

**TRAVERSE ENERGY LTD.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
*(Unaudited)*

	Notes	September 30, 2016	December 31, 2015
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 2,252,778	\$ 1,050,938
Accounts receivable		578,493	991,845
Income tax receivable		-	678,904
Prepaid expenses and deposits		198,464	186,972
		3,029,735	2,908,659
Exploration and evaluation assets	3	4,607,073	4,781,709
Property and equipment	4	31,047,820	31,095,748
		\$ 38,684,628	\$ 38,786,116
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,189,593	\$ 2,141,215
Deferred flow-through share premium		151,900	-
Decommissioning liabilities		4,454,301	4,326,000
Deferred income taxes		1,804,000	2,215,900
		8,599,794	8,683,115
<b>Shareholders' Equity</b>			
Share capital	6 (a)	41,673,906	39,374,829
Contributed surplus		2,524,084	2,262,634
Deficit		(14,113,156)	(11,534,462)
<b>Total Shareholders' Equity</b>		30,084,834	30,103,001
Commitment	6 (b)		
		\$ 38,684,628	\$ 38,786,116

*See accompanying notes to the condensed interim financial statements*

**TRAVERSE ENERGY LTD.**  
**CONDENSED INTERIM STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)**  
*(Unaudited)*

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2016	2015	2016	2015
<b>Revenue</b>					
Petroleum and natural gas		\$ 1,787,540	\$ 2,924,168	\$ 5,391,994	\$ 9,710,249
Royalties		(59,515)	(67,590)	(155,305)	(356,797)
		1,728,025	2,856,578	5,236,689	9,353,452
<b>Expenses</b>					
Operating		961,703	1,011,638	2,794,455	3,001,075
Transportation		99,727	146,599	339,070	479,186
General and administrative		221,517	227,364	758,423	855,754
Share based compensation		14,676	31,856	261,450	629,049
Finance expense	9	28,261	29,242	93,576	177,700
Exploration and evaluation expense	3	726,214	457,296	1,012,471	1,001,234
Depletion and depreciation	4	855,578	1,850,330	3,069,938	5,651,884
Impairment of property and equipment	4	-	4,500,000	-	4,500,000
Gain of sale of property and equipment	4	-	(1,779)	-	(8,787,761)
		2,907,676	8,252,546	8,329,383	7,508,121
Income (loss) before income taxes		(1,179,651)	(5,395,968)	(3,092,694)	1,845,331
<b>Income taxes</b>					
Current income tax (recovery)		-	(300,000)	-	(340,000)
Deferred income tax (recovery)		(65,000)	(1,085,200)	(514,000)	1,226,460
		(65,000)	(1,385,200)	(514,000)	886,460
<b>Net income (loss) and comprehensive</b>					
<b>income (loss)</b>		<b>\$ (1,114,651)</b>	<b>\$ (4,010,768)</b>	<b>\$ (2,578,694)</b>	<b>\$ 958,871</b>
<b>Net income (loss) per share - basic</b>					
<b>and diluted</b>	6 (c)	<b>\$ (0.01)</b>	<b>\$ (0.06)</b>	<b>\$ (0.03)</b>	<b>\$ 0.01</b>

See accompanying notes to the condensed interim financial statements

**TRAVERSE ENERGY LTD.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(Unaudited)*

	Share capital	Contributed surplus	Deficit	Total Shareholders' Equity
Balance December 31, 2014	\$ 38,577,928	\$ 1,705,122	\$ (8,772,955)	\$ 31,510,095
Net income	-	-	958,871	958,871
Share based compensation	-	629,049	-	629,049
Issued on exercise of common share options	150,000	-	-	150,000
Transfer of share based compensation on exercise	87,190	(87,190)	-	-
<b>Balance September 30, 2015</b>	<b>\$ 38,815,118</b>	<b>\$ 2,246,981</b>	<b>\$ (7,814,084)</b>	<b>\$ 33,248,015</b>
Balance December 31, 2015	\$ 39,374,829	\$ 2,262,634	\$(11,534,462)	\$ 30,103,001
Net loss	-	-	(2,578,694)	(2,578,694)
Share based compensation	-	261,450	-	261,450
Issued for cash - flow-through	2,797,435	-	-	2,797,435
Deferred flow-through share premium	(319,900)	-	-	(319,900)
Share issue costs, net of tax of \$65,900	(178,458)	-	-	(178,458)
<b>Balance September 30, 2016</b>	<b>\$ 41,673,906</b>	<b>\$ 2,524,084</b>	<b>\$ (14,113,156)</b>	<b>\$ 30,084,834</b>

