TRAVERSE ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2014

This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated August 14, 2014 should be read in conjunction with the Company's unaudited interim financial statements as at and for the six months ended June 30, 2014 and the audited financial statements as at and for the year ended December 31, 2013. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2013 ("2013 MD&A"), as disclosure which is unchanged from December 31, 2013 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 terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share, operating netback, operating netback per BOE and working capital are not defined by IFRS and therefore may not be comparable to performance measures presented by others. Funds from operations represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations as detailed under the heading "Funds from operations and net income". Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Working capital is calculated as current assets (excluding financial derivative assets) less current liabilities (excluding financial derivative liabilities). Operating netback represents revenue and realized gain or loss on financial derivatives, less royalties, operating and transportation expenses and is calculated on a per unit basis. The calculation of Traverse's operating netback is detailed under the heading "Operating netback". Management believes that in addition to net income, the aforementioned non-IFRS measures 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 and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

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 timing for the placing on production of 4 development wells at its Coyote property; projected start-up date of the Coyote battery expansion; installation of additional pipelines; horizontal development of the Ellerslie pool; planned recompletions at Turin; planned additional drilling at Coyote and Michichi; the number of wells to be drilled in 2014; the decrease in the proportion of royalty interest production due to increased Company drilling; being taxable on a current basis in 2014; and intentions for funding capital expenditures during 2014 contain 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 June 30,		Six months ended June 30,	
HIGHLIGHTS *(Unaudited)*	**2014**	2013	**2014**	2013
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**4,338**	3,038	**8,873**	5,799
Cash flow from operating activities	**1,461**	1,922	**3,549**	4,082
Per share - basic and diluted	**0.02**	0.04	**0.06**	0.09
Funds from operations (1)	**2,409**	2,124	**5,005**	4,161
Per share - basic and diluted	**0.03**	0.04	**0.08**	0.09
Net income	**407**	1,060	**1,153**	1,581
Per share - basic and diluted	**0.01**	0.02	**0.02**	0.03
Capital expenditures	**5,475**	1,674	**12,439**	4,435
Total assets	**47,309**	23,512	**47,309**	23,512
Working capital	**5,800**	4,202	**5,800**	4,202
Common shares				
Outstanding *(millions)*	**68.6**	49.5	**68.6**	49.5
Weighted average *(millions)*	**68.3**	47.8	**62.4**	47.3
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**2,139**	1,638	**1,975**	1,524
Oil and NGL *(bbls/day)*	**418**	326	**436**	329
Total (BOE/day)	**775**	599	**765**	584
Average sales price				
Natural gas *($/mcf)*	**3.92**	3.72	**4.64**	3.61
Oil and NGL *($/bbl)*	**93.97**	83.60	**91.39**	80.65
Operating netback *($/BOE)* (2)				
Petroleum and natural gas revenue	**61.55**	55.69	**64.05**	54.95
Realized gain (loss) on financial derivatives	**(1.54)**	0.08	**(1.35)**	0.04
Royalties	**(11.21)**	(2.71)	**(10.27)**	(2.47)
Operating and transportation expenses	**(12.37)**	(10.55)	**(11.80)**	(8.95)
Operating netback	**36.43**	42.51	**40.63**	43.57

(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 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 represents revenue and realized gain or loss on financial derivatives, less royalties, operating and transportation expenses and is calculated on a per unit basis. Operating netback does 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 June 2014 the Company drilled 4 development wells, targeting Ellerslie oil, at its Coyote property in East Central Alberta. These wells were completed in July for oil production and will be placed on production during the third quarter. Traverse has now completed 8 oil wells to delineate this new pool discovered by Traverse in March 2013. Two additional wells were drilled in the third quarter and are awaiting completion. At the end of the second quarter, 4 wells were on production from this pool. Production for the second quarter from the Coyote area was 235 BOE/day (81% oil).

