MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE THREE MONTHS ENDED

MARCH 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) dated May 20, 2010 should be read in conjunction with the unaudited financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the three months ended March 31, 2010. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all figures provided herein and in the March 31, 2010 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, decreasing 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 (unaudited)		
	March 31, 2010	Dec. 31, 2009	March 31, 2009
Financial *($ thousands, except per share amounts)*			
Revenue	**$ 291**	$ 156	$ 177
Net income loss	**(145)**	(178)	(6)
Per share – basic and diluted	**(0.01)**	(0.01)	0.00
Funds flow from operations*	**33**	(29)	81
Net capital expenditures	**2,348**	1,290	77
Total assets	**10,349**	10,241	6,174
Shareholders' equity	**8,351**	8,718	5,300
Working capital	**2,243**	4,546	2,505
Common shares			
Outstanding *(millions)*	**25.0**	24.9	12.9
Weighted average *(millions)*	**25.0**	24.1	12.9
Operations *(Units as noted)*			
Production *(BOE/d)*	**66**	48	54
Natural gas *(Mcf per day)*	**230**	233	286
Oil and NGL *(bbls per day)*	**27**	9	6
Average sale price			
Natural gas *($/Mcf)*	**5.09**	4.29	5.77
Oil and NGL *($/bbl)*	**75.84**	73.85	44.36

**Management uses funds flow from operations (before changes in non-cash working capital) to analyze operating performance. Funds flow as presented does not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculation of similar measures for other entities.*

Operations Review

During the first quarter of 2010, Traverse participated in the drilling of four gross (3.4 net) wells and shot additional seismic in two areas. First quarter drilling resulted in one natural gas well (1.0 net), one oil well (0.4 net) and two potential natural gas wells (2.0 net). In addition to equipping the two wells drilled in the first quarter, equipping operations were also completed on the two wells drilled late in 2009. Production from all four wells commenced during the quarter resulting in an average addition of 23 BOE per day for the period.

The Company sold undeveloped non-core lands during the first quarter for $250,000. Undeveloped land holdings at March 31, 2010 included 183,000 gross (173,000 net) acres. All of the Company's oil and gas properties are located in Alberta.

Traverse plans an active drilling program for 2010 which includes up to 12 gross (8 net) wells with an initial budget of $5 to $7 million. The program includes a combination of development and exploratory wells targeting oil and natural gas. Field activities in the second quarter have been restricted due to spring breakup and recent wet weather conditions. Exploration and development activities will largely focus on oil properties in the near term. Several wells targeting natural gas are scheduled for later in 2010.

In the Turin area, where the Company is developing a Sunburst oil pool, Traverse plans to drill 2 gross (1.5 net) wells in the second quarter. If successful with this drilling, the Company will proceed with an expansion to its infrastructure and further drilling locations would then be scheduled. Drilling operations, or evaluation through re-entry of existing wells, are planned in the Little Bow, Long Coulee, Manyberries and Warwick areas of southern and central Alberta.

Revenue and Production

	For the three months ended		
	March 31, 2010	December 31, 2009	March 31, 2009
Petroleum and natural gas revenue			
Production income	$167,412	$ 34,215	$ 30,378
Royalty income	$123,934	$122,178	$146,125
Total	$291,346	$156,393	$176,503
Average production (including royalty interests)			
Natural gas *(Mcf per day)*	230	233	286
Crude oil *(bbls per day)*	27	9	6
Total *(BOE per day)*	66	48	54
Average sales price			
Natural gas *($ per Mcf)*	$5.09	$4.29	$5.77
Crude oil *($ per bbl)*	$75.84	$73.85	$44.36
Total *($ per BOE)*	$49.34	$35.42	$36.31

Petroleum and natural gas revenue increased in the first quarter of 2010 due to new production from drilling operations. During the first quarter of 2010, production volumes increased 38% compared to the preceding fourth quarter of 2009 and 22% compared to the first quarter of 2009. New production volumes were added in 2010 from the Turin, Little Bow and Warwick areas. The impact of this new production was reduced by declining production in the royalty income areas. The Company's revenue in 2009 consisted mainly of natural gas royalty income. Production from the new areas contributed 35% of the daily production in the first quarter.

The average sales price received during the first three months of 2010 increased 39% from the last quarter of 2009 and 36% from the first quarter of 2009. This increase is due to increased crude oil production and the resulting impact of increases in crude oil prices. Production for the first quarter of 2010 is composed of 58% natural gas and 41% crude oil. In 2009, the majority of the Company's production was natural gas. 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 increase in production volumes and commodity pricing increased petroleum and natural gas revenue to $291,346 for the three months ended March 31, 2010 compared to $176,503 in the comparative period.

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

Royalties and Operating Expenses

Royalties have increased in 2010 compared to the 2009 period due to the shift to working interest production from royalty interest production. New production areas consist of both Crown and freehold lands. New production from Crown lands benefits from the new well incentive program which provides for a maximum five per cent royalty rate. Working interest properties drilled in prior years produce at very low rates and as a result pay minimal royalties.

Operating expenses increased from $28,409 in the 2009 period to $72,548 in the first quarter of 2010 consistent with the increase in volumes produced from working interest properties. On a unit basis, operating costs increased from $5.85 per BOE in the 2009 period to $12.29 per BOE in the first quarter of 2010. Operating costs on the new oil production at Turin are expected to decline as additional wells are drilled and infrastructure is expanded. Transportation costs increased in 2010 mainly due to the increased volumes of crude oil transported during the period.

