TRAVERSE ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	Notes	June 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		$ 8,592,049	$ 4,994,322
Accounts receivable		2,156,136	1,712,206
Prepaid expenses and deposits		396,051	59,402
		11,144,236	6,765,930
Exploration and evaluation assets	3	6,407,596	5,056,426
Property and equipment	4	29,757,280	20,303,220
		$ 47,309,112	$ 32,125,576
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 5,344,340	$ 3,641,510
Financial derivative liability	8	44,044	15,664
Income tax payable		-	694,000
		5,388,384	4,351,174
Deferred flow-through share premium		32,660	341,100
Decommissioning liabilities		3,078,842	2,475,000
Deferred income taxes		2,928,580	1,964,710
		11,428,466	9,131,984
Shareholders' Equity			
Share capital	6	37,084,600	25,798,292
Contributed surplus		1,845,832	1,398,190
Deficit		(3,049,786)	(4,202,890)
		35,880,646	22,993,592
		$ 47,309,112	$ 32,125,576

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Notes	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue					
Petroleum and natural gas	9	$ 4,338,345	$ 3,037,706	$ 8,873,197	$ 5,798,803
Royalties		(789,928)	(148,038)	(1,422,817)	(261,135)
		3,548,417	2,889,668	7,450,380	5,537,668
Realized gain (loss) on financial derivatives		(108,706)	4,141	(187,232)	4,141
Unrealized gain (loss) on financial derivatives		116,043	(4,073)	(28,380)	(4,073)
		3,555,754	2,889,736	7,234,768	5,537,736
Expenses					
Operating		789,891	515,725	1,491,987	829,258
Transportation		81,754	59,620	142,835	115,160
General and administrative		290,973	198,925	575,545	445,647
Share based compensation		657,642	14,793	657,642	34,116
Exploration and evaluation expense	3	182,558	27,658	235,748	491,172
Depletion and depreciation	4	1,019,054	653,605	2,004,772	1,155,895
		3,021,872	1,470,326	5,108,529	3,071,248
Income from operating activities		533,882	1,419,410	2,126,239	2,466,488
Finance income		16,361	4,539	26,769	9,189
Finance expense		(18,500)	(5,000)	(35,000)	(10,000)
Net finance income (loss)		(2,139)	(461)	(8,231)	(811)
Income before income taxes		531,743	1,418,949	2,118,008	2,465,677
Income taxes					
Current income tax		(115,096)	-	74,904	-
Deferred income tax expense		240,000	359,050	890,000	884,570
		124,904	359,050	964,904	884,570
Net income and comprehensive income		$ 406,839	$ 1,059,899	$ 1,153,104	$ 1,581,107
Net income per share - basic and diluted (6(c))		$ 0.01	$ 0.02	$ 0.02	$ 0.03

See accompanying notes to the interim financial statements

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

	Share capital	Contributed surplus	Deficit	Total Shareholders' Equity
Balance December 31, 2012	$ 21,685,273	$ 1,355,056	$ (7,447,692)	$ 15,592,637
Net income	-	-	1,581,107	1,581,107
Share based compensation	-	34,116	-	34,116
Issued for cash - flow-through	1,504,500	-	-	1,504,500
Deferred flow-through share premium	(197,700)	-	-	(197,700)
Share issue costs, net of tax of $26,720	(80,154)	-	-	(80,154)
Balance June 30, 2013	$ 22,911,919	$ 1,389,172	$ (5,866,585)	$ 18,434,506
Balance December 31, 2013	$ 25,798,292	$ 1,398,190	$ (4,202,890)	$ 22,993,592
Net income	-	-	1,153,104	1,153,104
Share based compensation	-	657,642	-	657,642
Issued for cash	11,500,000	-	-	11,500,000
Share issue costs, net of tax of $234,570	(703,692)	-	-	(703,692)
Issued on exercise of common share options	280,000	-	-	280,000
Transfer of share based compensation on exercise	210,000	(210,000)	-	-
Balance June 30, 2014	$ 37,084,600	$ 1,845,832	$ (3,049,786)	$ 35,880,646