The Coyote battery expansion began in the third quarter with a projected start-up date of early September. Facilities being constructed at the battery site include a treater, a natural gas sweetening tower, well test header system and additional storage tanks. The initial daily capacity at the battery is estimated at 2,000 barrels of oil and water and 4 mmcf of natural gas. Traverse has also recently received approval to dispose of produced water in an existing wellbore it owns in the Coyote area. Additional field work at Coyote in the third and fourth quarters will include the installation of additional pipelines to tie in further production to the west of the battery and an additional pipeline to move increased volumes of natural gas to a nearby gas plant. The Alberta Energy Regulator ("AER") has granted a holding to allow for 4 wells per quarter section to develop the Ellerslie pool. Traverse plans to begin horizontal development of the Ellerslie pool later in the year once the production facilities are completed. Additional drilling to further delineate the pool will continue in 2014.

At Turin Traverse installed a booster compressor at its central battery, which became operational in early July, to allow for production of natural gas from two shut-in wells and lower the operating pressure for oil production from the field. In the latter half of 2014 Traverse plans to recomplete several shut-in wells for sweet gas production which can be produced through the existing facilities. Production at Turin for the second quarter was 389 BOE/day (40% oil).

At Michichi the Company drilled its first oil well in March. The well has been pipeline connected to conserve natural gas and was placed on production in mid August. Another well in the Michichi area will be drilled later in the third quarter.

In the first half of 2014, Traverse drilled 9 wells resulting in 7 oil wells and 2 gas wells. New production from 2014 drilling was added in both June and July. The remaining wells drilled in 2014 are currently awaiting the Coyote battery expansion which is anticipated to be operational by early September. The expanded battery will allow for treating emulsion and water disposal resulting in decreased operating costs and additional marketing opportunities for the clean oil produced. Traverse's production for July 2014 exceeded 1,100 BOE/day (45% oil).

At June 30, 2014 undeveloped land holdings totalled 183,800 gross (180,600 net) acres. The Board of Directors approved an exploration and development budget of $29.1 million for 2014. The program includes the drilling of up to 15 wells on Company owned lands in the Coyote and Turin areas and on other properties located in east central Alberta.

	Three months ended June 30,		Six months ended June 30,	
Production	**2014**	2013	**2014**	2013
Average working interest production				
Natural gas *(mcf/day)*	**1,759**	1,410	**1,576**	1,297
Crude oil *(bbls/day)*	**357**	210	**377**	187
Total *(BOE/day)*	**651**	445	**639**	404
Average royalty production				
Natural gas *(mcf/day)*	**380**	228	**399**	227
Crude oil *(bbls/day)*	**61**	116	**59**	142
Total *(BOE/day)*	**124**	154	**126**	180
Total production				
Natural gas *(mcf/day)*	**2,139**	1,638	**1,975**	1,524
Crude oil *(bbls/day)*	**418**	326	**436**	329
Total *(BOE/day)*	**775**	599	**765**	584
% Oil and NGL	**54%**	54%	**57%**	56%

Production in the three and six months ended June 30, 2014 increased compared to the three and six months ended June 30, 2013 (the "Corresponding Periods") mainly as a result of the 2013 drilling in the Coyote area. A partial suspension of production from the Coyote Battery commenced March 4, 2014 while modifications to the battery were made to deliver solution gas to a nearby gas plant. The Coyote Battery resumed full production of oil and associated solution gas on May 1, 2014. Late in the second quarter production commenced from a new well in each of the Coyote and Turin areas resulting in a slight increase to production in the second quarter of 2014 (775 BOE/day) as compared to the first quarter (756 BOE/day).

	Three months ended June 30,		Six months ended June 30,	
Production by area (BOE/day)	**2014**	2013	**2014**	2013
Brazeau	**107**	133	**111**	159
Coyote	**235**	72	**221**	36
Turin	**389**	332	**391**	326
Minor	**44**	62	**42**	63
Total BOE per day	**775**	599	**765**	584
% of BOE/day				
Royalty	**16%**	26%	**16%**	31%
Working interest	**84%**	74%	**84%**	69%

The royalty proportion of total Company production has decreased to 16% in the 2014 period compared to 26% in the 2013 period. Industry drilling on the Company's royalty lands at Brazeau slowed in 2013. Future increases in royalty production will be dependent on the level of industry drilling on the royalty lands. Royalty interest production is anticipated to continue to decrease as a percentage of total production due to increased Company drilling.

