MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE NINE MONTHS ENDED

SEPTEMBER 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) dated November 10, 2010 should be read in conjunction with the unaudited financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the nine months ended September 30, 2010. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all figures provided herein and in the September 30, 2010 financial statements are reported in Canadian dollars. Additional information relating to Traverse, including Traverse's Annual Information Form, is available on SEDAR at www.sedar.com.

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

Where amounts are expressed on a barrel of oil equivalent basis (BOE), natural gas volumes have been converted to BOE using a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. BOE figures may be misleading, particularly if used in isolation.

Forward-looking Information

This MD&A contains forward-looking information. Forward-looking information is based upon the opinions, expectations and estimates of management as at the date the information is provided and, in some cases, information received from or disseminated by third parties. In particular, the Company's statements with respect to facilities expansion at Turin; expected production at Turin and Long Coulee; planned drilling at Carbon and Turin for the remainder of 2010; volatility in the commodity markets impacting realized prices in 2010; expected decreasing operating costs on new oil production at Turin; expected declines in general and administrative costs due to new production in 2010 and intentions for funding capital expenditures contain forward-looking information. This forward-looking information is subject to a variety of substantial known and unknown risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking information. The Company's Annual Information Form filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describes the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

HIGHLIGHTS

(unaudited)	Three months ended				Nine months ended			
	Sept. 30, 2010		Sept. 30, 2009		**Sept. 30, 2010**		Sept. 30, 2009	
Financial *($ thousands, except per share amounts)*								
Revenue	**$**	**331**	$	120	**$**	**951**	$	401
Net loss		**(461)**		(515)		**(915)**		(545)
Per share – basic and diluted		**(0.02)**		(0.02)		**(0.03)**		(0.03)
Funds flow from operations*		**86**		31		**159**		156
Net capital expenditures		**1,314**		259		**4,401**		500
Total assets		**12,503**		7,918		**12,503**		7,918
Shareholders' equity		**10,633**		7,061		**10,633**		7,061
Working capital		**3,045**		4,089		**3,045**		4,089
Common shares								
Outstanding *(millions)*		**29.4**		20.9		**29.4**		20.9
Weighted average *(millions)*		**29.4**		20.9		**26.5**		16.2
Operations *(Units as noted)*								
Production *(BOE/d)*		**103**		47		**90**		48
Natural gas *(Mcf per day)*		**419**		228		**352**		238
Oil and NGL *(bbls per day)*		**33**		9		**31**		8
Average sale price								
Natural gas *($/Mcf)*		**3.55**		3.09		**3.98**		4.05
Oil and NGL *($/bbl)*		**67.93**		62.11		**70.89**		55.37

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

Operations Review

All of the Company's oil and gas properties are located in Alberta. During the third quarter, Traverse participated in the drilling of 2 gross (1.5 net) oil wells in the Turin area and expanded its infrastructure. This expansion included pipelining existing wells into a central battery site and adding capacity for incremental wells. The facilities expansion will provide for a more efficient tie in and resulting production from new wells. In the Manyberries area the Company re-entered an existing wellbore to test a potential natural gas zone. The well tested at a low natural gas rate and will be abandoned. Undeveloped land holdings at September 30, 2010 totaled 169,000 gross (160,000 net) acres.

Subsequent to the third quarter, Traverse drilled a 100% working interest oil well in the Long Coulee area. The well was placed on production November 9, 2010 and is expected to produce at the allowable rate of 125 BOE/day. In early November Traverse spudded a 2,200 meter horizontal well at Manyberries targeting Jurassic oil. New production from the wells at Turin and Long Coulee are expected to increase average company production to approximately 250 BOE per day. Oil production will now represent over 70% of Traverse's production.

Traverse's 2010 drilling program to date includes 8 gross (6.9 net) wells. This has resulted in 3.9 net oil wells, 1 net natural gas well, 1 potential natural gas well and 2 dry holes. Traverse will continue to focus on oil and liquids rich natural gas targets. Traverse is also evaluating its existing lands for potential oil prospects on the developing Southern Alberta Bakken play. Traverse's drilling plans for the remainder of 2010 include a 100% working interest well to be drilled at Carbon on a gas/oil prospect and 2 wells (1.75 net) to be drilled at Turin.

