FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED

DECEMBER 31, 2010 AND 2009

MANAGEMENT'S REPORT

To the Shareholders of Traverse Energy Ltd.

The accompanying financial statements of Traverse Energy Ltd. are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

Management has established systems of internal controls, which are designed to provide reasonable assurance that the assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. It exercises its responsibilities primarily through the Audit Committee, which is comprised of independent, non-management directors. The Audit Committee has reviewed the financial statements with management and the auditors and has reported to the Board of Directors. On the recommendation of the Audit Committee, the accompanying financial statements have been approved by the Board of Directors.

The financial statements have been audited by KPMG LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

Laurie J. Smith
President and Chief Executive Officer

Sharon A. Supple
Chief Financial Officer

Calgary, Canada
April 26, 2011

KPMG LLP
Chartered Accountants
2700-205 5 Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Telefax (403) 691-8008
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying financial statements of Traverse Energy Ltd., which comprise the balance sheets as at December 31, 2010 and 2009, the statements of operations and retained earnings (deficit) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Traverse Energy Ltd. as at December 31, 2010 and 2009, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 26, 2011

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

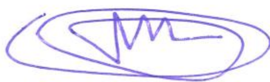
TRAVERSE ENERGY LTD.

Balance Sheets
As at December 31,

		2010		2009
Assets				
Current				
Cash and cash equivalents	**$**	**3,130,377**	$	4,868,983
Accounts receivable		**783,004**		149,554
Prepaids and deposits		**122,724**		164,596
Income taxes receivable		**-**		136,611
		4,036,105		5,319,744
Petroleum and natural gas properties (note 3)		**10,140,699**		4,920,999
	$	**14,176,804**	$	10,240,743
Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**1,677,920**	$	774,050
Asset retirement obligations (note 4)		**542,000**		168,000
Future income taxes (note 5)		**179,400**		581,000
Shareholders' Equity				
Share capital (note 6)		**11,808,807**		6,969,498
Contributed surplus (note 6)		**818,050**		491,150
Retained earnings (deficit)		**(849,373)**		1,257,045
		11,777,484		8,717,693
Commitments (notes 6(b) and 8)				
Subsequent event (note 11)				
	$	**14,176,804**	$	10,240,743

See accompanying notes to the financial statements.

Approved on behalf of the Board:



A. David van der Lee
Director

Laurie Smith
Director

TRAVERSE ENERGY LTD.

Statements of Operations and Retained Earnings (Deficit)
For the years ended December 31,

		2010		2009
Revenue				
Petroleum and natural gas sales	$	**1,760,573**	$	121,305
Petroleum and natural gas royalty income		**357,832**		425,955
Royalties		**(96,117)**		(3,320)
Interest and other		**18,201**		15,452
		2,040,489		559,392
Expenses				
Operating		**561,405**		116,813
Transportation		**72,172**		12,050
General and administrative		**611,680**		439,324
Stock based compensation		**345,900**		473,150
Depletion, depreciation and accretion		**3,173,650**		449,134
		4,764,807		1,490,471
Loss before income taxes		**(2,724,318)**		(931,079)
Income taxes				
Current income tax recovery		**-**		(136,611)
Future income tax reduction (note 5)		**(617,900)**		(72,000)
		(617,900)		(208,611)
Net loss and comprehensive loss		**(2,106,418)**		(722,468)
Retained earnings, beginning of year		**1,257,045**		1,979,513
Retained earnings (deficit), end of year	**$**	**(849,373)**	$	1,257,045
Net loss per share (note 6)				
Basic and diluted	**$**	**(0.08)**	$	(0.04)

See accompanying notes to the financial statements.

TRAVERSE ENERGY LTD.

Statements of Cash Flows
For the years ended December 31,

	2010	2009
Cash provided by (used in):		
Operating activities		
Net loss	**$ (2,106,418)**	$ (722,468)
Items not involving cash:		
Stock based compensation	**345,900**	473,150
Depletion, depreciation and accretion	**3,173,650**	449,134
Future income tax reduction	**(617,900)**	(72,000)
Asset retirement expenditures	**(49,000)**	-
	746,232	127,816
Change in non-cash working capital	**(259,343)**	(378,153)
	486,889	(250,337)
Financing activities		
Issue of share capital, net of issuance costs	**5,036,609**	3,707,078
Change in non-cash working capital	**9,697**	-
	5,046,306	3,707,078
Investing activities		
Petroleum and natural gas properties	**(8,815,000)**	(2,040,720)
Petroleum and natural gas property acquisition	**(316,515)**	-
Petroleum and natural gas property dispositions	**1,161,165**	362,749
Corporate acquisition (note 2)	**-**	(117,000)
Change in non-cash working capital	**698,549**	645,871
	(7,271,801)	(1,149,100)
Increase (decrease) in cash and cash equivalents	**(1,738,606)**	2,307,641
Cash and cash equivalents, beginning of year	**4,868,983**	2,561,342
Cash and cash equivalents, end of year	$ **3,130,377**	$ 4,868,983

