FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2011

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 International Financial Reporting Standards. 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.

(signed) "*Laurie J. Smith*"

Laurie J. Smith
President & Chief Executive Officer

(signed) "*Sharon A. Supple*"

Sharon A. Supple
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Traverse Energy Ltd.

We have audited the accompanying financial statements of Traverse Energy Ltd., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 International Financial Reporting Standards, 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, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

(signed) "*KPMG LLP"*

Chartered Accountants

Calgary, Canada
April 23, 2012

TRAVERSE ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION

	Notes	December 31, 2011	December 31, 2010 (Note 17)	January 1, 2010 (Note 17)
Assets				
Current assets				
Cash and cash equivalents		$ 4,230,532	$ 3,130,377	$ 4,868,983
Accounts receivable		931,677	783,004	149,554
Prepaid expenses and deposits		37,973	122,724	164,596
Income taxes receivable		-	-	136,611
		5,200,182	4,036,105	5,319,744
Exploration and evaluation assets	6	2,958,415	2,230,870	1,437,653
Property and equipment	7	11,622,233	5,768,270	2,858,720
		$ 19,780,830	$ 12,035,245	$ 9,616,117
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 2,667,767	$ 1,677,920	$ 774,050
Deferred flow-through share premium		313,445	181,580	76,000
Decommissioning liabilities	9	860,000	647,000	216,000
Deferred income taxes	10	564,230	298,330	567,000
		4,405,442	2,804,830	1,633,050
Shareholders' Equity				
Share capital	11	18,897,239	11,279,307	6,769,498
Contributed surplus		1,097,950	748,956	476,300
Retained earnings (deficit)		(4,619,801)	(2,797,848)	737,269
		15,375,388	9,230,415	7,983,067
Commitments	11(c),14			
		$ 19,780,830	$ 12,035,245	$ 9,616,117

See accompanying notes to the financial statements

Approved on behalf of the Board:

(signed) "*A. David van der Lee*"

A. David van der Lee
Director

(signed) "*Laurie J. Smith*"

Laurie J. Smith
Director

TRAVERSE ENERGY LTD.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
For the years ended December 31,

	Notes	2011	2010 (Note 17)
Revenue			
Petroleum and natural gas		$ 3,730,777	$ 1,760,573
Royalty income		830,159	357,832
Royalties		(293,329)	(96,117)
		4,267,607	2,022,288
Expenses			
Operating		978,114	561,405
Transportation		115,496	72,172
General and administrative		805,376	611,680
Share based compensation		357,994	291,656
Gain on disposition of property and equipment	7	(21,196)	(27,269)
Exploration and evaluation expense	6	2,408,608	2,766,789
Depletion and depreciation	7	1,631,066	1,997,063
		6,275,458	6,273,496
Loss from operating activities		(2,007,851)	(4,251,208)
Finance income		(29,707)	(18,201)
Finance expense		21,250	11,000
Net finance income		(8,457)	(7,201)
Loss before income taxes		(1,999,394)	(4,244,007)
Income taxes			
Deferred income tax reduction		(177,441)	(708,890)
Net loss and comprehensive loss		$ (1,821,953)	$ (3,535,117)
Net loss per share - basic and diluted	11(d)	$ (0.05)	$ (0.13)

See accompanying notes to the financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Contributed surplus	Retained earnings (deficit)	Total Shareholders' Equity
Balance January 1, 2010	$ 6,769,498	$ 476,300	$ 737,269	$ 7,983,067
Net loss	-	-	(3,535,117)	(3,535,117)
Issued on exercise of common share options	53,333	-	-	53,333
Transfer of share based compensation on exercise	19,000	(19,000)	-	-
Share based compensation	-	291,656	-	291,656
Issued for cash	1,281,000	-	-	1,281,000
Issued for cash - flow-through	3,869,500	-	-	3,869,500
Deferred flow-through share premium	(588,500)	-	-	(588,500)
Share issue costs, net of tax of $42,700	(124,524)	-	-	(124,524)
Balance December 31, 2010	$ 11,279,307	$ 748,956	$ (2,797,848)	$ 9,230,415
Net loss	-	-	(1,821,953)	(1,821,953)
Issued on exercise of common share options	40,000	-	-	40,000
Transfer of share based compensation on exercise	9,000	(9,000)	-	-
Share based compensation	-	357,994	-	357,994
Issued for cash	3,528,251	-	-	3,528,251
Issued for cash - flow-through	4,967,602	-	-	4,967,602
Deferred flow-through share premium	(663,135)	-	-	(663,135)
Share issue costs, net of tax of $87,929	(263,786)	-	-	(263,786)
Balance December 31, 2011	$ 18,897,239	$ 1,097,950	$ (4,619,801)	$ 15,375,388

See accompanying notes to the financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CASH FLOWS
For the years ended December 31,

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net loss	$ (1,821,953)	$ (3,535,117)
Adjustments for:		
Depletion and depreciation	1,631,066	1,997,063
Exploration and evaluation expense	2,408,608	2,766,789
Share based compensation	357,994	291,656
Gain on disposition of property and equipment	(21,196)	(27,269)
Finance costs	21,250	11,000
Deferred income tax reduction	(177,441)	(708,890)
Decommissioning liabilities expended	-	(49,000)
Changes in non-cash working capital	(40,633)	(259,343)
	2,357,695	486,889
Financing activities:		
Proceeds on issue of common shares, net of issue costs	8,144,138	4,983,276
Proceeds on exercise of common share options	40,000	53,333
Changes in non-cash working capital	7,243	9,697
	8,191,381	5,046,306
Investing activities:		
Exploration and evaluation asset additions	(9,186,046)	(4,388,352)
Property and equipment asset additions	(1,576,497)	(4,426,648)
Property and equipment asset acquisitions	-	(316,515)
Exploration and evaluation asset dispositions	175,000	796,165
Property and equipment asset dispositions	179,307	365,000
Changes in non-cash working capital	959,315	698,549
	(9,448,921)	(7,271,801)
Change in cash and cash equivalents	1,100,155	(1,738,606)
Cash and cash equivalents, beginning of year	3,130,377	4,868,983
Cash and cash equivalents, end of year	**$ 4,230,532**	**$ 3,130,377**

See accompanying notes to the financial statements

1. Reporting entity

Traverse Energy Ltd. (the "Company" or "Traverse") is a oil and gas exploration, development and production company based in Calgary, Alberta, Canada. Traverse conducts its operations in the province of Alberta. The common shares of Traverse trade on the TSX Venture Exchange under the symbol "TVL". The Company's head and principal office is located at 780, 839 - 5 Avenue S.W., Calgary, Alberta, T2P 3C8 and its registered office is located at 1900, 520 - 3 Avenue SW Calgary, Alberta T2P 0R3.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 23, 2012.

2. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). A summary of the significant accounting policies and methods of computation is presented in note 3 to the financial statements. These policies have been retrospectively and consistently applied except where specific exemptions permitted an alternative treatment on transition to IFRS in accordance with IFRS 1 - *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 17 and includes reconciliations of equity and net loss for comparative periods from former Canadian GAAP ("previous GAAP") to IFRS.

These financial statements have been prepared on a historical cost basis. The methods used to measure fair values are discussed in note 4. These financial statements are presented in Canadian dollars, which is the Company's functional currency, and include the accounts of Traverse only as there are no subsidiary companies.

3. Significant accounting policies

(a) Jointly controlled operations and jointly controlled assets

A portion of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(b) Financial instruments

Financial instruments are measured at fair value on initial recognition of the instrument and are classified into one of the following five categories: fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities.

Subsequent measurement of financial instruments is based on their initial classification. FVTPL financial assets and liabilities are measured at fair value and changes in fair value are recognized in profit or loss. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

The transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability classified as FVTPL are expensed immediately. For a financial asset or financial liability carried at amortized cost, transaction costs directly attributable to acquiring or issuing the asset or liability are added to or deducted from the fair value on initial recognition and amortized through profit or loss income over the term of the financial instrument.

(i) Non-derivative financial instruments

Cash and cash equivalents comprise cash on hand, term deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents as well as accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable are classified as other financial liabilities, which are measured at amortized cost.

(ii) Derivative financial instruments

The Company may enter into certain financial derivative contracts in order to manage the 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 and therefore will not apply hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all derivative contracts will be classified as FVTPL and will be recorded on the statement of financial position at fair value. Transaction costs will be recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives will be measured at fair value, and changes therein will be recognized immediately in profit or loss.

The Company may enter into physical delivery sales contracts for the purposes of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements as executory contracts. As such, these contracts are not considered to be derivative financial instruments and will not be recorded at fair value on the statement of financial position. Settlements on these physical delivery contracts will be recognized in petroleum and natural gas revenue in the period of settlement.

At December 31, 2011 the Company does not have any derivative financial instruments.

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(c) Exploration and evaluation assets and property and equipment

(i) Pre-license expenditures

Costs incurred prior to obtaining the legal rights to explore a specific area have been obtained are recognized in profit or loss as incurred.

(ii) Exploration and evaluation assets

Exploration and evaluation ("E&E") expenditures are initially capitalized within "Exploration and Evaluation Assets". E&E costs may include the costs of acquiring undeveloped land, technical services and studies, seismic acquisition and exploration drilling and completion. These costs are accumulated in cost centers by well or areas and are carried forward until the existence (or otherwise) of commercial reserves has been determined. The Company defines commercial reserves as the existence of proved and/or probable reserves which are determined to be technically feasible and commercially viable to extract.

E&E assets are assessed for impairment, on a license or field basis, if: (i) sufficient data exists to determine technical feasibility and commercial viability; or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is defined as the higher of fair value less costs to sell and value in use. If proved and/or probable reserves have been discovered, E&E assets are first tested for impairment prior to the reclassification to property and equipment. The carrying value, after any impairment loss, of the relevant E&E assets and associated undeveloped land is then reclassified as development and production assets within property and equipment.

E&E assets are measured at cost less accumulated impairment losses and are not subject to depletion expense until after the assets are reclassified to property and equipment. Gains or losses are not recognized on the disposition of E&E assets. Any impairment loss on E&E assets, unsuccessful E&E costs and the cost of undeveloped land that has expired are charged to profit and loss as exploration and evaluation expense.

(iii) Development and production assets

Oil and natural gas assets are measured at cost less accumulated depletion, depreciation and impairment. Development and production assets are accumulated on an area by area basis and represent the cost of developing commercial reserves discovered and placing them on production, together with the E&E expenditures incurred in finding commercial reserves transferred from E&E assets as outlined above.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in net income as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserve and bringing on or enhancing production from such reserves, and are accumulated on an area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

The costs of development and production assets are depleted on an area level using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves of the area, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Gains and losses on disposal of development and production assets are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized in profit or loss.

(iv) Corporate assets

Corporate assets are stated at cost less accumulated depreciation and include office equipment and leasehold improvements.

Office equipment is depreciated on a declining balance basis at a rate of 30 percent per annum and leasehold improvements are amortized on a straight line basis over the term of the related lease.

(d) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to development and production assets, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from production of proved and probable reserves. Fair value less costs to sell is the amount for which the asset could be sold in an arm's length transaction and may be determined using discounted future net cash flows of proved and probable reserves. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment amounts are recognized in depletion and depreciation expense in the statement of income and comprehensive income. Impairment losses recognized in respect of CGUs reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses recognized in prior years are assessed at each reporting date if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(e) Share based compensation

The Company has a share based compensation plan comprised of a stock option plan (Note 11(e)). The Company uses the fair value method for valuing stock option grants using the Black Scholes option pricing model. Under this method, the compensation cost attributable to stock options granted is measured at the fair value at the date of the grant and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is subsequently adjusted each period to reflect the actual number of options that are expected to vest. Upon exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(f) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(g) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Oil and natural gas royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(h) Finance income and expense

Finance expense is comprised of the accretion of the discount rate on provisions. Finance income is comprised of interest income and is recognized as it accrues in profit or loss.

