



FINANCIAL STATEMENTS

AS AT AND FOR THE SIX MONTHS

JUNE 30, 2012

TRAVERSE ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION
(Unaudited)

NOTICE TO READER

The accompanying unaudited interim financial statements of Traverse Energy Ltd. for the six months ended June 30, 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	June 30, 2012	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		\$ 1,358,179	\$ 4,230,532
Accounts receivable		850,883	931,677
Prepaid expenses and deposits		35,545	37,973
		2,244,607	5,200,182
Exploration and evaluation assets	3	4,033,952	2,958,415
Property and equipment	4	12,311,200	11,622,233
		\$ 18,589,759	\$ 19,780,830
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 418,420	\$ 2,667,767
Deferred flow-through share premium		-	313,445
Decommissioning liabilities		869,500	860,000
Deferred income taxes		1,453,550	564,230
		2,741,470	4,405,442
Shareholders' Equity			
Share capital	6(a)	18,897,239	18,897,239
Contributed surplus		1,175,461	1,097,950
Deficit		(4,224,411)	(4,619,801)
		15,848,289	15,375,388
Commitments and subsequent event	6(b)		
		\$ 18,589,759	\$ 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 June 30,		Six months ended June 30,	
		2012	2011	2012	2011
Revenue					
Petroleum and natural gas		\$ 738,991	\$ 845,637	\$ 1,717,748	\$ 1,750,663
Royalty income		\$ 691,394	57,491	1,540,495	136,168
Royalties		(13,054)	(57,581)	(82,957)	(112,304)
		1,417,331	845,547	3,175,286	1,774,527
Expenses					
Operating		178,838	165,727	437,516	370,839
Transportation		23,027	32,044	46,641	58,235
General and administrative		226,972	199,092	490,052	497,973
Share based compensation		48,914	3,739	77,511	14,150
Gain on disposition of property and equipment	4	-	207	-	(21,196)
Exploration and evaluation expense		-	9,226	-	24,954
Depletion and depreciation	4	546,318	316,008	1,148,356	666,299
		1,024,069	726,043	2,200,076	1,611,254
Income from operating activities		393,262	119,504	975,210	163,273
Finance income		1,548	9,327	5,555	14,864
Finance expense		(4,750)	(4,500)	(9,500)	(9,250)
Net finance income (loss)		(3,202)	4,827	(3,945)	5,614
Income before income taxes		390,060	124,331	971,265	168,887
Income taxes					
Deferred income tax expense		351,310	276,244	575,875	328,024
Net income (loss) and comprehensive income (loss)		\$ 38,750	\$ (151,913)	\$ 395,390	\$ (159,137)
Net income (loss) per share - basic and diluted	6(c)	\$ 0.00	\$ 0.00	\$ 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	-	-	(159,137)	(159,137)
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	-	14,150	-	14,150
Issued for cash	3,114,551	-	-	3,114,551
Issued for cash - flow-through	2,460,042	-	-	2,460,042
Deferred flow-through share premium	(349,690)	-	-	(349,690)
Share issue costs, net of tax of \$57,132	(171,397)	-	-	(171,397)
Balance June 30, 2011	\$ 16,381,813	\$ 754,106	\$ (2,956,985)	\$ 14,178,934
Balance December 31, 2011	\$ 18,897,239	\$ 1,097,950	\$ (4,619,801)	\$ 15,375,388
Net income	-	-	395,390	395,390
Share based compensation	-	77,511	-	77,511
Balance June 30, 2012	\$ 18,897,239	\$ 1,175,461	\$ (4,224,411)	\$ 15,848,289

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ 38,750	\$ (151,913)	\$ 395,390	\$ (159,137)
Adjustments for:				
Depletion and depreciation	546,318	316,008	1,148,356	666,299
Exploration and evaluation expense	-	9,226	-	24,954
Share based compensation	48,914	3,739	77,511	14,150
Gain on disposition of property and equipment	-	207	-	(21,196)
Finance expense	4,750	4,500	9,500	9,250
Deferred income tax expense	351,310	276,244	575,875	328,024
Changes in non-cash working capital	218,771	(281,724)	55,882	81,960
	1,208,813	176,287	2,262,514	944,304
Financing activities:				
Proceeds on issue of shares, net of issue costs	-	5,346,064	-	5,346,064
Proceeds on exercise of share options	-	-	-	40,000
Changes in non-cash working capital	-	19,992	(16,940)	10,295
	-	5,366,056	(16,940)	5,396,359
Investing activities:				
Exploration and evaluation asset additions	(360,313)	(3,515,296)	(1,180,537)	(4,231,278)
Property and equipment asset additions	(94,462)	(74,143)	(1,837,323)	(415,896)
Exploration and evaluation asset dispositions	25,000	175,000	105,000	175,000
Property and equipment asset dispositions	-	(207)	-	179,307
Changes in non-cash working capital	(463,516)	2,713,050	(2,205,067)	1,552,478
	(893,291)	(701,596)	(5,117,927)	(2,740,389)
Change in cash and cash equivalents	315,522	4,840,747	(2,872,353)	3,600,274
Cash and cash equivalents, beginning of period	1,042,657	1,889,904	4,230,532	3,130,377
Cash and cash equivalents, end of period	\$ 1,358,179	\$ 6,730,651	\$ 1,358,179	\$ 6,730,651

