MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE YEAR ENDED

DECEMBER 31, 2012

This management's discussion and analysis ("MD&A") dated April 17, 2013 should be read in conjunction with the audited financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the year ended December 31, 2012 and 2011. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The reporting and measurement currency is the Canadian dollar. Additional information relating to the Company, including Traverse's Annual Information Form, is available on SEDAR at www.sedar.com.

Description of the Company

Traverse Energy Ltd. is an 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”.

Non-IFRS measures

Funds from operations

Funds from operations is a measure not defined in IFRS that is commonly used in the oil and gas industry. Funds from operations is calculated as cash provided by operating activities before non-cash working capital as detailed under the heading "Cash and funds from operations and net loss". The Company believes that in addition to net loss, funds from operations is a useful supplemental measure as it provides an indication of Traverse’s operating performance. Funds from operations should not be considered as an alternative to or more meaningful than cash provided by operating activities as determined in accordance with IFRS. Traverse's determination of funds from operations may not be comparable to that reported by other companies. Traverse also presents funds from operations per share whereby share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

Operating netback

Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback reflects petroleum and natural gas revenue and royalty income, less royalties, operating and transportation costs and is calculated on a per unit basis. Working interest netback is calculated as petroleum and natural gas revenue, less royalties, operating and transportation costs and is calculated on a per unit basis. Royalty netback is royalty income and is calculated on a per unit basis. The calculation of Traverse's netbacks is detailed under the heading "Operating netback".

BOE presentation

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

Forward-looking information

This MD&A contains forward-looking information. Forward-looking information is based upon the opinions, expectations and estimates of management as at the date the information is provided and, in some cases, information received from or disseminated by third parties. In particular, the Company’s statements with respect to the number of wells to be drilled in 2013; volatility in commodity markets impacting realized prices in 2013; and intentions for funding capital expenditures during 2013 are forward-looking information. This forward-looking information is subject to a variety of substantial known and unknown risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking information. The Company’s Annual Information Form filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describes the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

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

	Three months ended December 31 (unaudited)		Year ended December 31	
HIGHLIGHTS	**2012**	**2011**	**2012**	**2011**
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**1,588**	1,035	**4,600**	3,731
Royalty income	**964**	534	**3,322**	830
Cash provided by operations	**1,815**	814	**5,209**	2,358
Funds from operations [(1)]	**1,779**	936	**5,588**	2,398
Per share - basic and diluted	**0.04**	0.02	**0.13**	0.07
Net loss	**(3,255)**	(584)	**(2,828)**	(1,822)
Per share - basic and diluted	**(0.07)**	(0.01)	**(0.07)**	(0.05)
Capital expenditures, net of dispositions	**2,158**	3,279	**8,111**	10,408
Total assets	**19,450**	19,781	**19,450**	19,781
Working capital	**3,083**	2,532	**3,083**	2,532
Common shares				
Outstanding *(millions)*	**47.1**	42.2	**47.1**	42.2
Weighted average *(millions)*	**44.9**	40.3	**43.3**	36.5
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**1,362**	424	**957**	420
Oil and NGL *(bbls/day)*	**318**	172	**245**	127
Total (BOE/day)	**545**	243	**405**	197
Average sales price				
Natural gas *($/mcf)*	**2.91**	3.28	**2.51**	3.82
Oil and NGL *($/bbl)*	**72.90**	91.07	**77.90**	85.90
Operating netback *($/BOE)* [(2)]				
Petroleum and natural gas revenue	**45.95**	67.62	**49.04**	64.99
Royalties	**2.95**	8.08	**3.19**	5.11
Operating costs	**12.40**	19.24	**11.58**	17.04
Transportation costs	**1.40**	1.68	**1.55**	2.01
Working interest netback	**29.20**	38.62	**32.72**	40.83
Royalty netback	**61.94**	76.03	**61.07**	57.57
Operating netback	**39.36**	50.39	**43.13**	44.19

[(1)] Funds from operations is calculated as cash provided by operating activities before changes in non-cash working capital. Funds from operations does not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other companies.

