Traverse Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THREE MONTHS ENDED

MARCH 31, 2012

This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated May 10, 2012 should be read in conjunction with the unaudited interim financial statements as at and for the three months ended March 31, 2012 and the audited financial statements as at and for the year ended December 31, 2011. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2011, as disclosure which is unchanged from December 31, 2011 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”. In June 2009 the Company changed its name to Traverse (previously Firstland Energy Limited) and began operations under a new management group.

Non-GAAP measures

The MD&A contains terms that are not considered measures under IFRS, such as funds flow from operations and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and stakeholders. Funds flow from operations is calculated as cash flow from operations before non-cash working capital and decommissioning expenditures as detailed under the heading "Funds flow from operations". Management believes that in addition to net loss, funds flow from operations is a useful supplemental measure as it provides an indication of Traverse’s operating performance. Operating netback reflects petroleum and natural gas revenues less royalties, operating and transportation costs and is calculated on a per unit basis. Investors should be cautioned, however, that these measures may not be comparable to measures reported by other companies nor should they be construed as an alternative to cash flow from operations or other measures of financial performance calculated in accordance with IFRS.

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 drilling commencing late in the second quarter of 2012; the Company's focus in 2012 on its existing light oil properties in Central and Southern Alberta; planned drilling for the remainder of 2012; volatility in commodity markets impacting realized prices in 2012; and intentions for funding capital expenditures during 2012 are forward-looking information. This forward-looking information is subject to a variety of substantial known and unknown risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking information. The Company’s Annual Information Form filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describes the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

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

	Three months ended		
HIGHLIGHTS *(Unaudited)*	**March 31, 2012**	Dec. 31, 2011	March 31, 2011
Financial *($ thousands, except per share amounts)*			
Revenue	**1,828**	1,569	984
Funds flow from operations	**1,217**	936	404
Per share - basic and diluted	**0.03**	0.02	0.01
Cash flow from operations	**1,054**	814	768
(including changes in working capital)			
Per share - basic and diluted	**0.02**	0.02	0.02
Net income (loss)	**357**	(584)	(7)
Per share - basic and diluted	**0.01**	(0.01)	0.00
Capital expenditures, net of dispositions	**2,483**	3,279	878
Total assets	**18,820**	19,781	10,960
Working capital	**1,266**	2,532	1,924
Common shares			
Outstanding *(millions)*	**42.2**	42.2	32.0
Weighted average *(millions)*	**42.2**	40.3	31.9
Operations *(units as noted)*			
Average production			
Natural gas *(mcf/day)*	**697**	424	403
Oil and NGL *(bbls/day)*	**213**	172	120
Production *(BOE/day)*	**207**	167	161
Royalty income *(BOE/day)*	**122**	76	26
Total *(BOE/day)*	**329**	243	187
Average sales price			
Natural gas *($/mcf)*	**2.33**	3.28	3.96
Oil and NGL *($/bbl)*	**86.88**	91.07	78.02
Operating netback *($/BOE)*			
Petroleum and natural gas revenue	**52.10**	67.62	62.53
Royalties	**3.72**	8.08	3.78
Operating and transportation costs	**15.03**	20.92	15.98
Working interest operating netback *($/BOE)*	**33.35**	38.62	42.77
Royalty income netback *($/BOE)*	**76.33**	76.03	33.61
Total Company operating netback *($/BOE)*	**49.34**	50.39	41.49

Operations review

Most of the first quarter activities focused on the Company's oil property at Turin which totals in excess of 9,000 acres. Further expansion of the Turin battery was completed. This included the addition of a water disposal and injection facility and a treater capable of handling up to 2,500 barrels of fluid per day. Future drilling can now be accommodated at the facility without further expansion. Traverse shot a 3D seismic survey over a part of the eastern portion of the Turin property. In addition, five 2D seismic lines were shot adjacent to the 3D survey and one 2D line was shot over the western part of the property. This data has now been processed and interpreted resulting in the identification of a number of drilling targets. Traverse is in the process of licensing 5 wells to test coincidental seismic and geological targets. Two of the wells are exploratory; the remaining 3 are development locations. The Company estimates that drilling will commence late in the second quarter of 2012.