General and Administrative and Stock Based Compensation

General and administrative expenses, net of recoveries, increased to $174,085 in the first quarter compared to $71,312 in the comparable period of 2009. This increase is due to the change in Company operations to an active exploration and production company. These changes included additional office space, new accounting, land and seismic systems and related personnel. On a BOE basis, general and administrative expenses have increased from $14.67 in the 2009 period to $29.48 in the first quarter of 2010. The addition of new production in 2010 should decrease general and administrative expenses on a BOE basis in the future.

Compensation expense of $24,555 in 2010 relates to the vesting of options granted to consultants in the fall of 2009. No new options were granted in 2010. 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 $213,285 (2009 - $97,761) in depletion and depreciation of capital assets and accretion of asset retirement obligations in the first quarter of 2010. On a BOE basis, the DD&A rate of $36.12 per BOE in the 2010 period increased from the 2009 rate of $20.12 per BOE due to increases in the depletable base with lower associated proved reserve additions.

At March 31, 2010 the calculation of depletion expense excluded undeveloped land and expenditures on unproved properties of $3,170,000 (2009 - $2,400,000) and included future development costs of $125,750 (2009 - $nil) related to proved developed non-producing reserves. The excluded amounts 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 has increased over the comparable period due mainly to new asset retirement obligations incurred as a result of the drilling program.

Income Taxes and Net Loss

First quarter operations in 2010 generated a net loss before income taxes of $205,326 compared to a net loss before income taxes of $16,949 in the 2009 period. Production income increased in the first quarter of 2010 as a result of production volume and pricing increases, however on a comparative basis this increase was more than offset by increased general and administrative and depletion expenses. As a result of the loss in both the current and prior periods, recoveries of future income taxes have been recorded.

Shareholders' Equity

As at May 20, 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 24,965,555 for 2010 (12,950,000 in 2009) as a result of the private placements completed in 2009.

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. All expenditures relating to the flow-through issue have been incurred as of March 31, 2010.

Funds Flow from Operations

Funds flow from operations decreased to approximately $33,000 in the 2010 period compared to $81,000 in the 2009 period due mainly to increased general and administrative expenses.

Liquidity and Capital Resources

During the first quarter of 2010 the Company incurred approximately $2.6 million of capital expenditures. These expenditures were incurred in the following categories: 10% land acquisition and retention, 8% geological and geophysical, 56% drilling and completion operations and 26% on facilities. During the quarter Traverse both acquired and sold undeveloped lands. Traverse will continue to rationalize the existing land portfolio. At March 31, 2010 the Company has 183,000 gross acres (173,000 net) of undeveloped land.

During the first quarter of 2010 the Company participated in the drilling of four wells resulting in one oil well, one natural gas well and two potential natural gas wells. Tie in and equipping operations for both the oil and natural gas well were completed during the quarter. Additional seismic was also shot in two areas during the quarter. Capital expenditures were financed through the existing working capital.

At March 31, 2010 the Company had working capital of approximately $2.2 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 the first quarter of 2010, office expenses of approximately $56,820 (2009 - $6,800) 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 March 31, 2010 an amount of $106,650 (2009 - $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 the three months ended March 31, 2010, the aggregate value of transactions entered into between Traverse and these entities was approximately $550,000 (2009 - $nil). Traverse had outstanding payables to the related parties of $144,064 (2009 - $nil) and accounts receivable and prepaid cash calls due to Traverse of approximately $152,476 at March 31, 2010 (2009 - $nil).

During the first quarter of 2009, management fees of $18,000 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 were in the normal course of business and are measured at the exchange amount.

Legal services

During the first quarter of 2010, the Company incurred approximately $3,200 (2009 - $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 March 31, 2010 accounts payable and accrued liabilities include $nil (2009 - $nil) to the legal firm.

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

Quarter Ended	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009	Jun. 30, 2009
Revenue	$291	$156	$117	$97
Net income (loss)	(145)	(178)	(515)	(24)
Per share – basic & diluted	(0.01)	(0.01)	(0.02)	0.00
Working capital	2,243	4,546	4,089	4,329
Shareholders' equity	8,351	8,718	7,061	7,164
Production (BOE/d)	66	48	47	43

Quarter Ended	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008	Jun. 30, 2008
Revenue	$177	$249	$360	$461
Net income (loss)	(6)	(5)	122	139
Per share – basic & diluted	0.00	0.00	0.01	0.01
Working capital	2,505	2,501	2,514	2,383
Shareholders' equity	5,300	5,236	5,240	5,118
Production (BOE/d)	54	59	63	74

Production declined over the past eighteen months until the addition of new production volumes in the first quarter of 2010. Revenue, although declining with production, fluctuated quarterly with changes in commodity prices until the first quarter of 2010. Drilling activities late in 2009 did not result in new production until 2010. The change in Traverse's operations to an active exploration and production company resulted in increased general and administrative costs in 2009.

Business Environment and Risk

The business risks to which the Company is exposed 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.

CORPORATE INFORMATION

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A. David van der Lee*
Adam O. Wells*

* Member, Audit Committee

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