(2) Operating netback equals petroleum and natural gas revenue and royalty income, less royalties, operating and transportation costs and is calculated on a per unit basis. Working interest netback is calculated as petroleum and natural gas revenue, less royalties, operating and transportation costs and is calculated on a per unit basis. Royalty netback is royalty income and is calculated on a per unit basis. Operating netback, working interest netback and royalty netback do not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other companies.

Operations review

In 2012 Traverse participated in the drilling of 7 gross (6.25 net) wells all in the Turin area. This drilling resulted in 2.75 net oil wells, 1.75 net suspended potential natural gas wells and 1.75 abandoned wells. Traverse acquired 41,000 net acres of undeveloped land in 2012, all within the province of Alberta. At December 31, 2012 undeveloped land holdings totalled 147,500 gross (144,700 net) acres.

In the Turin area (10,900 net acres) production increased with the addition of 3 (2.75 net) oil wells. In addition, the Company cased 2 natural gas wells (1.75 net) which are currently shut-in awaiting more favorable natural gas pricing. During 2012 further expansion of the Turin battery was completed. This included the addition of a water disposal facility and a treater capable of handling up to 2,500 barrels of fluid per day. Other activities at Turin included the completion of 2D and 3D seismic surveying. Fourth quarter 2012 production averaged 325 BOE per day with an oil and NGL component of 50%. In the first quarter of 2013, 2 additional wells were drilled resulting in 1 potential oil well and 1 dry hole.

In the Brazeau area of West Central Alberta, Traverse has a gross overriding royalty interest in 10 sections of land (6,400 acres). At December 31, 2012 a total of 15 horizontal Cardium wells were on production. Net production to the Company from the fourth quarter of 2012 averaged 145 BOE per day with an oil and NGL component of 80%. Subsequent to December 31, 2012 an additional 2 wells have been placed on production, 2 additional wells have been drilled and another 2 wells have been licenced by the industry partner.

The Company holds 60,120 net acres of land at Carbon/Willow located in Central Alberta. At Carbon, a horizontal Pekisko oil well was tied in during the first quarter of 2012 and is producing at low rates. In the Willow area the Company drilled 1 net potential oil well during the first quarter of 2013. Other recent activities in the area included the acquisition of additional seismic data.

Traverse set an initial budget of $12.6 million for 2013 to be funded from working capital, funds from operations, new equity issues and debt where appropriate. This program includes up to 10 wells on existing properties. Drilling comprises approximately 75% of the 2013 budget.

Production	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
Average working interest production				
Natural gas *(mcf/day)*	**1,108**	318	**691**	305
Crude oil *(bbls/day)*	**191**	113	**141**	107
Total *(BOE/day)*	**376**	167	**256**	157
Average royalty production				
Natural gas *(mcf/day)*	**254**	106	**266**	115
Crude oil *(bbls/day)*	**127**	59	**104**	20
Total *(BOE/day)*	**169**	76	**149**	40
Total production				
Natural gas *(mcf/day)*	**1,362**	424	**957**	420
Crude oil *(bbls/day)*	**318**	172	**245**	127
Total *(BOE/day)*	**545**	243	**405**	197

Production increased 106% to 405 BOE per day in 2012 compared to 197 BOE per day in 2011. Fourth quarter production increased 124% from the 2011 period to 545 BOE per day in the 2012 quarter. Working interest production increased mainly as a result of 2012 drilling in the Turin area while royalty production increased due to additional industry drilling in the Brazeau area.

Production by area (BOE/day)	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
Alliance	**22**	40	**26**	17
Brazeau	**148**	55	**129**	17
Carbon	**17**	6	**33**	2
Long Coulee	**9**	25	**19**	54
Turin	**327**	73	**175**	61
Minor	**22**	44	**23**	46
Total BOE per day	**545**	243	**405**	197
% of BOE/day				
Royalty	**31%**	31%	**37%**	20%
Working interest	**69%**	69%	**63%**	80%

The Company's working interest production in the Turin area increased 187% to 175 BOE per day in 2012 compared to 61 BOE per day in 2011. Drilling during 2012 at Turin resulted in new production from 3 gross (2.75) net oil wells during the second half of the year. This new production, combined with the full year impact of production added in 2011, increased fourth quarter production at Turin by 348% compared to the prior year period. The gains in working interest production at Turin during 2012 were partially offset by declines in the production rates at Long Coulee and the shut-in of uneconomic natural gas production early in 2012.