In the Carbon area Traverse tied in a horizontal well drilled during the fourth quarter of 2011. The well was projected to drill a 1,000 meter horizontal section in the Pekisko formation but was completed in a 450 meter open hole section. The well was placed on production in January 2012 and is currently producing 45 BOE per day (30% oil). Traverse's land holdings in the greater Carbon area total 40,000 acres at a 100% working interest.

In the Brazeau area of West Central Alberta, an industry partner commenced production in September, 2011 from three horizontal Cardium wells in which the Company has a gross overriding royalty interest. A fourth well commenced production in November, 2011. Traverse's royalty is 5 to 10 percent on oil dependent on production rates and 10 percent of natural gas and associated liquids in 10 sections (6,400 acres). The operator has now drilled nine wells on the Traverse lands. Five additional wells were placed on production during the first quarter of 2012. The production from this property is light oil with associated natural gas and natural gas liquids. The March 2012 production was 125 barrels of oil per day net to Traverse.

At March 31, 2012 undeveloped land holdings totalled 160,500 gross (157,000 net) acres. In 2012, the Company will focus on its existing light oil properties in Central and Southern Alberta. Drilling is planned in the Turin and greater Carbon areas, targeting light to medium gravity oil with associated natural gas. Further drilling in other areas will depend on the availability of working capital. The Company has set an initial budget of up to $15 million for 2012 to be funded from working capital, cash flow and new equity issues and debt where appropriate.

	Three months ended		
Production	March 31, 2012	Dec. 31, 2011	March 31, 2011
Average working interest production			
Natural gas *(mcf/day)*	586	318	275
Crude oil *(bbls/day)*	109	113	115
Working interest production *(BOE/day)*	207	167	161
Average royalty income production			
Natural gas *(mcf/day)*	111	106	128
Crude oil *(bbls/day)*	104	59	5
Royalty income production *(BOE/day)*	122	76	26
Total production			
Natural gas *(mcf/day)*	697	424	403
Crude oil *(bbls/day)*	213	172	120
Total production *(BOE/day)*	329	243	187

Production increased 76% to 329 BOE per day in the first quarter of 2012 as compared to 187 BOE per day in the 2011 period. Working interest production increased as a result of drilling in 2011 at Alliance, Carbon and Turin, partially offset by the decline in flush production at Long Coulee. Industry drilling on the Company's royalty lands at Brazeau resulted in new royalty volumes, beginning in the third quarter of 2011. Total Company production increased 35% compared to the final quarter of 2011 due to the tie-in of a well at Carbon and additional royalty production at Brazeau.

	Three months ended		
Production by area (BOE/day)	March 31, 2012	Dec. 31, 2011	March 31, 2011
Alliance	29	40	-
Brazeau	104	55	-
Carbon	53	6	-
Long Coulee	29	25	94
Turin	83	73	43
Minor	31	44	50
Total BOE per day	329	243	187
% of BOE/day			
Royalty	37%	31%	14%
Working interest	63%	69%	86%

Prior to 2010, the Company's production consisted mainly of natural gas royalty income. The contribution of royalty production to total production decreased during 2010 and the first six months of 2011 as no new royalty production was added. During the third quarter of 2011, new royalty production was added from oil wells in the Brazeau area. Five additional royalty wells at Brazeau were placed on production in the first quarter of 2012, increasing the royalty percentage of total production for the first quarter to 37% compared to 14% in the 2011 period.

	Three months ended		
Pricing	March 31, 2012	Dec. 31, 2011	March 31, 2011
Average sales price			
Natural gas *($/mcf)*	$ 2.33	$ 3.28	$ 3.96
Crude oil *($/bbl)*	$ 86.88	$ 91.07	$ 78.02
Total *($/BOE)*	$ 61.11	$ 70.27	$ 58.50

The average BOE sales price received during the first three months of 2012 decreased 13% from the last quarter of 2011 and increased 4% from the first quarter of 2011. Crude oil prices have decreased 5% compared to the last quarter of 2011 but increased 11% over the first quarter of 2011. Natural gas prices have declined 29% since the final quarter of 2011 and 41% over the comparable year. Volatility in the commodity markets will continue to impact realized prices in 2012.