	Three months ended June 30,		Six months ended June 30,	
Pricing	**2014**	2013	**2014**	2013
Average sales price				
Natural gas *($/mcf)*	**3.92**	3.72	**4.64**	3.61
Oil and NGL *($/bbl)*	**93.97**	83.60	**91.39**	80.65
$/BOE before financial derivatives	**61.55**	55.69	**64.05**	54.95
Realized gain (loss) on financial derivatives	**(1.54)**	0.08	**(1.35)**	0.04
$/BOE after financial derivatives	**60.01**	55.77	**62.70**	54.99

The average BOE sales price received, after the realized gain (loss) on financial derivatives, during the 2014 periods has increased over the Corresponding Periods due to increases in commodity prices. The average sales price per BOE declined 8% in the second quarter of 2014 compared to the first quarter of 2014 due mainly to a 29% decrease in natural gas prices. The realized loss on financial derivatives for the second quarter of 2014 was $108,706 compared to a realized gain on financial derivatives of $4,141 in the 2013 period.

Volatility in the commodity markets will continue to impact realized prices in 2014. At June 30, 2014 Traverse had two natural gas physical delivery contracts outstanding for 2014 averaging 900 GJ per day at $3.26 per GJ. In addition, the Company had the following derivative commodity contracts outstanding at June 30, 2014:

Product	**Term**	**Type**	**Volume**	**Swap price**	**Index**
Natural Gas	Jan. 1 to Dec. 31	Basis swap	1,000 mmbtu/d	US $0.46/mmbtu	AECO - Henry Hub

At June 30, 2014 the mark-to-market value of these contracts totaled $(44,044).

	Three months ended June 30,		Six months ended June 30,	
Petroleum and natural gas revenue ($)	**2014**	2013	**2014**	2013
Revenue by source				
Working interest production	**3,649,581**	2,015,190	**7,468,397**	3,478,922
Royalty interest production	**688,764**	1,022,516	**1,404,800**	2,319,881
Total	**4,338,345**	3,037,706	**8,873,197**	5,798,803
Revenue by commodity				
Oil	**3,575,362**	2,483,989	**7,215,773**	4,803,851
Natural gas	**762,983**	553,717	**1,657,424**	994,952
Total	**4,338,345**	3,037,706	**8,873,197**	5,798,803

Revenue in the second quarter of 2014 increased 43% compared to the second quarter of 2013 due mainly to increases in both oil production volumes and oil and NGL pricing. Revenue in the second quarter of 2014 decreased 4% from the first quarter due to the increased gas production in the Company's production mix and the decrease in the second quarter natural gas prices.

Operating netback

	Three months ended June 30,		Six months ended June 30,	
Operating netback ($/BOE)	**2014**	2013	**2014**	2013
Petroleum and natural gas revenue	**61.55**	55.69	**64.05**	54.95
Realized gain (loss) on financial derivatives	**(1.54)**	0.08	**(1.35)**	0.04
Royalties	**(11.21)**	(2.71)	**(10.27)**	(2.47)
Operating and transportation costs	**(12.37)**	(10.55)	**(11.80)**	(8.95)
Operating netback	**36.43**	42.51	**40.63**	43.57

The operating netback decreased in the three and six months ended June 30, 2014 compared to the Corresponding Periods due to the combination of increased commodity prices and increasing royalties. Royalties per BOE increased in the 2014 periods due to the expiry of the New Well Royalty Rate (NWRR) on wells at both Turin and Coyote as well as the decline in royalty production. Royalties per BOE will continue to fluctuate based on the proportion of the NWRR wells in the production mix. Operating costs in 2014 have increased compared to the Corresponding Periods due mainly to the decline in the royalty production, which does not have associated operating costs.

