This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated November 14, 2016 should be read in conjunction with the Company's unaudited condensed interim financial statements as at and for the nine months ended September 30, 2016 and the audited financial statements as at and for the year ended December 31, 2015. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2015, as disclosure which is unchanged from December 31, 2015 may not be duplicated herein. 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

In this MD&A references are made to certain financial measures (such as funds from operations and operating netback) which do not have standardized meanings prescribed by IFRS and therefore may not be comparable to the calculation of similar measures by other entities. Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. There are no comparable measures in accordance with IFRS for operating netback. Management believes that in addition to net income (loss), the non-IFRS measures set forth below are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Investors should be cautioned however, that these measures should not be construed as an alternative to both net income (loss) and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

Funds from operations

Funds from operations represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations as detailed below:

	Three months ended September 30,		Nine months ended September 30,	
($)	**2016**	2015	**2016**	2015
Cash provided by operating activities	749,824	1,767,401	2,009,058	5,956,403
Decommissioning expenditures	24,516	40,192	60,699	69,146
Change in non-cash working capital	(334,773)	(47,108)	(750,592)	(787,562)
Funds from operations	439,567	1,760,485	1,319,165	5,237,987

Funds from operations per BOE is funds from operations divided by barrels of oil equivalent production volume for the applicable period. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income (loss) per share.

Operating netback

Operating netback represents revenue, less royalties, operating and transportation expenses. Operating netback per BOE is the operating netback divided by barrels of oil equivalent production volume for the applicable period. The calculation of Traverse's operating netback is detailed under the heading "Operating netback".

BOE presentation

The term “BOE” or barrels of oil equivalent may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 Mcf: 1 bbl) is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

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 timing of the tie ins and commencement of production from wells in the Watts, Coyote and Turin areas; additional drilling in the Watts area; the timing for expected declines in operating costs and Traverse's capital budget and intentions for funding capital expenditures in 2016 and 2017 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.

TRAVERSE ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

	Three months ended September 30,		Nine months ended September 30,	
HIGHLIGHTS *(Unaudited)*	**2016**	2015	**2016**	2015
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**1,788**	2,924	**5,392**	9,710
Cash provided by operations	**750**	1,767	**2,009**	5,956
Funds from operations (1)	**440**	1,760	**1,319**	5,238
Per share - basic and diluted	**0.01**	0.02	**0.02**	0.07
Net income (loss)	**(1,115)**	(4,011)	**(2,579)**	959
Per share - basic and diluted	**(0.01)**	(0.06)	**(0.03)**	0.01
Capital expenditures before dispositions	**1,790**	4,119	**3,739**	7,531
Capital dispositions	**-**	(2)	**-**	(8,916)
Total assets	**38,685**	42,790	**38,685**	42,790
Working capital	**840**	2,063	**840**	2,063
Common shares				
Outstanding *(millions)*	**78.6**	70.8	**78.6**	70.8
Weighted average *(millions)*	**78.6**	70.8	**75.0**	70.7
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**1,861**	2,917	**2,118**	2,836
Oil and NGL *(bbls/day)*	**322**	465	**365**	524
Total (*BOE/day)*	**632**	951	**718**	997
Average sales price				
Natural gas *($/mcf)*	**2.46**	3.01	**2.16**	3.22
Oil and NGL *($/bbl)*	**46.17**	49.49	**41.31**	50.45
Netback *($/BOE)*				
Petroleum and natural gas revenue	**30.74**	33.42	**27.39**	35.69
Royalties	**(1.02)**	(0.77)	**(0.79)**	(1.31)
Operating costs	**(16.54)**	(11.56)	**(14.20)**	(11.03)
Transportation costs	**(1.72)**	(1.68)	**(1.72)**	(1.76)
Operating netback (2)	**11.46**	19.41	**10.68**	21.59
General and administrative	**(3.81)**	(2.60)	**(3.85)**	(3.15)
Finance expense (3)	**(0.09)**	(0.12)	**(0.13)**	(0.44)
Current income tax recovery	**-**	3.43	**-**	1.25
Funds from operations (1)	**7.56**	20.12	**6.70**	19.25

(1) Funds from operations represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations. Funds from operations per BOE is funds from operations divided by barrels of oil equivalent production volumes for the applicable period.