	Three months ended		
Revenue	March 31, 2012	Dec. 31, 2011	March 31, 2011
Revenue by source			
Working interest production	$ 978,757	$ 1,035,097	$ 905,026
Royalty interest production	849,101	534,380	78,677
Total	$ 1,827,858	$ 1,569,477	$ 983,703
Revenue by commodity			
Oil	$ 1,680,040	$ 1,441,366	$ 840,056
Natural gas	147,818	128,111	143,647
Total	$ 1,827,858	$ 1,569,477	$ 983,703

Revenue in the first quarter of 2012 increased 86% compared to the first quarter of 2011 due mainly to increased production volumes. Production volumes continued to increase in the first quarter of 2012 resulting in an increase of 16% in revenue compared to the final quarter of 2011.

Operating netbacks

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

	Three months ended		
Operating netback ($/BOE)	March 31, 2012	Dec. 31, 2011	March 31, 2011
Petroleum and natural gas revenue	$ 52.10	$ 67.62	$ 62.53
Royalties	3.72	8.08	3.78
Operating costs	15.03	20.92	15.98
Working interest operating netback	$ 33.35	$ 38.62	$ 42.77
Royalty income netback	$ 76.33	$ 76.03	$ 33.61
Total Company operating netback	$ 49.34	$ 50.39	$ 41.49

The working interest operating netback has declined from $42.77 per BOE in the first quarter of 2011 to $33.35 per BOE in the 2012 period due to increased natural gas production volumes and decreasing natural gas prices. Working interest production increased to 207 BOE per day in 2012 compared to 161 BOE per day in the first quarter of 2011, however, this increase was composed of natural gas volumes. The increase in gas production resulted in a decrease of 17% in the combined price per BOE to $52.10 in the first quarter of 2012. The combined price per BOE declined 23% from the final quarter of 2011 as a result of decreases in both oil and natural gas pricing and the increased natural gas production at Carbon.

Royalties per BOE are consistent between the first quarter of 2012 and 2011. Royalties declined to $3.72 per BOE in the first quarter of 2012 as compared to the final quarter of 2011 due mainly to the impact of the natural gas production. Increased natural gas production in the first quarter of 2012 also contributed to decreased operating costs per BOE. Operating costs per BOE were similar in the comparable 2011 quarter but have declined 28% since the final quarter of 2011. This decrease is due in part to the increased natural gas production and also to the expansion of the Turin facility which allows Traverse to inject produced water into a new water disposal well which became operational in early March 2012.

The royalty income netback has increased from $33.61 per BOE in the first quarter of 2011 to $76.33 per BOE in the 2012 period as a result of new royalty production from the Brazeau area. In the first quarter of 2011, royalty production was 26 BOE per day, consisting of 81% natural gas. During the third quarter of 2011, three new wells in the Brazeau area began producing and a fourth well commenced in November. Royalty production increased to 76 BOE per day (22% gas) for the final quarter of 2011 and the royalty income netback increased to $76.03 per BOE. During the first quarter of 2012 an additional five wells were placed on production and royalty production reached 122 BOE per day (15% gas).

The total operating netback in the first quarter of 2012 increased 111% to $1.5 million compared to $0.7 million in the 2011 first quarter due mainly to increased oil production and price. On a per unit basis, the total operating netback increased 19% to $49.34 per BOE in the 2012 first quarter compared to $41.49 per BOE in the first quarter of 2011. The total operating netback for the fourth quarter of 2011 was similar to the first quarter of 2012 with reductions in the combined price caused by decreased natural gas prices offset by lower royalties and operating costs in 2012.

	Three months ended		
General and administrative	March 31, 2012	Dec. 31, 2011	March 31, 2011
General and administrative costs - gross	$ 310,960	$ 246,819	$ 320,513
Operator recoveries	47,880	51,136	21,632
General and administrative costs - net	$ 263,080	$ 195,683	$ 298,881
General and administrative - $/BOE			
General and administrative costs - gross	$ 10.40	$ 11.05	$ 19.06
Operator recoveries	$ 1.60	$ 2.29	$ 1.29
General and administrative costs - net	$ 8.80	$ 8.76	$ 17.77

Net general and administrative costs decreased slightly in the first quarter of 2012 compared to the first quarter of 2011 due to increasing operations but have declined on a BOE basis due to increasing production. Net general and administrative costs on a BOE basis were comparable between the final quarter of 2011 and the first quarter of 2012. Gross general and administrative expenses are higher in the first quarter due to the cost of the annual financial statement audit and the external engineering report prepared for the year end.

