proceeds of $1,800,000. Each unit consisted of one common share at $0.40 and one flow-through common share at $0.50. The Company has committed to expend $1.0 million on eligible expenditures prior to December 31, 2010. At year end the Company had incurred $620,000 of this amount.

As at April 21, 2010 total common shares outstanding are 24,983,333 and total common share options outstanding are 1,775,000. The weighted average number of shares outstanding increased to 18,199,315 for 2009 (12,950,000 in 2008) as a result of these private placements.

**Funds Flow from Operations**

Funds flow from operations decreased to approximately $128,000 in 2009 compared to $847,000 in 2008 due to commodity price declines, declining production and increased general and administrative expenses.

**Liquidity and Capital Resources**

| Capital expenditures | 2009 | 2008 |
|---|---|---|
| Exploration and development | | |
| Land acquisition and maintenance | $875,072 | $391,567 |
| Geological and geophysical | $409,954 | - |
| Drilling, completion and workovers | $662,084 | $61,663 |
| Well equipment and facilities | $80,506 | $3,834 |
| Administrative assets | $13,104 | - |
| | $2,040,720 | $457,064 |
| Property dispositions | ($362,749) | - |
| Corporate acquisition | $120,800 | - |
| Net capital expenditures | $1,798,771 | $457,064 |

In 2009 the Company incurred $1,798,771 of net capital expenditures as detailed above. During the year Traverse acquired 17,000 acres of undeveloped land and sold 12,700 acres of undeveloped lands. Traverse will continue to rationalize the existing land portfolio. At year end the Company has 177,000 gross acres (168,000 net) of undeveloped land. In the fourth quarter of 2009 the Company participated in the drilling of two wells resulting in one oil well and one natural gas well. Capital expenditures were financed through the existing working capital.

At December 31, 2009 the Company had working capital of approximately $4.5 million and no debt outstanding. The Company intends to fund capital expenditures during 2010 with a combination of cash flow and working capital. New equity issues and debt may be utilized to expand future capital expenditures where appropriate.

## Related Party Transactions

*Equity transactions*

In June 2009 the Company completed a private placement of 8,000,000 common shares (gross proceeds of $2,000,000) to two directors and officers of the Company and members of their immediate families. This private placement was approved by the shareholders of the Company on June 11, 2009.

In October 2009 the Company completed a private placement of 2,000,000 units at a price of $0.90 per unit for gross proceeds of $1,800,000. Directors and officers of the Company subscribed for 280,000 units for consideration of $252,000.

*Common management and directors*

During 2009, management fees of $72,000 (2008 - $52,000) were paid to a company controlled by a director of the Company. The fees related to the administration and overall operations of the Company. These transactions are in the normal course of business and are measured at the exchange amount.

During 2009, office expenses of approximately $112,000 (2008 - $24,000) were paid to a company controlled by two directors of the Company. These transactions were in the normal course of business and are on terms that are consistent with parties dealing at arm's length. At December 31, 2009 an amount of $106,224 (2008 - $2,259), representing prepaid rent and security deposit, are included within prepaids and deposits.

Certain directors of Traverse are also the directors or management of other entities that participate in joint operations with the Company. All transactions were completed on an arm's length basis consistent with normal industry terms. During 2009, the aggregate value of transactions entered into between Traverse and these entities was approximately $540,000 (2008 - $nil). Traverse had outstanding payables to the related parties of $439,436 (2008 - $nil) and accounts receivable and prepaid cash calls due to Traverse of approximately $71,952 at December 31, 2009 (2008 - $nil).

*Legal services*

During 2009, the Company incurred approximately $59,000 (2008 - $nil) in legal services and disbursements with a legal firm in which a director of Traverse is a partner. These transactions were in the normal course of business and are measured at the exchange amount. At December 31, 2009 accounts payable and accrued liabilities include $14,991 (2008 - $nil) to the legal firm.

