MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE SIX MONTHS ENDED

JUNE 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) dated August 17, 2010 should be read in conjunction with the unaudited financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the six months ended June 30, 2010. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all figures provided herein and in the June 30, 2010 financial statements are reported in Canadian dollars. Additional information relating to Traverse, including Traverse's Annual Information Form, is available on SEDAR at www.sedar.com.

The MD&A contains the term funds flow from operations which is not a Canadian GAAP standard and therefore may not be comparable to performance measures presented by others. Funds flow from operations represents cash flow from operating activities prior to changes in non-cash working capital. Management believes that in addition to net income, funds flow from operations is a useful supplemental measure as it provides an indication of Traverse's operating performance. Investors should be cautioned, however, that this measure should not be construed as an alternative to both net income and cash flow from operating activities, which are determined in accordance with GAAP, as indicators of Traverse's performance.

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 its drilling program for 2010; planned pipeline construction in the Turin area; planned drilling operations at Little Bow, Long Coulee and Manyberries in southern Alberta and at Warwick and Carbon in central Alberta; expected decreasing operating costs on new oil production at Turin; expected declines in general and administrative costs and intentions for funding capital expenditures 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.

HIGHLIGHTS

(unaudited)	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	**June 30, 2010**	June 30, 2009
<u>Financial *($ thousands, except per share amounts)*</u>				
Revenue	**$ 333**	$ 98	**$ 610**	$ 281
Net loss	**(309)**	(24)	**(454)**	(30)
Per share – basic and diluted	**(0.01)**	0.00	**(0.02)**	0.00
Funds flow from operations*	**41**	45	**73**	126
Net capital expenditures	**739**	164	**3,087**	241
Total assets	**12,244**	7,978	**12,244**	7,978
Shareholders' equity	**10,855**	7,164	**10,855**	7,164
Working capital	**4,274**	4,329	**4,274**	4,329
Common shares				
Outstanding *(millions)*	**29.4**	20.9	**29.4**	20.9
Weighted average *(millions)*	**25.1**	15.5	**25.0**	14.2
<u>Operations *(Units as noted)*</u>				
Production *(BOE/d)*	**100**	43	**83**	49
Natural gas *(Mcf per day)*	**403**	214	**317**	244
Oil and NGL *(bbls per day)*	**33**	7	**30**	8
Average sale price				
Natural gas *($/Mcf)*	**3.80**	3.25	**4.27**	4.50
Oil and NGL *($/bbl)*	**69.88**	57.66	**72.59**	51.44

**Management uses funds flow from operations (before changes in non-cash working capital) to analyze operating performance. Funds flow as presented does not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles and therefore may not be comparable with the calculation of similar measures for other entities.*

Operations Review

All of the Company's oil and gas properties are located in Alberta. Traverse purchased additional interests in the Turin area from partners during the second quarter for cash consideration of $320,000. Field activities were restricted due to spring breakup and extensive wet weather conditions in southern Alberta. The Company was able to add infrastructure at the Turin property, including additions to the oil battery and installation of a natural gas sweetening unit. Undeveloped land holdings at June 30, 2010 totalled 170,000 gross (160,000 net) acres.

Traverse plans an active drilling program for 2010 including up to 12 gross (8 net) wells with an initial budget of $6 to $7 million. This program includes a combination of development and exploratory wells targeting oil and natural gas. The near term is focused largely on oil.

Subsequent to the second quarter, the Company sold a minor producing property for $800,000. Drilling completed to date in the third quarter includes a re-entry (100%) in the Manyberries area and 2 gross (1.5 net) wells in the Turin area. At Turin, the Company is developing a Sunburst oil pool. Upon successful completion of these recent wells, Traverse plans to proceed with pipeline construction to allow for natural gas conservation and water injection in a nearby wellbore. Further drilling will be scheduled upon completion of this infrastructure.

In addition to the Turin property, Traverse plans drilling operations at Little Bow, Long Coulee and Manyberries in southern Alberta and at Warwick and Carbon in central Alberta.