*See accompanying notes to the condensed interim financial statements*

**TRAVERSE ENERGY LTD.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
*(Unaudited)*

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income (loss)	\$ (1,114,651)	\$ (4,010,768)	\$ (2,578,694)	\$ 958,871
Adjustments for:				
Depletion and depreciation	855,578	1,850,330	3,069,938	5,651,884
Exploration and evaluation expense	726,214	457,296	1,012,471	1,001,234
Impairment of property and equipment	-	4,500,000	-	4,500,000
Share based compensation	14,676	31,856	261,450	629,049
Accretion on decommissioning obligations	22,750	18,750	68,000	58,250
Deferred income tax (recovery)	(65,000)	(1,085,200)	(514,000)	1,226,460
Gain on sale of property and equipment	-	(1,779)	-	(8,787,761)
Decommissioning expenditures	(24,516)	(40,192)	(60,699)	(69,146)
Changes in non-cash working capital 10 (a)	334,773	47,108	750,592	787,562
	749,824	1,767,401	2,009,058	5,956,403
<b>Financing activities:</b>				
Repayment of bank debt	-	-	-	(1,439,819)
Proceeds on issue of common shares	-	-	2,797,435	150,000
Share issue costs	(272)	-	(244,358)	-
Changes in non-cash working capital 10 (a)	(46,957)	-	(2,021)	(6,069)
	(47,229)	-	2,551,056	(1,295,888)
<b>Investing activities:</b>				
Exploration and evaluation asset additions	(1,332,193)	(3,216,938)	(2,183,550)	(5,200,982)
Property and equipment asset additions	(457,320)	(902,118)	(1,555,295)	(2,329,958)
Property and equipment asset dispositions	-	1,779	-	8,915,869
Changes in non-cash working capital 10 (a)	1,091,661	964,691	380,571	(2,823,119)
	(697,852)	(3,152,586)	(3,358,274)	(1,438,190)
Change in cash and cash equivalents	4,743	(1,385,185)	1,201,840	3,222,325
Cash and cash equivalents, beginning of period	2,248,035	4,607,510	1,050,938	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 2,252,778</b>	<b>\$ 3,222,325</b>	<b>\$ 2,252,778</b>	<b>\$ 3,222,325</b>

See accompanying notes to the condensed interim financial statements

**TRAVERSE ENERGY LTD.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (Unaudited)**

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**1. Reporting entity**

Traverse Energy Ltd. (the "Company" or "Traverse") 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". 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 2500, 450 - 1 Street SW Calgary, Alberta T2P 5H1.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 14, 2016.

**2. Basis of presentation and statement of compliance**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements do not include all the necessary annual disclosures as prescribed by International Financial Reporting Standards ("IFRS") and should be read in conjunction with the annual financial statements as of December 31, 2015. These condensed interim financial statements have been prepared following the same accounting policies and method of computation as the annual financial statements for the year ended December 31, 2015.

These condensed interim financial statements have been prepared on a historical cost basis. These financial statements are presented in Canadian dollars, which is the Company's functional currency.

**3. Exploration and evaluation assets**

	<b>Total</b>
Balance January 1, 2015	\$ 5,082,893
Additions	8,226,167
Transfers to property and equipment	(4,697,020)
Changes in decommissioning liabilities	458,719
Exploration and evaluation expense - land expiries	(917,796)
Exploration and evaluation expense - unsuccessful exploration	(3,371,254)
Balance December 31, 2015	\$ 4,781,709
Additions	2,183,550
Transfers to property and equipment	(1,466,715)
Changes in decommissioning liabilities	121,000
Exploration and evaluation expense - land expiries	(619,128)
Exploration and evaluation expense - unsuccessful exploration	(393,343)
Balance September 30, 2016	\$ 4,607,073

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

The impairment of E&E assets and any subsequent reversal of such impairment losses are recognized in exploration and evaluation expense in the statements of income and comprehensive income. There were no impairment losses recorded on the remaining E&E asset balance after land expiries and unsuccessful exploration for the nine months ended September 30, 2016 or 2015.