See accompanying notes to the financial statements

Notes to the Financial Statements

For the years ended December 31, 2010 and 2009

Nature of operations

Traverse Energy Ltd. (the "Company" or "Traverse") is incorporated under the Business Corporations Act (Alberta) and is a public company listed on the TSX Venture Exchange. Traverse is a resource based company engaged in the exploration for, and the development and production of natural gas, natural gas liquids and crude oil in Western Canada. The Company's name changed to Traverse Energy Ltd. from Firstland Energy Limited on June 11, 2009.

1. Significant accounting policies

a) Basis of presentation

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles in Canada. Certain comparative figures have been restated to conform to the current year's financial statement presentation.

b) Petroleum and natural gas operations

The Company follows the full cost method of accounting for petroleum and natural gas properties and facilities whereby all costs associated with the exploration for and development of petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, lease rental costs on non-producing properties, costs of drilling both productive and unproductive wells and production equipment. Gains or losses are not recognized upon the disposition of petroleum and natural gas properties unless crediting the proceeds against accumulated costs would result in a change in the depletion rate of 20% or more.

The accumulated costs and future costs, less the costs of unproved properties net of impairment, are depleted and depreciated using the unit-of-production method based on the sum of working interest proved reserves before royalties and royalty interests in proved reserves, as determined by independent evaluators. Natural gas reserves and production are converted into equivalent barrels of oil based upon the estimated relative energy content.

The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

The Company places a limit on the carrying value of petroleum and natural gas properties, which may be depleted against revenues of future periods (the "ceiling test"). The carrying value is assessed to be recoverable when the sum of the undiscounted cash flows expected from the production of proved reserves, the cost of unproved properties, net of impairment, and the cost of major development projects exceed the carrying value. When the carrying value is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value of the assets exceeds the discounted cash flows expected from the production of proved and probable reserves, the cost of unproved properties, net of impairment, and the cost of major development projects. The cash flows are estimated using future product prices and costs and are discounted using a risk-free interest rate.

c) Asset retirement obligations ("ARO")

The Company recognizes the fair value of the ARO liability in the period in which it is incurred or acquired when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on the unit-of-production method based on the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is expensed to income in the period. Actual costs incurred upon the settlement of the obligations are charged against the liability to the extent of the obligation recorded.

d) Joint arrangements

Significant portions of the Company's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition, all financial instruments, including all derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other financial liabilities. The Company has designated its cash as held for trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other liabilities, which are also measured at amortized cost.

The Company may enter into certain financial derivative or physical delivery sales contracts in order to reduce its exposure to market risks from fluctuations in commodity prices. These instruments will not be used for trading or speculative purposes. The Company will not designate its financial derivative contracts as effective accounting hedges. As a result, all financial derivative contracts will be classified as held for trading and will be recorded on the balance sheet at fair market value, with changes in the fair value recognized in petroleum and natural gas revenue. Settlements of financial derivative contracts will be recognized in petroleum and natural gas revenue at the time each transaction under contract is settled.

The Company may enter into physical delivery sales contracts for the purpose of receipt or delivery of oil or natural gas. At the time the Company enters into physical delivery contracts the contracts will be designated as "normal sale" contracts and therefore settlements of physical sale contracts will be recognized in petroleum and natural gas sales at the time of the settlement and there will be no recognition of fair value on the balance sheet.

f) Stock based compensation plans

The Company has an equity incentive plan as described in note 6. The Company accounts for its stock based compensation plan using the fair value method. Under this method, the compensation cost attributable to stock options is measured at fair value at the date of the grant and expensed over the vesting period of the options with a corresponding increase to contributed surplus. The fair value of options granted is estimated at the date of grant using the Black-Scholes evaluation model. Upon the exercise of the stock option, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company has not incorporated an estimated forfeiture rate for stock options; actual forfeitures are accounted for as they occur.

g) Future income taxes

The Company uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets are recognized to the extent it is more likely than not that sufficient taxable income will be available to allow the future income tax assets to be realized. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future income tax assets. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes that date of enactment or substantive enactment.

h) Flow-through shares

The Company may finance a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a charge to share capital in the period in which the renouncement of the expenditures is filed with tax authorities.

i) Administrative assets

Administrative assets are stated at cost less accumulated depreciation. Depreciation is provided on a declining balance basis at a rate of 30%.

j) Cash and cash equivalents

The Company considers cash and short term deposits with original maturities of three months or less as cash and cash equivalents.

k) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period then ended. Actual results could differ from those estimates.

