Traverse Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR SIX MONTHS ENDED

JUNE 30, 2012

This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated August 16, 2012 should be read in conjunction with the unaudited interim financial statements as at and for the six months ended June 30, 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 the Company's focus in 2012 on its existing medium and light oil properties in central and southern Alberta; planned additional seismic surveying and follow up drilling on the Company's Turin property; exploration plans 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		Six months ended	
HIGHLIGHTS *(Unaudited)*	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Financial *($ thousands, except per share amounts)*				
Revenue	1,430	903	3,258	1,887
Funds flow from operations	990	458	2,207	862
Per share - basic and diluted	0.02	0.01	0.05	0.03
Cash flow from operations	1,209	176	2,263	944
(including changes in working capital)				
Per share - basic and diluted	0.03	0.01	0.05	0.03
Net income (loss)	39	(152)	395	(159)
Per share - basic and diluted	0.00	0.00	0.01	0.00
Capital expenditures, net of dispositions	430	3,415	2,913	4,293
Total assets	18,590	19,294	18,590	19,294
Working capital	1,826	4,314	1,826	4,314
Common shares				
Outstanding *(millions)*	42.2	38.5	42.2	38.5
Weighted average *(millions)*	42.2	35.0	42.2	33.5
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	702	399	699	401
Oil and NGL *(bbls/day)*	184	89	198	104
Production *(BOE/day)*	169	133	188	147
Royalty income *(BOE/day)*	132	22	127	24
Total *(BOE/day)*	301	155	315	171
Average sales price				
Natural gas *($/mcf)*	2.02	4.06	2.18	4.01
Oil and NGL *($/bbl)*	77.92	93.68	82.73	84.73
Operating netback *($/BOE)*				
Petroleum and natural gas revenue	48.16	69.71	50.33	65.80
Royalties	0.85	4.75	2.43	4.22
Operating and transportation costs	13.16	16.30	14.19	16.13
Working interest operating netback *($/BOE)*	34.15	48.66	33.71	45.45
Royalty income netback *($/BOE)*	57.62	28.96	66.62	31.48
Total Company operating netback *($/BOE)*	44.45	45.89	47.00	43.50

Operations review

All of the Company's oil and gas properties are located in Alberta. Traverse is focusing on its' existing medium and light oil properties located in central and southern Alberta. At June 30, 2012 undeveloped land holdings totalled 158,900 gross (156,100 net) acres at an average working interest of 98%.

No wells were drilled by the Company during the second quarter of 2012. In early July, Traverse commenced drilling on its' Turin property (which totals in excess of 9,000 acres) located in southern Alberta. Five gross (4.5 net) wells were drilled to test coincidental seismic and geological targets. This drilling resulted in 1.75 net oil wells, 1 natural gas well (0.75 net), 1 potential natural gas well and 1 well that likely will be abandoned upon conclusion of ongoing testing. The natural gas wells will remain shut-in pending an improved natural gas pricing environment. The first oil well (Traverse 75%) was placed on production August 1, since then the well has produced at an average rate of 85 barrels of oil per day. The second oil well (Traverse 100%) was placed on production August 14 and appears to be capable of producing at a similar rate. Both wells have been tied into Traverse's Turin battery which was expanded in the first quarter of 2012. The battery includes a water disposal and injection facility and a treater capable of handling up to 2,500 barrels of fluid per day. Traverse plans additional seismic surveying and several follow up drilling locations.

In the Brazeau area of west central Alberta, Traverse has a gross overriding royalty interest in 10 sections of land (6,400 acres). By June 30, 2012 a total of 9 horizontal Cardium wells were drilled on these lands by an industry partner. Seven of the wells were on production during the quarter resulting in 113 BOE per day (76% light oil) net to the Company. Subsequent to June 30, 2012 two additional wells were drilled by an industry partner.