**TRAVERSE ENERGY LTD.**  
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**4. Property and equipment**

<b>Cost:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
Balance January 1, 2014	\$ 64,135,916	\$ 290,587	\$ 64,426,503
Additions	3,213,866	4,091	3,217,957
Transfers from exploration and evaluation	4,697,020	-	4,697,020
Dispositions	(247,005)	-	(247,005)
Changes in decommissioning liabilities	328,000	-	328,000
Balance December 31, 2015	\$ 72,127,797	\$ 294,678	\$ 72,422,475
Additions	1,552,537	2,758	1,555,295
Transfers from exploration and evaluation	1,466,715	-	1,466,715
Balance September 30, 2016	\$ 75,147,049	\$ 297,436	\$ 75,444,485

<b>Accumulated depletion and depreciation:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
Balance January 1, 2014	\$ (27,924,697)	\$ (97,888)	\$(28,022,585)
Dispositions	118,897	-	118,897
Depletion and depreciation	(7,232,099)	(40,940)	(7,273,039)
Impairment	(6,150,000)	-	(6,150,000)
Balance December 31, 2015	\$ (41,187,899)	\$ (138,828)	\$(41,326,727)
Depletion and depreciation	(3,043,045)	(26,893)	(3,069,938)
Balance September 30, 2016	\$ (44,230,944)	\$ (165,721)	\$(44,396,665)

<b>Net book value:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
As at December 31, 2015	\$ 30,939,898	\$ 155,850	\$ 31,095,748
As at September 30, 2016	\$ 30,916,105	\$ 131,715	\$ 31,047,820

The calculation of depletion and depreciation for the nine months ended September 30, 2016 included estimated future development costs of \$7.2 million (2015 - \$4.6 million) associated with the development of the Company's proved and proved plus probable reserves and excluded salvage value of \$1.4 million (2015 - \$1.3 million) for estimated salvage values.

In June 2015 the Company disposed certain assets for gross proceeds of approximately \$8.9 million. As the property sold was entirely composed of royalty interests, there were no associated asset retirement obligations resulting in a gain on sale of \$8,787,761.

At September 30, 2015 due to declining oil and natural gas prices, the Company determined that impairment triggers were present and tested all of its CGUs for impairment. 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, originally estimated by the Company's external reserve evaluators and updated internally for production since December 31, 2014 and to reflect the September 30, 2015 price deck, discounted at a rate of 10%.

**TRAVERSE ENERGY LTD.**  
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At September 30, 2015 the Company recorded a total impairment charge of \$4.5 million related to the Oil CGU. At September 30, 2016 the Company determined there were no impairment triggers identified at the end of the reporting period.

**5. Banking facility**

The Company's bank facility consists of a revolving operating loan facility (the "facility") with a Canadian bank. The facility is provided on a demand basis in the amount of \$7.0 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, 2017. As at September 30, 2016 the credit facility was undrawn (2015 - nil).

The facility bears interest at the Lender's prime lending rate plus 1.30% and standby fees are charged on the undrawn facility at a rate of 0.35%. 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 September 30, 2016 the Company was in compliance with the financial covenant. 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.

**6. Share capital**

**(a) Issued and outstanding**

<b>Common shares</b>	<b>Number</b>	<b>Amount</b>
Balance January 1, 2015	70,530,269	\$ 38,577,928
Issued for cash on exercise of stock options	250,000	150,000
Transferred from contributed surplus on exercise of stock options	-	87,190
Issued for cash - flow-through	1,168,000	700,800
Deferred flow-through premium	-	(116,800)
Share issue costs, net of tax of \$8,984	-	(24,289)
Balance December 31, 2015	71,948,269	\$ 39,374,829
Issued for cash - flow-through	6,696,133	2,797,435
Deferred flow-through premium	-	(319,900)
Share issue costs, net of tax of \$65,900	-	(178,458)
Balance September 30, 2016	78,644,402	\$ 41,673,906

**(b) Private placements**

In October 2015 the Company completed a private placement of 1,168,000 flow-through common shares at a price of \$0.60 per common share for gross proceeds of \$700,800. Directors and officers of the Company subscribed for 454,667 common shares for consideration of \$272,800. The Company has incurred the qualifying expenditures.

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). Directors and officers of the Company subscribed for 992,406 common shares for consideration of \$407,249. 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).

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**(c) Per share amounts**

Basic and diluted net income (loss) per share amounts were calculated as follows:

	<b>Three months ended September 30, 2016</b>		<b>Nine months ended September 30, 2015</b>	
Net income (loss) for the period	\$ (1,114,651)	\$ (4,010,768)	\$ (2,578,694)	\$ 958,871
Weighted average number of common shares outstanding - basic	78,644,402	70,780,269	75,027,513	70,705,683
Effect of outstanding options	-	-	-	-
Weighted average number of common shares outstanding - diluted	78,644,402	70,780,269	75,027,513	70,705,683
Net income (loss) per share - basic and diluted	\$ (0.01)	\$ (0.06)	\$ (0.03)	\$ 0.01

The Company experienced a net loss in 2016 and therefore the effect of outstanding options were excluded as they were anti-dilutive. In computing per diluted per share amounts for the period ended September 30, 2015, all outstanding stock options were excluded from the calculation as anti-dilutive.