The royalty proportion of total Company production has increased to 37% in 2012 versus 20% in 2011. Industry drilling on the Company's royalty lands at Brazeau resulted in new royalty volumes, beginning in the third quarter of 2011. The Brazeau royalty volumes increased to 129 BOE per day for 2012 compared to 17 BOE per day in 2011 due to the additional drilling.

In January 2011 the Company completed the disposition of a small, non-operated oil property consisting of 5 gross (1.2 net) oil wells for approximately $180,000 and the assumption of existing decommissioning obligations on the property. Production from the property averaged less than 5 BOE per day in 2010. As a result of the sale, the Company recorded a gain on sale of $21,196. There were no producing property dispositions in 2012.

Pricing	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
Average sales price				
Natural gas *($/mcf)*	**2.91**	3.28	**2.51**	3.82
Crude oil *($/bbl)*	**72.90**	91.07	**77.90**	85.90
Total *($/BOE)*	**50.91**	70.27	**53.46**	63.50

The average BOE sales price received during 2012 decreased 16% from 2011. Crude oil prices decreased 9% while natural gas prices declined 34%. Oil prices declined 20% from the fourth quarter of 2011 to the comparable period of 2012 while natural gas prices declined 11%. The average sales prices per BOE decreased 28% in the fourth quarter of 2012 compared to 2011 due to declines in commodity prices and a decrease in the oil percentage of the Company's average BOE from 71% to 58%. New oil production added at Turin in 2012 has higher volumes of associated natural gas than the previous producing wells.

Volatility in the commodity markets will continue to impact realized prices in 2013. At December 31, 2012 Traverse had one natural gas physical delivery contract for 360 GJ per day at $3.18 per GJ outstanding for the first quarter of 2013. Subsequent to year end Traverse entered into additional natural gas physical delivery contracts for 2013 with an average of 700 GJ per day at $3.11 per GJ. Traverse did not have any financial derivative commodity contracts during 2011 or 2012. Subsequent to December 31, 2012 the Company entered into the following derivative contracts:

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

Petroleum and natural gas revenue *($)*	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
Petroleum and natural gas revenue by source				
Production income	**1,588,357**	1,035,097	**4,600,364**	3,730,777
Royalty income	**963,376**	534,380	**3,321,586**	830,159
Total	**2,551,733**	1,569,477	**7,921,950**	4,560,936
Petroleum and natural gas revenue by commodity				
Oil	**2,131,809**	1,441,366	**6,994,225**	3,975,723
Natural gas	**419,924**	128,111	**927,725**	585,213
Total	**2,551,733**	1,569,477	**7,921,950**	4,560,936

Petroleum and natural gas revenue in 2012 increased 74% from the prior year due to increased production volumes partially offset by a decrease in prices realized. Petroleum and natural gas revenue in the fourth quarter of 2012 increased by 21% compared to the third quarter of 2012 due to a 23% increase in production volumes. The average commodity price received in the fourth quarter of 2012 declined 2% from the third quarter.

Operating netback

The Company's operating netback is presented in two components - the working interest netback and the royalty netback due to the differences in the type of production and the related costs.

	Year ended December 31				
	2012		2011		
Operating netback	**$**	**$/BOE**	$		$/BOE
Petroleum and natural gas revenue	**4,600,364**	**49.04**	3,730,777	$	64.99
Royalties	**299,282**	**3.19**	293,329	$	5.11
Operating	**1,086,272**	**11.58**	978,114	$	17.04
Transportation	**145,412**	**1.55**	115,496	$	2.01
Working interest netback	**3,069,398**	**32.72**	2,343,838	$	40.83
Royalty netback	**3,321,586**	**61.07**	830,159	$	57.57
Operating netback	**6,390,984**	**43.13**	3,173,997	$	44.19

The working interest netback decreased 20 percent in 2012 to $32.72 per BOE compared to $40.83 per BOE in the 2011 period due mainly to declining commodity prices partially offset by improved operating costs. Royalties decreased in 2012 to $3.19 per BOE as a result of the addition of new production in the Turin area. New production is eligible for the Crown new well incentive program providing for a maximum 5% royalty for the first year of production. Royalties decreased in the fourth quarter of 2012 compared to both the 2011 period and the third quarter of 2012 as a result of the new Turin production.

