



**FINANCIAL STATEMENTS**  
**AS AT AND FOR THE THREE MONTHS**  
**MARCH 31, 2013**

**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, 2013 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, 2013	December 31, 2012
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 3,226,160	\$ 3,267,511
Accounts receivable		1,760,496	1,562,283
Prepaid expenses and deposits		37,158	31,613
		5,023,814	4,861,407
Exploration and evaluation assets	3	5,495,213	3,721,166
Property and equipment	4	11,024,030	10,866,992
		\$ 21,543,057	\$ 19,449,565
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 2,664,739	\$ 1,778,298
Deferred flow-through share premium		-	196,000
Decommissioning liabilities		1,195,000	1,054,000
Deferred income taxes		1,550,150	828,630
		5,409,889	3,856,928
<b>Shareholders' Equity</b>			
Share capital	5	21,685,273	21,685,273
Contributed surplus		1,374,379	1,355,056
Deficit		(6,926,484)	(7,447,692)
		16,133,168	15,592,637
		\$ 21,543,057	\$ 19,449,565

*See accompanying notes to the interim financial statements*

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

	Notes	Three months ended March 31,	
		2013	2012
<b>Revenue</b>			
Petroleum and natural gas		\$ 1,463,732	\$ 978,757
Royalty income		1,297,365	849,101
Royalties		(113,097)	(69,903)
		2,648,000	1,757,955
<b>Expenses</b>			
Operating		313,533	258,678
Transportation		55,540	23,614
General and administrative		246,722	263,080
Share based compensation		19,323	28,597
Exploration and evaluation expense		463,514	-
Depletion and depreciation		502,290	602,038
		1,600,922	1,176,007
Income from operating activities		1,047,078	581,948
Finance income		4,650	4,007
Finance expense		(5,000)	(4,750)
Net finance income (loss)		(350)	(743)
Income before income taxes		1,046,728	581,205
<b>Income taxes</b>			
Deferred income tax expense		525,520	224,565
<b>Net income and comprehensive income</b>		<b>\$ 521,208</b>	<b>\$ 356,640</b>
<b>Net income per share - basic and diluted</b>	5(c)	<b>\$ 0.01</b>	<b>\$ 0.01</b>

*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, 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
<b>Balance March 31, 2012</b>	<b>\$ 18,897,239</b>	<b>\$ 1,126,547</b>	<b>\$ (4,263,161)</b>	<b>\$ 15,760,625</b>
Balance December 31, 2012	\$ 21,685,273	\$ 1,355,056	\$ (7,447,692)	\$ 15,592,637
Net income	-	-	521,208	521,208
Share based compensation	-	19,323	-	19,323
<b>Balance March 31, 2013</b>	<b>\$ 21,685,273</b>	<b>\$ 1,374,379</b>	<b>\$ (6,926,484)</b>	<b>\$ 16,133,168</b>

*See accompanying notes to the interim financial statements*

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

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
Net income	\$ 521,208	\$ 356,640
Adjustments for:		
Depletion and depreciation	502,290	602,038
Exploration and evaluation expense	463,514	-
Share based compensation	19,323	28,597
Finance expense	5,000	4,750
Deferred income tax expense	525,520	224,565
Changes in non-cash working capital	122,797	(162,889)
	<b>2,159,652</b>	<b>1,053,701</b>
<b>Financing activities:</b>		
Changes in non-cash working capital	(11,455)	(16,940)
<b>Investing activities:</b>		
Exploration and evaluation asset additions	(2,101,561)	(820,224)
Property and equipment asset additions	(659,328)	(1,742,861)
Exploration and evaluation asset dispositions	-	80,000
Changes in non-cash working capital	571,341	(1,741,551)
	<b>(2,189,548)</b>	<b>(4,224,636)</b>
Change in cash and cash equivalents	(41,351)	(3,187,875)
Cash and cash equivalents, beginning of period	3,267,511	4,230,532
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,226,160</b>	<b>\$ 1,042,657</b>

*See accompanying notes to the interim financial statements*

**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (Unaudited)**

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**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 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, 2012. 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, 2012, except as noted below.

On January 1, 2013 the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurement (IFRS 13), and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2013 or on the comparative periods.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on May 16, 2013.

**3. Exploration and evaluation assets**

	<b>Total</b>
Balance December 31, 2011	\$ 2,958,415
Additions	6,031,783
Dispositions	(105,000)
Transfers to property and equipment	(3,352,966)
Changes in decommissioning liabilities	215,000
Exploration and evaluation expense - land expiries	(153,943)
Exploration and evaluation expense - unsuccessful exploration	(1,222,123)
Exploration and evaluation expense - impairments on transfer	(650,000)
Balance December 31, 2012	\$ 3,721,166
Additions	2,101,561
Changes in decommissioning liabilities	136,000
Exploration and evaluation expense - unsuccessful exploration	(463,514)
Balance March 31, 2012	\$ 5,495,213

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, 2013 or 2012.