## Fourth Quarter 2009 Results

Production for the fourth quarter averaged 48 BOE per day, consistent with the third quarter and 19% less than the comparable quarter of 2008. Commodity prices began improving in the fourth quarter, averaging $4.29 per mcf for natural gas compared to $4.05 per mcf in the third quarter. Natural gas prices were down 44% from the fourth quarter of 2008. Revenue decreased 37% compared to the fourth quarter of 2008 reflecting the reduced production volumes and weaker commodity prices.

Traverse recorded a net loss of $177,543 in the fourth quarter of 2009 compared to a net loss of $4,583 in the fourth quarter of 2008. This increase reflects lower production volumes and commodity prices as well as the increased general and administrative expenses associated with increased activities. These same items contributed to the decrease in funds flow from operations from $151,336 in the 2008 period to a usage of funds of $28,544 in the fourth quarter of 2009.

In October 2009 Traverse completed a private placement of 4 million common shares for gross proceeds of $1.8 million. Capital expenditures in the fourth quarter of 2009 were up significantly from the previous quarter and the comparable quarter of 2008 as the Company began drilling operations. Traverse drilled 2 gross (0.75 net) wells in the fourth quarter resulting in 1 gross (0.5 net) oil well and 1 gross (0.25 net) natural gas well. In December 2009 the Company completed the acquisition of a private company for total consideration, including transaction costs, of $117,000.

**Summary of Quarterly Results**
*($ thousands, except per share amounts)*

| Quarter Ended | Mar. 31, 2009 | Jun. 30, 2009 | Sept. 30, 2009 | Dec. 31, 2009 |
|---|---|---|---|---|
| Revenue | $177 | $97 | $117 | $156 |
| Net income (loss) | (6) | (24) | (515) | (178) |
| Per share – basic & diluted | 0.00 | 0.00 | (0.02) | (0.01) |
| Working capital | 2,505 | 4,329 | 4,089 | 4,546 |
| Shareholders' equity | 5,300 | 7,164 | 7,061 | 8,718 |
| Production (BOE/d) | 54 | 43 | 47 | 48 |

| Quarter Ended | Mar. 31, 2008 | Jun. 30, 2008 | Sept. 30, 2008 | Dec. 31, 2008 |
|---|---|---|---|---|
| Revenue | $302 | $461 | $360 | $249 |
| Net income (loss) | 152 | 139 | 122 | (5) |
| Per share – basic & diluted | 0.01 | 0.01 | 0.01 | 0.00 |
| Working capital | 2,169 | 2,383 | 2,514 | 2,501 |
| Shareholders' equity | 4,980 | 5,118 | 5,240 | 5,236 |
| Production (BOE/d) | 63 | 74 | 63 | 59 |

Production has declined over the last two years as no additional production volumes have been added. Revenue, although declining with production, has fluctuated quarterly with changes in commodity prices. Drilling activities late in 2009 had no impact on revenue for the year as new production did not commence until 2010. The change in Traverse's operations towards becoming an active exploration and production company resulted in large increases in general and administrative costs in 2009.

**Business Environment and Risk**

The business risks the Company is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Traverse's operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of new reserves, commodity prices, interest rate and foreign exchange risks, competition and government regulations – all of these govern the business and influence the controls and management at the Company.

Traverse manages these risks by attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company, operating properties in order to maximize opportunities, maintaining a strong financial position and maintaining strict environmental, safety and health practices.

**Change in Accounting Policies**

Effective January 1, 2011, Canadian public companies are required to adopt International Financial Reporting Standards ("IFRS"). Traverse's financial statements up to and including December 31, 2010 will continue to be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared on an IFRS basis.

The Company has commenced the conversion project which consists of the following phases: 1) initial scoping, 2) impact analysis, and 3) implementation and review. The first phase, which includes identifying major differences between Canadian GAAP and IFRS has been completed. Numerous accounting policy changes will be made under IFRS with the most significant change expected to be the accounting for petroleum and natural gas assets and equipment. At this time the impact of these changes is being assessed and has not been quantified.