Operating costs decreased from $17.04 per BOE in 2011 to $11.58 per BOE in 2012. Operating costs decreased due to the expansion of the Turin facility to include water disposal facilities which became operational in March 2012. In addition operating costs decreased due to the shut-in of uneconomic gas production and a higher production base to offset fixed operating costs. Operating costs in the fourth quarter of 2012 decreased to $12.40 per BOE compared to $19.24 per BOE in the 2011 period due to the Turin facility expansion.

Transportation costs decreased to $1.55 per BOE in 2012 from $2.01 per BOE in 2011 due to the increase in natural gas production which has a lower transportation cost per unit than oil. Transportation costs in the fourth quarter of 2012 were $1.40 per BOE compared to $1.68 per BOE in the comparative period of 2011.

General and administrative *($)*	Three months ended December 31,		Year ended December 31,	
	2012	2011	**2012**	2011
General and administrative costs - gross	**265,667**	246,819	**993,142**	975,572
Operator recoveries	**68,748**	51,136	**177,932**	170,196
General and administrative costs - net	**196,919**	195,683	**815,210**	805,376
Per BOE	**3.93**	8.76	**5.50**	11.21

General and administrative costs, both gross and net, are comparable between the 2011 and 2012 periods. On a BOE basis net general and administrative costs have decreased 51% to $5.50 per BOE due to the increase in production in 2012.

Share based compensation

Share based compensation expense of $257,106 (2011 - $357,994) relates to the vesting of options granted to consultants in the fall of 2011 and new grants of options to directors, officers and consultants in 2012. Stock based compensation expense decreased in 2012 due to a decrease in the weighted average fair value of options granted during the year to $0.28 compared to $0.39 for options granted in 2011 as a result of a lower share price being used in the fair value calculation.

Exploration and evaluation expense

Exploration and evaluation ("E&E") expenses result from impairment of E&E assets, unsuccessful E&E costs and the expiry of undeveloped lands. In 2012 Traverse recorded $2.0 million of E&E expense (2011 - $2.4 million) related to impairments on current drilling projects, transfers of drilling costs to development and production assets and the impairment of land costs related to pending expiries.

Drilling costs associated with the drilling of 2 gross (1.75 net) unsuccessful wells at Turin were expensed in 2012. Drilling and completion costs associated with the drilling of 2 gross (1.75 net) natural gas wells at Turin were impaired at the time of transfer to development and production assets as current reserve estimates indicate that the full amount of the expenditures will not be recoverable. Pending expiries of land within natural gas project areas were also impaired as Traverse does not plan to pursue these projects before expiry.

E&E expense in 2011 resulted from impairment on transfer to development and production of 3 wells, the costs associated with a re-entry of a Turin wellbore in 2010 and the pending expiries of land within natural gas project areas.

Depletion and depreciation

Traverse depletes its developed oil and natural gas properties, by area, based on proved and probable reserves. The calculation of depletion expense includes future development costs related to these reserves of $481,000 at December 31, 2012 (2011 - $1,163,000) and excluded $387,000 (2011 - $295,000) for estimated salvage values. The majority of future development costs at December 31, 2012 relate to the tie-in of suspended natural gas wells at Turin.

	Three months ended December 31,		Year ended December 31,	
($)	**2012**	2011	**2012**	2011
Depletion working interest production	**661,095**	440,521	**2,399,194**	1,453,832
Depletion royalty interest production	**35,565**	34,632	**133,982**	163,145
Depreciation on office equipment	**4,864**	2,628	**19,454**	14,089
Impairment on property and equipment	**3,700,000**	-	**3,700,000**	-
Total depletion and depreciation expense	**4,401,524**	477,781	**6,252,630**	1,631,066

($/BOE)				
Depletion working interest production	**19.12**	28.78	**25.58**	25.33
Depletion royalty interest production	**2.29**	4.93	**2.46**	11.31
Depletion expense before impairment per BOE	**13.90**	21.27	**17.09**	22.51

Depletion expense on working interest production declined from $28.78 per BOE in the fourth quarter of 2011 to $19.12 per BOE in the 2012 quarter as a result of lower cost reserve additions at Turin. Working interest depletion expense for calendar 2012 was comparable to 2011. Depletion expense on royalty production decreased as a result of significant reserve additions at Brazeau which have no additional associated costs to Traverse.