(2) Operating netback represents revenue, less royalties, operating and transportation expenses. Operating netback per BOE is the operating netback divided by barrels of oil equivalent production volumes for the applicable period.

(3) Excludes non-cash accretion.

Operations review

In the third quarter of 2016, Traverse drilled two Banff test wells (100% interest) resulting in one well at Watts and one abandoned well in the west Coyote area. The Watts well was completed as a Mannville oil well. Subsequent to the third quarter, one additional well at Watts was successfully re-entered for natural gas. Both Watts wells will be tied in and placed on production in the fourth quarter. Additional drilling activity is anticipated for the Watts area in the first quarter of 2017.

Recompletion activities during the third quarter included a well in the Coyote area that will be placed on production for Mannville natural gas once a pipeline is completed in the fourth quarter. In October the Company acquired two wells (100% interest); one a low rate producing natural gas well and a suspended well. The suspended well has been recompleted as a natural gas well and is awaiting tie in. At Michichi, an existing producing well was recompleted in an uphole Mannville zone for natural gas. This gas zone has subsequently been commingled with the previously producing zone in the wellbore.

In the Turin area the Company previously acquired three wells (100% interest); one suspended well and two non-completed wellbores near the Turin oil battery. The suspended well was tested as a natural gas well. One additional well was completed as an oil well and the third well is currently being completed and evaluated for oil production. The two completed wells will be tied into the Turin battery in the fourth quarter and placed on production after a pipeline is constructed.

Undeveloped land holdings at September 30, 2016 were 169,300 gross (168,700 net) acres. At September 30, 2016 the Company had working capital of approximately $0.8 million and unutilized credit facilities of $7.0 million. Traverse anticipates total capital expenditures for 2016 to be approximately $6.5 million. The 2016 capital program was reduced from the previously announced $10 million in response to the continuing low commodity markets. Activities in the fourth quarter will include production tie ins and recompletion activities in existing wellbores targeting production additions from new zones.

The Board of Directors has approved an initial exploration and development program for 2017 of $14 million to be financed by cash flow, working capital and new equity issues or debt as appropriate. The 2017 capital program is weighted towards the second half of the year and consistent with 2016 will be adjusted throughout the year in response to both commodity prices and exploration results.

	Three months ended September 30,		Nine months ended September 30,	
Production	**2016**	2015	**2016**	2015
Natural gas *(mcf/day)*	**1,861**	2,917	**2,118**	2,836
Oil and NGL *(bbls/day)*	**322**	465	**365**	524
Total *(BOE/day)*	**632**	951	**718**	997
% Oil and NGL	**51%**	49%	**51%**	53%
Production by area (BOE/day)				
Coyote	**338**	515	**394**	488
Michichi	**44**	63	**48**	84
Turin	**222**	345	**252**	365
Minor	**28**	28	**24**	60
Total BOE per day	**632**	**951**	**718**	997

Production decreased 34% and 28% respectively in the three and nine months ended September 30, 2016 compared to the three and nine months ending September 30, 2015 (the "Corresponding Periods"). Drilling activities were reduced in 2015 and no new production has been added since the fall of 2015. Minor area production, which includes royalty income, decreased 60% compared to the nine months of 2015 due to the sale of the Brazeau royalty property in June 2015.