(i) Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance, the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes, is recognized as a liability on the statement of financial position. As qualifying expenditures are incurred, the liability is reversed and a corresponding deferred tax liability is recognized based on the Company's effective tax rate and the amount of expenditure. Any difference between the flow-through premium and the amount recognized by the Company as a deferred tax liability is recognized as deferred tax expense in profit or loss.

(k) Per share amounts

Basic income (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the net income per share attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted. If the Company is in a net loss position, there is no dilutive impact for outstanding stock options.

(l) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Accordingly, actual results may differ from these estimates and the effect of changes in these estimates on the financial statements in future periods could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgements made by management in the preparation of these financial statements are as follows:

(i) Reserve estimates

Estimation of reported recoverable quantities of proved and probable reserves include judgemental assumptions regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries.

The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying value of the Company's petroleum and natural gas properties and equipment, the calculation of depletion, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from the Company's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually. Traverse's petroleum and natural gas reserves are determined pursuant to National Instrument 51-101, Standards of Disclosures for Oil and Gas Activities.

(ii) Identification of cash-generating units

Traverse's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. The determination of the Company's cash generating units is subject to management's judgement.

(iii) Decommissioning obligations

The Company estimates future decommissioning obligations of production facilities, wells and pipelines based on current legal and constructive requirements, technology, price levels and expected plans for remediation. In most instances, removal of assets occurs many years into the future. This requires judgement regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability specific discount rates to determine the present value of these cash flows.

(iv) Share based compensation

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black Scholes model which is based on significant assumptions such as volatility, forfeiture rate, dividend yield and expected term.

(v) Income taxes

Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable earnings.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

(a) Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2011 and 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

(b) Stock options

The fair value of stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise price of the option, expected volatility (based on the weighted average historical volatility), weighted average expected life of the options (based on historical experience and general option holder behaviour), expected dividends, estimated forfeitures at the initial grant date, and the risk-free interest rate (based on government bonds).

5. Future accounting changes

As of January 1, 2013 the Company will be required to adopt the following standards as issued by the IASB. The Company is evaluating the impact, if any, that these standards may have on its financial statements.

- IFRS 10 *Consolidated Financial Statements*

  This standard supercedes IAS-27 *Consolidation and Separate Financial Statements* and SIC-12 *Consolidation - Special Purpose Entities* and provides a single model to be applied in control analysis for all investees including special purpose entities.

- IFRS 11 *Joint Arrangements*

  This standard divides joint arrangements into two types, joint operations and joint ventures, each with their own accounting model. All joint arrangements are required to be reassessed on transition to IFRS 11 to determine their type to apply the appropriate accounting.

- IFRS 12 *Disclosure of Interests in Other Entities*

  This standard combines into a single standard the disclosure requirements for subsidiaries, associates and joint arrangements as well as unconsolidated structured entities.

- IFRS 13 *Fair Value Measurement*

  This standard defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In November 2009, the IASB issued IFRS 9 *Financial Instruments* with amendments published in October 2011. In December 2011, the IASB published an additional amendment to IFRS 9 to defer the mandatory effective date to annual periods beginning on or after January 1, 2015. This new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has two classification categories: amortized cost and fair value. The Company does not expect IFRS 9 to have a material impact on its financial statements based on the financial assets held at this time. The Company is currently not anticipating early adopting the new standard.

6. Exploration and evaluation assets

	Total
Balance, January 1, 2010	$ 1,437,653
Additions	4,388,352
Dispositions	(796,165)
Transfers to property and equipment	(224,181)
Changes in decommissioning liabilities	192,000
Exploration and evaluation expense - unsuccessful exploration	(2,766,789)
Balance, December 31, 2010	2,230,870
Additions	9,186,046
Dispositions	(175,000)
Transfers to property and equipment	(5,851,643)
Changes in decommissioning liabilities	(23,250)
Exploration and evaluation expense - land expiries	(364,619)
Exploration and evaluation expense - unsuccessful exploration	(503,989)
Exploration and evaluation expense - impairments on transfer	(1,540,000)
Balance, December 31, 2011	$ 2,958,415

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Costs consist mainly of undeveloped land, geological and geophysical, and drilling costs until the drilling of the well is complete and the results have been evaluated. Additions represent the Company's share of costs incurred on E&E assets during the year.

During 2011 the Company recognized impairments on the transfers of three oil wells to property and equipment. These impairments of $1,540,000 were recognized as additional exploration and evaluation expense and any future reversals would be recognized as a reduction of exploration and evaluation expense.

7. Property and equipment

Cost:	Oil and natural gas properties	Corporate	Total
Balance, January 1, 2010	$ 2,847,027	$ 11,693	$ 2,858,720
Additions	4,402,250	24,398	4,426,648
Acquisitions	316,515	-	316,515
Dispositions	(390,835)	-	(390,835)
Transfers from exploration and evaluation	224,181	-	224,181
Changes in decommissioning liabilities	277,000	-	277,000
Balance, December 31, 2010	7,676,138	36,091	7,712,229
Additions	1,512,341	64,156	1,576,497
Dispositions	(242,235)	-	(242,235)
Transfers from exploration and evaluation	5,851,643	-	5,851,643
Changes in decommissioning liabilities	270,000	-	270,000
Balance, December 31, 2011	$ 15,067,887	$ 100,247	$ 15,168,134

Accumulated depletion and depreciation:	Oil and natural gas properties	Corporate	Total
Balance, January 1, 2010	$ -	$ -	$ -
Depletion and depreciation	(1,227,264)	(7,900)	(1,235,164)
Dispositions	53,104	-	53,104
Impairment	(761,899)	-	(761,899)
Balance, December 31, 2010	(1,936,059)	(7,900)	(1,943,959)
Depletion and depreciation	(1,616,977)	(14,089)	(1,631,066)
Dispositions	29,124	-	29,124
Balance, December 31, 2011	$ (3,523,912)	$ (21,989)	$ (3,545,901)

Net book value:	Oil and natural gas properties	Corporate	Total
As at January 1, 2010	$ 2,847,027	$ 11,693	$ 2,858,720
As at December 31, 2010	$ 5,740,079	$ 28,191	$ 5,768,270
As at December 31, 2011	$ 11,543,975	$ 78,258	$ 11,622,233

During the year the Company disposed of certain assets for gross proceeds of $179,307 (2010 - $365,000) and the assumption of related decommissioning liabilities of $78,250 (2010 - $14,000). This resulted in a gain of $21,196 (2010 - $27,269) for the year.