At December 31, 2012 the recoverable amounts of the Company's CGUs were estimated at their fair values based on the net present value of the before income tax cash flows from oil and gas proved and probable reserves as estimated by the Company's third party reserve evaluators discounted at a rate of 10%. It was determined that the net book value of certain areas within the oil CGU exceeded their recoverable amounts and as a result the Company recognized a $3.7 million (2011 - $0) impairment charge. The impairment charge primarily relates to negative reserve revisions based on production performance and a weakening of future oil and natural gas price forecasts. As the recoverable amount of the CGUs are sensitive to a decrease in commodity prices, further impairment could be recorded in future periods. Alternatively, an improvement of commodity prices could reverse any impairment charge recorded to date, less applicable depletion expense.

Finance income and costs

Finance income consists of interest earned on cash balances during the year. Finance income decreased in 2012 to $11,928 from $29,707 in 2011 due to a lower average daily cash balance and a decrease in the effective interest rate. Finance expense is composed of the accretion of decommissioning liabilities.

Income taxes

A deferred income tax recovery of $139,209 has been recorded for 2012 composed of a recovery of deferred tax due to the current loss and a deferred income tax expense relating to flow-through share expenditures. In 2012 the net loss results in a recovery of deferred income taxes, before the expense related to flow-through share expenditures, of approximately $676,000 compared to $413,000 in the 2011 period. In 2011 the Company recognized a further deferred tax reduction of $138,000 related to the recognition of previously unrecognized deferred tax assets.

A deferred tax expense is recognized related to flow-through expenditures. A premium is recognized on the issue of flow-through shares representing the difference in price over a common share with no tax attributes. To the extent that the Company's effective tax rate on the incurred expenditures exceeds this premium, a deferred income tax expense is recognized. During the year the Company incurred approximately $3.9 million of qualifying expenditures related to the flow-through issues completed in November 2011 and July 2012. The Company's expected tax rate on these expenditures is 25%. The difference of approximately 14% between the Company's expected tax rate and the premium realized on the flow-through share issue results in additional deferred income tax expense of $536,830 (2011 - $372,790).

At December 31, 2012 the Company's tax pools available for deduction against future taxable income are estimated at $10.2 million. The Company was not taxable on a current basis in 2012. The Company may be taxable on a current basis in 2013 depending on the level and type of capital expenditures as well as the results of such expenditures.

Cash and funds from operations and net loss	Three months ended December 31,		Year ended December 31,	
($)	**2012**	2011	**2012**	2011
Cash provided by operating activities	**1,814,986**	814,045	**5,209,164**	2,357,695
Change in non-cash working capital	**(36,072)**	121,498	**378,538**	40,633
Funds from operations	**1,778,914**	935,543	**5,587,702**	2,398,328
Per share basic and diluted	**0.04**	0.02	**0.13**	0.07
Net loss	**(3,255,323)**	(584,021)	**(2,827,891)**	(1,821,953)
Per share basic and diluted	**(0.07)**	(0.01)	**(0.07)**	(0.05)

Funds from operations increased 133% to approximately $5.6 million in 2012 compared to $2.4 million in 2011 due to increased production, particularly royalty volumes from the Brazeau area. Fourth quarter funds from operations increased to $1.8 million from 2011 ($935,543) due to increased production at both Turin and Brazeau.

A loss before income taxes of $3.0 million in 2012 resulted as gains in production were more than offset by commodity price declines, exploration and evaluation expense and impairment charges. The 2012 loss before income taxes increased compared to the 2011 period due to mainly to the impairment expense included within depletion and depreciation expense.