	Three months ended September 30,		Nine months ended September 30,	
Pricing	**2016**	2015	**2016**	2015
Average realized prices				
Oil *($/bbl)*	**48.77**	52.13	**43.23**	52.79
NGL *($/bbl)*	**23.58**	14.22	**21.46**	21.25
Natural gas *($/mcf)*	**2.46**	3.01	**2.16**	3.22
BOE *($/BOE)*	**30.74**	33.42	**27.39**	35.69

Traverse realized oil prices of $48.77 per bbl and $43.23 per bbl during the three and nine months ended September 30, 2016, respectively (Corresponding Periods: $52.13 and $52.79 per bbl, respectively). During the three and nine months ended September 30, 2016, Traverse's discount to CAL (Central Alberta) approximated $7 and $8 per bbl (Corresponding Periods: $7 per bbl). These pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

In the three and nine months ended September 30, 2016, Traverse realized natural gas prices of $2.46 and $2.16 per mcf, respectively (Corresponding Periods: $3.01 and $3.22 per mcf, respectively). The Company's natural gas generally receives a premium of 5 to 10% above the AECO daily benchmark due to the higher heat content of its natural gas. The realized natural gas price also incorporates the result of any fixed physical delivery contracts. During the three and nine months ended September 30, 2016 the impact on natural gas sales of these contracts was $(7,432) and $135,737, respectively (Corresponding Periods: $(13,267) and $235,676 respectively).

The average BOE sales price received in the three and nine months ended September 30, 2016 decreased 8% and 23%, respectively, from the Corresponding Periods due to declining commodity prices. The proportion of oil and NGL in the Company's sales mix for the three and nine months ended September 30, 2016 was 51% and 49%, respectively (Corresponding Periods: 51% and 53%, respectively).

Volatility in the commodity markets will continue to impact realized prices in 2016. At September 30, 2016 Traverse had natural gas physical delivery contracts pertaining to the remainder of 2016 outstanding for an average of 650 GJ per day at $2.16 per GJ and 500 GJ per day for the first quarter of 2017 at $2.56 per GJ. There were no derivative commodity contracts outstanding during 2016 or as at September 30, 2016.

	Three months ended September 30,		Nine months ended September 30,	
Operating netback *($)*	**2016**	2015	**2016**	2015
Petroleum and natural gas revenue	**1,787,540**	2,924,168	**5,391,994**	9,710,249
Royalties	**(59,515)**	(67,590)	**(155,305)**	(356,797)
Operating	**(961,703)**	(1,011,638)	**(2,794,455)**	(3,001,075)
Transportation	**(99,727)**	(146,599)	**(339,070)**	(479,186)
Operating netback	**666,595**	**1,698,341**	**2,103,164**	**5,873,191**

	Three months ended September 30,		Nine months ended September 30,	
Operating netback *($/BOE)*	**2016**	2015	**2016**	2015
Petroleum and natural gas revenue	**30.74**	33.42	**27.39**	35.69
Royalties	**(1.02)**	(0.77)	**(0.79)**	(1.31)
Operating	**(16.54)**	(11.56)	**(14.20)**	(11.03)
Transportation	**(1.72)**	(1.68)	**(1.72)**	(1.76)
Operating netback	**11.46**	19.41	**10.68**	21.59

The Company's corporate royalty rate (as a percentage of revenue) increased in the three months ended September 30, 2016 compared to the three months ending September 30, 2015 due to decreased commodity prices and the expiry of new well incentives. The corporate royalty rate declined in the nine months ended September 30, 2016 compared to the 2015 period as a result of crown incentives on new production and reduced crown royalty rates due to commodity price declines.

Operating costs increased on a BOE basis for the three and nine months ended September 30, 2016 compared to the Corresponding Periods due to production maintenance expenditures and the impact of a reduced production base over which fixed costs are amortized. Declines in operating costs are not anticipated until new production commences.

The operating netback decreased 41% and 51%, respectively for the three and nine months ended September 30, 2016 compared to the Corresponding Periods due to declines in both production and commodity prices.

