



FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTHS
MARCH 31, 2012

TRAVERSE ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION
(Unaudited)

NOTICE TO READER

The accompanying unaudited interim financial statements of Traverse Energy Ltd. for the three months ended March 31, 2012 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

	Notes	March 31, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		\$ 1,042,657	\$ 4,230,532
Accounts receivable		1,280,591	931,677
Prepaid expenses and deposits		34,639	37,973
		2,357,887	5,200,182
Exploration and evaluation assets	3	3,698,639	2,958,415
Property and equipment	4	12,763,056	11,622,233
		\$ 18,819,582	\$ 19,780,830
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,091,967	\$ 2,667,767
Deferred flow-through share premium		241,570	313,445
Decommissioning liabilities		864,750	860,000
Deferred income taxes		860,670	564,230
		3,058,957	4,405,442
Shareholders' Equity			
Share capital	5	18,897,239	18,897,239
Contributed surplus		1,126,547	1,097,950
Deficit		(4,263,161)	(4,619,801)
		15,760,625	15,375,388
Commitments	5(b)		
		\$ 18,819,582	\$ 19,780,830

See accompanying notes to the interim financial statements

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

	Notes	Three months ended March 31,	
		2012	2011
Revenue			
Petroleum and natural gas		\$ 978,757	\$ 905,026
Royalty income		849,101	78,677
Royalties		(69,903)	(54,723)
		<u>1,757,955</u>	<u>928,980</u>
Expenses			
Operating		258,678	204,624
Transportation		23,614	26,191
General and administrative		263,080	298,881
Share based compensation		28,597	10,411
Gain on disposition of property and equipment	4	-	(21,403)
Exploration and evaluation expense		-	15,728
Depletion and depreciation	4	602,038	350,291
		<u>1,176,007</u>	<u>884,723</u>
Income from operating activities		581,948	44,257
Finance income		4,007	5,049
Finance expense		(4,750)	(4,750)
Net finance income (loss)		(743)	299
Income before income taxes		581,205	44,556
Income taxes			
Deferred income tax expense		224,565	51,780
Net income (loss) and comprehensive income (loss)		\$ 356,640	\$ (7,224)
Net income (loss) per share - basic and diluted	5(c)	\$ 0.01	\$ (0.00)

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, 2010	\$ 11,279,307	\$ 748,956	\$ (2,797,848)	\$ 9,230,415
Net loss	-	-	(7,224)	(7,224)
Issued on exercise of common share options	40,000	-	-	40,000
Transfer of share based compensation on exercise	9,000	(9,000)	-	-
Share based compensation	-	10,411	-	10,411
Balance March 31, 2011	\$ 11,328,307	\$ 750,367	\$ (2,805,072)	\$ 9,273,602
Balance December 31, 2011	\$ 18,897,239	\$ 1,097,950	\$ (4,619,801)	\$ 15,375,388
Net income	-	-	356,640	356,640
Share based compensation	-	28,597	-	28,597
Balance March 31, 2012	\$ 18,897,239	\$ 1,126,547	\$ (4,263,161)	\$ 15,760,625

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CASH FLOWS
(Unaudited)

Three months ended March 31,
2012 **2011**

Cash provided by (used in):

Operating activities:

Net income (loss)	\$ 356,640	\$ (7,224)
Adjustments for:		
Depletion and depreciation	602,038	350,291
Exploration and evaluation expense	-	15,728
Share based compensation	28,597	10,411
Gain on disposition of property and equipment	-	(21,403)
Finance expense	4,750	4,750
Deferred income tax expense	224,565	51,780
Changes in non-cash working capital	(162,889)	363,684
	1,053,701	768,017

Financing activities:

Proceeds on exercise of common share options	-	40,000
Changes in non-cash working capital	(16,940)	(9,697)
	(16,940)	30,303

Investing activities:

Exploration and evaluation asset additions	(820,224)	(715,982)
Property and equipment asset additions	(1,742,861)	(341,753)
Exploration and evaluation asset dispositions	80,000	-
Property and equipment asset dispositions	-	179,514
Changes in non-cash working capital	(1,741,551)	(1,160,572)
	(4,224,636)	(2,038,793)

Change in cash and cash equivalents	(3,187,875)	(1,240,473)
Cash and cash equivalents, beginning of period	4,230,532	3,130,377
Cash and cash equivalents, end of period	\$ 1,042,657	\$ 1,889,904

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (Unaudited)

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 Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" and have been prepared following the same accounting policies and method of computation as the annual financial statements for the year ended December 31, 2011. The disclosures provided below are incremental to those included with the annual financial statements. Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 10, 2012.