The calculation of depletion and depreciation for the three months ended December 31, 2011 included $1,163,000 (2010 - $743,000) for future development costs and excluded $295,000 (2010 - $nil) for estimated salvage values.

In the fourth quarter of 2010, due to decreasing natural gas prices and the impact on forecasted natural gas prices used in evaluating reserves, the Company recognized an impairment of $761,899. The impairment was recorded as additional depletion and depreciation in the statement of loss and was incurred on the Company's minor CGU. The minor CGU is composed mainly of overriding royalty gas interests.

At December 31, 2011, due to declining forward natural gas prices, the Company performed an impairment test on the minor CGU using recoverable amounts based on the expected future cash flows of the proved and probable reserves using forecasted prices and costs as determined by the independent reserve evaluators. The future cash flows were discounted using a pre-tax rate of 15% (2010 - 20%). No impairment was indicated.

8. Banking facility

In 2011 the Company established a revolving production loan facility (the “facility”) with a Canadian bank. The facility is provided on a demand basis in the amount of $1.5 million subject to an annual review of the borrowing base. The borrowing base is determined by the lender based on the lender's interpretation of the Company’s reserves, future commodity prices and other factors. There can be no assurance that the amount of the available facility will not be adjusted at the next scheduled borrowing base review on or before May 31, 2012.

The facility bears interest at the Lender’s prime lending rate plus 1.5% and standby fees are charged on the undrawn facility at a rate of 0.40%. Under the terms of the facility, a financial covenant must be maintained. The Company must not permit the working capital ratio, as defined by the bank, to fall below 1.00:1. The bank defines the working capital ratio as the ratio of (i) current assets plus any undrawn availability under the facility, to (ii) current liabilities less (to the extent included therein) any amount drawn under the facilities. At December 31, 2011 the Company was in compliance with the financial covenant and the amount owing under the facility was $nil. As security for the facility, the Company has provided a general security agreement providing a security interest over all present and after acquired personal property and a floating charge on all lands.

9. Decommissioning obligations

The Company's decommissioning obligations result from ownership interests in oil and natural gas assets including well sites, gathering systems and processing facilities. The total estimated undiscounted cash flows required to settle the Company's obligations at December 31, 2011 is $1,074,000 (December 31, 2010 - $778,000) and is expected to be incurred between 2012 and 2031. A risk-free discount rate of 2% (2010 - 4%) and an inflation rate of 2% were used to calculate the fair value of the obligation.

A reconciliation of the decommissioning obligations is provided below:

		Total
Balance, January 1, 2010	$	216,000
Obligations incurred and acquired		502,000
Obligations settled		(49,000)
Obligations disposed		(9,000)
Revision of estimates		(24,000)
Accretion expense		11,000
Balance, December 31, 2010		647,000
Obligations incurred and acquired		186,000
Obligations disposed		(78,250)
Revision of estimates		84,000
Accretion expense		21,250
Balance, December 31, 2011	$	860,000

10. Deferred income tax

(a) Deferred income tax reduction

The provision for income tax in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the Company's loss before income taxes. This difference results from the following items:

		Year ended Dec. 31, 2011		Year ended Dec. 31, 2010
Loss before income taxes	$	(1,999,394)	$	(4,244,007)
Combined federal and provincial income tax rate		26.5%		28.0%
Computed "expected" income tax reduction	$	(529,839)	$	(1,188,322)
Increase (decrease) in income taxes resulting from:				
Non-deductible share based compensation expense		94,868		81,660
Effect of change in income tax rates		20,830		88,957
Other		1,580		1,300
Flow-through shares		372,790		307,515
Recognition of previously unrecognized deferred tax assets		(137,670)		-
Deferred income tax reduction	$	(177,441)	$	(708,890)

The general combined federal and provincial income tax rate lowered to 26.5% in 2011 from 28.0% in 2010 due to the federal rate dropping from 18% (2010) to 16.5% in 2011.

(b) Unrecognized deferred tax assets

Deferred tax assets acquired through a private company acquisition in 2009 were not previously recognized as it was not considered probable that the Company could utilize the benefit of these deferred tax assets. In 2011 these amounts became accessible as a result of successful drilling and accordingly the deferred tax assets have been recognized.

	2011	2010
Deductible temporary differences	$ -	$ 172,495
Non-capital loss carryforwards	-	370,547
	$ -	$ 543,042

(c) Deferred income tax liability

The components of the Company's deferred income tax liability are as follows:

	2011	2010
Deferred tax liabilities:		
E&E assets & property & equipment	$ 1,156,680	$ 661,310
Deferred tax assets:		
Decommissioning liabilities	(215,000)	(164,040)
Non-capital losses	(279,460)	(154,220)
Share issue costs	(97,990)	(44,720)
Deferred income tax liability	$ 564,230	$ 298,330

The Company's assets have an approximate tax basis of $11.5 million at December 31, 2011 (2010 - $6.7 million) available for deduction against future taxable income, including non-capital loss carryforwards of $1,118,000 (2010 - $970,000). Approximately $10,000 of the non-capital loss carryforwards expire in 2015 and the remaining losses expire between 2026 and 2031.