The operating netback in the second quarter of 2014 decreased 19% from the operating netback in the first quarter ($44.98) due mainly to decreased natural gas prices and the increase in royalties and operating costs. Operating costs increased in the second quarter of 2014 compared to the first quarter of 2014 mainly as a result of the start up of both suspended and new wells in the Coyote and Turin areas. The Coyote Battery expansion is expected to be operational by early September. The expanded battery will allow for treating emulsion and water disposal resulting in decreased operating costs and additional marketing opportunities for the clean oil produced.

	Three months ended June 30,		Six months ended June 30,	
Operating netback ($)	**2014**	2013	**2014**	2013
Petroleum and natural gas revenue	**4,338,345**	3,037,706	**8,873,197**	5,798,803
Realized gain (loss) on financial derivatives	**(108,706)**	4,141	**(187,232)**	4,141
Royalties	**789,928**	148,038	**1,422,817**	261,135
Operating and transportation costs	**871,645**	575,345	**1,634,822**	944,418
Operating netback	**2,568,066**	2,318,464	**5,628,326**	4,597,391

The operating netback in the second quarter of 2014 increased 11% to $2.6 million compared to $2.3 million in the 2013 period due to increased production and commodity pricing offset by increased royalties. The operating netback in the second quarter of 2014 decreased 16% from the first quarter due mainly to decreased natural gas prices and increased royalties.

	Three months ended June 30,		Six months ended June 30,	
General and administrative ($)	**2014**	2013	**2014**	2013
General and administrative costs - gross	**384,141**	231,629	**768,346**	537,029
Operator recoveries	**93,168**	32,704	**192,801**	91,382
General and administrative costs - net	**290,973**	198,925	**575,545**	445,647
Per BOE	**4.13**	3.65	**4.15**	4.22

Net general and administrative costs increased in the second quarter of 2014 compared to the second quarter of 2013 due to higher corporate compliance costs as well as increased staffing. Second quarter net general and administrative costs were virtually unchanged from the first quarter of 2014 but decreased slightly on a BOE basis ($4.13 versus $4.18) due to increasing production.

Share based compensation

Share based compensation expense of $657,642 (2013 - $14,793) was recorded in the second quarter of 2014 related to the grant of options during the quarter. No options were granted during the comparable quarter of 2013 and share compensation expense in that quarter related to the vesting of options granted late in 2012.

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 the three and six months ended June 30, 2014 E&E expenses recorded related to lease expiries. In the first half of 2013, E&E expenses of $491,172 were recorded mainly relating to the drilling of 1 unsuccessful well at Turin.

Depletion and depreciation

Traverse depletes its developed oil and natural gas properties based on proved and probable reserves. The calculation of depletion expense includes future development costs related to these reserves of $2,064,000 at June 30, 2014 (2013 - $481,000) and excluded $887,000 (2013 - $419,000) for estimated salvage values. The majority of future development costs at June 30, 2014 relate to completions and equipping of oil wells at Coyote.

Depletion and depreciation expense was $14.46 per BOE in the second quarter of 2014 compared to $11.98 per BOE in the second quarter of 2013 and $14.49 per BOE in the first quarter of 2014. Depletion increased in 2014 compared to 2013 due to the higher cost of reserve additions.

Finance income and costs

Finance income consists of interest earned on cash balances during the year. Finance income increased in the three and six months ended June 30, 2014 from the Corresponding Periods due to an increase in the average daily cash balance. Finance expense is composed of the accretion of decommissioning liabilities.

Income taxes

The Company recorded an income tax expense of approximately $125,000 for the three months ended June 30, 2014 as compared to $359,050 in the 2013 period. In the 2014 period, the Company's net income before income taxes decreased approximately $0.9 million from the comparable amount in the 2013 period resulting in decreased income tax expense. During the first half of 2014 deferred income tax expense related to flow-through expenditures was $411,370 (2013 - $437,425).

At June 30, 2014 the Company's tax pools available for deduction against future taxable income are estimated at $20 million. The approximate average rate of deduction from these tax pools is an annual rate of 25%. The Company was taxable on a current basis in 2013 and anticipates being taxable on a current basis in 2014. The current taxable amount will depend on the level and type of capital expenditures during the remainder of 2014 as well as the results of such expenditures.

