



FINANCIAL STATEMENTS

AS AT AND FOR THE SIX MONTHS

JUNE 30, 2013

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, 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	June 30, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		\$ 4,250,488	\$ 3,267,511
Accounts receivable		1,706,366	1,562,283
Prepaid expenses and deposits		32,207	31,613
Financial derivative asset		11,107	-
		6,000,168	4,861,407
Exploration and evaluation assets	3	4,657,280	3,721,166
Property and equipment	4	12,855,035	10,866,992
		\$ 23,512,483	\$ 19,449,565
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,797,797	\$ 1,778,298
Deferred flow-through share premium		197,700	196,000
Decommissioning liabilities		1,200,000	1,054,000
Deferred income taxes		1,882,480	828,630
		5,077,977	3,856,928
Shareholders' Equity			
Share capital	5	22,911,919	21,685,273
Contributed surplus		1,389,172	1,355,056
Deficit		(5,866,585)	(7,447,692)
		18,434,506	15,592,637
		\$ 23,512,483	\$ 19,449,565

See accompanying notes to the interim financial statements

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenue				
Petroleum and natural gas	\$ 2,015,190	\$ 738,991	\$ 3,478,922	\$ 1,717,748
Royalty income	1,022,516	691,394	2,319,881	1,540,495
Royalties	(148,038)	(13,054)	(261,135)	(82,957)
	2,889,668	1,417,331	5,537,668	3,175,286
Realized gain on financial derivatives	4,141	-	4,141	-
Unrealized loss on financial derivatives	(4,073)	-	(4,073)	-
	2,889,736	1,417,331	5,537,736	3,175,286
Expenses				
Operating	515,725	178,838	829,258	437,516
Transportation	59,620	23,027	115,160	46,641
General and administrative	198,925	226,972	445,647	490,052
Share based compensation	14,793	48,914	34,116	77,511
Exploration and evaluation expense	27,658	-	491,172	-
Depletion and depreciation	653,605	546,318	1,155,895	1,148,356
	1,470,326	1,024,069	3,071,248	2,200,076
Income from operating activities	1,419,410	393,262	2,466,488	975,210
Finance income	4,539	1,548	9,189	5,555
Finance expense	(5,000)	(4,750)	(10,000)	(9,500)
Net finance income (loss)	(461)	(3,202)	(811)	(3,945)
Income before income taxes	1,418,949	390,060	2,465,677	971,265
Income taxes				
Deferred income tax expense	359,050	351,310	884,570	575,875
Net income and comprehensive income	\$ 1,059,899	\$ 38,750	\$ 1,581,107	\$ 395,390
Net income per share - basic and diluted	\$ 0.02	\$ 0.00	\$ 0.03	\$ 0.01

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	-	-	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
Balance December 31, 2012	\$ 21,685,273	\$ 1,355,056	\$ (7,447,692)	\$ 15,592,637
Net income	-	-	1,581,107	1,581,107
Share based compensation	-	34,116	-	34,116
Issued for cash - flow-through	1,504,500	-	-	1,504,500
Deferred flow-through share premium	(197,700)	-	-	(197,700)
Share issue costs, net of tax of \$26,720	(80,154)	-	-	(80,154)
Balance June 30, 2013	\$ 22,911,919	\$ 1,389,172	\$ (5,866,585)	\$ 18,434,506

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,	
	2013	2012	2013	2012
Cash provided by (used in):				
Operating activities:				
Net income	\$ 1,059,899	\$ 38,750	\$ 1,581,107	\$ 395,390
Adjustments for:				
Depletion and depreciation	653,605	546,318	1,155,895	1,148,356
Exploration and evaluation expense	27,658	-	491,172	-
Share based compensation	14,793	48,914	34,116	77,511
Finance expense	5,000	4,750	10,000	9,500
Deferred income tax expense	359,050	351,310	884,570	575,875
Unrealized loss on financial derivatives	4,073	-	4,073	-
Changes in non-cash working capital	(202,120)	218,771	(79,323)	55,882
	1,921,958	1,208,813	4,081,610	2,262,514
Financing activities:				
Proceeds on issue of shares, net of issue costs	1,397,626	-	1,397,626	-
Changes in non-cash working capital	10,399	-	(1,056)	(16,940)
	1,408,025	-	1,396,570	(16,940)
Investing activities:				
Exploration and evaluation asset additions	(1,463,651)	(360,313)	(3,565,212)	(1,180,537)
Property and equipment asset additions	(210,684)	(94,462)	(870,012)	(1,837,323)
Exploration and evaluation asset dispositions	-	25,000	-	105,000
Changes in non-cash working capital	(631,320)	(463,516)	(59,979)	(2,205,067)
	(2,305,655)	(893,291)	(4,495,203)	(5,117,927)
Change in cash and cash equivalents	1,024,328	315,522	982,977	(2,872,353)
Cash and cash equivalents, beginning of period	3,226,160	1,042,657	3,267,511	4,230,532
Cash and cash equivalents, end of period	\$ 4,250,488	\$ 1,358,179	\$ 4,250,488	\$ 1,358,179

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (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 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 August 13, 2013.