	Three months ended September 30,		Nine months ended September 30,	
Funds from operations *($)*	**2016**	2015	**2016**	2015
Operating netback	**666,595**	1,698,341	2,103,164	5,873,191
General and administrative expense - gross	**(258,232)**	(307,235)	(826,623)	(983,916)
General and administrative - recoveries	**36,715**	79,871	68,200	128,162
Finance expense excluding accretion	**(5,511)**	(10,492)	(25,576)	(119,450)
Current income tax recovery	**-**	300,000	-	340,000
Funds from operations	**439,567**	1,760,485	1,319,165	5,237,987

	Three months ended September 30,		Nine months ended September 30,	
Funds from operations *($/BOE)*	**2016**	2015	**2016**	2015
Operating netback	**11.46**	19.41	**10.68**	21.59
General and administrative expense - gross	**(4.44)**	(3.38)	**(4.26)**	(3.62)
General and administrative - recoveries	**0.63**	0.78	**0.41**	0.47
Finance expense excluding accretion	**(0.09)**	(0.12)	**(0.13)**	(0.44)
Current income tax recovery	**-**	3.43	**-**	1.25
Funds from operations	**7.56**	20.12	**6.70**	19.25

Gross general and administrative costs decreased 16% in both the three and nine months ended September 30, 2016 compared to the Corresponding Periods due mainly to reductions in office staff associated with the reduced capital program. Gross general and administrative expenses increased on a BOE basis by 31% and 18% compared to the Corresponding Periods due to the decrease in production volumes. Operator recoveries declined in the current periods compared to the Corresponding Periods due to the reduction in capital expenditures.

Cash finance expense, which is composed of interest expense and financing charges, decreased in the three and nine months ended September 30, 2016 compared to the Corresponding Periods due to less utilization of the credit facility in 2016.

A current income tax recovery was recognized in the Corresponding Periods relating to the recovery of cash income taxes paid in prior years. There is no current income tax recovery in 2016.

Funds from operations decreased 75% for both the three and nine months ended September 30, 2016 compared to the Corresponding Periods due to lower commodity prices and production decline.

	Three months ended September 30,		Nine months ended September 30,	
Net income (loss) ***($)***	**2016**	2015	**2016**	2015
Funds from operations	**439,567**	1,760,485	**1,319,165**	**5,237,987**
Finance expense - accretion	**(22,750)**	(18,750)	**(68,000)**	(58,250)
Share based compensation	**(14,676)**	(31,856)	**(261,450)**	(629,049)
Exploration and evaluation expense	**(726,214)**	(457,296)	**(1,012,471)**	(1,001,234)
Depletion and depreciation	**(855,578)**	(1,850,330)	**(3,069,838)**	(5,651,884)
Gain on sale of property and equipment	**-**	1,779	**-**	8,787,761
Impairment of property and equipment	**-**	(4,500,000)	**-**	(4,500,000)
Deferred income tax (recovery)	**65,000**	1,085,200	**514,000**	(1,226,460)
Net income (loss)	**(1,114,651)**	**(4,010,768)**	**(2,578,594)**	**958,871**

The accretion on decommissioning obligations increased for the three and nine months ended September 30, 2016 as compared to the Corresponding Periods due to the increase in the underlying decommissioning obligation liability due to liabilities incurred and changes in estimates recorded in the 2015 year.

Share based compensation expense in the 2016 periods decreased compared to the Corresponding Periods as a result of the lower fair value of stock options granted in 2016. The weighted average fair value of options granted in 2016 decreased to $0.16 compared to $0.28 in 2015 due to the decreased exercise price of the stock options granted ($0.36 compared to $0.62).

Exploration and evaluation ("E&E") expenses result from impairment of E&E assets, unsuccessful E&E costs and the expiry of undeveloped lands. In the 2016 periods E&E expenses relate to the pending expiry of undeveloped lands and a dry hole at Coyote in the third quarter. In the Corresponding Periods E&E expenses related to the pending expiry of undeveloped lands and a unsuccessful re-entry of a well at Hanna.

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 $7.2 million at September 30, 2016 (2015 - $4.6 million) and excluded $1.4 million (2015 - $1.3 million) for estimated salvage values. Future development costs at September 30, 2016 relate to four additional horizontal wells at Coyote.

In the third quarter of 2015, due to declining natural gas and oil prices, the Company recorded an impairment charge of $4.5 million. At September 30, 2016 the Company determined there were no impairment triggers identified.