The amount recorded for depletion is based on the estimates of reserve volumes and ARO is based on estimated costs and timing of expenditures. The ceiling test calculation is based on estimates of proved and probable reserves, production rates, petroleum and natural gas prices, future costs and other relevant assumptions. The amounts for stock based compensation are based on estimates of risk-free interest rates, expected lives and volatility. Future income taxes are based on estimates as to timing of the reversal of temporary differences at tax rates substantively enacted in those years. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

l) Per share information

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if options to issue shares were exercised. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of options plus the unamortized stock compensation cost would be used to buy back Company shares at the average market price for the period. The weighted average number is then adjusted by the net change.

m) Revenue recognition

Revenues from the sale of petroleum and natural gas, including royalty income, are recorded when title transfers to an external party and collection of funds are reasonably assured.

n) Future accounting changes

On January 1, 2011 the Company will be required to adopt International Financial Reporting Standards ("IFRS") and prepare its financial statements under this new set of standards, including comparative figures for 2010. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies as well as increased disclosure requirements under IFRS. The Company is currently assessing the impact of the conversion from Canadian GAAP to IFRS on its financial statements.

2. Acquisition

In December 2009 Traverse acquired all of the outstanding shares of a private oil and gas corporation for cash consideration of $105,180. The acquisition has been accounted for using the purchase method. The results of operations of the private company have been included in the Company's financial statements beginning December 7, 2009. Details of the acquisition are as follows:

Cost of acquisition:	
Cash	$ 105,180
Transaction costs	11,820
	$ 117,000
Allocated:	
Petroleum and natural gas properties	$ 120,800
Working capital	5,200
Asset retirement obligations	(9,000)
	$ 117,000

3. Petroleum and natural gas properties

	2010	2009
Petroleum and natural gas properties	$ 15,870,506	$ 7,516,304
Administrative assets	43,942	19,544
	$ 15,914,448	$ 7,535,848
Less: accumulated depletion and depreciation	5,773,749	2,614,849
	$ 10,140,699	$ 4,920,999

At December 31, 2010 future development costs of $743,200 (2009 - $200,750) were included in the depletion calculation and costs of acquiring unproved properties in the amount of $1,103,000 (2009 - $2,004,000) were excluded from the depletion calculation.

Traverse performed a ceiling test calculation as at December 31, 2010 to assess the recoverable value of petroleum and natural gas properties. As a result of the application of the ceiling test, petroleum and natural gas properties were written down by $1,169,000 (2009 - $nil) which has been included in depletion expense. The oil and gas prices used for purposes of the ceiling test at December 31, 2010 are based on the January 1, 2011 commodity price forecast of the independent reserve evaluators and are adjusted for quality and transportation. The following table summarizes the benchmark prices used in the ceiling test calculation.

	Crude Oil		Natural Gas
Year	WTI @ Cushing ($CDN/bbl)	Edmonton reference price ($CDN/bbl)	AECO Gas ($CDN/mmbtu)
2011	89.80	87.30	4.14
2012	92.78	90.28	4.71
2013	95.83	93.83	5.29
2014	97.92	95.88	5.76
2015	100.00	97.92	6.27
Escalate thereafter 2.0% per year			

4. Asset retirement obligations

The Company's asset retirement obligations result from ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Company estimated the total undiscounted amounts required to settle its asset retirement obligation at December 31, 2010 to be approximately $774,000 (2009 - $277,000). The majority of the costs are scheduled to be incurred between 2015 and 2020. A credit adjusted risk-free interest rate of 8.5 percent and an inflation rate of 2.0 percent was used to calculate the fair value of the asset retirement obligations.

