MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR SIX MONTHS ENDED

JUNE 30, 2013

This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated August 13, 2013 should be read in conjunction with the Company's unaudited interim financial statements as at and for the six months ended June 30, 2013 and the audited financial statements as at and for the year ended December 31, 2012. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2012, as disclosure which is unchanged from December 31, 2012 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”.

## Non-IFRS measures

*Funds from operations*

Funds from operations is a measure not defined in IFRS that is commonly used in the oil and gas industry. Funds from operations is calculated as cash provided by operating activities before non-cash working capital as detailed under the heading "Cash and funds from operations and net income". The Company believes that in addition to net income, funds from operations is a useful supplemental measure as it provides an indication of Traverse’s operating performance. Funds from operations should not be considered as an alternative to or more meaningful than cash provided by operating activities as determined in accordance with IFRS. Traverse's determination of funds from operations may not be comparable to that reported by other companies. Traverse also presents funds from operations per share whereby share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

*Operating netback*

Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback reflects petroleum and natural gas revenue, royalty income and realized gain on financial derivatives, less royalties, operating and transportation costs and is calculated on a per unit basis. Working interest netback is calculated as petroleum and natural gas revenue and realized gain on financial derivatives less royalties, operating and transportation costs and is calculated on a per unit basis. Royalty netback is royalty income and is calculated on a per unit basis. The calculation of Traverse's netbacks is detailed under the heading "Operating netback".

## 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 planned additional drilling at Turin, Coyote and east central Alberta; volatility in commodity markets impacting realized prices in 2013 and intentions for funding capital expenditures during 2013 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 June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **HIGHLIGHTS *(Unaudited)*** | **2013** | 2012 | **2013** | 2012 |
| Financial *($ thousands, except per share amounts)* | | | | |
| Petroleum and natural gas revenue | **2,015** | 739 | **3,479** | 1,718 |
| Royalty income | **1,023** | 691 | **2,320** | 1,540 |
| Cash provided by operations | **1,922** | 1,209 | **4,082** | 2,263 |
| Funds from operations (1) | **2,124** | 990 | **4,161** | 2,207 |
| Per share - basic and diluted | **0.04** | 0.02 | **0.09** | 0.05 |
| Net income | **1,060** | 39 | **1,581** | 395 |
| Per share - basic and diluted | **0.02** | 0.00 | **0.03** | 0.01 |
| Capital expenditures, net of dispositions | **1,674** | 430 | **4,435** | 2,913 |
| Total assets | **23,620** | 18,590 | **23,620** | 18,590 |
| Working capital | **4,202** | 1,826 | **4,202** | 1,826 |
| Common shares | | | | |
| Outstanding *(millions)* | **49.5** | 42.2 | **49.5** | 42.2 |
| Weighted average *(millions)* | **47.8** | 42.2 | **47.3** | 42.2 |
| Operations *(units as noted)* | | | | |
| Average production | | | | |
| Natural gas *(mcf/day)* | **1,638** | 702 | **1,524** | 699 |
| Oil and NGL *(bbls/day)* | **326** | 184 | **329** | 198 |
| Total (BOE/day) | **599** | 301 | **584** | 315 |
| Average sales price | | | | |
| Natural gas *($/mcf)* | **3.72** | 2.02 | **3.61** | 2.18 |
| Oil and NGL *($/bbl)* | **83.60** | 77.92 | **80.65** | 82.73 |
| Operating netback *($/BOE)* (2) | | | | |
| Petroleum and natural gas revenue | **49.75** | 48.16 | **47.63** | 50.33 |
| Realized gain on financial derivatives | **0.10** | 0.00 | **0.06** | 0.00 |
| Royalties | **3.65** | 0.85 | **3.58** | 2.43 |
| Operating costs | **12.73** | 11.65 | **11.36** | 12.82 |
| Transportation costs | **1.47** | 1.50 | **1.58** | 1.37 |
| Working interest netback | **32.00** | 34.16 | **31.17** | 33.71 |
| Royalty netback | **72.83** | 57.62 | **71.39** | 66.62 |
| Operating netback | **42.50** | 44.45 | **43.56** | 47.00 |