A continuity of the net deferred income tax liability (asset) is provided below:

	Balance January 1, 2011	Recognized in income or loss	Recognized in equity	Flow-through shares	Balance December 31, 2011
E&E assets and property & equipment	$ 661,310	$ (35,900)		$ 531,270	$ 1,156,680
Decommissioning liabilities	(164,040)	(50,960)			$ (215,000)
Non-capital losses	(154,220)	(90,581)	(34,659)		$ (279,460)
Share issue costs	(44,720)		(53,270)		$ (97,990)
	$ 298,330	$ (177,441)	$ (87,929)	$ 531,270	$ 564,230

	Balance January 1, 2010	Recognized in income or loss	Recognized in equity	Flow-through shares	Balance December 31, 2010
E&E assets and property & equipment	$ 647,000	$ (468,610)		$ 482,920	$ 661,310
Decommissioning liabilities	(55,900)	(108,140)			$ (164,040)
Non-capital losses	(9,400)	(132,140)	(12,680)		$ (154,220)
Share issue costs	(14,700)		(30,020)		$ (44,720)
	$ 567,000	$ (708,890)	$ (42,700)	$ 482,920	$ 298,330

11. Share capital

(a) Authorized

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. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share.

(b) Issued and outstanding

Common shares	Number		Amount
Balance January 1, 2010	24,950,000	$	6,769,498
Issued for cash on exercise of stock options	133,333		53,333
Transferred from contributed surplus on exercise of stock options	-		19,000
Issued for cash	2,135,000		1,281,000
Issued for cash - flow-through	4,635,000		3,869,500
Deferred flow-through share premium	-		(588,500)
Share issue costs, net of tax of $42,700	-		(124,524)
Balance December 31, 2010	31,853,333	$	11,279,307
Issued for cash on exercise of stock options	100,000		40,000
Transferred from contributed surplus on exercise of stock options	-		9,000
Issued for cash	4,484,189		3,528,251
Issued for cash - flow-through	5,772,389		4,967,602
Deferred flow-through share premium	-		(663,135)
Share issue costs, net of tax of $87,929	-		(263,786)
Balance December 31, 2011	42,209,911	$	18,897,239

(c) Private placements

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 Company has incurred the required qualifying expenditures. Directors and officers of the Company subscribed for 233,300 flow-through common shares for consideration of $221,635.

In May 2011 the Company completed a private placement of both common and flow-through common shares. Common shares were issued at $0.80 per share, flow-through common shares eligible for Canadian exploration expenses were issued at $0.95 per share and flow-through common shares eligible for Canadian development expenses were issued at $0.87 per share. A total of 6,531,128 common shares were issued for gross proceeds of $5,574,593. Of this amount, 2,637,939 common shares were issued on a flow-through basis for gross proceeds of $2,460,042. Directors and officers of the Company subscribed for 305,000 common shares for gross proceeds of $263,125. The Company has incurred the required qualifying expenditures.

In November 2011 the Company completed a private placement of both common and flow-through common shares. Common shares were issued at $0.70 per share and flow-through common shares eligible for Canadian exploration expense were issued at $0.80 per share. A total of 3,725,450 common shares were issued for gross proceeds of $2,921,260. Of this amount, 3,134,450 common shares were issued on a flow-through basis for gross proceeds of $2,507,560. Directors and officers of the Company subscribed for 542,500 common shares for gross proceeds of $419,000. The obligation remaining for this flow through issue at December 31, 2011 was $2,507,560.

(d) Per share amounts

Basic and diluted net loss were calculated as follows:

	2011	2010
Net loss for the year	$ 1,821,953	$ 3,535,117
Weighted average number of common shares outstanding - basic	36,451,924	27,409,689
Effect of outstanding options	-	-
Weighted average number of common shares outstanding - diluted	36,451,924	27,409,689
Net loss per share - basic and diluted	$ (0.05)	$ (0.13)

The Company has experienced a net loss in the years presented therefore the effect of outstanding options has been excluded as they are anti-dilutive.

(e) 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 following table sets forth a reconciliation of the stock option plan activity:

	Number of options	Weighted average exercise price
Balance January 1, 2010	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
Exercised	(100,000)	$ 0.40
Granted	1,000,000	$ 0.80
Balance December 31, 2011	3,525,000	$ 0.57

The weighted average share price at the date stock options were exercised in 2011 was $0.78 (2010 - $0.65).

The fair value of options granted was estimated using a Black Scholes model with the following weighted average assumptions:

Assumptions	2011	2010
Risk free interest rate (%)	1.4	2.1
Expected life (years)	4.8	4.9
Expected volatility (%)	56.9	63.6
Forfeiture rate (%)	1.7	0.9
Weighted average fair value of options	$0.39	$0.30

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2011:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.00 - $0.40	1,500,000	2.7	$ 0.40	1,500,000	$ 0.40
$0.41 - $0.60	1,025,000	3.6	$ 0.59	1,025,000	$ 0.59
$0.61 - $0.80	1,000,000	4.7	$ 0.80	766,666	$ 0.80
$0.40 - $0.80	3,525,000	3.5	$ 0.57	3,291,666	$ 0.55

12. Statement of loss and comprehensive loss presentation

A mixed presentation of nature and function was used for the Company's presentation of operating expenses in the statements of loss and comprehensive loss for the current and comparative years. General and administrative expenses are presented by their function. Other expenses, including operating, transportation, exploration and evaluation and depletion and depreciation are presented by their nature. Such presentation is in accordance with industry practice.

Total compensation costs included in operating and general and administrative expenses in the statements of loss and comprehensive loss are detailed in the following table:

	2011	2010
Operating	$ 6,440	$ 10,606
General and administrative	403,550	303,771
Compensation costs	$ 409,990	$ 314,377

13. Related party transactions

(a) Common management and directors

During 2011, office expenses of approximately $131,000 (2010 - $154,000) were paid to a company controlled by two directors of the Company. These transactions were in the normal course of business and on terms consistent with parties dealing at arm’s length. At December 31, 2011 Traverse had an amount of $nil (2010 - $107,000) included within prepaid expenses and deposits relating to the office expenses.