Traverse set an initial budget of up to $15 million for 2012 to be funded from working capital, cash flow, new equity issues and debt where appropriate. Exploration plans for the remainder of the year include seismic acquisition, follow up drilling in the Turin area, and 2 to 3 wells in the greater Carbon area where Traverse owns in excess of 40,000 acres at a 100% working interest.

	Three months ended		Six months ended	
Production	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Average working interest production				
Natural gas *(mcf/day)*	439	280	512	277
Crude oil *(bbls/day)*	96	87	102	101
Working interest production *(BOE/day)*	169	133	188	147
Average royalty income production				
Natural gas *(mcf/day)*	263	119	187	124
Crude oil *(bbls/day)*	88	2	96	3
Royalty income production *(BOE/day)*	132	22	127	24
Total production				
Natural gas *(mcf/day)*	702	399	699	401
Crude oil *(bbls/day)*	184	89	198	104
Total production *(BOE/day)*	301	155	315	171

Production increased 94% to 301 BOE per day in the second quarter of 2012 as compared to 155 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. Production in the second quarter of 2012 (301 BOE per day) declined slightly compared to the first quarter (329 BOE per day) as no new production volumes were added and minor natural gas production was shut in due to depressed commodity prices.

	Three months ended		Six months ended	
Production by area (BOE/day)	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Alliance	27	-	28	-
Brazeau	113	-	109	-
Carbon	36	-	45	-
Long Coulee	20	61	24	77
Turin	85	48	84	46
Minor	20	46	25	48
Total BOE per day	301	155	315	171
% of BOE/day				
Royalty	44%	14%	40%	14%
Working interest	56%	86%	60%	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. Additional royalty wells at Brazeau were placed on production in the first quarter of 2012, increasing the royalty percentage of total production for the second quarter to 44% compared to 14% in the 2011 period.

	Three months ended		Six months ended	
Pricing	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Average sales price				
Natural gas *($/mcf)*	$ 2.02	$ 4.06	$ 2.18	$ 4.01
Crude oil *($/bbl)*	$ 77.92	$ 93.68	$ 82.73	$ 84.73
Total *($/BOE)*	$ 52.31	$ 63.98	$ 56.91	$ 61.00

The average BOE sales price received during the second quarter of 2012 decreased 18% compared to the second quarter of 2011. Crude oil prices have decreased 17% in the 2012 second quarter compared to the 2011 period while natural gas prices have declined 50% from the comparable period. Volatility in the commodity markets will continue to impact realized prices in 2012.

	Three months ended		Six months ended	
Revenue	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Revenue by source				
Working interest production	$ 738,991	$ 845,637	$ 1,717,748	$ 1,750,663
Royalty interest production	691,394	57,491	1,540,495	136,168
Total	$ 1,430,385	$ 903,128	$ 3,258,243	$ 1,886,831
Revenue by commodity				
Oil	$ 1,301,325	$ 755,820	$ 2,981,364	$ 1,595,876
Natural gas	129,060	147,308	276,879	290,955
Total	$ 1,430,385	$ 903,128	$ 3,258,243	$ 1,886,831

Revenue in the second quarter of 2012 increased 58% compared to the second quarter of 2011 due to increased production volumes. Production volumes decreased in the second quarter of 2012 compared to the first quarter of 2012 as natural gas production was shut in due to low commodity prices.

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		Six months ended	
Operating netback ($/BOE)	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Petroleum and natural gas revenue	$ 48.16	$ 69.71	$ 50.33	$ 65.80
Royalties	0.85	4.75	2.43	4.22
Operating costs	13.16	16.30	14.19	16.13
Working interest operating netback	$ 34.15	$ 48.66	$ 33.71	$ 45.45
Royalty income netback	$ 57.62	$ 28.96	$ 66.62	$ 31.48
Total Company operating netback	$ 44.45	$ 45.89	$ 47.00	$ 43.50

The working interest operating netback has declined from $48.66 per BOE in the second quarter of 2011 to $34.15 per BOE in the 2012 period due to decreasing commodity prices partially offset by declining royalties and improved operating costs. Working interest production increased to 169 BOE per day in the 2012 second quarter compared to 133 BOE per day in the 2011 period, however, 75% of this increase was composed of natural gas volumes. The increase in gas production contributed to a decline of 31% in the combined price per BOE to $48.16 in the second quarter of 2012.