Revenue and Production
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Petroleum and natural gas revenue				
Production income	$261,280	$26,719	$428,692	$ 57,097
Royalty income	83,531	70,261	207,465	216,386
Total	$344,811	$96,980	$636,157	$273,483
Average production (including royalty interests)				
Natural gas *(Mcf per day)*	403	214	317	244
Crude oil *(bbls per day)*	33	7	30	8
Total *(BOE per day)*	100	43	83	49
Average sales price				
Natural gas *($ per Mcf)*	$3.80	$3.25	$4.27	$4.50
Crude oil *($ per bbl)*	$69.88	$57.66	$72.59	$51.44
Total *($ per BOE)*	$38.07	$24.78	$42.52	$30.84

Petroleum and natural gas revenue increased in 2010 due to new production volumes from drilling operations offset by lower commodity prices. Production volumes increased to 100 BOE per day in the second quarter of 2010 from 66 BOE per day in the first quarter, an increase of 52%. New production volumes were added during the first quarter of 2010 from the Turin, Little Bow and Warwick areas. The increase in the second quarter of 2010 reflects the new production for the entire three months. The impact of this new production was reduced by declining production in the royalty income areas. The Company’s revenue in 2009 consisted mainly of natural gas royalty income. Production from the new areas contributed 51% of the daily production in the first half of 2010.

The average sales price received during the second quarter of 2010 decreased 23% from the first quarter of the year. Average sales prices for natural gas decreased 34% from the first quarter and crude oil prices declined 8%. Production for the first half of 2010 is composed of 64% natural gas and 36% crude oil. In 2009, the majority of the Company’s production was natural gas. Volatility in the commodity markets will continue to impact realized prices in 2010. Traverse currently has no risk management program in place for commodity prices due to the small volumes of production. The combined increase in production volumes and decreased commodity prices increased petroleum and natural gas revenue to $344,811 for the three months ended June 30, 2010 compared to $96,980 in the comparative period and $291,346 in the first quarter of 2010.

Royalties and Operating Expenses

Royalties have increased in 2010 compared to the 2009 period due to the shift to working interest production from royalty interest production. New production areas consist of both Crown and freehold lands. New production from Crown lands benefits from the new well incentive program which provides for a maximum five per cent royalty rate. Working interest properties drilled in prior years produce at very low rates and as a result pay minimal royalties.

Operating expenses increased from $23,443 in the 2009 period to $117,529 in the second quarter of 2010 consistent with the increase in volumes produced from working interest properties. On a unit basis, operating costs increased from $5.99 per BOE in the 2009 period to $12.98 per BOE in the second quarter of 2010. Operating costs on the new oil production at Turin are expected to decline as additional wells are drilled and infrastructure is expanded. Transportation costs increased in 2010 mainly due to the increased volumes of crude oil and natural gas transported during the period.

General and Administrative and Stock Based Compensation

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
General and administrative	$203,753	$66,197	$395,259	$137,509
Stock based compensation	61,090	-	85,645	-
Recoveries	(40,431)	-	(57,852)	-
Net general and administrative	$224,412	$66,197	$423,052	$137,509

General and administrative expenses increased to $224,412 in the second quarter compared to $66,197 in the comparable period of 2009. This increase is due to the change in Company operations to an active exploration and production company. These changes included additional office space, new accounting, land and seismic systems and related personnel. On a BOE basis, gross general and administrative expenses have increased from $16.92 in the 2009 period to $22.50 in the second quarter of 2010 ($32.43 per BOE in the first quarter of 2010). The addition of new production in 2010 should continue to decrease general and administrative expenses on a BOE basis in the future.

Compensation expense of $61,090 in the second quarter of 2010 relates to the vesting of options granted to consultants in the fall of 2009 and the grant of options to a new director. Compensation expense associated with the stock option plan is recognized over the vesting period of the options and is based on the estimated fair value of the options at the date of grant.

Depletion, Depreciation and Accretion (DD&A)

Traverse recorded $317,200 (2009 - $105,023) in depletion and depreciation of capital assets and accretion of asset retirement obligations in the second quarter of 2010. On a BOE basis, the DD&A rate of $35.03 per BOE in the second quarter was similar to the first quarter rate of $36.12. Due to the restricted activities in the second quarter of 2010, reserve additions were limited to those acquired in the second quarter. The DD&A rate in the second quarter of 2009 was $26.84 per BOE. Depletion and depreciations has increased due to increases in the depletable base with lower associated proved reserve additions.

At June 30, 2010 the calculation of depletion expense excluded undeveloped land and expenditures on unproved properties of $3,210,000 (2009 - $2,300,000) and included future development costs of $125,750 (2009 - $nil) related to proved developed non-producing reserves. The excluded amounts will be added to the costs subject to depletion as proved reserves are assigned or as the property's value is assessed to be impaired. Accretion expense has increased over the comparable period due mainly to new asset retirement obligations incurred as a result of the drilling program.

Income Taxes and Net Loss

Second quarter operations in 2010 generated a net loss before income taxes of $391,711 compared to a net loss before income taxes of $99,168 in the 2009 period. Production income increased in the second quarter of 2010 as a result of production volume increases, however on a comparative basis this increase was more than offset by increased general and administrative and depletion expenses. As a result of the loss in both the current and prior periods, recoveries of future income taxes have been recorded.