Revenue and Production
(unaudited)

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2010	2009	2010	2009
Petroleum and natural gas revenue				
Production income	$279,330	$29,993	$708,022	$ 87,090
Royalty income	67,020	87,391	274,485	303,777
Total	$346,350	$117,384	$982,507	$390,867
Average production (including royalty interests)				
Natural gas *(Mcf per day)*	419	228	352	238
Crude oil *(bbls per day)*	33	9	31	8
Total *(BOE per day)*	103	47	90	48
Average sales price				
Natural gas *($ per Mcf)*	$3.55	$3.09	$3.98	$4.05
Crude oil *($ per bbl)*	$67.93	$62.11	$70.89	$55.37
Total *($ per BOE)*	$36.41	$27.15	$40.15	$30.04

Petroleum and natural gas revenue increased in 2010 due to new production volumes from drilling operations offset by lower commodity prices. Production volumes increased to 103 BOE per day in the third quarter of 2010 from 47 BOE per day in the comparable period of 2009. New production volumes were added during the first quarter of 2010 however the impact of this new production has been reduced by declining production in the royalty income areas. Increases in production from purchases during the second quarter were offset by the sale of royalty production at the beginning of the third quarter. No additional new volumes were added during the third quarter as the results of drilling activities will not produce until the fourth quarter. The Company's revenue sources have shifted in 2010 to production income compared to 2009 when the main revenue source was natural gas royalty income. Production from the new areas contributed 57% of the daily production in the first nine months of 2010.

The average sales price received during the third quarter of 2010 decreased 4% from the second quarter of the year and 26% from the first quarter of 2010. Average sales prices for natural gas decreased 7% from the second quarter and crude oil prices declined 3%. Production for the first nine months of 2010 is composed of 65% natural gas and 35% crude oil. In 2009, the majority of the Company's production was natural gas. Volatility in the commodity markets will continue to impact realized prices in 2010. Traverse currently has no risk management program in place for commodity prices due to the small volumes of production. The combined increase in production volumes and decreased commodity prices increased petroleum and natural gas revenue to $346,350 for the three months ended September 30, 2010 compared to $117,384 in the comparative period and $344,811 in the second quarter of 2010.

Royalties and Operating Expenses

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

Operating expenses increased from $34,646 in the 2009 period to $123,498 in the third quarter of 2010 consistent with the increase in volumes produced from working interest properties. On a unit basis, operating costs increased from $8.01 per BOE in the 2009 period to $12.98 per BOE in the third quarter of 2010. Operating costs on the new oil production at Turin are expected to decline as additional wells are drilled and infrastructure is expanded. Transportation costs increased in 2010 mainly due to the increased volumes of crude oil and natural gas transported during the period.

General and Administrative and Stock Based Compensation

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2010	2009	2010	2009
General and administrative	$153,847	$139,088	$549,106	$276,597
Stock based compensation	240,722	420,000	326,367	420,000
Recoveries	(50,859)	-	(108,711)	-
Net general and administrative	$343,710	$559,088	$766,762	$696,597

General and administrative expenses, which includes stock based compensation, decreased to $343,710 in the third quarter compared to $559,088 in the comparable period of 2009. General and administrative expenses, before overhead recovered as operator, increased to $153,847 from $139,088 in the comparable period. This increase is due to the change in Company operations to an active exploration and production company. These changes included additional office space, new accounting, land and seismic systems and related personnel. On a BOE basis, general and administrative expenses net of overhead recoveries but before stock based compensation, have decreased from $21.26 in the first nine months of 2009 to $18.00 during the comparable period of 2010. The addition of new production in 2010 should continue to decrease general and administrative expenses on a BOE basis in the future.

Compensation expense of $240,722 in the third quarter of 2010 relates to the vesting of options granted to consultants in the fall of 2009 and a new grant of options to directors, officers and consultants in September 2010. Compensation expense associated with the stock option plan is recognized over the vesting period of the options and is based on the estimated fair value of the options at the date of grant.