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 year ended December 31, 2011, the aggregate value of transactions entered into between Traverse and these entities was approximately $401,000 (2010 - $1,775,000). Traverse had outstanding payables to the related parties of $121,000 (2010 - $84,000) and accounts receivable due to Traverse of $nil at December 31, 2011 (2010 - $55,000).

(b) Key management compensation

Key management includes senior officers and directors of the Company. The compensation paid or payable to key management for employee services is shown below:

	2011	2010
Salary, wages and fees	$ 184,312	$ 122,287
Share based compensation	255,195	190,004
Key management compensation	$ 439,507	$ 312,291

14. 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:

Year	Annual amount
2012	$ 196,900
2013	$ 199,100
2014 and 2015	$ 210,400
2016	$ 212,600
2017	$ 223,900
2018	$ 226,100
2019 and 2020	$ 237,400
2021	$ 197,800

15. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as credit risk, market risk and liquidity risk. This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

(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 resulting in Traverse incurring a loss. Cash and cash equivalents are held in deposit accounts with a Canadian financial institution. The Company's accounts receivable arise principally from the Company's receivables from joint venture partners and oil and natural gas marketers.

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms. 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 credit worthy purchasers. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure.

However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company can elect or take overriding production royalties in kind, cash call for major projects and does have the ability, in some cases, to withhold production from joint venture partners in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure. As at December 31, 2011 the Company's receivables consisted of $415,659 (2010 - $490,759) of receivables from petroleum and natural gas marketers, $365,426 (2010 - $121,383) from joint venture partners and $150,592 (2010 - $170,862) of receivables from government agencies. During the year ended December 31, 2011 and 2010 there were no impairment provisions required on any of the financial assets of the Company due to the historical success of collecting receivables. The Company does not consider any receivables to be past due.

(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 profit or loss, 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 Company's financial liabilities consist of accounts payable which are invoices payable to trade suppliers for office expenses, field operating activities and capital expenditures. The Company processes invoices within a normal period and all accounts payable have contractual maturities of less than one year. The Company manages liquidity by monitoring cash flows and maintaining a banking facility, as outlined in note 8.

(d) Capital management

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. The banking facility is subject to an annual review of the borrowing base which is directly impacted by the value of the oil and natural gas reserves. During 2011, the Company's strategy in managing its capital was unchanged.

16. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	2011	2010
Provided by (used in):		
Accounts receivable	$ (148,673)	$ (496,839)
Prepaid expenses and deposits	84,751	41,872
Accounts payable and accrued liabilities	989,847	903,870
	$ 925,925	$ 448,903
Provided by (used in):		
Operating	$ (40,633)	$ (259,343)
Financing	7,243	9,697
Investing	959,315	698,549
	$ 925,925	$ 448,903

17. Transition to International Financial Reporting Standards

The adoption of IFRS requires the application of IFRS 1. IFRS 1 generally requires that an entity retrospectively apply all IFRS effective at the end of its first IFRS reporting period; however IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions. Certain IFRS 1 optional exemptions have been applied including:

Full Cost Accounting - IFRS 1 allows an entity that used full cost accounting under its previous GAAP to elect, at the time of adoption to IFRS, to measure oil and gas assets in the development and production phases by allocating the amount determined under the entity's previous GAAP for those assets to the underlying assets pro rata using reserve volumes or reserve values as of that date. Traverse has used reserve values as at January 1, 2010 to allocate the cost of development and production assets to CGUs.

Business Combinations - IFRS 1 allows an entity to use the IFRS rules for business combinations on a prospective basis rather than re-stating all business combinations.

Share based compensation - IFRS 1 allows an entity an exemption on IFRS 2, "Share-based payment" to equity instruments which vested before Traverse's transition date to IFRS.

Decommissioning Obligations - Traverse elected to use the decommissioning obligation exemption that allows for the remeasurement of decommissioning obligations on IFRS transition. Since Traverse also elected to use the IFRS exemption discussed above, any adjustment to the decommissioning obligation is required to be offset to retained earnings/deficit.

The accounting policies in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the financial statements for the year ending December 31, 2010 and the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition to IFRS).

In preparing its opening IFRS statement of financial position and comparative information for the year ended December 31, 2010, the Company adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP. An explanation of how the transition from the previous GAAP to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes accompanying the tables. No changes have occurred in the Statements of Cash Flows as a result of the adoption of IFRS.

17. Transition to International Financial Reporting Standards (continued)

(i) Reconciliation of the Statement of Financial Position from Canadian GAAP to IFRS
As at January 1, 2010 - the date of transition

	Notes 17(iv)	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 4,868,983	$ -	$ 4,868,983
Accounts receivable		149,554	-	149,554
Prepaid expenses and deposits		164,596	-	164,596
Income taxes receivable		136,611	-	136,611
		5,319,744	-	5,319,744
Exploration and evaluation assets	a,i	-	1,437,653	1,437,653
Property and equipment	a,b,i	4,920,999	(2,062,279)	2,858,720
		$ 10,240,743	$ (624,626)	$ 9,616,117
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 774,050	$ -	$ 774,050
Deferred flow-through share premium	g	-	76,000	76,000
Decommissioning liabilities	c	168,000	48,000	216,000
Deferred income taxes	b,c,g,h,i	581,000	(14,000)	567,000
		1,523,050	110,000	1,633,050
Shareholders' Equity				
Share capital	g	6,969,498	(200,000)	6,769,498
Contributed surplus	d	491,150	(14,850)	476,300
Retained earnings (deficit)	b,c,d,g,i	1,257,045	(519,776)	737,269
		8,717,693	(734,626)	7,983,067
		$ 10,240,743	$ (624,626)	$ 9,616,117

17. Transition to International Financial Reporting Standards (continued)

(ii) Reconciliation of the Statement of Financial Position from Canadian GAAP to IFRS As at December 31, 2010