A reconciliation of the asset retirement obligations is provided below:

		2010		2009
Balance, beginning of year	$	168,000	$	63,432
Accretion expense		14,750		3,168
Liabilities incurred and acquired		421,000		49,000
Liabilities settled/disposed		(58,750)		-
Revision of estimates		(3,000)		52,400
Balance, end of year	$	542,000	$	168,000

5. Future income taxes

The provision for income taxes in the financial statements differs from the result which would have been obtained in applying the combined federal and provincial income tax rate as follows:

		2010		2009
Loss before income taxes	$	(2,724,318)	$	(931,079)
Combined federal and provincial income tax rate		28.0%		29.0%
Expected income tax recovery	$	(762,800)	$	(270,013)
Increase (decrease) in taxes resulting from:				
Change in income tax rates		46,800		(75,812)
Stock based compensation		98,100		137,214
Income tax reduction	$	(617,900)	$	(208,611)

The components of the Company's future income tax liability at December 31, 2010 and 2009 are as follows:

		2010		2009
Future income tax liabilities:				
Petroleum and natural gas properties	$	463,600	$	604,200
Future income tax assets:				
Asset retirement obligations		(138,300)		(43,500)
Share issue costs		(45,000)		(14,700)
Non-capital losses		(241,500)		(105,300)
Valuation allowance		140,600		140,300
	$	(284,200)	$	(23,200)
Net future income tax liability	$	179,400	$	581,000

At December 31, 2010, subject to confirmation by income tax authorities, Traverse has approximately $6.7 million of income tax deductions available for application against future taxable income, net of $2.7 million of tax pools which will be renounced to shareholders in 2011. Included in these deductions are $940,000 of non-capital losses, the full benefit of which has not been included in these financial statements.

The Company's non-capital losses, if not utilized, expire as follows:

2015	$	10,000
2026		74,000
2027		111,000
2028		100,000
2029		107,000
2030		538,000
Non-capital losses available	$	940,000

6. Share capital

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. No preferred shares have been issued.

a) Common shares issued

	Number of Shares		Amount
Balance, December 31, 2008	12,950,000	$	3,238,420
Issued for cash	10,000,000		2,800,000
Issued for cash - flow-through	2,000,000		1,000,000
Issue costs, net of income tax effect of $24,000	-		(68,922)
Balance, December 31, 2009	24,950,000	$	6,969,498
Issued on exercise of stock options	133,333		53,333
Transferred from contributed surplus	-		19,000
Issued for cash	2,135,000		1,281,000
Issued for cash - flow-through	4,635,000		3,869,500
Issue costs, net of income tax effect of $42,700	-		(124,524)
Tax effect of flow-through shares issued in 2009	-		(259,000)
Balance, December 31, 2010	31,853,333	$	11,808,807

b) Private placements

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. Each unit consisted of one common share at $0.40 and one flow-through common share at $0.50. Directors and officers of the Company subscribed for 280,000 units for consideration of $252,000.

In June 2010 the Company completed a private placement of 2,135,000 units at a price of $1.30 per unit for gross proceeds of $2,775,500. Each unit consisted of one common share at $0.60 and one flow-through common share at $0.70. The Company has incurred the required qualifying expenditures of $1,494,500. Directors and officers of the Company subscribed for 317,400 units for consideration of $412,620.

In December 2010 the Company completed a private placement of 2,500,000 flow-through common shares at a price of $0.95 per common share for gross proceeds of $2,375,000. The obligation remaining for this flow-through issue at December 31, 2010 was $1,150,000. Directors and officers of the Company subscribed for 233,300 flow-through common shares for consideration of $221,635.

c) Stock option plan

The Company has established a stock option plan for the benefit of its directors, officers, employees and consultants. The Board of Directors establishes at the time of grant, subject to regulatory approval, the option exercise price, the expiry date and vesting provisions. The options granted to directors and officers vest immediately and the options granted to consultants vest over a one year time period. Options granted expire five years from the date of grant.

The fair value of options granted in 2010 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield, expected volatility of sixty percent, risk-free interest rates of two percent and an expected life of five years. The fair market value of options granted during 2010 was $0.31 per option. Options granted to consultants were revalued at year end resulting in a fair market value per option of $0.43.

The following table sets forth a reconciliation of the stock option plan activity for the year ended December 31, 2010:

	Number of Options	Weighted average exercise price
Balance December 31, 2008	200,000	$0.40
Granted	1,675,000	$0.40
Balance December 31, 2009	1,875,000	$0.40
Exercised	(133,333)	$0.40
Forfeited	(66,667)	$0.40
Granted	950,000	$0.60
Balance December 31, 2010	2,625,000	$0.47

The following summarizes the stock options granted and outstanding at December 31, 2010.