Cash and funds from operations and net income

	Three months ended June 30,		Six months ended June 30,	
($)	**2014**	2013	**2014**	2013
Cash provided by operating activities	**1,461,303**	1,921,958	**3,549,121**	4,081,610
Decommissioning expenditures	**38,158**	-	**38,158**	-
Change in non-cash working capital	**909,089**	202,120	**1,417,367**	79,323
Funds from operations	**2,408,550**	2,124,078	**5,004,646**	4,160,933
Per share basic and diluted	**0.03**	0.04	**0.08**	0.09
Net income	**406,839**	1,059,899	**1,153,104**	1,581,107
Per share basic and diluted	**0.01**	0.02	**0.02**	0.03

Funds from operations increased in the 2014 periods compared to the Corresponding Periods due to increased production and increased commodity prices. Funds from operations for the first half of 2014 increased 20% from the 2013 comparable period. Net income for the 2014 periods decreased compared to the Corresponding Periods due to increased depletion and stock compensation expense.

Capital expenditures

The Company incurred $5.5 million in expenditures in the second quarter of 2014 related to the drilling of 4 wells at Coyote, completion and equipping activities and the installation of gas compression at the Turin facility.

	Three months ended June 30,		Six months ended June 30,	
($)	**2014**	2013	**2014**	2013
Land acquisition and rentals	**289,926**	164,238	**531,323**	234,706
Geological and geophysical	**206,523**	274,092	**888,348**	538,189
Drilling and completions	**2,630,378**	513,133	**7,488,533**	2,687,849
Equipping and facilities	**2,305,383**	719,562	**3,485,845**	969,431
Exploration and development capital	**5,432,210**	1,671,025	**12,394,049**	4,430,175
Corporate assets	**42,569**	3,310	**44,701**	5,049
Net capital expenditures	**5,474,779**	1,674,335	**12,438,750**	4,435,224

Liquidity and capital resources

At June 30, 2014 Traverse had working capital of approximately $5.8 million, no debt outstanding and an unutilized credit facility of $10 million. The Company's Board of Directors has approved a $29.1 million exploration and development program for 2014. The Company intends to fund capital expenditures and commitments during 2014 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 August 14, 2014 total common shares outstanding are 68,582,911 and total common share options outstanding are 5,465,000. During 2013 the Company completed two private placements for a total of 6,420,000 flow-though common shares for gross proceeds of approximately $4.9 million as detailed in the 2013 MD&A. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of approximately $11.5 million. The weighted average number of shares outstanding during 2014 increased 32% to 62,441,336 from 47,266,925 in the 2013 period due to these equity issues.

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. 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. At June 30, 2013 Traverse had outstanding payables to the related company of $39,900 and accounts receivable due to Traverse of $100.

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 2013 MD&A.

In December 2013 the Company issued flow-through common shares - the obligation remaining for this flow-through issue was $305,000 at June 30, 2014.

Summary of quarterly results

($ thousands, except per share amounts)
(Unaudited)

Quarter ended	**June 30 2014**	March 31 2014	December 31 2013	September 30 2013
Petroleum and natural gas revenue	**4,338**	4,535	4,055	4,819
Cash provided by operating activities	**1,461**	2,088	2,723	3,789
Funds from operations	**2,409**	2,596	1,958	3,796
Per share - basic and diluted	**0.03**	0.05	0.04	0.08
Net income	**407**	746	27	1,636
Per share - basic and diluted	**0.01**	0.01	0.00	0.03
Working capital	**5,800**	8,641	2,430	3,045
Shareholders' equity	**35,881**	34,549	22,994	20,076
Production *(BOE/day)*	**775**	756	787	765
Capital expenditures	**5,475**	6,964	5,482	4,957

Quarter ended	June 30 2013	March 31 2013	December 31 2012	September 30 2012
Petroleum and natural gas revenue	3,038	2,761	2,552	2,112
Cash provided by operating activities	1,922	2,160	1,815	1,132
Funds from operations	2,124	2,037	1,779	1,602
Per share - basic and diluted	0.04	0.04	0.04	0.04
Net income (loss)	1,060	521	(3,255)	32
Per share - basic and diluted	0.02	0.01	(0.07)	0.00
Working capital	4,191	2,359	3,083	1,727
Shareholders' equity	18,435	16,133	15,593	17,136
Production *(BOE/day)*	599	566	545	444
Capital expenditures, net of dispositions	1,674	2,761	2,158	3,041

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 July 2012 the Company completed a private placement of 2,078,000 flow-through common shares for gross proceeds of $1.4 million.