*(1) Funds from operations is calculated as cash provided by operating activities before changes in non-cash working capital. Funds from operations does not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other companies.*

*(2) Operating netback equals petroleum and natural gas revenue, royalty income and realized gain on financial derivatives, less royalties, operating and transportation costs and is calculated on a per unit basis. Working interest netback is calculated as petroleum and natural gas revenue and realized gain on financial derivatives, less royalties, operating and transportation costs and is calculated on a per unit basis. Royalty netback is royalty income and is calculated on a per unit basis. Operating netback, working interest netback and royalty netback do not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other companies.*

### Operations review

In the second quarter of 2013 Traverse participated in the drilling of 1 well in the Skiff area of southern Alberta resulting in a potential natural gas well. The Company has a 20% carried working interest in the well through completion. The well (100% interest) drilled at Coyote in March was completed as an oil well and placed on production in June after being pipeline connected to conserve solution gas. The Coyote well contributed 72 BOE/day to the second quarter production. This well has averaged over 200 barrels of oil per day since being placed on production. Other activities included the acquisition of seismic and the purchase of additional acreage in east central Alberta.

Subsequent to the second quarter, Traverse drilled an additional 4 wells (100% interest) in the Coyote area targeting oil prospects. One of these wells was drilled as an offset development well to the initial discovery well. The offset well is being completed as a potential oil well. The three other wells were drilled on recently acquired lands. These wells are currently being completed and tested.

In the Brazeau area of West Central Alberta, Traverse has a gross overriding royalty interest in 10 sections of land (6,400 acres). In the first half of 2013 a total of 19 horizontal Cardium wells were on production. Net production to the Company for the first six months of 2013 averaged 159 BOE per day with an oil and NGL component of 87%. Two additional wells have been drilled but were not on production as of June 30, 2013.

At June 30, 2013 undeveloped land holdings totalled 141,200 gross (138,700 net) acres with an average working interest of 98%. Additional drilling is planned at Turin, Coyote and on another Company owned property in east central Alberta. The Board of Directors has approved a total exploration and development program of $12.6 million for 2013.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **Production** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Average working interest production | | | | |
| Natural gas *(mcf/day)* | **1,410** | 439 | **1,297** | 512 |
| Crude oil *(bbls/day)* | **210** | 96 | **187** | 102 |
| Total *(BOE/day)* | **445** | 169 | **404** | 188 |
| Average royalty production | | | | |
| Natural gas *(mcf/day)* | **228** | 263 | **227** | 187 |
| Crude oil *(bbls/day)* | **116** | 88 | **142** | 96 |
| Total *(BOE/day)* | **154** | 132 | **180** | 127 |
| Total production | | | | |
| Natural gas *(mcf/day)* | **1,638** | 702 | **1,524** | 699 |
| Crude oil *(bbls/day)* | **326** | 184 | **329** | 198 |
| Total *(BOE/day)* | **599** | 301 | **584** | 315 |

Production increased 99% to 599 BOE per day in the second quarter of 2013 as compared to 301 BOE per day in the 2012 period. Working interest production increased as a result of drilling in late 2012 and 2013 at Turin and Coyote, partially offset by declines in production at Alliance and Carbon. Industry drilling on the Company's royalty lands at Brazeau resulted in new royalty volumes. Total Company production in the second quarter increased 6% compared to the first quarter of 2013 due to additional royalty production at Brazeau and new oil production at Coyote.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **Production by area (BOE/day)** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Alliance | **16** | 27 | **17** | 28 |
| Brazeau | **133** | 113 | **159** | 109 |
| Carbon | **18** | 36 | **19** | 45 |
| Coyote | **72** | - | **36** | - |
| Turin | **332** | 85 | **326** | 84 |
| Minor | **28** | 40 | **27** | 49 |
| **Total BOE per day** | **599** | 301 | **584** | 315 |
| % of BOE/day | | | | |
| Royalty | **26%** | 44% | **31%** | 40% |
| Working interest | **74%** | 56% | **69%** | 60% |