Shareholders' Equity

As at August 17, 2010 total common shares outstanding are 29,353,333 and total common share options outstanding are 1,775,000. The weighted average number of shares outstanding increased to 25,100,256 during the second quarter of 2010 (15,499,451 in 2009) as a result of the private placements completed in 2009.

In June 2010 the Company completed a private placement of 2,135,000 units at a price of $1.30 per unit for gross proceeds of $2,775,500. Each unit consisted of one common share at $0.60 and one flow-through common share at $0.70. As a result, the Company must incur qualifying resource expenditures of approximately $1.5 million before December 31, 2011.

Funds Flow from Operations

Funds flow from operations decreased to approximately $41,000 in the 2010 period compared to $45,000 in the 2009 period due mainly to increased general and administrative expenses.

Liquidity and Capital Resources

During the second quarter of 2010 the Company incurred approximately $740,000 of capital expenditures. These expenditures were incurred in the following categories: 8% land acquisition and retention, 10% geological and geophysical, 6% drilling and completion operations and 33% on facilities. The balance of the expenditures (43%) related to property acquisitions in the Turin area. Capital expenditures were financed through the existing working capital. Subsequent to June 30, 2010 the Company sold a royalty interest property to an industry partner for cash consideration of $800,000.

At June 30, 2010 the Company had working capital of approximately $4.3 million and no debt outstanding. The Company intends to fund capital expenditures during 2010 with a combination of cash flow and working capital. New equity issues and debt may be utilized to expand future capital expenditures where appropriate.

Related Party Transactions

Equity transactions

In June 2009 the Company completed a private placement of 8,000,000 common shares (gross proceeds of $2,000,000) to two directors and officers of the Company and members of their immediate families. This private placement was approved by the shareholders of the Company on June 11, 2009.

In October 2009 the Company completed a private placement of 2,000,000 units at a price of $0.90 per unit for gross proceeds of $1,800,000. Directors and officers of the Company subscribed for 280,000 units for consideration of $252,000.

In June 2010 the Company completed a private placement of 2,135,000 units at a price of $1.30 per unit for gross proceeds of $2,775,500. Directors and officers of the Company subscribed for 317,400 units for consideration of $412,620.

Common management and directors

During the first six months of 2010, office expenses of approximately $106,770 (2009 - $14,780) were paid to a company controlled by two directors of the Company. These transactions were in the normal course of business and are on terms that are consistent with parties dealing at arm’s length. At June 30, 2010 an amount of $106,650 (2009 - $nil), representing prepaid rent and security deposit, are included within prepaids and deposits.

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 six months ended June 30, 2010, the aggregate value of transactions entered into between Traverse and these entities was approximately $935,000 (2009 - $nil). Traverse had outstanding payables to the related parties of $44,870 (2009 - $nil) and accounts receivable due to Traverse of approximately $37,984 at June 30, 2010 (2009 - $nil).

During the first six months of 2009, management fees of $36,000 were paid to a company controlled by a director of the Company. The fees related to the administration and overall operations of the Company. These transactions were in the normal course of business and are measured at the exchange amount.

Legal services

During the first six months of 2010, the Company incurred approximately $30,000 (2009 - $19,000) in legal services and disbursements with a legal firm in which a director of Traverse is a partner. These transactions were in the normal course of business and are measured at the exchange amount. At June 30, 2010 accounts payable and accrued liabilities include $20,581 (2009 - $19,133) to the legal firm.

Summary of Quarterly Results
($ thousands, except per share amounts)
(unaudited)

Quarter Ended	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sept. 30, 2009
Revenue	$333	$291	$156	$117
Net loss	(309)	(145)	(178)	(515)
Per share – basic & diluted	(0.01)	(0.01)	(0.01)	(0.02)
Working capital	4,274	2,243	4,546	4,089
Shareholders' equity	10,855	8,351	8,718	7,061
Production (BOE/d)	100	66	48	47

Quarter Ended	Jun. 30, 2009	Mar. 31, 2009	Dec. 31, 2008	Sept. 30, 2008
Revenue	$97	$177	$249	$360
Net income (loss)	(24)	(6)	(5)	122
Per share – basic & diluted	0.00	0.00	0.00	0.01
Working capital	4,329	2,505	2,501	2,514
Shareholders' equity	7,164	5,300	5,236	5,240
Production (BOE/d)	43	54	59	63

Production declined from 2008 to 2009 until the addition of new production volumes in the first quarter of 2010. Revenue, although declining with production, fluctuated quarterly with changes in commodity prices until the first quarter of 2010. Drilling activities late in 2009 did not result in new production until 2010. The change in Traverse's operations to an active exploration and production company resulted in increased general and administrative costs in 2009.

