Traverse Energy Ltd.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2012

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 as issued by the International Accounting Standards Board. 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, 2012 and December 31, 2011, the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended 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 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, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "*KPMG LLP"*

Chartered Accountants

Calgary, Canada
April 17, 2013

TRAVERSE ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION

	Notes	December 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		$ 3,267,511	$ 4,230,532
Accounts receivable		1,562,283	931,677
Prepaid expenses and deposits		31,613	37,973
		4,861,407	5,200,182
Exploration and evaluation assets	6	3,721,166	2,958,415
Property and equipment	7	10,866,992	11,622,233
		$ 19,449,565	$ 19,780,830
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,778,298	$ 2,667,767
Deferred flow-through share premium		196,000	313,445
Decommissioning obligations	9	1,054,000	860,000
Deferred income taxes	10	828,630	564,230
		3,856,928	4,405,442
Shareholders' Equity			
Share capital	11	21,685,273	18,897,239
Contributed surplus		1,355,056	1,097,950
Deficit		(7,447,692)	(4,619,801)
		15,592,637	15,375,388
Commitments	11(c),13		
Subsequent event	14		
		$ 19,449,565	$ 19,780,830

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	2012	2011
Revenue			
Petroleum and natural gas		$ 4,600,364	$ 3,730,777
Royalty income		3,321,586	830,159
Royalties		(299,282)	(293,329)
		7,622,668	4,267,607
Expenses			
Operating		1,086,272	978,114
Transportation		145,412	115,496
General and administrative		815,210	805,376
Share based compensation		257,106	357,994
Gain on disposition of property and equipment	7	-	(21,196)
Exploration and evaluation expense	6	2,026,066	2,408,608
Depletion and depreciation	7	6,252,630	1,631,066
		10,582,696	6,275,458
Loss from operating activities		(2,960,028)	(2,007,851)
Finance income		(11,928)	(29,707)
Finance expense		19,000	21,250
Net finance income		7,072	(8,457)
Loss before income taxes		(2,967,100)	(1,999,394)
Income taxes			
Deferred income tax reduction	10(a)	(139,209)	(177,441)
Net loss and comprehensive loss		$ (2,827,891)	$ (1,821,953)
Net loss per share - basic and diluted	11(d)	$ (0.07)	$ (0.05)

See accompanying notes to the financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Contributed surplus	Deficit	Total Shareholders' Equity
Balance January 1, 2011	$ 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
Net loss	-	-	(2,827,891)	(2,827,891)
Share based compensation	-	257,106	-	257,106
Issued for cash - flow-through	3,212,260	-	-	3,212,260
Deferred flow-through share premium	(320,680)	-	-	(320,680)
Share issue costs, net of tax of $34,516	(103,546)	-	-	(103,546)
Balance December 31, 2012	$ 21,685,273	$ 1,355,056	$ (7,447,692)	$ 15,592,637

See accompanying notes to the financial statements

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

	2012	2011
Cash provided by (used in):		
Operating activities:		
Net loss	$ (2,827,891)	$ (1,821,953)
Adjustments for:		
Depletion and depreciation	6,252,630	1,631,066
Exploration and evaluation expense	2,026,066	2,408,608
Share based compensation	257,106	357,994
Gain on disposition of property and equipment	-	(21,196)
Finance expense	19,000	21,250
Deferred income tax reduction	(139,209)	(177,441)
Changes in non-cash working capital	(378,538)	(40,633)
	5,209,164	2,357,695
Financing activities:		
Proceeds on issue of common shares, net of issue costs	3,074,198	8,144,138
Proceeds on exercise of common share options	-	40,000
Changes in non-cash working capital	(5,485)	7,243
	3,068,713	8,191,381
Investing activities:		
Exploration and evaluation asset additions	(6,031,783)	(9,186,046)
Property and equipment asset additions	(2,184,423)	(1,576,497)
Exploration and evaluation asset dispositions	105,000	175,000
Property and equipment asset dispositions	-	179,307
Changes in non-cash working capital	(1,129,692)	959,315
	(9,240,898)	(9,448,921)
Change in cash and cash equivalents	(963,021)	1,100,155
Cash and cash equivalents, beginning of year	4,230,532	3,130,377
Cash and cash equivalents, end of year	**$ 3,267,511**	**$ 4,230,532**

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 17, 2013.

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"). These financial statements have been prepared in accordance with the significant accounting policies and methods of computation as set forth in note 3.

Operating expenses in the statement of loss are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a separate line by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and stock based compensation are presented by their nature in the notes to the financial statements.

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

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Company has made the following classifications:

Cash and cash equivalents and accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. 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.

Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(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 fair value through profit or loss and will be recorded on the statement of financial position at fair value. Transaction costs will be recognized in profit or loss when incurred.

Contracts that are entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements (such as physical delivery commodity contracts) are accounted for as executory contracts. These contracts are not fair valued on the statement of financial position. Settlements are recognized in the statement of loss as they occur.

At December 31, 2012 the Company did 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

The costs of acquiring undeveloped land, technical services and studies, seismic acquisition and exploration drilling and completion are initially capitalized as exploration and evaluation assets. These costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation 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. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and/or probable reserves are determined to exist. Upon determination of proved and/or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified to development and production assets included in property and equipment.

Exploration and evaluation 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 exploration and evaluation assets. Any impairment loss on exploration and evaluation assets, unsuccessful 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

Items of property and equipment, which include oil and natural gas properties, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash-generating units ("CGUs").

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 profit or loss 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) Critical accounting judgments and key sources of estimation uncertainty

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. 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 judgments made by management in the preparation of these financial statements are outlined below.

Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these financial statements:

(i) 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 these CGUs was based on management's judgment in regards to geographical proximity, geology, production profile, production type and similar exposure to market risk and materiality.

(ii) Impairment of petroleum and natural gas assets

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

(iii) Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing technical feasibility and commercial viability.

(iv) Deferred income taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) Reserve estimates

The assessment of reported recoverable quantities of proved and probable reserves include estimates 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) 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 assumptions 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.

(iii) 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 share price, volatility, forfeiture rate, dividend yield and expected term.

(iv) 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, 2012 and 2011, 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

The following accounting standards and amendments, issued by the International Accounting Standards Board ("IASB"), become effective January 1, 2013 (except as otherwise noted.). The impact of these accounting standards is not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

- IFRS 9 *Financial Instruments*

  This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. 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. IFRS 9 is not effective until January 1, 2015.

- 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.

6. Exploration and evaluation assets

		Total
Balance, January 1, 2011	$	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
Additions		6,031,783
Dispositions		(105,000)
Transfers to property and equipment		(3,352,966)
Changes in decommissioning liabilities		215,000
Exploration and evaluation expense - land expiries		(153,943)
Exploration and evaluation expense - unsuccessful exploration		(1,222,123)
Exploration and evaluation expense - impairments on transfer		(650,000)
Balance, December 31, 2012	$	3,721,166

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proved and/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 2012 the Company recognized impairments on the transfers of wells to property and equipment. These impairments of $650,000 (2011 - $1,540,000) were recognized as additional exploration and evaluation expense and any future reversals would be recognized as a reversal of exploration and evaluation expense.

7. Property and equipment

Cost:	**Oil and natural gas properties**	**Corporate**	**Total**
Balance, January 1, 2011	$ 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
Additions	2,172,325	12,098	2,184,423
Transfers from exploration and evaluation	3,352,966	-	3,352,966
Changes in decommissioning liabilities	(40,000)	-	(40,000)
Balance, December 31, 2012	$ 20,553,178	$ 112,345	$ 20,665,523

Accumulated depletion and depreciation:	**Oil and natural gas properties**	**Corporate**	**Total**
Balance, January 1, 2011	$ (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)
Depletion and depreciation	(2,533,176)	(19,454)	(2,552,630)
Impairment	(3,700,000)	-	(3,700,000)
Balance, December 31, 2012	$ (9,757,088)	$ (41,443)	$ (9,798,531)

Net book value:	**Oil and natural gas properties**	**Corporate**	**Total**
As at December 31, 2011	$ 11,543,975	$ 78,258	$ 11,622,233
As at December 31, 2012	$ 10,796,090	$ 70,902	$ 10,866,992

The calculation of depletion at December 31, 2012 included estimated future development costs of $481,000 (2011 - $1,163,000) associated with the development of the Company's proved plus probable reserves and excluded salvage value of $387,000 (2011 - $295,000).

In 2011 the Company disposed of certain assets for gross proceeds of $179,307 and the assumption of related decommissioning liabilities of $78,250. This resulted in a gain of $21,196 for the year. There were no dispositions of property and equipment during 2012.

At December 31, 2012 and 2011, due to declining forward natural gas and oil prices and reserve revisions, the Company tested its CGUs for impairment as well as the potential reversal of prior period impairments. The recoverable amounts of the Company's CGUs were estimated as the fair value less costs to sell based on the net present value of the before income tax cash flows from proved plus probable reserves estimated by the Company's third party reserve evaluators discounted at a rate of 10%.