Royalties per BOE decreased in the second quarter of 2012 to $0.85 per BOE compared to $4.75 per BOE in the 2011 period. A royalty adjustment relating to 2011 natural gas and natural gas liquid crown royalties contributed $1.65 per BOE of this decline. The remaining decline of $2.25 per BOE relates to lower commodity prices and the higher weighting of lower royalty rate production in the Company's production base. Increased natural gas production in the 2012 period also contributed to decreased operating costs per BOE. Operating costs per BOE have declined 19% in the 2012 second quarter compared to the 2011 second quarter. 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 March 2012.

The royalty income netback has increased from $28.96 per BOE in the second quarter of 2011 to $57.62 per BOE in the 2012 period as a result of new royalty production from the Brazeau area. In the second quarter of 2011, royalty production was 22 BOE per day, consisting of 91% natural gas. During the third quarter of 2011, three new wells in the Brazeau area began producing and a fourth well commenced in November. During the first quarter of 2012 additional wells were placed on production. Total royalty production for the second quarter of 2012 was 132 BOE per day (33% gas).

The total operating netback in the second quarter of 2012 increased 88% to $1.2 million compared to $0.6 million in the 2011 second quarter due mainly to increased royalty oil production. On a per unit basis, the total operating netback decreased 3% to $44.45 per BOE in the 2012 quarter compared to $45.89 per BOE in the second quarter of 2011.

	Three months ended		Six months ended	
General and administrative	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
General and administrative costs - gross	$ 239,799	$ 246,434	$ 550,759	$ 566,948
Operator recoveries	12,827	47,342	60,707	68,975
General and administrative costs - net	$ 226,972	$ 199,092	$ 490,052	$ 497,973
General and administrative - $/BOE				
General and administrative costs - gross	$ 8.77	$ 17.46	$ 9.62	$ 18.33
Operator recoveries	$ 0.47	$ 3.35	$ 1.06	$ 2.23
General and administrative costs - net	$ 8.30	$ 14.11	$ 8.56	$ 16.10

Net general and administrative costs increased in the second quarter of 2012 compared to the 2011 period due to reduced operator recoveries but have declined on a BOE basis due to increasing production. Gross general and administrative costs on a BOE basis were comparable between the second quarter of 2011 and 2012 but recoveries associated with operated capital projects declined with the decreased operated capital expenditures.

Share based compensation

Share based compensation expense of $48,914 in the second quarter of 2012 relates to the grant of options in May 2012 and the vesting of options granted to consultants in the fall of 2011. The Company retained an investor relations firm effective May 1, 2012 and as part of the remuneration package the firm was granted 300,000 common share stock options at an exercise price of $0.80. These options vest as to one third on the date of grant; one third on the date six months from the date of grant; and one third 12 months from the date of grant. Additional information relating to the valuation of these options can be found in note 6(d) of the unaudited interim financial statements.

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 second quarter of 2011 Traverse recorded $9,226 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 June 30, 2012 (2011 - $363,000) and excluded $347,000 (2011 - $125,000) for estimated salvage values. The future development costs at June 30, 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 $19.98 per BOE in the second quarter of 2012 compared to $22.39 per BOE in the second quarter of 2011.

Finance income and expense

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

Income taxes and net income (loss)

Income before income taxes of $0.4 million was earned in the second quarter of 2012 compared to $0.1 million in the 2011 period mainly as a result of increases in oil production.