Business Environment and Risk

The business risks to which the Company is exposed 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.

Change in Accounting Policies

Effective January 1, 2011, Canadian public companies are required to adopt International Financial Reporting Standards ("IFRS"). Traverse's financial statements up to and including December 31, 2010 will continue to be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared on an IFRS basis.

The Company has commenced the conversion project which consists of the following phases: 1) initial scoping, 2) impact analysis, and 3) implementation and review. The first phase, which involved a high level review of the major differences between Canadian GAAP and IFRS expected to impact the financial statements of the Company was completed in 2009. The Company is currently in the process of evaluating its accounting policy choices and the resulting impact these choices have on the financial statements.

Management has not yet finalized its IFRS accounting policies and as such is unable to quantify the impact on its financial statements of adopting IFRS. The most significant impacts for Traverse are anticipated to be in the following areas: accounting for petroleum and natural gas assets and equipment; decommissioning liabilities ("asset retirement obligations" under GAAP), and stock based compensation:

Petroleum and natural gas assets and equipment ("PP&E")

Under Canadian GAAP, Traverse follows the CICA's guideline on full cost accounting, while IFRS has no equivalent guideline. In order to facilitate the transition to IFRS by full cost accounting companies, the IASB released additional exemptions for first-time adopters of IFRS in July 2009. Included in the amendments is an exemption which permits full cost accounting companies to allocate their existing PP&E net book value (full cost pool) over reserves to the unit of account level on transition to IFRS. Traverse expects to adopt this exemption and is currently evaluating whether to allocate based on reserve volumes or values. IFRS 1, "First Time Adoption of IFRS" also provides a number of other optional and mandatory exemptions in certain areas to the general requirement for full retrospective application of IFRS. Management is analyzing the various exemptions available under IFRS 1 and will implement those determined to be the most appropriate for Traverse.

Under IFRS, Traverse will be required to adopt different accounting policies for pre-exploration activities, exploration and evaluation costs, DD&A and the accounting for gains and losses on divestitures of properties. Pre-exploration costs are costs incurred before the Company obtains the legal right to explore an area. Under Canadian GAAP, these costs are capitalized, while under IFRS, these costs must be expensed. During the exploration and evaluation phase, costs incurred are capitalized under Canadian GAAP. Under IFRS, the Company has the alternative to either continue capitalizing these costs until technical feasibility and commercial viability of the project is determined, or to expense these costs as incurred. Full cost accounting under Canadian GAAP requires that gains or losses on divestitures of properties are only recognized when the disposal would affect the DD&A rate by 20 percent or more. Under IFRS, there is no such exemption and therefore Traverse will be required to recognize all gains and losses on property divestitures. Under Canadian GAAP, the Company calculates its depletion and depreciation rate at the country cost center level. Under IFRS, this rate will be calculated at a lower unit of account level. Several differences exist in the method for impairment testing under IFRS including discounting of future cash flows and the level at which the test is performed. Under Canadian GAAP, impairment testing is performed at the country cost center level while under IFRS the calculation is at a lower level, referred to as a cash-generating unit. Canadian GAAP prohibits reversal of impairment losses while under IFRS, if the conditions giving rise to impairment have reversed, impairment losses previously recorded would be partially or fully reversed to eliminate write-downs recorded.

Asset retirement obligations

Under Canadian GAAP, Traverse recognizes a liability for the estimated fair value of the future retirement obligations associated with PP&E. The fair value is capitalized and amortized over the same period as the underlying asset. The Company estimates the liability based on the estimated costs to abandon and reclaim its net ownership in well and facilities, including an estimate for the timing of the costs to be incurred in future periods. These cash outflows are discounted using a credit-adjusted rate. Changes in the net present value of the future retirement obligation are expensed through accretion as part of DD&A. Under IFRS, these liabilities are known as "decommissioning liabilities" and are calculated at each reporting period by estimating the risk-adjusted future cash outflows which are discounted using a risk-free rate.

Stock based compensation

Under IFRS, the expense related to share-based payments is recognized as the options vest; that is, for options that vest over a period of time, each tranche must be treated as a separate option grant which accelerates the expense recognition in comparison to Canadian GAAP which allows the expense to be recognized on a straight-line basis over the period the options vest.

Minimal progress was made on the IFRS transition project during the first half of 2010 due to year end reporting requirements and availability of personnel, however process and system changes were implemented during the first quarter of 2010 to ensure that IFRS comparative data is captured throughout 2010.

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