The following estimates were used in determining whether an impairment to the carrying value of the CGUs existed at December 31, 2012:

	WTI Oil ($US/bbl)	Edmonton Oil ($Cdn/bbl)	AECO-C Gas ($Cdn/mmbtu)	Exchange Rate ($Cdn/$US)
2013	89.63	84.55	3.31	1.00
2014	89.93	89.84	3.72	1.00
2015	88.29	88.21	3.91	1.00
2016	95.52	95.43	4.70	1.00
2017	96.96	96.87	5.32	1.00
2018	98.41	98.32	5.40	1.00
2019	99.89	99.79	5.49	1.00
2020	101.38	101.29	5.58	1.00
2021	102.91	102.81	5.67	1.00
2022	104.45	104.35	5.76	1.00
2023	106.02	105.92	5.85	1.00
Remainder	+1.5%/yr	+1.5%/yr	+1.5%/yr	1.00 thereafter

At December 31, 2012 the Company recorded a total impairment charge of $3,700,000 related to the Alliance, Carbon and Long Coulee areas within the oil CGU. A 1% increase in the discount rate used would increase the impairment charge by approximately $50,000, while a 10% decline in the forward commodity curve estimates would increase the impairment loss by approximately $425,000. At December 31, 2011 no impairment was recognized.

8. Banking facility

The Company's bank facility as at December 31, 2012 consisted of a revolving operating loan facility (the "facility") with a Canadian bank. The facility is provided on a demand basis in the amount of $3.0 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, 2013.

The facility bears interest at the Lender's prime lending rate plus 1.25% 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, 2012 the Company was in compliance with the financial covenant and no amount was owing under the facility. 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 its ownership interest in oil and natural gas assets including well sites and facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon theses wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $1.1 million as at December 31, 2012 (2011 - $0.9 million) based on an undiscounted total future liability of $1.3 million (2011 - $1.1 million). These payments are expected to be made over the next 25 years with the majority of the costs to be incurred between 2017 and 2021. A risk-free discount rate of 2.5% (2011 - 2.5%) 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, 2011	$	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
Obligations incurred and acquired		217,000
Revision of estimates		(42,000)
Accretion expense		19,000
Balance, December 31, 2012	$	1,054,000

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, 2012		Year ended Dec. 31, 2011
Loss before income taxes	$	(2,967,100)	$	(1,999,394)
Combined federal and provincial income tax rate		25.0%		26.5%
Computed "expected" income tax reduction	$	(741,775)	$	(529,839)
Increase (decrease) in income taxes resulting from:				
Non-deductible share based compensation expense		64,270		94,868
Effect of change in income tax rates		-		20,830
Other		1,466		1,580
Flow-through shares		536,830		372,790
Recognition of previously unrecognized deferred tax assets		-		(137,670)
Deferred income tax reduction	$	(139,209)	$	(177,441)

The general combined federal and provincial income tax rate decreased to 25.0% in 2012 from 26.5% in 2011 due to a decrease in the federal rate from 16.5% to 15.0%.

(b) Deferred income tax liability

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

		2012		2011
Deferred tax liabilities:				
E&E assets & property & equipment	$	1,190,730	$	1,156,680
Deferred tax assets:				
Decommissioning liabilities		(263,500)		(215,000)
Non-capital losses		-		(279,460)
Share issue costs		(98,600)		(97,990)
Deferred income tax liability	$	828,630	$	564,230

The Company's assets have an approximate tax basis of $10.2 million at December 31, 2012 (2011 - $11.5 million) available for deduction against future taxable income.

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

	Balance December 31, 2010	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)	(125,240)			$ (279,460)
Share issue costs	(44,720)	34,659	(87,929)		$ (97,990)
	$ 298,330	$ (177,441)	$ (87,929)	$ 531,270	$ 564,230

	Balance December 31, 2011	Recognized in income or loss	Recognized in equity	Flow-through shares	Balance December 31, 2012
E&E assets and property & equipment	$ 1,156,680	$ (404,075)		$ 438,125	$ 1,190,730
Decommissioning liabilities	(215,000)	(48,500)			$ (263,500)
Non-capital losses	(279,460)	279,460			$ -
Share issue costs	(97,990)	33,906	(34,516)		$ (98,600)
	$ 564,230	$ (139,209)	$ (34,516)	$ 438,125	$ 828,630

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, 2011	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
Issued for cash - flow-through	4,878,000	3,212,260
Deferred flow-through share premium	-	(320,680)
Share issue costs, net of tax of $34,516	-	(103,546)
Balance December 31, 2012	47,087,911	$ 21,685,273

(c) Private placements

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 Company has incurred the required qualifying expenditures.