A deferred income tax expense of $351,310 has been recorded in the second quarter of 2012 (2011 - $276,244) composed of deferred income tax on income of $109,740 (2011 - $29,423) and deferred income tax relating to flow-through expenditures of $241,570 (2011 - $246,821). 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 second quarter of 2012 the Company incurred or recognized the balance of the qualifying expenditures related to the flow-through issue completed in November 2011. Some of these expenditures were incurred in the fall of 2011 however eligibility for flow-through purposes was not determined until the second quarter of 2012. 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 $241,570.

After income taxes, net income of $38,750 has been recorded for the second quarter of 2012 compared to a net loss of $151,913 in the comparable period. Net income per share was $0.001 in the 2012 period.

Shareholders' equity

As at August 16, 2012 total common shares outstanding are 44,287,911 and total common share options outstanding are 3,825,000. The weighted average number of shares outstanding during the 2012 second quarter increased 20% to 42,209,911 from 35,039,470 in the 2011 quarter 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 Company has incurred the required qualifying expenditures.

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.

Funds flow from operations

Funds flow from operations increased to approximately $1.0 million in the second quarter of 2012 ($0.02 per share) compared to $0.5 million in the 2011 period ($0.01 per share) due mainly to increased oil production. The following table reconciles cash flow from operating activities to funds flow from operations for the periods noted:

	Three months ended		Six months ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Cash flow from operating activities	$ 1,208,813	$ 176,287	$ 2,262,514	$ 944,304
Change in non-cash working capital	218,771	(281,724)	55,882	81,960
Funds flow from operations	$ 990,042	$ 458,011	$ 2,206,632	$ 862,344

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. In the second quarter of 2012 some additional processing of seismic occurred and pre drill expenditures were incurred for the third quarter drilling program. These activities resulted in the following expenditures:

	Three months ended		Six months ended	
Capital expenditures	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Land acquisition and rentals	$ 99,745	$ 273,703	$ 300,915	$ 563,974
Geological and geophysical	93,024	82,754	717,603	397,512
Drilling and completions	210,825	3,073,964	305,744	3,481,200
Equipping and facilities	51,181	137,714	1,689,378	183,184
Exploration and development capital	454,775	3,568,135	3,013,640	4,625,870
Corporate assets	-	21,304	4,220	21,304
Net property dispositions	25,000	174,793	105,000	354,307
Net capital expenditures	$ 429,775	$ 3,414,646	$ 2,912,860	$ 4,292,867

At June 30, 2012 Traverse had working capital of approximately $1.8 million and no debt outstanding. In July of 2012 the Company completed a private placement of flow-through common shares for gross proceeds of $1.4 million. 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 half of 2011, office expenses of approximately $103,598 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 six months ended June 30, 2012, the aggregate value of transactions entered into between Traverse and these entities was approximately $219,300 (2011 - $222,600). Traverse had outstanding payables to the related parties of $17,400 (2011 - $83,439) and accounts receivable due to Traverse of $4,400 at June 30, 2012 (2011 - $10,618).

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	June 30 2012	March 31 2012	December 31 2011	September 30 2011
Revenue	1,430	1,828	1,569	1,105
Net income (loss)	39	357	(584)	(1,079)
Per share - basic and diluted	0.00	0.01	(0.01)	(0.04)
Working capital	1,826	1,266	2,532	2,059
Shareholders' equity	15,848	15,761	15,375	13,397
Production *(BOE/day)*	301	329	243	202
Capital expenditures, net of dispositions	430	2,483	3,279	2,836

Quarter ended	June 30 2011	March 31 2011	December 31 2010 (1)	September 30 2010 (1)
Revenue	903	984	1,136	346
Net loss	(152)	(7)	(2,709)	(478)
Per share - basic and diluted	0.00	0.00	(0.09)	(0.02)
Working capital	4,314	1,924	2,358	3,045
Shareholders' equity	14,179	9,274	9,230	9,987
Production *(BOE/day)*	155	187	214	103
Capital expenditures, net of dispositions	3,415	878	3,569	1,314

(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. In the second quarter of 2012 production declined as no new production volumes were added and natural gas production was shut in due to low commodity prices.

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.