**(d) Normal course issuer bid**

On March 16, 2016, the Company announced that it had received approval from the TSX Venture Exchange (the "TSX-V") to proceed with a normal course issuer bid (the "NCIB") whereby the Company may purchase for cancellation, through the facilities of the TSX-V and at the market price of the common shares at the time of purchase, up to 2,000,000 common shares, representing approximately 2.78% of the Corporation's issued and outstanding common shares as of March 16, 2016. The NCIB commenced March 22, 2016 and is expected to be terminated March 21, 2017. No common shares were purchased under the NCIB in the period ended September 30, 2016.

**7. Share based compensation 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 employees and 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:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Balance December 31, 2015	5,545,000	\$ 0.75
Granted	1,630,000	0.36
Expired	(1,000,000)	0.80
Balance September 30, 2016	6,175,000	\$ 0.64

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

<b>Assumptions</b>	<b>Nine months ended</b>	
	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Risk free interest rate (%)	0.9	0.9
Expected life (years)	4.9	4.9
Expected volatility (%)	51.9	49.9
Forfeiture rate (%)	1.2	1.2
Weighted average fair value of options	\$ 0.16	\$ 0.28

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2016:

<b>Exercise price</b>	<b>Number outstanding</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price</b>	<b>Number exercisable</b>	<b>Weighted average exercise price</b>
\$0.30 - \$0.40	1,630,000	4.6	\$ 0.36	1,376,666	\$ 0.36
\$0.60 - \$0.70	2,865,000	3.1	\$ 0.62	2,865,000	\$ 0.62
\$0.91 - \$1.00	1,530,000	2.6	\$ 0.95	1,530,000	\$ 0.95
\$1.01 - \$1.10	150,000	2.7	\$ 1.07	150,000	\$ 1.07
<b>\$0.30 - \$1.10</b>	<b>6,175,000</b>	<b>3.3</b>	<b>\$ 0.64</b>	<b>5,921,666</b>	<b>\$ 0.65</b>

**8. Financial risk management**

The Company utilizes both financial derivatives and physical delivery sales contracts to manage commodity price risks. Physical delivery contracts are accounted for as executory contracts. As of September 30, 2016 the Company held no derivative commodity contracts.

**9. Finance expense**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30, 2016</b>	<b>September 30, 2015</b>	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Interest income	\$ (1,338)	\$ (4,576)	\$ (2,871)	\$ (5,764)
Interest expense and financing charges	6,849	15,068	28,447	125,214
Accretion of decommissioning obligations	22,750	18,750	68,000	58,250
	<b>\$ 28,261</b>	<b>\$ 29,242</b>	<b>\$ 93,576</b>	<b>\$ 177,700</b>

TRAVERSE ENERGY LTD.  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015 (Unaudited)

10 Supplemental information

(a) Changes in non-cash working capital:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Provided by (used in):				
Accounts receivable and tax receivable	\$ 606,717	\$ 93,677	\$ 1,092,256	\$ 898,820
Prepaid expenses and deposits	41,339	(87,040)	(11,492)	13,323
Accounts payable and accrued liabilities	731,421	(1,018,436)	48,378	(2,953,769)
	<u>\$ 1,379,477</u>	<u>\$ (1,011,799)</u>	<u>\$ 1,129,142</u>	<u>\$ (2,041,626)</u>

Provided by (used in):				
Operating	\$ 334,773	\$ 47,108	\$ 750,592	\$ 787,562
Financing	(46,957)	-	(2,021)	(6,069)
Investing	1,091,661	964,691	380,571	(2,823,119)
	<u>\$ 1,379,477</u>	<u>\$ 1,011,799</u>	<u>\$ 1,129,142</u>	<u>\$ (2,041,626)</u>

(b) Interest and taxes paid:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest received	\$ (3,263)	\$ (4,576)	\$ (4,796)	\$ (5,764)
Interest paid	-	-	1,925	89,714
Taxes received	416,121	-	678,904	-
	<u>\$ 412,858</u>	<u>\$ (4,576)</u>	<u>\$ 676,033</u>	<u>\$ 83,950</u>