	Notes 17(iv)	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets				
Current assets				
Cash and cash equivalents		$ 3,130,377	$ -	$ 3,130,377
Accounts receivable		783,004	-	783,004
Prepaid expenses and deposits		122,724	-	122,724
		4,036,105	-	4,036,105
Exploration and evaluation assets	a,b,i	-	2,230,870	2,230,870
Property and equipment	a,b,c,e,f,i	10,140,699	(4,372,429)	5,768,270
		$ 14,176,804	$ (2,141,559)	$ 12,035,245
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		$ 1,677,920	$ -	$ 1,677,920
Deferred flow-through share premium	g	-	181,580	181,580
Decommissioning liabilities	c	542,000	105,000	647,000
Deferred income taxes	b,c,g,h,i	179,400	118,930	298,330
		2,399,320	405,510	2,804,830
Shareholders' Equity				
Share capital	g	11,808,807	(529,500)	11,279,307
Contributed surplus	d	818,050	(69,094)	748,956
Retained earnings (deficit)	b to i	(849,373)	(1,948,475)	(2,797,848)
		11,777,484	(2,547,069)	9,230,415
		$ 14,176,804	$ (2,141,559)	$ 12,035,245

17. Transition to International Financial Reporting Standards (continued)

(iii) Reconciliation of Loss and Comprehensive Loss from Canadian GAAP to IFRS
Year ended December 31, 2010

	Notes 17(iv)	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue				
Petroleum and natural gas		$ 2,118,405	$ -	$ 2,118,405
Royalties		(96,117)	-	(96,117)
		2,022,288	-	2,022,288
Expenses				
Operating		561,405	-	561,405
Transportation		72,172	-	72,172
General and administrative		611,680	-	611,680
Share based compensation	d	345,900	(54,244)	291,656
Gain on disposition of property and equipment	e	-	(27,269)	(27,269)
Exploration and evaluation expense	b,i	-	2,766,789	2,766,789
Depletion and depreciation	b,c,f,i	3,173,650	(1,176,587)	1,997,063
		4,764,807	1,508,689	6,273,496
Loss from operating activities		(2,742,519)	(1,508,689)	(4,251,208)
Finance income		(18,201)	-	(18,201)
Finance expense	c	-	11,000	11,000
Net finance income		(18,201)	11,000	(7,201)
Loss before income taxes		(2,724,318)	(1,519,689)	(4,244,007)
Income taxes				
Deferred income tax reduction	g,h,i	(617,900)	(90,990)	(708,890)
Net loss and comprehensive loss	i	$ (2,106,418)	$ (1,428,699)	$ (3,535,117)

17. Transition to International Financial Reporting Standards (continued)

(iv) Notes to the reconciliations of statement of financial position and loss and comprehensive loss from Canadian GAAP to IFRS

a IFRS 1 deemed cost election for full cost oil and gas entities

The Company elected to use an IFRS 1 election whereby the previous GAAP full cost pool was used to measure exploration and evaluation assets and development and production assets on transition to IFRS as follows:

- exploration and evaluation assets were reclassified from property and equipment to intangible exploration assets. This consisted of the carrying amount of undeveloped lands that related directly to exploration projects; and

- the remaining full cost pool was allocated to the producing/development assets and components pro rata using proved and probable reserve values.

This resulted in a transfer of $1,437,653 on transition to exploration and evaluation assets, representing the unproved properties under Canadian GAAP, and a corresponding decrease to property and equipment on transition.

b Impairment on exploration and evaluation assets and property and equipment

There was no impairment of exploration and evaluation assets at the date of transition to IFRS (January 1, 2010). At December 31, 2010 the Company determined certain exploration and evaluation costs to be unsuccessful and not recoverable. As a result an impairment of exploration and evaluation assets of $2,766,789 was recognized as exploration and evaluation expense.

On the date of transition to IFRS the Company performed impairment tests on all CGUs using recoverable amounts based on the expected future cash flows of the proved and probable reserves using forecasted prices and costs as determined by the independent reserve evaluators. The future cash flows were discounted using a pre-tax rate of 10% for the oil CGU and 20% for the minor CGU resulting in an impairment of $624,626. This resulted in a corresponding after-tax decrease to retained earnings of $463,026 and a decrease in deferred income tax of $161,600. As a result of continued decreasing natural gas prices and the impact on forecasted natural gas prices used in evaluating reserves, the Company recognized further impairment of $761,899 on the minor CGU at December 31, 2010. Previously under CGAAP, Traverse recorded as additional depletion a write down of property and equipment of $1,169,000 for the year ended December 31, 2010. If the recoverable amount increases in the future due to natural gas price changes, impairments can be reversed.

c Decommissioning obligations

Under Canadian GAAP, decommissioning obligations were discounted at a credit adjusted risk free rate of 8.5 percent. Under IFRS, the estimated cash flows to abandon and remediate the wells and facilities has been risk adjusted therefore the provision is discounted at a risk free rate of 4%. Upon transition to IFRS this resulted in an increase to decommissioning obligations of $48,000 with a corresponding after-tax decrease to retained earnings of $35,600 and a decrease in deferred income taxes of $12,400.

As a result of the change in the discount rate and its impact on the obligations incurred or acquired during 2010, decommissioning obligations increased by $60,750 at December 31, 2010. Accretion expense decreased by $3,750 for year ended December 31, 2010 as compared to CGAAP. In addition, under Canadian GAAP the accretion of the discount was included in depletion and depreciation whereas under IFRS the accretion is included in finance expense.

17. Transition to International Financial Reporting Standards (continued)

(iv) Notes to the reconciliations of statement of financial position and income and comprehensive income from Canadian GAAP to IFRS

d Share based compensation

Under Canadian GAAP stock options granted to consultants were revalued at each reporting date. In addition, forfeitures of stock options were recognized as they occurred. Under IFRS the revaluation of options granted to the Company's consultants is no longer required and an estimate of forfeitures is incorporated at the date of grant. At transition, the application of these two differences resulted in a decrease of $14,850 to contributed surplus with an offsetting increase to retained earnings.