The Company's working interest production at Turin increased 291% to 332 BOE per day in the second quarter of 2013 compared to 85 BOE per day in the 2012 period. Drilling during 2012 at Turin resulted in new production from 3 gross (2.75 net) oil wells during the second half of the year.

The royalty proportion of the total Company production has decreased from 44% in the second quarter of 2012 to 26% in the second quarter of 2013 as the Company continues to add working interest production. Industry drilling on the Company's royalty lands at Brazeau resulted in new royalty volumes during the second half of 2012 and early 2013. Brazeau royalty volumes increased to 133 BOE per day in the 2013 period compared to 113 BOE per day in the second quarter of 2012 due to the additional drilling.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **Pricing** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Average sales price | | | | |
| Natural gas *($/mcf)* | **3.72** | 2.02 | **3.61** | 2.18 |
| Crude oil *($/bbl)* | **83.60** | 77.92 | **80.65** | 82.73 |
| Total *($/BOE)* | **55.69** | 54.15 | **54.95** | 56.91 |

The average BOE sales price received during the second quarter of 2013 increased slightly from the second quarter of 2012 although natural gas prices increased 84% and oil prices increased 7% over the same period. The Company's production mix in the second quarter of 2013 was approximately 54% oil which has declined from the comparable period (61%) due to the higher volumes of natural gas associated with the 2012 production additions at Turin.

Volatility in the commodity markets will continue to impact realized prices in 2013. At June 30, 2013 Traverse had two natural gas physical delivery contracts outstanding for 2013 averaging 800 GJ per day at $3.11 per GJ. In addition, the Company had the following derivative commodity contracts outstanding at June 30, 2013:

| 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. |

At June 30, 2013 the mark-to-market value of these contracts totaled $(4,073).

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **Petroleum and natural gas revenue ($)** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Revenue by source | | | | |
| Working interest production | **2,015,190** | 738,991 | **3,478,922** | 1,717,748 |
| Royalty interest production | **1,022,516** | 691,394 | **2,319,881** | 1,540,495 |
| Total | **3,037,706** | 1,430,385 | **5,798,803** | 3,258,243 |
| Revenue by commodity | | | | |
| Oil | **2,483,989** | 1,301,325 | **4,803,851** | 2,981,364 |
| Natural gas | **553,717** | 129,060 | **994,952** | 276,879 |
| Total | **3,037,706** | 1,430,385 | **5,798,803** | 3,258,243 |

Revenue in the second quarter of 2013 increased 112% compared to the second quarter of 2012 due to increased production volumes. Revenue in the second quarter of 2013 increased 10% from the first quarter of 2013 due to increasing production and commodity prices.

**Operating netbacks**

The Company's operating netback is presented in two components - the working interest netback and the royalty 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, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Petroleum and natural gas revenue | **49.75** | 48.16 | **47.63** | 50.33 |
| Realized gain on financial derivatives | **0.10** | - | **0.06** | - |
| Royalties | **3.65** | 0.85 | **3.58** | 2.43 |
| Operating | **12.73** | 11.65 | **11.36** | 12.82 |
| Transportation | **1.47** | 1.50 | **1.58** | 1.37 |
| Working interest netback | **32.00** | 34.16 | **31.17** | 33.71 |
| Royalty netback | **72.83** | 57.62 | **71.39** | 66.62 |
| Operating netback | **42.50** | 44.45 | **43.56** | 47.00 |

The working interest netback has declined from $34.16 per BOE in the second quarter of 2012 to $32.00 per BOE in the 2013 period due mainly to increased royalties and operating costs. Prices per BOE increased due to increases in both the realized natural gas and oil prices. The increase in the BOE price of 3% was less than the individual commodity increases due to an increase in the proportion of natural gas production volumes. Working interest natural gas production increased from 43% of production in the second quarter of 2012 to 53% in the 2013 period due to increased natural gas production at Turin.