Capital expenditures

The Company incurred $8.1 million in expenditures during 2012. In the first quarter of 2012, expenditures related to the expansion of the Turin facility, 2D and 3D seismic surveys at Turin and the tie in of one well in the Carbon area. Expenditures in the second quarter related to additional processing of seismic and pre drill expenditures for the third quarter drilling program. Traverse drilled 5 gross (4.5 net) wells at Turin in the third quarter. In the fourth quarter Traverse drilled 2 gross (1.75) net wells at Turin. In 2012 Traverse acquired 41,000 net acres of land and drilled a total of 7 gross (6.25 net) wells at Turin. A summary of expenditures is as follows:

	Three months ended December 31,		Year ended December 31,	
($)	**2012**	2011	**2012**	2011
Land acquisition and rentals	**212,148**	166,865	**697,717**	1,175,524
Geological and geophysical	**429,689**	108,986	**1,216,718**	579,599
Drilling and completions	**1,083,144**	2,500,449	**3,803,357**	7,299,214
Equipping and facilities	**432,704**	501,634	**2,486,316**	1,644,050
Exploration and development capital	**2,157,685**	3,277,934	**8,204,108**	10,698,387
Corporate assets	**-**	1,245	**12,098**	64,156
Net property dispositions	**-**	-	**105,000**	354,307
Total capital expenditures	**2,157,685**	3,279,179	**8,111,206**	10,408,236

Liquidity and capital resources

At December 31, 2012 Traverse had working capital of approximately $3.1 million and no debt outstanding. The Company's Board of Directors has approved a $12.6 million exploration and development program for 2013. The Company intends to fund capital expenditures and commitments during 2013 with a combination of cash flow and working capital. New equity issues and debt may be used to expand future capital expenditures where appropriate.

As at April 17, 2013 Traverse had 47,087,911 common shares outstanding and 4,430,000 common share options outstanding. During 2012 the Company completed two private placements for a total of 4,878,000 flow-through common shares for gross proceeds of approximately $3.2 million as detailed in the notes to the audited financial statements. In 2011 the Company completed two private placements of both common and flow-through common shares for a total of 10,256,578 common shares and gross proceeds of approximately $8.5 million. The weighted average number of shares outstanding during 2012 increased 19% to 43,345,695 from 36,451,924 in 2011 due to these private placements.

Related party transactions

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 - $0).

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.

Commitments

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

In December 2012 the Company completed a private placement of flow-through common shares. The obligation remaining for this flow-through issue at December 31, 2012 was $1,820,000.

Summary of quarterly results	Quarter ended (unaudited)			
	December 31	September 30	June 30	March 31
($ thousands, except per share amounts)	**2012**	2012	2012	2012
Petroleum and natural gas revenue	**1,588**	1,294	739	979
Royalty income	**964**	818	691	849
Cash provided by operating activities	**1,815**	1,132	1,209	1,054
Funds from operations	**1,779**	1,602	990	1,217
Per share - basic and diluted	**0.04**	0.04	0.02	0.03
Net income (loss)	**(3,255)**	32	39	357
Per share - basic and diluted	**(0.07)**	0.00	0.00	0.01
Working capital	**3,083**	1,727	1,826	1,266
Shareholders' equity	**15,593**	17,136	15,848	15,761
Production (BOE/d)	**545**	444	301	329
Capital expenditures	**2,158**	3,041	430	2,483

	Quarter ended (unaudited)			
($ thousands, except per share amounts)	December 31 2011	September 30 2011	June 30 2011	March 31 2011
Petroleum and natural gas revenue	1,035	945	846	905
Royalty income	534	160	57	79
Cash provided by operating activities	814	599	176	768
Funds from operations	936	600	458	404
Per share - basic and diluted	0.02	0.02	0.01	0.01
Net loss	(584)	(1,079)	(152)	(7)
Per share - basic and diluted	(0.01)	(0.04)	0.00	0.00
Working capital	2,532	2,078	4,314	1,924
Shareholders' equity	15,375	13,411	14,179	9,274
Production (BOE/d)	243	202	155	187
Capital expenditures	3,279	2,836	3,415	878

In 2011 production volumes and revenue initially declined as no new production was added. In the third quarter of 2011 new production commenced from 2011 drilling activities as well as new oil royalty production and revenue began increasing. The net loss increased in the third and fourth quarter of 2011 due to impairments recognized on exploration and evaluation assets relating to pending land expiries, limitations on recoverable amounts and an unsuccessful re-entry well.