3. Exploration and evaluation assets

	Total
Balance December 31, 2010	\$ 2,230,870
Additions	9,186,046
Dispositions	(175,000)
Transfers to property and equipment	(5,851,643)
Changes in decommissioning liabilities	(23,250)
Exploration and evaluation expense - land expiries	(364,619)
Exploration and evaluation expense - unsuccessful exploration	(503,989)
Exploration and evaluation expense - impairments on transfer	(1,540,000)
Balance December 31, 2011	\$ 2,958,415
Additions	820,224
Dispositions	(80,000)
Balance March 31, 2012	\$ 3,698,639

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 three months ended March 31, 2012 or 2011.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (Unaudited)

4. Property and equipment

Cost:	Oil and natural gas properties	Corporate	Total
Balance December 31, 2010	\$ 7,676,138	\$ 36,091	\$ 7,712,229
Additions	1,512,341	64,156	1,576,497
Dispositions	(242,235)	-	(242,235)
Transfers from exploration and evaluation	5,851,643	-	5,851,643
Changes in decommissioning liabilities	270,000	-	270,000
Balance December 31, 2011	\$ 15,067,887	\$ 100,247	\$ 15,168,134
Additions	1,738,641	4,220	1,742,861
Balance March 31, 2012	\$ 16,806,528	\$ 104,467	\$ 16,910,995

Accumulated depletion and depreciation:	Oil and natural gas properties	Corporate	Total
Balance December 31, 2010	\$ (1,936,059)	\$ (7,900)	\$ (1,943,959)
Depletion and depreciation	(1,616,977)	(14,089)	(1,631,066)
Dispositions	29,124	-	29,124
Balance December 31, 2011	\$ (3,523,912)	\$ (21,989)	\$ (3,545,901)
Depletion and depreciation	(597,470)	(4,568)	(602,038)
Balance March 31, 2012	\$ (4,121,382)	\$ (26,557)	\$ (4,147,939)

Net book value:	Oil and natural gas properties	Corporate	Total
As at December 31, 2010	\$ 5,740,079	\$ 28,191	\$ 5,768,270
As at December 31, 2011	\$ 11,543,975	\$ 78,258	\$ 11,622,233
As at March 31, 2012	\$ 12,685,146	\$ 77,910	\$ 12,763,056

During the three months ended March 31, 2011 the Company disposed of certain assets for gross proceeds of \$179,514 and the assumption of related decommissioning liabilities of \$55,000. This resulted in a gain of \$21,403 for the three months ended March 31, 2011. There have been no dispositions of producing properties in 2012.

The calculation of depletion and depreciation for the three months ended March 31, 2012 included \$317,000 (2011 - \$393,000) for future development costs and excluded \$347,000 (2011 - \$125,000) 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. There were no impairment losses recorded for the three months ended March 31, 2012 and 2011.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (Unaudited)

5. Share capital

(a) Issued and outstanding

Common shares	Number	Amount
Balance December 31, 2010	31,853,333	\$ 11,279,307
Issued for cash on exercise of stock options	100,000	40,000
Transferred from contributed surplus on exercise of stock options	-	9,000
Issued for cash	4,484,189	3,528,251
Issued for cash - flow-through	5,772,389	4,967,602
Deferred flow-through share premium	-	(663,135)
Share issue costs, net of tax of \$87,929	-	(263,786)
Balance December 31, 2011 and March 31, 2012	42,209,911	\$ 18,897,239

(b) Private placements

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.

(c) Per share amounts

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

	Three months ended March	
	2012	2011
Net income (loss) for the period	\$ 356,640	\$ (7,224)
Weighted average number of common shares outstanding - basic	42,209,911	31,903,333
Effect of outstanding options	827,465	-
Weighted average number of common shares outstanding - diluted	43,037,376	31,903,333
Net income (loss) per share - basic and diluted	\$ 0.01	\$ 0.00

The Company has experienced a net loss in the comparative period presented therefore the effect of outstanding options has been excluded as they are anti-dilutive.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (Unaudited)

(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, 2010	2,625,000	\$ 0.47
Exercised - February 2011	(100,000)	\$ 0.40
Granted - September 2011	1,000,000	\$ 0.80
Balance December 31, 2011 and March 31, 2012	3,525,000	\$ 0.57

The weighted average share price at the date stock options were exercised in 2011 was \$0.78.

The following table summarizes stock options outstanding and exercisable under the plan at March 31, 2012:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.00 - \$0.40	1,500,000	2.5	\$ 0.40	1,500,000	\$ 0.40
\$0.41 - \$0.60	1,025,000	3.4	\$ 0.59	1,025,000	\$ 0.59
\$0.61 - \$0.80	1,000,000	4.5	\$ 0.80	883,334	\$ 0.80
\$0.40 - \$0.80	3,525,000	3.3	\$ 0.57	3,408,334	\$ 0.56

6. Related party transactions

(a) Common management and directors

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).