**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (Unaudited)**

**4. Property and equipment**

<b>Cost:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
Balance December 31, 2011	\$ 15,067,887	\$ 100,247	\$ 15,168,134
Additions	2,172,325	12,098	2,184,423
Transfers from exploration and evaluation	3,352,966	-	3,352,966
Changes in decommissioning liabilities	(40,000)	-	(40,000)
Balance December 31, 2012	\$ 20,553,178	\$ 112,345	\$ 20,665,523
Additions	657,589	1,739	659,328
Balance March 31, 2013	\$ 21,210,767	\$ 114,084	\$ 21,324,851

<b>Accumulated depletion and depreciation:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
Balance December 31, 2011	\$ (3,523,912)	\$ (21,989)	\$ (3,545,901)
Depletion and depreciation	(2,533,176)	(19,454)	(2,552,630)
Impairment	(3,700,000)	-	(3,700,000)
Balance December 31, 2012	\$ (9,757,088)	\$ (41,443)	\$ (9,798,531)
Depletion and depreciation	(498,140)	(4,150)	(502,290)
Balance March 31, 2013	\$ (10,255,228)	\$ (45,593)	\$ (10,300,821)

<b>Net book value:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
As at December 31, 2011	\$ 11,543,975	\$ 78,258	\$ 11,622,233
As at December 31, 2012	\$ 10,796,090	\$ 70,902	\$ 10,866,992
As at March 31, 2013	\$ 10,955,539	\$ 68,491	\$ 11,024,030

The calculation of depletion and depreciation for the three months ended March 31, 2013 included \$481,000 (2012 - \$317,000) for future development costs and excluded \$419,000 (2012 - \$347,000) 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, 2013 and 2012.

**TRAVERSE ENERGY LTD.  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (Unaudited)**

**5. Share capital**

**(a) Issued and outstanding**

<b>Common shares</b>	<b>Number</b>	<b>Amount</b>
Balance December 31, 2011 and March 31, 2012	42,209,911	\$ 18,897,239
Issued for cash - flow-through	4,878,000	3,212,260
Deferred flow-through share premium	-	(320,680)
Share issue costs, net of tax of \$34,516	-	(103,546)
Balance December 31, 2012 and March 31, 2013	47,087,911	\$ 21,685,273

**(b) Private placements**

In July 2012 the Company completed a private placement of 2,078,000 flow-through common shares at a price of \$0.67 per common share for gross proceeds of \$1,392,260. Directors and officers of the Company subscribed for 506,000 common shares for consideration of \$339,020. The Company has incurred the required qualifying expenditures.

In December 2012 the Company completed a private placement of 2,800,000 flow-through common shares at a price of \$0.65 per common share for gross proceeds of \$1,820,000. Directors and officers of the Company subscribed for 356,200 common shares for consideration of \$231,530. The Company has incurred the required qualifying expenditures.

**(c) Per share amounts**

Basic and diluted net income were calculated as follows:

	<b>Three months ended March</b>	
	<b>2013</b>	<b>2012</b>
Net income for the period	\$ 521,208	\$ 356,640
Weighted average number of common shares outstanding - basic	47,087,911	42,209,911
Effect of outstanding options	398,611	827,465
Weighted average number of common shares outstanding - diluted	47,486,522	43,037,376
Net income per share - basic and diluted	\$ 0.01	\$ 0.01

**(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:

	<b>Number of options</b>	<b>Weighted average exercise price</b>
Balance December 31, 2011	3,525,000	\$ 0.57
Granted	905,000	\$ 0.67
Balance December 31, 2012 and March 31, 2013	4,430,000	\$ 0.59



**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012 (Unaudited)**

The following table summarizes stock options outstanding and exercisable under the plan at March 31, 2013:

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	1.5	\$ 0.40	1,500,000	\$ 0.40
\$0.41 - \$0.60	1,630,000	3.2	\$ 0.59	1,496,667	\$ 0.59
\$0.61 - \$0.80	1,300,000	4.5	\$ 0.80	1,200,000	\$ 0.80
\$0.40 - \$0.80	4,430,000	3.7	\$ 0.59	4,196,667	\$ 0.58

**6. Related party transactions**

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, 2013, the aggregate value of transactions entered into between Traverse and these entities was approximately \$79,700 (2012 - \$178,400). Traverse had outstanding payables to the related parties of \$144,350 (2012 - \$45,010) and accounts receivable due to Traverse of \$172,050 at March 31, 2013 (2012 - \$129,472).

**7. Financial risk management**

The Company utilizes both financial derivatives and physical delivery sales contracts to manage commodity price risks. As of March 31, 2013 the Company held derivative commodity contracts as follows:

Type	Period	Volume	Price
Crude oil call option <sup>(1)</sup>	Feb. 1, 2013 to Dec. 31, 2013	100 bbl/d	\$100.00 Cdn.
Natural gas fixed	April 1, 2013 to Oct. 31, 2013	600 GJ/d	\$3.50 Cdn.

<sup>(1)</sup> Subsequent to March 31, 2013 the crude oil call option was settled for the July 1, 2013 to Sept. 30, 2013 period for approximately \$15,000.

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 prices curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. At March 31, 2013 the fair value of the derivative commodity contracts approximated nil. For the three months ended March 31, 2013, a 10% increase in the WTI price would have resulted in a realized loss on financial derivatives of approximately \$31,000.