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash provided by (used in):				
Operating activities:				
Net income	$ 406,839	$ 1,059,899	$ 1,153,104	$ 1,581,107
Adjustments for:				
Depletion and depreciation	1,019,054	653,605	2,004,772	1,155,895
Exploration and evaluation expense	182,558	27,658	235,748	491,172
Share based compensation	657,642	14,793	657,642	34,116
Finance expense	18,500	5,000	35,000	10,000
Deferred income tax expense	240,000	359,050	890,000	884,570
Unrealized loss on financial derivatives	(116,043)	4,073	28,380	4,073
Decommissioning expenditures	(38,158)	-	(38,158)	-
Changes in non-cash working capital	(909,089)	(202,120)	(1,417,367)	(79,323)
	1,461,303	1,921,958	3,549,121	4,081,610
Financing activities:				
Proceeds on issue of common shares	280,000	1,504,500	11,780,000	1,504,500
Share issue costs	(16,740)	(106,874)	(938,262)	(106,874)
Changes in non-cash working capital	(87,968)	10,399	29,716	(1,056)
	175,292	1,408,025	10,871,454	1,396,570
Investing activities:				
Exploration and evaluation asset additions	(4,935,135)	(1,463,651)	(10,839,689)	(3,565,212)
Property and equipment asset additions	(539,644)	(210,684)	(1,599,061)	(870,012)
Changes in non-cash working capital	(282,747)	(631,320)	1,615,902	(59,979)
	(5,757,526)	(2,305,655)	(10,822,848)	(4,495,203)
Change in cash and cash equivalents	(4,120,931)	1,024,328	3,597,727	982,977
Cash and cash equivalents, beginning of period	12,712,980	3,226,160	4,994,322	3,267,511
Cash and cash equivalents, end of period	**$ 8,592,049**	**$ 4,250,488**	**$ 8,592,049**	**$ 4,250,488**

See accompanying notes to the interim financial statements

1. Reporting entity

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

2. Basis of presentation and statement of compliance

These 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 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, 2013. These 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, 2013, except as noted below.

(a) The IASB issued International Financial Reporting Interpretation ("IFRIC") 21, "Levies" which was adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation had no impact on the Company's financial statements.

(b) On January 1, 2014 the Company implemented IAS 32 "Financial Instruments - Presentation", which clarifies the requirements for offsetting financial assets and liabilities. The amendments clarify when an entity has a legally enforceable right to offset and certain other requirements that are necessary to present a net financial asset or liability. The adoption of this standard has no impact on the financial statements of the Company.

These 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, and include the accounts of Traverse only as there are no subsidiary companies.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 14, 2014.

3. Exploration and evaluation assets

	Total
Balance December 31, 2012	$ 3,721,166
Additions	13,389,619
Transfers to property and equipment	(10,151,016)
Changes in decommissioning liabilities	66,045
Exploration and evaluation expense - lease expiries	(636,987)
Exploration and evaluation expense - unsuccessful exploration	(1,332,401)
Balance December 31, 2013	$ 5,056,426
Additions	10,839,689
Transfers to property and equipment	(9,300,771)
Changes in decommissioning liabilities	48,000
Exploration and evaluation expense - lease expiries	(235,748)
Balance June 30, 2014	$ 6,407,596

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 for the six months ended June 30, 2014 or 2013.

4. Property and equipment

Cost:	Oil and natural gas properties	Corporate	Total
Balance December 31, 2012	$ 20,553,178	$ 112,345	$ 20,665,523
Additions	1,063,153	7,619	1,070,772
Transfers from exploration and evaluation	10,151,016	-	10,151,016
Acquisition	641,050	-	641,050
Changes in decommissioning liabilities	1,188,720	-	1,188,720
Balance December 31, 2013	$ 33,597,117	$ 119,964	$ 33,717,081
Additions	1,554,359	44,702	1,599,061
Transfers from exploration and evaluation	9,300,771	-	9,300,771
Changes in decommissioning liabilities	559,000	-	559,000
Balance June 30, 2014	$ 45,011,247	$ 164,666	$ 45,175,913

Accumulated depletion and depreciation:	Oil and natural gas properties	Corporate	Total
Balance December 31, 2012	$ (9,757,088)	$ (41,443)	$ (9,798,531)
Depletion and depreciation	(3,597,855)	(17,475)	(3,615,330)
Balance December 31, 2013	$ (13,354,943)	$ (58,918)	$ (13,413,861)
Depletion and depreciation	(1,995,412)	(9,360)	(2,004,772)
Balance June 30, 2014	$ (15,350,355)	$ (68,278)	$ (15,418,633)

Net book value:	Oil and natural gas properties	Corporate	Total
As at December 31, 2013	$ 20,242,174	$ 61,046	$ 20,303,220
As at June 30, 2014	$ 29,660,892	$ 96,388	$ 29,757,280

The calculation of depletion and depreciation for the six months ended June 30, 2014 included $2,064,000 (2013 - $481,000) for future development costs and excluded $887,000 (2013 - $419,000) for estimated salvage values.

The impairment of property and equipment and any subsequent reversal of such impairment losses are recognized in depletion and depreciation in the statements of income and comprehensive income. At June 30, 2014 and 2013 the Company performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified at the end of the reporting periods.

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 $10.0 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, 2015.

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 June 30, 2014 the Company was in compliance with the financial covenant and no amount was owing under the facility. As security for the facility, the Company has provided a general security agreement providing a security interest over all present and after acquired personal property and a floating charge on all lands.