Share based compensation

Share based compensation expense of $28,597 relates to the vesting of options granted to consultants in the fall of 2011. No stock options have been granted or exercised during the first quarter of 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 first quarter of 2011 Traverse recorded $15,728 of E&E expenses related to unsuccessful drilling in the fall of 2010.

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 $317,000 at March 31, 2012 (2011 - $393,000) and excluded $347,000 (2011 - $125,000) for estimated salvage values. The future development costs at March 31, 2012 relate to the tie in and equipping of two suspended natural gas wells and the tie in of natural gas on a suspended oil well at Carbon.

Depletion and depreciation expense was $20.13 per BOE in the first quarter of 2012 compared to $20.83 per BOE in the first quarter of 2011 and $21.39 per BOE in the final quarter of 2011. No reserves have been added during the first quarter of 2012 and a majority of the depletable capital expenditures for the quarter were forecasted in the year end reserve report.

Finance income and expense

Finance income consists of interest earned on cash balances during the year. Finance income decreased in 2012 from the first quarter of 2011 due to a decrease in the effective interest rate. Finance expense is composed of the accretion of decommissioning liabilities.

Income taxes and net income (loss)

Income before income taxes of $0.6 million was earned in the first quarter of 2012 compared to a small loss in the first quarter of 2011 as a result of increases in oil production and pricing.

A deferred income tax expense of $224,565 has been recorded in the first quarter of 2012 (2011 - $51,780) composed of deferred income tax on income of $152,690 (2011 - $10,630) and deferred income tax relating to flow-through expenditures of $71,875 (2011 - $41,150). A premium is recognized on the issue of flow-through shares representing the difference in price over a common share with no tax attributes. This premium is set up as a liability on the statement of financial position and is reclassified to deferred income tax liability as the expenditures are incurred. To the extent that the Company's effective tax rate on the incurred expenditures exceeds this premium, a deferred income tax expense is recognized. During the first quarter of 2012 the Company incurred approximately $575,000 of qualifying expenditures related to the flow-through issue completed in November 2011. The Company's expected tax rate on these expenditures is 25%. The difference of approximately 12.5% between the Company's expected tax rate and the premium realized on the flow-through share issue results in additional deferred income tax expense of $71,875.

After income taxes, net income of $356,640 has been recorded for the first quarter of 2012 compared to a net loss of $7,224 in the comparable period. Net income per share was $0.01 in the 2012 period.

Shareholders' equity

As at May 10, 2012 total common shares outstanding are 42,209,911 and total common share options outstanding are 3,525,000. The weighted average number of shares outstanding during 2012 increased 32% to 42,209,911 from 31,903,333 in 2011 due to private placements completed in both May and November 2011.

In May 2011 the Company completed a private placement of both common and flow-through common shares. A total of 6,531,128 common shares were issued for gross proceeds of $5,574,593. Of this amount, 2,637,939 common shares were issued on a flow-through basis for gross proceeds of $2,460,042. Directors and officers of the Company subscribed for 305,000 common shares for gross proceeds of $263,125. The Company has incurred the required qualifying expenditures.

In November 2011 the Company completed a private placement of both common and flow-through common shares. A total of 3,725,450 common shares were issued for gross proceeds of $2,921,260. Of this amount, 3,134,450 common shares were issued on a flow-through basis for gross proceeds of $2,507,560. Directors and officers of the Company subscribed for 542,500 common shares for gross proceeds of $419,000. The obligation remaining for this flow through issue at March 31, 2012 was $1,932,560.