In July 2012 the Company completed a private placement of 2,078,000 flow-through common shares at a price of $0.67 per common share for gross proceeds of $1,392,260. Directors and officers of the Company subscribed for 506,000 common shares for consideration of $339,020. The Company has incurred the required qualifying expenditures.

In December 2012 the Company completed a private placement of 2,800,000 flow-through common shares at a price of $0.65 per common share for gross proceeds of $1,820,000. Directors and officers of the Company subscribed for 356,200 common shares for consideration of $231,530. The obligation remaining for this flow-through issue at December 31, 2012 was $1,820,000.

(d) Per share amounts

Basic and diluted net loss were calculated as follows:

	2012	2011
Net loss for the year	$ 2,827,891	$ 1,821,953
Weighted average number of common shares outstanding - basic	43,345,695	36,451,924
Net loss per share - basic and diluted	$ (0.07)	$ (0.05)

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, 2011	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
Granted	905,000	$ 0.67
Balance December 31, 2012	4,430,000	$ 0.59

The weighted average share price at the date stock options were exercised in 2011 was $0.78.

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

Assumptions	**2012**	**2011**
Risk free interest rate (%)	1.4	1.4
Expected life (years)	4.7	4.8
Expected volatility (%)	57.7	56.9
Forfeiture rate (%)	2.8	1.7
Weighted average fair value of options	$0.28	$0.39

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2012:

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	1.7	$ 0.40	1,500,000	$ 0.40
$0.41 - $0.60	1,630,000	3.5	$ 0.59	1,496,667	$ 0.59
$0.61 - $0.80	1,300,000	4.7	$ 0.80	1,200,000	$ 0.80
$0.40 - $0.80	4,430,000	3.0	$ 0.59	4,196,667	$ 0.58

12. Related party transactions

(a) Common management and directors

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, 2012, the aggregate value of transactions entered into between Traverse and these entities was approximately $895,000 (2011 - $401,000). Traverse had outstanding payables to the related parties of $90,000 (2011 - $121,000) and accounts receivable due to Traverse of $161,000 at December 31, 2012 (2011 - $nil).

During 2011, office expenses of approximately $131,000 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. There were no transactions with this company in 2012.

(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:

		2012		2011
Salary, wages and fees	$	136,725	$	184,312
Share based compensation		120,429		255,195
Key management compensation	$	257,154	$	439,507

13. Commitment

The Company has entered into a lease commitment for office space. The term of the lease is 10 years commencing November 1, 2011. The annual payments under this commitment are approximately as follows:

Year		Annual amount
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

14. 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, and arises 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. During 2012, one third party purchaser marketed 60% of the Company's petroleum and natural gas revenue. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers.

Substantially all of the Company's royalty income production is marketed by the operator of the property. Royalty income receivables are normally paid within the second month following the month of production. During 2012, one industry partner accounted for 96% of the Company's royalty income. 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, 2012 the Company's receivables consisted of $579,616 (2011 - $415,659) of receivables from petroleum and natural gas marketers, $732,585 (2011 - $285,540) from industry partners relating to royalty income, $197,096 (2011 - $79,886) from joint venture partners and $52,986 (2011 - $150,592) of receivables from government agencies. During the year ended December 31, 2012 and 2011 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 conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's cash flow, income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

(i) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Substantially all of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canadian to U.S. dollar exchange rate.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in market interest rates. 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.

(iii) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The Company had no financial derivative commodity contracts during 2012.

Subsequent to December 31, 2012 the Company entered into the following derivative commodity contracts:

Product/type	Term	Volume	Price/Unit	Index
Oil call	February to December 2013	100 bbl/day	Cdn $100/bbl	WTI
Gas fixed	April to October 2013	600 GJ/day	Cdn $3.50/GJ	AECO

(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 payment 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 capital structure to include shareholders' equity, debt 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 debt. 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 2012, the Company's strategy in managing its capital was unchanged.

15. Supplemental information

(a) Cash Flow Statement Presentation

Changes in non-cash working capital is comprised of:

		2012		2011
Provided by (used in):				
Accounts receivable	$	(630,606)	$	(148,673)
Prepaid expenses and deposits		6,360		84,751
Accounts payable and accrued liabilities		(889,469)		989,847
	$	(1,513,715)	$	925,925
Provided by (used in):				
Operating	$	(378,538)	$	(40,633)
Financing		(5,485)		7,243
Investing		(1,129,692)		959,315
	$	(1,513,715)	$	925,925

(b) Income Statement 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:

		2012		2011
Operating	$	1,960	$	6,440
General and administrative		341,030		403,550
Compensation costs	$	342,990	$	409,990