In the first quarter of 2012 production increased as a result of the tie in of a well at Carbon and additional royalty volumes. Production gains resulted in increased revenue although the average BOE sales prices declined due to decreases in both crude oil and natural gas prices from the last quarter of 2011. During the first quarter of 2012 the Company shot 2D and 3D seismic surveys at Turin, expanded the fluid and water handling facilities at Turin and tied in and equipped one well at Carbon.

In the second quarter of 2012 no new production was added and commodity prices continued to decline resulting in a decrease of revenue compared to the first quarter. Capital expenditures during the second quarter consisted of seismic processing and pre drill expenditures incurred for the third quarter drilling program.

In the third quarter of 2012 the Company drilled 5 gross (4.5 net) wells at Turin resulting in new production from 2 gross (1.75 net) oil wells and additional production commenced at the Brazeau royalty property. Revenue increased as a result of increased production. Average sales prices received during the third quarter were similar to the second quarter although the average BOE sales prices declined slightly due to an increase in the proportion of gas production. Net income was reduced in the third quarter by exploration and evaluation expense related to a dry hole in the Turin area.

In the fourth quarter of 2012 production volumes increased as a result of a new oil well at Turin and the commencement of production from an additional 5 royalty wells in December. Gas prices improved in the fourth quarter but crude oil prices declined resulting in a small decrease in the average BOE sales price. A net loss was realized in the fourth quarter due to exploration and evaluation expense related to a dry hole at Turin, limitations on recoverable amounts for the two natural gas wells drilled at Turin, pending land expiries and an impairment of the recoverable amounts for the wells at Alliance, Carbon and Long Coulee due to reserve revisions.

Recent accounting pronouncements

The International Accounting Standards Board ("IASB") regularly issues new and revised accounting pronouncements which have future effective dates and therefore are not reflected in the Company's financial statements. Once adopted, these new and amended pronouncements may have an impact on the Company's financial statements. As of January 1, 2013 (except as otherwise noted) 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 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.

Selected annual information

($ thousands, except per share amounts)	**2012**	2011	2010
Petroleum and natural gas revenue	**4,600**	3,731	1,761
Royalty income	**3,322**	830	358
Cash provided by operating activities	**5,209**	2,358	487
Funds from operations	**5,588**	2,398	795
Per share - basic and diluted	**0.13**	0.07	0.03
Net loss	**(2,828)**	(1,822)	(3,535)
Per share - basic and diluted	**(0.07)**	(0.05)	(0.13)
Daily production	**405**	197	121
Total assets	**19,450**	19,781	12,035
Total non-current liabilities	**2,079**	1,738	1,127

In 2010 Traverse participated in the drilling of 10 gross (9.25 net) wells all within the province of Alberta. Petroleum and natural gas sales, cash provided by operating activities, funds from operations and daily production all increased as a result of successful drilling. No new royalty production was added in 2010. The net loss increased as a result of the expense recognized relating to unsuccessful drilling and impairment of natural gas projects due to the decline in natural gas pricing.

In 2011 petroleum and natural gas sales, royalty income, cash provided by operating activities, funds from operations and daily production all increased as a result of both Company drilling and industry drilling on Company owned lands. Increases in production, both working interest and royalty, originated in oil projects which have higher netback than natural gas. This resulted in the commodity mix moving towards more oil and increased the overall Company netbacks, revenues and funds from operations. A net loss resulted in 2011 due to the impairment of current year drilling and completion costs related to 3 wells where reserve estimates indicated that the full amount of expenditures would not be recoverable. In addition, Traverse expensed the costs associated with an unsuccessful re-entry and impaired costs associated with the pending expiry of lands in natural gas project areas.

In 2012 Traverse participated in the drilling of 7 gross (6.25 net) wells in the Turin area of Alberta. Petroleum and natural gas sales, royalty income, cash provided by operating activities, funds from operations and daily production all increased as a result of both Company drilling and industry drilling on Company owned lands. A net loss resulted in 2012 due to the impairment of current year drilling and completion costs related to 2 dry holes and 2 natural gas wells where current reserve estimates indicate that the full amount of expenditures will not be recoverable. In addition, Traverse expensed the costs associated with the pending expiry of lands in natural gas project areas and impaired producing areas due to current year reserve revisions.

Business environment and risk

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

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