Royalties per BOE have increased in the second quarter of 2013 compared to the second quarter of 2012 due to a gas royalty adjustment in the 2012 period and the expiry of the new well royalty rate. Operating costs per BOE have increased 9% since the second quarter of 2012.

The royalty income netback has increased from $57.62 per BOE in the second quarter of 2013 to $72.83 per BOE in the 2013 period as a result of an increasing oil production and oil prices. In the second quarter of 2012, royalty production was 132 BOE per day (67% oil). In the second quarter of 2013 royalty production increased to 154 BOE per day (75% oil).

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **Operating netback ($)** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Petroleum and natural gas revenue | **2,015,190** | 738,991 | **3,478,922** | 1,717,748 |
| Realized gain on financial derivatives | **4,141** | - | **4,141** | - |
| Royalties | **148,038** | 13,054 | **261,135** | 82,957 |
| Operating | **515,725** | 178,838 | **829,258** | 437,516 |
| Transportation | **59,620** | 23,027 | **115,160** | 46,641 |
| Working interest netback | **1,295,948** | 524,072 | **2,277,510** | 1,150,634 |
| Royalty netback | **1,022,516** | 691,394 | **2,319,881** | 1,540,495 |
| Operating netback | **2,318,464** | 1,215,466 | **4,597,391** | 2,691,129 |

The operating netback in the second quarter of 2013 increased 91% to $2.3 million compared to $1.2 million in the 2012 second quarter due mainly to increased oil production. On a per unit basis, the operating netback decreased 4% to $42.50 per BOE in the 2013 second quarter compared to $44.45 per BOE in the second quarter of 2012 due mainly to an increasing proportion of natural gas in the production mix. The operating netback per BOE decreased 5% from the first quarter of 2013 due to increasing royalties and operating costs.

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **General and administrative ($)** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| General and administrative costs - gross | **231,629** | 239,799 | **537,029** | 550,759 |
| Operator recoveries | **32,704** | 12,827 | **91,382** | 60,707 |
| General and administrative costs - net | **198,925** | 226,972 | **445,647** | 490,052 |
| Per BOE | **3.65** | 8.30 | **4.22** | 8.56 |

Net general and administrative costs decreased slightly in the second quarter of 2013 compared to the second quarter of 2012. These costs have declined on a BOE basis due to increasing production. Net general and administrative costs on a BOE basis have decreased in the second quarter of 2013 compared to the first quarter of 2013 as gross general and administrative expenses are higher in the first quarter due to the cost of the annual financial statement audit and the external engineering report prepared for the year end.

**Share based compensation**

Share based compensation expense of $14,793 (2012 - $48,914) relates to the vesting of options granted late in 2012. No stock options have been granted or exercised during 2013.

**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 first half of 2013, E&E expenses of $491,172 were recorded mainly due to the drilling of 1 unsuccessful well at Turin in the first quarter.

**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 $481,000 at June 30, 2013 (2012 - $317,000) and excluded $419,000 (2012 - $347,000) for estimated salvage values. The majority of future development costs at June 30, 2013 relate to the tie-in of standing natural gas wells at Turin.

Depletion and depreciation expense was $11.98 per BOE in the second quarter of 2013 compared to $19.98 per BOE in the second quarter of 2012. Depletion has decreased on a BOE basis as a result of lower cost reserves additions at Turin in 2012 and the 2012 year end impairment charge related to the Alliance, Carbon and Long Coulee areas.