6. Share capital

(a) Issued and outstanding

Common shares	Number	Amount
Balance December 31, 2012	47,087,911	$ 21,685,273
Issued for cash - flow-through	6,420,000	4,864,500
Deferred flow-through share premium	-	(557,700)
Share issue costs, net of tax of $64,590	-	(193,781)
Balance December 31, 2013	53,507,911	$ 25,798,292
Issued for cash	14,375,000	11,500,000
Issued for cash on exercise of stock options	700,000	280,000
Transferred from contributed surplus on exercise of stock options	-	210,000
Share issue costs, net of tax of $234,570	-	(703,692)
Balance June 30, 2014	68,582,911	$ 37,084,600

(b) Private placements

In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of $1,504,500. Flow-through common shares eligible for Canadian exploration expenses were issued at $0.67 per share (750,000 shares) and flow-through common shares eligible for Canadian development expenses were issued at $0.60 per share (1,670,000 shares). The Company has incurred the required qualifying expenditures.

In December 2013 the Company completed a private placement of 4,000,000 flow-through common shares at a price of $0.84 per common share for gross proceeds of $3,360,000. Directors and officers of the Company subscribed for 966,950 common shares for consideration of $812,238. The qualifying expenditures were renounced to shareholders as at December 31, 2013 and the Company has to incur the qualifying expenditures before December 31, 2014. The obligation remaining for this flow-through issue at June 30, 2014 was $305,000.

On March 12, 2014 the Company completed a bought deal financing by issuing 14,375,000 common shares at $0.80 per common share for gross proceeds of $11.5 million, before share issue costs.

(c) Per share amounts

Basic and diluted net income were calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Net income for the period	$ 406,839	$ 1,059,899	$ 1,153,104	$ 1,581,107
Weighted average number of common shares outstanding - basic	68,275,219	47,813,911	62,441,336	47,266,925
Effect of outstanding options	1,763,299	336,789	1,525,414	367,745
Weighted average number of common shares outstanding - diluted	70,038,518	48,150,700	63,966,750	47,634,670
Net income per share - basic and diluted	$ 0.01	$ 0.02	$ 0.02	$ 0.03

(d) Stock option plan

The Company has established a stock option plan for the benefit of its directors, officers, employees and consultants. The Board of Directors establishes at the time of grant, subject to regulatory approval, the option exercise price, the expiry date and vesting provisions. The options granted to directors and officers vest immediately and the options granted to consultants vest over a one year time period. Options granted expire five years from the date of grant.

The following table sets forth a reconciliation of the stock option plan activity:

	Number of options	**Weighted average exercise price**
Balance December 31, 2012 and 2013	4,430,000	$ 0.59
Exercised	(700,000)	0.40
Granted	1,735,000	0.96
Balance December June 30, 2014	5,465,000	$ 0.73

The weighted average share price at the date stock options were exercised in 2014 was $1.00.

No options were granted during the year ended December 31, 2013. The fair value of options granted in 2014 was estimated using a Black Scholes model with the following weighted average assumptions:

Assumptions	**2013**
Risk free interest rate (%)	1.6
Expected life (years)	4.8
Expected volatility (%)	57.4
Forfeiture rate (%)	2.2
Weighted average fair value of options	$ 0.46

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2014:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.40 - $0.50	875,000	0.2	$ 0.41	875,000	$ 0.41
$0.51 - $0.70	1,555,000	2.1	$ 0.60	1,555,000	$ 0.60
$0.71 - $0.90	1,300,000	2.3	$ 0.80	1,300,000	$ 0.80
$0.91 - $1.10	1,735,000	4.8	$ 0.96	1,228,331	$ 0.95
$0.40 - $1.10	5,465,000	2.7	$ 0.73	4,958,331	$ 0.71

7. Related party transactions

Certain directors of Traverse were also the controlling shareholders of a private company that participated in joint operations with the Company. All transactions were completed on an arm's length basis consistent with normal industry terms. Traverse purchased the related company on December 16, 2013 and as a result no amounts were outstanding between Traverse and the related company at December 31, 2013 and June 30, 2014. During the six months ended June 30, 2013, the aggregate value of transactions entered into between Traverse and the private company was approximately $126,600.

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 June 30, 2014 the Company held derivative commodity contracts as follows:

Product	Term	Type	Volume	Swap price	Index	As at June 30, 2014
Natural Gas	Jan. 1 to Dec. 31, 2014	Basis swap	1,000 mmbtu/d	US $0.46/mmbtu	AECO - Henry Hub	$ (44,044)
Total						$ (44,044)

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's derivative commodity contracts are classified as level 2 measurements. The fair value of commodity contracts is determined by discounting the difference between the contracted price and published forward price curves as at the period end date, using the remaining contracted petroleum and natural gas volumes. As at June 30, 2014 a 10% increase in the index prices would have increased the unrealized loss on financial derivatives by approximately $74,000.

9. Revenue

The components of the Company's revenue are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2014	**2013**	**2014**	**2013**
Petroleum and natural gas sales	$ 3,649,581	$ 2,015,190	$ 7,468,397	$ 3,478,922
Royalty income	688,764	1,022,516	1,404,800	2,319,881
Petroleum and natural gas	$ 4,338,345	$ 3,037,706	$ 8,873,197	$ 5,798,803