Depletion and depreciation expense on a total dollar basis decreased 54% and 46%, respectively, for the three and nine months ended September 30, 2016 compared to the Corresponding Periods due to decreased production as well as decreases in the depletable base as a result of the impairment recorded in the second half of 2015. On a per BOE basis, depletion and depreciation decreased 30% and 25% for the three and nine months ended September 30, 2016 compared to the Corresponding Periods due to a decrease in the depletable base.

In June 2015 the Company disposed of royalty interests in the Brazeau area for gross proceeds of approximately $8.9 million which resulted in a gain on sale in 2015 of $8,787,761. There were no dispositions of property and equipment in 2016.

The Company recorded a deferred income tax recovery in the 2016 periods due to the net loss incurred. In the 2015 periods, a deferred income tax recovery was recorded in the three months ended September 30 due to the net loss incurred and a deferred income tax provision was recognized in the nine months ending September 30 due to the gain on sale of the Brazeau royalty property and the increase in the Alberta corporate income tax rate.

Capital expenditures

The Company incurred $1.8 million in expenditures in the third quarter of 2016 mainly relating to the drilling of two wells and the recompletion of two existing wells.

	Three months ended September 30,		Nine months ended September 30,	
($)	**2016**	2015	**2016**	2015
Land acquisition and rentals	**22,978**	98,192	**313,273**	381,995
Geological and geophysical	**110,219**	82,387	**367,689**	300,713
Drilling and completions	**1,404,330**	3,350,345	**1,739,920**	5,041,521
Equipping and facilities	**249,970**	588,132	**1,315,205**	1,802,620
Exploration and development capital	**1,787,497**	4,119,056	**3,736,087**	7,526,849
Property and equipment dispositions	**-**	(1,779)	**-**	(8,915,869)
Corporate assets	**2,016**	-	**2,758**	4,091
Net capital expenditures	**1,789,513**	4,117,277	**3,738,845**	(1,384,929)

Liquidity and capital resources

At September 30, 2016 Traverse had working capital of approximately $0.8 million and an unutilized credit facility of $7.0 million. The Company anticipates total capital expenditures for 2016 to be approximatley $6.5 million. The Company intends to fund capital expenditures and commitments during the remainder of 2016 with a combination of cash flow, working capital, new equity issues and/or debt.

The Board of Directors has approved an initial exploration and development program for 2017 of $14 million to be financed by cash flow, working capital and new equity issues or debt as appropriate. The 2017 capital program is weighted towards the second half of the year and consistent with 2016 will be adjusted throughout the year in response to both commodity prices and exploration results.

As at November 14, 2016 Traverse had 78,644,402 common shares outstanding and 6,175,000 common share options outstanding.

In March 2016, Traverse announced a normal course issuer bid (the "NCIB"). During the period commencing March 22, 2016 and ending March 21, 2017 the Company may purchase for cancellation up to 2 million common shares. Management of Traverse believes that the present trading price of the common shares is at a significant discount to a figure which is reflective of the Company's value as a whole therefore it is in the best interests of all shareholders that, from time to time, common shares be acquired by the Company and returned to treasury thus increasing the net asset value per common share for the remaining shareholders. No common shares were purchased under the NCIB in the period ended September 30, 2016.

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 as disclosed in the notes to the audited financial statements.

In June 2016 the Company completed a private placement of 6,696,133 flow-through common shares for gross proceeds of $2.8 million. Flow-through common shares eligible for Canadian exploration expense ("CEE") were issued at $0.45 per share (2,379,633 shares) and flow-through common shares eligible for Canadian development expenses ("CDE") were issued at a price of $0.40 per common share (4,316,500 shares). The qualifying CDE expenditures must be incurred by December 31, 2016 and the qualifying CEE expenditures must be incurred by December 31, 2017. The obligation remaining for this flow-through at September 30, 2016 was $1.3 million ($0.7 million CDE and $0.6 million CEE).