### Finance income and costs

Finance income consists of interest earned on cash balances during the year. Finance income increased in 2013 from 2012 due to an increase in the average daily cash balance. Finance expense is composed of the accretion of decommissioning liabilities.

### Income taxes

A deferred income tax expense of $359,050 has been recorded in the second quarter of 2013 (2012 - $351,310) composed of deferred income tax on income. In the second quarter of 2012 deferred income tax relating to flow-through expenditures of $241,570 was also recorded. 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.

At June 30, 2013 the Company's tax pools available for deduction against future taxable income are estimated at $8.7 million. The Company was not taxable on a current basis in 2012. The Company may be taxable on a current basis in 2013 depending on the level and type of capital expenditures as well as the results of such expenditures.

### Cash and funds from operations and net income

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ***($)*** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Cash provided by operating activities | **1,921,958** | 1,208,813 | **4,081,610** | 2,262,514 |
| Change in non-cash working capital | **202,120** | (218,771) | **79,323** | (55,882) |
| Funds from operations | **2,124,078** | 990,042 | **4,160,933** | 2,206,632 |
| Per share basic and diluted | **0.04** | 0.02 | **0.09** | 0.05 |
| Net income | **1,059,899** | 38,750 | **1,581,107** | 395,390 |
| Per share basic and diluted | **0.02** | 0.00 | **0.03** | 0.01 |

Funds from operations increased 115% to approximately $2.1 million in the second quarter of 2013 compared to $1.0 million in the second quarter of 2012 due to increased production at Turin and Brazeau. Funds from operations for the first half of 2013 increased 89% from the 2012 comparable period. Increased funds from operations translated into increased net income for the 2013 periods as compared to 2012.

### Capital expenditures

The Company incurred $1.7 million in expenditures in the second quarter of 2013 mainly related to land and seismic acquisition and the completion and tie in of the Coyote well (100% working interest).

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| ***($)*** | **June 30, 2013** | June 30, 2012 | **June 30, 2013** | June 30, 2012 |
| Land acquisition and rentals | **164,238** | 99,745 | **234,706** | 300,915 |
| Geological and geophysical | **274,092** | 93,024 | **538,189** | 717,603 |
| Drilling and completions | **513,133** | 210,825 | **2,687,849** | 305,744 |
| Equipping and facilities | **719,562** | 51,181 | **969,431** | 1,689,378 |
| Exploration and development capital | **1,671,025** | 454,775 | **4,430,175** | 3,013,640 |
| Corporate assets | **3,310** | - | **5,049** | 4,220 |
| Net property dispositions | **-** | 25,000 | **-** | 105,000 |
| Net capital expenditures | **1,674,335** | 429,775 | **4,435,224** | 2,912,860 |

**Liquidity and capital resources**

At June 30, 2013 Traverse had working capital of approximately $4.2 million, no debt outstanding and an unutilized credit facility of $5 million. The Company's Board of Directors has approved a $12.6 million exploration and development program for 2013. The Company intends to fund capital expenditures and commitments during 2013 with a combination of cash flow and working capital. New equity issues and debt may be used to expand future capital expenditures where appropriate.

As at August 13, 2013 total common shares outstanding are 49,507,911 and total common share options outstanding are 4,430,000. During 2012 the Company completed two private placements for a total of 4,878,000 flow-though common shares for gross proceeds of approximately $3.2 million as detailed in the notes to the audited financial statements. In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of approximately $1.5 million as detailed in the notes to the interim financial statements. The weighted average number of shares outstanding during 2013 increased due to these private placements.

**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).

**Commitments**

The Company has entered into a lease commitment for office space. The term of the lease is 10 years commencing November 1, 2011. The annual payments under this commitment are as disclosed in the notes to the audited financial statements.

In June 2013 the Company issued flow-through common shares for gross proceeds of $1,504,500. The obligation remaining for this flow-through issue was $1,504,500 at June 30, 2013.