Share based compensation was reduced by $54,244 for the year ended December 31, 2010 with corresponding decreases in contributed surplus.

e Gains and losses on dispositions

Under Canadian GAAP, proceeds from dispositions were deducted from the full cost pool without recognition of a gain or loss unless the deduction resulted in a change in the depletion rate of 20 percent or greater, in which case a gain or loss was recorded. Under IFRS, gains and losses are recorded on dispositions and are calculated as the difference between the proceeds and the net book value of the asset disposed. For the year ended December 31, 2010 the Company recognized a $27,269 net gain on dispositions under IFRS as compared to nil under Canadian GAAP.

f Depletion policy

Under Canadian GAAP, the Company depleted the full cost pool balance based on the unit of production method over total proved reserves. Under IFRS, the Company's policy is to deplete its development and production costs on an area basis using the unit of production method over proved and probable reserves. There was no impact at transition from this change as a result of the exemption provided under IFRS 1.

For the year ended December 31, 2010 depleting the oil and natural gas interests over proved and probable reserves resulted in a decrease to depletion and depreciation expense of $754,736 compared to Canadian GAAP for the same period.

g Flow-through shares

Under Canadian GAAP, the proceeds from the issuance of flow-through shares are recognized as shareholders' equity and the future effect on income taxes related to flow-through shares is recorded as a charge to share capital in the period in which the renouncement of the expenditures is filed with tax authorities. Under IFRS, the premium received on the issuance of flow-through shares, being the difference in price over a common share with no tax attributes, is recognized as a liability on the statement of financial position. As qualifying expenditures are incurred, the liability is reversed and a corresponding deferred tax liability is recognized based on the Company's effective tax rate and the amount of expenditure. Any difference between the flow-through premium and the amount recognized by the Company as a deferred tax liability is charged as deferred income tax expense in the statement of income and comprehensive income.

At transition the above accounting policy difference resulted in a decrease to share capital of $200,000; an increase to deferred income tax of $160,000; a decrease in retained earnings of $36,000; and a flow-through share premium liability of $76,000. For the year ended December 31, 2010 the policy difference resulted in an increase to deferred income tax expense of $307,515; a decrease in share capital of $329,500; an increase in the deferred income tax liability of $531,435 and an increase in the flow-through share premium liability of $181,580.

17. Transition to International Financial Reporting Standards (continued)

(iv) Notes to the reconciliations of statement of financial position and income and comprehensive income from Canadian GAAP to IFRS

h Deferred income taxes

The adjustment to the deferred income taxes on the date of transition relates to the impairment recorded on oil and natural gas interests, the increase in decommissioning liabilities and the impact of the treatment of flow-through shares as discussed above. The deferred income tax expense and related liability amounts for the year ended December 31, 2010 have changed as a result of the reconciling items discussed above.

i Summary reconciliations

		As at January 1, 2010	As at December 31, 2010
Exploration and evaluation assets			
a	reclassification of exploration and evaluation assets	$ 1,437,653	$ 2,230,870
Change in exploration and evaluation assets		$ 1,437,653	$ 2,230,870
Property and equipment			
a	reclassification of exploration and evaluation assets	$ (1,437,653)	$ (5,221,840)
a	transfer of exploration and evaluation assets	$ -	$ 224,181
b	impairment of property and equipment on transition	(624,626)	(624,626)
b	impairment of property and equipment	-	(761,899)
b	reversal of write down under previous GAAP	-	1,169,000
c	increase in decommissioning obligations	-	60,750
e	gain on disposition of property and equipment		27,269
f	depletion policy	-	754,736
Change in property and equipment		$ (2,062,279)	$ (4,372,429)
Deferred income tax liability			
b	related to impairment on transition	$ (161,600)	$ (161,600)
c	related to decommissioning obligations on transition	(12,400)	(12,400)
g	flow-through shares - expenditures incurred	160,000	383,920
g	deferred income tax in excess of flow-through premium	-	307,515
h	deferred income taxes	-	(398,505)
Change in deferred income tax liability		$ (14,000)	$ 118,930
Retained earnings (deficit)			
b	impairment on transition to IFRS, net of tax	$ (463,026)	$ (463,026)
b	impairment of exploration and evaluation assets	-	(2,766,789)
b	impairment of property and equipment	-	(761,899)
b	reversal of write down under previous GAAP	-	1,169,000
c	decommissioning obligations on transition, net of tax	(35,600)	(35,600)
c	accretion on decommissioning obligations	-	3,750
d	share based compensation on transition	14,850	14,850
d	share based compensation	-	54,244
e	gain on disposition of property and equipment	-	27,269
f	depletion policy	-	754,736
g	deferred income tax in excess of flow-through premium	(36,000)	(343,515)
h	deferred income taxes	-	398,505
Change in retained earnings (deficit)		$ (519,776)	$ (1,948,475)

17. Transition to International Financial Reporting Standards (continued)

(iv) Notes to the reconciliations of statement of financial position and income and comprehensive income from Canadian GAAP to IFRS

i Summary reconciliations

		Year ended December 31, 2010
	Net loss and comprehensive loss	
b	exploration and evaluation expense	$ 2,766,789
b	depletion - impairment of property and equipment	761,899
b	depletion - reversal of write down under previous GAAP	(1,169,000)
f	depletion policy	(754,736)
c	depletion - reclassification of accretion	(14,750)
	Change in depletion and depreciation	(1,176,587)
d	share based compensation	(54,244)
c	finance costs - reclassification of accretion	11,000
e	gain on disposition of property and equipment	(27,269)
	Change in loss before income taxes	(1,519,689)
g	deferred income tax in excess of flow-through premium	307,515
h	deferred income taxes	(398,505)
	Change in deferred income taxes	(90,990)
	Change in net loss and comprehensive loss	$ (1,428,699)