Summary of quarterly results
($ thousands, except per share amounts)
(Unaudited)

Quarter ended	**Sep-30 2016**	June 30 2016	March 31 2016	December 31 2015
Petroleum and natural gas revenue	**1,788**	1,969	1,635	3,172
Cash provided by operating activities	**750**	647	612	1,642
Funds from operations	**440**	491	389	2,024
Per share - basic and diluted	**0.01**	0.01	0.01	0.03
Net income (loss)	**(1,115)**	(793)	(671)	(3,720)
Per share - basic and diluted	**(0.01)**	(0.01)	(0.01)	(0.05)
Working capital	**840**	2,215	126	767
Production *(BOE/day)*	**632**	748	776	1,055
Capital expenditures, net of dispositions	**1,790**	951	998	3,913

Quarter ended	September 30 2015	June 30 2015	March 31 2015	December 31 2014
Petroleum and natural gas revenue	2,924	3,273	3,513	5,508
Cash provided by operating activities	1,767	2,189	2,000	3,473
Funds from operations	1,760	1,739	1,739	3,420
Per share - basic and diluted	0.02	0.02	0.02	0.05
Net income (loss)	(4,011)	5,525	(555)	(6,358)
Per share - basic and diluted	(0.06)	0.08	(0.01)	(0.09)
Working capital (deficiency)	2,063	4,460	(5,240)	(4,641)
Production *(BOE/day)*	951	924	1,116	1,249
Capital expenditures, net of dispositions	4,117	(7,824)	2,322	7,725

In the fourth quarter of 2014 production volumes increased as new production from two horizontal wells at Coyote commenced. Increased production resulted in increased revenue despite declining commodity prices. New production resulted in a decline in royalties and these decreased costs combined with increased revenue resulted in increased funds from operations. During the fourth quarter the Company recorded an impairment of property and equipment resulting in a net loss for the quarter. Capital expenditures in the quarter related mainly to the drilling of a second horizontal well at Coyote and the completion and tie in of both horizontals.

In the first quarter of 2015 production volumes declined as flush production from the Coyote horizontals declined. Commodity price declines resulted in decreased revenue and funds from operations. Increased depletion resulting from increased volumes and higher finding costs resulted in a net loss for the quarter. Capital expenditures in the quarter related mainly to the drilling and completion of one well at Coyote and the re-entry and abandonment of a well at Hanna.

In the second quarter of 2015 production volumes declined mainly due to the decrease in flush production from the Coyote horizontals. Commodity price declines resulted in decreased revenue. Funds from operations was unchanged as revenue declines were offset by decreases in operating and royalty expenses. The sale of the Brazeau royalty property resulted in a gain on sale which resulted in net income for the quarter. Capital expenditures for the quarter related mainly to the tie in of one well in the Coyote area and pre drill expenditures.

In the third quarter of 2015 production volumes increased due to the addition of a new production from the Coyote area. Commodity price declines resulted in decreased revenue. Funds from operations was consistent as revenue declines were offset by decreases in general and administrative expenses and increases in current tax recoveries. During the third quarter the Company recorded an impairment of property and equipment resulting in a net loss for the quarter. Capital expenditures for the quarter related mainly to the drilling, completion and tie in of a horizontal Mannville well at Coyote, the drilling of a vertical well at Coyote and recompletions and work overs.

In the fourth quarter of 2015 production volumes increased due to the addition of a new horizontal well in the Coyote area. Despite continued commodity price decline, increased production resulted in increased revenue and funds from operations. During the fourth quarter the Company recognized additional impairment of property and equipment. Capital expenditures for the quarter related mainly to the drilling, completion and tie in of a horizontal Mannville well at Coyote, the construction of a sales gas pipeline at Coyote and the tie in of a natural gas well at Turin.

In the first quarter of 2016 production declined as no new production was added. Decreased production and continued commodity price decline resulted in decreased revenue and funds from operations. Capital expenditures for the quarter related mainly to the water disposal facility and tank farm venting system at the Coyote battery.