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. In December 2012 the Company completed a private placement of 2,800,000 flow-through common shares for gross proceeds of $1.8 million.

In the first quarter of 2013 production volumes increased as a result of the additional royalty production added in December 2012. No new working interest production was added. Commodity prices improved and operating costs declined resulting in an increase in funds from operations. Net income was realized in the first quarter of 2013 versus the net loss in the final quarter of 2012 due to the impairment recorded in the 2012 quarter. Three wells were drilled in the first quarter resulting in two potential wells and one dry hole which was expensed in the quarter. Capital expenditures during the quarter also included the recompletion of a well at Carbon and purchase of seismic at Coyote.

In the second quarter of 2013 production volumes increased as a result of new oil production at Coyote. Commodity prices improved resulting in increased funds from operations and net income. Capital expenditures in the second quarter of 2013 related to land and seismic acquisition and the completion and tie-in of the oil well at Coyote. In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of $1.5 million.

In the third quarter of 2013 production volumes increased as a result of additional new oil production at Coyote. Production in the Turin area was disrupted by a 5 week shutdown of a third party owned pipeline which transports the Company's natural gas to market. During the shutdown, Traverse tested and confirmed the integrity of the pipeline and subsequently purchased an interest in the pipeline and became the pipeline operator. By early October normal production operations had resumed. No new royalty production was added and royalty income continued to decline. Commodity prices continued to improve resulting in an increase in funds from operations and net income. Three wells were drilled, completed and equipped during the quarter and a fourth well was drilled and completed.

In the fourth quarter of 2013 production volumes increased as a result of higher natural gas prices resulting in increased natural gas royalty volumes. No new working interest production was added. Commodity prices declined from the third quarter resulting in decreased revenue, funds from operations and net income. Two wells were drilled, completed and equipped during the quarter and a third well commenced drilling at year end. Capital expenditures were also incurred on facility expansion at Coyote and seismic acquisition. A well drilled at Turin in the first quarter was completed and expensed as a dry hole. In December 2013 the Company completed the acquisition of a private company owned by certain directors and officers of Traverse to consolidate its interest in Southern Alberta and for the tax pools of the acquired company. Traverse also completed a private placement of 4 million flow-through common shares for gross proceeds of $3.4 million.

In the first quarter of 2014 production volumes decreased as a result of a partial suspension of production in the Coyote area relating to the conservation of solution gas. Subsequent to quarter end, modifications were completed to allow conservation of solution gas and the battery returned to production May 1, 2014. Despite a decrease in production volumes, commodity price increases resulted in increased funds from operations and net income. Capital expenditures in the first quarter relating to the drilling of 5 wells and the re-entry of an existing wellbore. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million.

In the second quarter of 2014 production volumes increased slightly as the partial suspension of production in the Coyote area ended May 1 and new production from 2014 drilling commenced late in June. Declines in the natural gas price resulted in decreased revenue during the second quarter. The expiration of the New Well Royalty Rate on certain wells resulted in increased royalties in the second quarter. These additional royalties combined with increased operating costs relating to start up of new wells and compression resulted in decreased funds from operations. Stock based compensation relating to options grants during the second quarter further reduced net income. Capital expenditures in the second quarter related to the drilling of 4 oil wells at Coyote, equipping and tie in activities and the installation of compression at the Turin facility.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS 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.

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.

Stock 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.

Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

Business environment and risk

Additional risk factors can be found under "Risk Factors" in the Company's 2013 Annual Information Form ("AIF"), which can be found on www.sedar.com. Many risk factors are listed below and in the AIF, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from anticipated results.

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.