	Options Outstanding				Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.00 - $0.40	1,600,000	3.5	$0.40	1,600,000	3.5	$0.40
$0.41 - $0.60	1,025,000	4.6	$0.59	908,333	4.6	$0.59
$0.40 - $0.60	2,625,000	3.9	$0.47	2,508,333	3.9	$0.47

d) Contributed surplus

The following table reconciles the Company's contributed surplus:

		2010		2009
Balance, beginning of year	$	491,150	$	18,000
Transferred on exercise of stock options		(19,000)		-
Stock based compensation		345,900		473,150
Balance, end of year	$	818,050 $	$	491,150

e) Per share amounts

The following table summarizes the weighted average common shares used in calculating the net loss per share. Options outstanding are anti-dilutive because the Company is in a net loss position in 2010 and 2009.

	2010	2009
Basic	27,409,689	18,199,315
Diluted	27,409,689	18,199,315

7. Related party transactions

a) Common management and directors

During 2010, office expenses of approximately $205,000 (2009 - $112,000) 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, 2010 an amount of $106,949 (2009 - $106,224), 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 2010, the aggregate value of transactions entered into between Traverse and these entities was approximately $1,775,000 (2009 - $540,000). Traverse had outstanding payables to the related parties of $83,905 (2009 - $439,436) and accounts receivable and prepaid cash calls due to Traverse of approximately $54,960 at December 31, 2010 (2009 - $71,952).

During 2009, management fees of $72,000 were paid to a company controlled by a director of the Company related to the administration and overall operations of the Company. These fees were in the normal course of business and were measured at the exchange amount, which is the consideration established and agreed to by the related party. No management fees were paid in 2010.

b) Legal services

During 2010, the Company incurred approximately $68,000 (2009 - $59,000) 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, 2010 accounts payable and accrued liabilities include $10,945 (2009 - $14,991) to the legal firm.

8. Commitment

In March 2011 Traverse entered into an operating lease for office premises beginning on November 1, 2011 and expiring on October 31, 2021. The annual payments under this commitment are approximately as follows:

Period	Annual amount
November 1, 2011 to October 31, 2013	$178,200
November 1, 2013 to October 31, 2016	$191,700
November 1, 2016 to October 31, 2018	$205,200
November 1, 2018 to October 31, 2021	$218,700

9. Financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable and accounts payable. The fair value of these instruments approximates their carrying value due to their short terms to maturity.

a) 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 joint venture partners and petroleum and natural gas marketers. Virtually all of Traverse's accounts receivable are from counterparties in the oil and gas industry and are subject to normal industry credit risks. The maximum exposure to credit risk is equal to the carrying value of the financial assets. During the year ended December 31, 2010 there was no impairment provision required on any of the financial assets of the Company due to the historical success of collecting receivables. At December 31, 2010 approximately $5,000 or 0.6% (2009 - $3,500 or 3%) of the Company's accounts receivable were outstanding for over 90 days. The Company does not have any significant credit risk exposure to any single counterparty.

b) Market risk

Market risk is the risk that changes in market prices, such as currency risk, commodity price risk and interest rate risk will affect the Company's net earnings, future cash flows or the fair value of its assets and liabilities. Although the Company generally does not sell or transact in foreign currency, the United States dollar influences the price of petroleum and natural gas sold in Canada. Commodity prices for crude oil, natural gas liquids and natural gas are also impacted by political events, meteorological conditions, disruptions in supply and changes in demand. The Company currently has no financial derivative sale contracts or physical sale contracts in place. The Company currently has no interest bearing debt and is therefore not subject to interest rate risk other than on its cash and cash equivalents where any exposure is considered insignificant.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on the balance sheet consist of accounts payable. The Company anticipates that it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows and existing cash.

10. Capital disclosures

The Company's objective in managing its capital structure is to maintain financial flexibility through periods of market fluctuations and to sustain the future development of the business. The Company considers its current capital structure to include shareholders' equity and working capital. The Company manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to maintain the capital structure, the Company may from time to time issue shares, adjust its capital spending or consider utilizing credit. The Company monitors its working capital in order to assess capital and operating efficiency.

The Company is not subject to any externally imposed capital requirements. During 2010, the Company's strategy in managing its capital was unchanged.

11. Subsequent event

Subsequent to year end the Company established a revolving production loan facility (the "Facility") with a Canadian banking institution (the "Lender"). The Facility is provided on a demand basis in the amount of $1.5 million subject to an annual review of the Company's reserves – the next review is scheduled for 2012. The Facility bears interest at the Lender's prime lending rate plus 1.5%. As security for the Facility, the Company has provided a general security agreement conveying a first floating charge over all real and personal property and after acquired assets.