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 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 SW, 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 August 16, 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	1,180,537
Dispositions	(105,000)
Balance June 30, 2012	\$ 4,033,952

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 six months ended June 30, 2012 or 2011.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 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	1,833,103	4,220	1,837,323
Balance June 30, 2012	\$ 16,900,990	\$ 104,467	\$ 17,005,457

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	(1,139,220)	(9,136)	(1,148,356)
Balance June 30, 2012	\$ (4,663,132)	\$ (31,125)	\$ (4,694,257)

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 June 30, 2012	\$ 12,237,858	\$ 73,342	\$ 12,311,200

During the six months ended June 30, 2011 the Company disposed of certain assets for gross proceeds of \$179,307 and the assumption of related decommissioning liabilities of \$55,000. This resulted in a gain of \$21,196 for the six months ended June 30, 2011. There have been no dispositions of producing properties in 2012.

The calculation of depletion and depreciation for the six months ended June 30, 2012 included \$317,000 (2011 - \$363,000) 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 six months ended June 30, 2012 and 2011.

5. Banking facility

The Company has a revolving production loan facility (the "facility") with a Canadian bank. The facility is provided on a demand basis in the amount of \$3.0 million subject to an annual review of the borrowing base. The borrowing base is determined by the lender based on the lender's interpretation of the Company's reserves, future commodity prices and other factors. There can be no assurance that the amount of the available facility will not be adjusted at the next scheduled borrowing base review on or before May 31, 2013.

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The facility bears interest at the Lender's prime lending rate plus 1.25% and standby fees are charged on the undrawn facility at a rate of 0.40%. Under the terms of the facility, a financial covenant must be maintained. The Company must not permit the working capital ratio, as defined by the bank, to fall below 1.00:1. The bank defines the working capital ratio as the ratio of (i) current assets plus any undrawn availability under the facility, to (ii) current liabilities less (to the extent included therein) any amount drawn under the facilities. At June 30, 2012 the Company was in compliance with the financial covenant and the amount owing under the facility was nil. As security for the facility, the Company has provided a general security agreement providing a security interest over all present and after acquired personal property and a floating charge on all lands.

6. 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 June 30, 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 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.

(c) Per share amounts

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Net income (loss) for the period	\$ 38,750	\$ (151,913)	\$ 395,390	\$ (159,137)
Weighted average common shares outstanding - basic	42,209,911	35,039,470	42,209,911	33,480,065
Effect of outstanding options	479,741	-	653,603	-
Weighted average common shares outstanding - diluted	42,689,652	35,039,470	42,863,514	33,480,065
Net income (loss) per share - basic and diluted	\$ 0.00	\$ 0.00	\$ 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
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(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	3,525,000	\$ 0.57
Granted - May 2012	300,000	\$ 0.80
Balance June 30, 2012	3,825,000	\$ 0.59

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

The fair value of options granted was estimated using a Black Scholes model with the following weighted average assumptions:

Assumptions	2012	2011
Risk free interest rate (%)	1.6	1.4
Expected life (years)	4.5	4.8
Expected volatility (%)	58.1	56.9
Forfeiture rate (%)	5.0	1.7
Weighted average fair value of options	\$0.25	\$0.39

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 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	2.2	\$ 0.40	1,500,000	\$ 0.40
\$0.41 - \$0.60	1,025,000	3.1	\$ 0.59	1,025,000	\$ 0.59
\$0.61 - \$0.80	1,300,000	4.3	\$ 0.80	983,334	\$ 0.80
\$0.40 - \$0.80	3,825,000	3.2	\$ 0.59	3,508,334	\$ 0.57

7. Related party transactions

(a) Common management and directors

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).