In the second quarter of 2016 production continued to decline as no new production was added. Commodity prices improved over the first quarter of 2016 resulting in increased revenue and funds from operations. Stock options were granted during the second quarter resulting in increased share based compensation expense which increased the net loss compared to the first quarter. Capital expenditures for the quarter related mainly to the water disposal facility at the Coyote battery, well equipping at Coyote and continued land acquisition and prospect development.

In the third quarter of 2016 production continued to decline as no new production was added. Although commodity prices improved over the second quarter of 2016, the decreased production resulted in decreased revenue and funds from operations. Capital expenditures for the quarter related mainly to the drilling of two wells and the recompletions of two additional wells.

Critical accounting estimates

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

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:

Reserves

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.

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.

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.

Financial derivatives

The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

Deferred 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.

Future accounting pronouncements

In future accounting periods, the Company will adopt the following IFRS:

- *IFRS 15 Revenue from Contracts with Customers* - IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 will be adopted by the Company on January 1, 2018 and the extent of the impact of the adoption of the standard has not yet been determined.

- *IFRS 9 Financial Instruments* - IFRS 9 was amended in July 2014 and is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The IFRS 9 amendments will be adopted by the Company on January 1, 2018 and the extent of the impact of the adoption of the standard had not yet been determined.

- *IFRS 16 Leases* - IFRS 16 was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that apply IFRS 15 at or before the initial adoption date of January 1, 2018. The Company intends to adopt IFRS 16 ion January 1, 2019 and the extent of the impact of the adoption of the standard has not yet been determined.

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.

The oil and gas industry is highly competitive. Traverse competes with numerous other participants for all of its business activities, including exploration and development prospects, access to commodity markets and available capital. Traverse’s competitors include companies with greater financial resources, staff and facilities than those of Traverse. Exploration, development and production of petroleum and natural gas involves many risks that even a combination of experience, knowledge and careful evaluation may not be sufficient to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Traverse.

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived, including many factors that are beyond the control of the Company. The marketability of oil and natural gas discovered or acquired will be affected by numerous factors beyond the control of Traverse. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. The effect of these factors cannot be accurately predicted.

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Traverse's oil and natural gas operations may also be subject to compliance with international, federal, provincial and local laws, regulations and policies controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Although the Company believes that it is in material compliance with current applicable environmental regulations, changing regulations may have a material adverse effect on the Company. Aboriginal peoples have claimed Aboriginal and treaty rights to portions of Western Canada. The Company is not aware that any claims have been made in respect of the Company's assets; however, if a claim arose and was successful this could have an adverse effect on the Company and its operations.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The marketability and price of oil and natural gas that may be acquired or discovered by the Company is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising outside of Canada have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Company's net production revenue.

Both oil and natural gas prices are unstable and are subject to fluctuation. Material declines in commodity prices could result in a reduction of the Company's future production revenue and overall value and could result in reserve and ceiling test write-downs. The Company may enter into agreements to receive fixed or collared prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. The Company is or may be exposed to third party credit risk through its contractual arrangements with future joint venture partners, marketers of its petroleum and natural gas production, counterparties to financial instruments and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company, its cash flow from operations and its liquidity structure.

Oil and natural gas operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. Traverse maintains a comprehensive insurance program that insures liability and property consistent with industry practice. The program is designed to mitigate risks and protect against significant loss. However, the Company is not fully insured against all these risks, nor are all such risks insurable.

Traverse's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Traverse may require additional financing in order to carry out its oil and natural gas exploitation, acquisition, exploration, development and production activities. Failure to obtain such financing on a timely basis could cause Traverse to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. The Company may issue additional common shares in the future, which may dilute a shareholder's holdings in the Company. The Company is not obligated to pay dividends on its common shares. The payment of dividends is at the sole discretion of the Company's board of directors and as at the date hereof, the Company has not paid dividends.

Many risk factors are listed above but these risk factors should not be construed as exhaustive. 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. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from anticipated results.