Funds flow from operations

Funds flow from operations increased to approximately $1.2 million in the first quarter of 2012 ($0.03 per share) compared to $0.4 million in the 2011 period ($0.01 per share) due mainly to increased oil production and pricing. The following table reconciles cash flow from operating activities to funds flow from operations for the periods noted:

	Three months ended March 31,	
	2012	**2011**
Cash flow from operating activities	$ 1,053,701	$ 768,017
Change in non-cash working capital	162,889	(363,684)
Funds flow from operations	$ 1,216,590	$ 404,333

Liquidity and capital resources

During the first quarter of 2012 the Company shot 2D and 3D seismic surveys at Turin, expanded the fluid and water handling facilities at Turin and tied in and equipped one well at Carbon. These activities resulted in the following expenditures:

	Three months ended March 31,	
Capital expenditures	**2012**	**2011**
Land acquisition and rentals	$ 201,170	$ 290,271
Geological and geophysical	624,579	314,758
Drilling and completions	94,919	407,236
Equipping and facilities	1,638,197	45,470
Exploration and development capital	2,558,865	1,057,735
Corporate assets	4,220	-
Net property dispositions	80,000	179,514
Net capital expenditures	$ 2,483,085	$ 878,221

At March 31, 2012 Traverse had working capital of approximately $1.3 million and no debt outstanding. The Company intends to fund capital expenditures and commitments during 2012 with a combination of cash flow and working capital. New equity issues and debt may be used to expand future capital expenditures where appropriate.

Related party transactions

During the first quarter of 2011, office expenses of approximately $54,909 were paid to a company controlled by two directors of the Company. These transactions were in the normal course of business and on terms consistent with parties dealing at arm's length. There have been no transactions with this related company in 2012.

Certain directors of Traverse are also the directors or management of other entities that participate in joint operations with the Company. All transactions were completed on an arm's length basis consistent with normal industry terms. During the three months ended March 31, 2012, the aggregate value of transactions entered into between Traverse and these entities was approximately $178,400 (2011 - $92,400). Traverse had outstanding payables to the related parties of $45,010 (2011 - $79,286) and accounts receivable due to Traverse of $129,472 at March 31, 2012(2011 - $11,660).

Commitment

In March 2011 Traverse entered into an operating lease for office premises beginning on November 1, 2011 and expiring on October 31, 2021. The annual payments under this commitment are as disclosed in the notes to the audited financial statements.

Summary of quarterly results

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

Quarter ended	March 31 2012	December 31 2011	September 30 2011	June 30 2011
Revenue	1,828	1,569	1,105	903
Net income (loss)	357	(584)	(1,079)	(152)
Per share - basic and diluted	0.01	(0.01)	(0.04)	(0.00)
Working capital	1,266	2,532	2,059	4,314
Shareholders' equity	15,761	15,375	13,397	14,179
Production *(BOE/day)*	329	243	202	155
Capital expenditures, net of dispositions	2,483	3,279	2,836	3,415

Quarter ended	March 31 2011	December 31 2010 (1)	September 30 2010 (1)	June 30 2010 (1)
Revenue	984	1,136	346	345
Net loss	(7)	(2,709)	(478)	(232)
Per share - basic and diluted	(0.00)	(0.09)	(0.02)	(0.01)
Working capital	1,924	2,358	3,045	4,274
Shareholders' equity	9,274	9,230	9,987	10,252
Production *(BOE/day)*	187	214	103	100
Capital expenditures, net of dispositions	878	3,569	1,314	739

(1) As restated under IFRS

In 2010 production volumes and revenues increased as a result of drilling activities. Losses continued throughout the year due mainly to higher depletion expenses. In the final quarter of 2010 exploration and evaluation expense of approximately $2.8 million was recorded due to unsuccessful exploration at Manyberries and the suspension of activity in the natural gas project at Warwick due to declining commodity prices. Additional impairment of $0.8 million was included in depletion relating to impairment of the Company's gas producing properties due to natural gas prices.

In 2011 production volumes and revenue initially declined as no new production was added. In the third quarter of 2011 new production commenced from 2011 drilling activities as well as new oil royalty production and revenue began increasing. The net loss increased in the third and fourth quarter of 2011 due to impairments recognized on exploration and evaluation assets relating to pending land expiries, limitations on recoverable amounts and an unsuccessful re-entry well. In the first quarter of 2012 production continued to increase both as a result of prior year drilling and additional royalty income production resulting in net income for the quarter.

Business environment and risk

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

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