**Summary of quarterly results**
*($ thousands, except per share amounts)*
*(Unaudited)*

| Quarter ended | **June 30 2013** | March 31 2013 | December 31 2012 | September 30 2012 |
|---|---|---|---|---|
| Petroleum and natural gas revenue | **2,015** | 1,464 | 1,588 | 1,294 |
| Royalty income | **1,023** | 1,297 | 964 | 818 |
| Cash provided by operating activities | **1,922** | 2,160 | 1,815 | 1,132 |
| Funds from operations | **2,124** | 2,037 | 1,779 | 1,602 |
| Per share - basic and diluted | **0.04** | 0.04 | 0.04 | 0.04 |
| Net income (loss) | **1,060** | 521 | (3,255) | 32 |
| Per share - basic and diluted | **0.02** | 0.01 | (0.07) | 0.00 |
| Working capital | **4,202** | 2,359 | 3,083 | 1,727 |
| Shareholders' equity | **18,435** | 16,133 | 15,593 | 17,136 |
| Production *(BOE/day)* | **599** | 566 | 545 | 444 |
| Capital expenditures, net of dispositions | **1,674** | 2,761 | 2,158 | 3,041 |

| Quarter ended | June 30 2012 | March 31 2012 | December 31 2011 | September 30 2011 |
|---|---|---|---|---|
| Petroleum and natural gas revenue | 739 | 979 | 1,035 | 945 |
| Royalty income | 691 | 849 | 534 | 160 |
| Cash provided by operating activities | 1,209 | 1,054 | 814 | 599 |
| Funds from operations | 990 | 1,217 | 936 | 600 |
| Per share - basic and diluted | 0.02 | 0.03 | 0.02 | 0.02 |
| Net 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 | 2,078 |
| Shareholders' equity | 15,848 | 15,761 | 15,375 | 13,411 |
| Production *(BOE/day)* | 301 | 329 | 243 | 202 |
| Capital expenditures, net of dispositions | 430 | 2,483 | 3,279 | 2,836 |

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 increased as a result of the tie in of a well at Carbon and additional royalty volumes. Production gains resulted in increased revenue although the average BOE sales prices declined due to decreases in both crude oil and natural gas prices from the last quarter of 2011. 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 no new production was added and commodity prices continued to decline resulting in a decrease of revenue compared to the first quarter. Capital expenditures during the second quarter consisted of seismic processing and pre drill expenditures incurred for the third quarter drilling program.

In the third quarter of 2012 the Company drilled 5 gross (4.5 net) wells at Turin resulting in new production from 2 gross (1.75 net) oil wells and additional production commenced at the Brazeau royalty property. Revenue increased as a result of increased production. Average sales prices received during the third quarter were similar to the second quarter although the average BOE sales prices declined slightly due to an increase in the proportion of gas production. Net income was reduced in the third quarter by exploration and evaluation expense related to a dry hole in the Turin area.

In the fourth quarter of 2012 production volumes increased as a result of a new oil well at Turin and the commencement of production from an additional 5 royalty wells in December. Gas prices improved in the fourth quarter but crude oil prices declined resulting in a small decrease in the average BOE sales price. A net loss was realized in the fourth quarter due to exploration and evaluation expense related to a dry hole at Turin, limitations on recoverable amounts for the two natural gas wells drilled at Turin, pending land expiries and an impairment of the recoverable amounts for the wells at Alliance, Carbon and Long Coulee due to reserve revisions.

In the first quarter of 2013 production volumes increased as a result of the additional royalty production added in December. No new working interest production was added. Commodity prices improved and operating costs declined resulting in an increase in funds from operations. Three wells were drilled in the first quarter of 2013 resulting in two potential wells and one dry hole which was expensed during the quarter.

In the second quarter of 2013 production volumes increased as a result of a new oil well at Coyote. Commodity prices improved resulting in an increase in funds from operations. One well was completed and tied in during the quarter and additional land and seismic was acquired.

### 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 of 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.