3. Exploration and evaluation assets

	Total
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	3,565,212
Transfers to property and equipment	(2,273,926)
Changes in decommissioning liabilities	136,000
Exploration and evaluation expense - unsuccessful exploration	(491,172)
Balance June 30, 2013	\$ 4,657,280

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, 2013 or 2012.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (Unaudited)

4. Property and equipment

Cost:	Oil and natural gas properties	Corporate	Total
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	864,963	5,049	870,012
Transfers from exploration and evaluation	2,273,926	-	2,273,926
Balance June 30, 2013	\$ 23,692,067	\$ 117,394	\$ 23,809,461

Accumulated depletion and depreciation:	Oil and natural gas properties	Corporate	Total
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	(1,147,345)	(8,550)	(1,155,895)
Balance June 30, 2013	\$ (10,904,433)	\$ (49,993)	\$ (10,954,426)

Net book value:	Oil and natural gas properties	Corporate	Total
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 June 30, 2013	\$ 12,787,634	\$ 67,401	\$ 12,855,035

The calculation of depletion and depreciation for the six months ended June 30, 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 six months ended June 30, 2013 and 2012.

5. Banking facility

The Company's bank facility as at June 30, 2013 consisted of a revolving operating loan facility (the "facility") with a Canadian bank. The facility is provided on a demand basis in the amount of \$5.0 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, 2014.

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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, 2013 the Company was in compliance with the financial covenant and no amount was owing under the facility. 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, 2011 and June 30, 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	47,087,911	\$ 21,685,273
Issued for cash - flow-through	2,420,000	1,504,500
Deferred flow-through share premium	-	(197,700)
Share issue costs, net of tax of \$26,720	-	(80,154)
Balance June 30, 2013	49,507,911	\$ 22,911,919

(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.

In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of \$1,504,500. Flow-through common shares eligible for Canadian exploration expenses were issued at \$0.67 per share (750,000 shares) and flow-through common shares eligible for Canadian development expenses were issued at \$0.60 per share (1,670,000 shares). The obligation remaining for this flow-through issue at June 30, 2013 was \$1,504,500.

(c) Per share amounts

Basic and diluted net income were calculated as follows:

	Six months ended June 30,	
	2013	2012
Net income for the period	\$ 1,581,107	\$ 395,390
Weighted average number of common shares outstanding - basic	47,266,925	42,209,911
Effect of outstanding options	336,879	653,603
Weighted average number of common shares outstanding - diluted	47,603,804	42,863,514
Net income per share - basic and diluted	\$ 0.03	\$ 0.01

TRAVERSE ENERGY LTD.
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FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012 (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, 2011	3,525,000	\$ 0.57
Granted	905,000	\$ 0.67
Balance December 31, 2012 and June 30, 2013	4,430,000	\$ 0.59

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 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	1.2	\$ 0.40	1,500,000	\$ 0.40
\$0.41 - \$0.60	1,630,000	3.0	\$ 0.59	1,563,333	\$ 0.59
\$0.61 - \$0.80	1,300,000	3.3	\$ 0.80	1,300,000	\$ 0.80
\$0.40 - \$0.80	4,430,000	2.5	\$ 0.59	4,363,333	\$ 0.59

7. 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 six months ended June 30, 2013, the aggregate value of transactions entered into between Traverse and these entities was approximately \$126,600 (2012 - \$219,300). Traverse had outstanding payables to the related parties of \$39,900 (2012 - \$17,400) and accounts receivable due to Traverse of \$100 at June 30, 2013 (2012 - \$4,400).

8. Financial risk management

The Company utilizes both financial derivatives and physical delivery sales contracts to manage commodity price risks. As of June 30, 2013 the Company held derivative commodity contracts as follows:

Type	Period	Volume	Price
Crude oil call option	Oct. 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.

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.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
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- 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 June 30, 2013 the fair value of the derivative commodity contracts was \$(4,073).

At June 30, 2013, a 10% increase in both the WTI price and the AECO natural gas price would have increased the unrealized loss on financial derivatives by approximately \$80,000. A decrease of 10% in both the WTI price and the AECO natural gas price would have resulted in a unrealized gain on financial derivatives of approximately \$50,000.