Depletion, Depreciation and Accretion (DD&A)

Traverse recorded $386,525 (2009 - $99,501) in depletion and depreciation of capital assets and accretion of asset retirement obligations in the third quarter of 2010. On a BOE basis, the DD&A rate of $40.64 per BOE in the third quarter was similar to the second quarter rate of $40.99. The DD&A rate in the third quarter of 2009 was $23.01 per BOE. Depletion and depreciations has increased due to increases in the depletable base with lower associated proved reserve additions.

At September 30, 2010 the calculation of depletion expense excluded undeveloped land and expenditures on unproved properties of $3,580,000 (2009 - $2,270,000) and included future development costs of $425,000 (2009 - $nil) related to proved developed non-producing reserves. The excluded amounts will be added to the costs subject to depletion as proved reserves are assigned or as the property's value is assessed to be impaired. Accretion expense has increased over the comparable period due mainly to new asset retirement obligations incurred as a result of the drilling program.

Income Taxes and Net Loss

Third quarter operations in 2010 generated a net loss before income taxes of $540,875 compared to a net loss before income taxes of $575,808 in the 2009 period. Production income increases in 2010 have been offset by increased general and administrative and depletion expenses. As a result of the loss in both the current and prior periods, recoveries of future income taxes have been recorded.

Shareholders' Equity

As at November 10, 2010 total common shares outstanding are 29,353,333 and total common share options outstanding are 2,625,000. The weighted average number of shares outstanding increased to 29,353,333 during the third quarter of 2010 (20,950,000 in 2009) as a result of the private placements completed in 2009 and 2010.

In June 2010 the Company completed a private placement of 2,135,000 units at a price of $1.30 per unit for gross proceeds of $2,775,500. Each unit consisted of one common share at $0.60 and one flow-through common share at $0.70. As a result, the Company must incur qualifying resource expenditures of approximately $1.5 million before December 31, 2011. At September 30, 2010 approximately $1.2 million of qualifying resource expenditures have been incurred.

Funds Flow from Operations

Funds flow from operations increased to approximately $86,000 in the 2010 period compared to $31,000 in the 2009 period due mainly to increased net production revenue.

Liquidity and Capital Resources

During the third quarter of 2010 the Company incurred approximately $2,135,000 of capital expenditures. These expenditures were incurred in the following categories: 19% land acquisition and retention, 6% geological and geophysical, 62% drilling and completion operations and 13% on facilities. The Company also sold a royalty interest property during the quarter, as well as undeveloped land, for proceeds of approximately $822,000. Capital expenditures were financed through the existing working capital.

At September 30, 2010 the Company had working capital of approximately $3.0 million and no debt outstanding. The Company intends to fund capital expenditures during 2010 with a combination of cash flow and working capital. New equity issues and debt may be utilized to expand future capital expenditures where appropriate.

Related Party Transactions

Equity transactions

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

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

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

Common management and directors

During the first nine months of 2010, office expenses of approximately $154,000 (2009 - $60,800) were paid to a company controlled by two directors of the Company. These transactions were in the normal course of business and are on terms that are consistent with parties dealing at arm's length. At September 30, 2010 an amount of $107,000 (2009 - $122,000), representing prepaid rent and security deposit, are included within prepaids and deposits.

Certain directors of Traverse are also the directors or management of other entities that participate in joint operations with the Company. All transactions were completed on an arm's length basis consistent with normal industry terms. During the nine months ended September 30, 2010, the aggregate value of transactions entered into between Traverse and these entities was approximately $1,477,200 (2009 - $nil). Traverse had outstanding payables to the related parties of $48,900 (2009 - $nil) and accounts receivable due to Traverse of approximately $157,100 at September 30, 2010 (2009 - $nil).

During the first nine months of 2009, management fees of $54,000 were paid to a company controlled by a director of the Company. The fees related to the administration and overall operations of the Company. These transactions were in the normal course of business and are measured at the exchange amount.

Legal services

During the first nine months of 2010, the Company incurred approximately $36,000 (2009 - $27,400) in legal services and disbursements with a legal firm in which a director of Traverse is a partner. These transactions were in the normal course of business and are measured at the exchange amount. At September 30, 2010 accounts payable and accrued liabilities include $4,600 (2009 - $9,600) to the legal firm.

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

Quarter Ended	Sept. 30, 2010	Jun. 30, 2010	Mar. 31, 2010	Dec. 31, 2009
Revenue	$331	$333	$291	$156
Net loss	(461)	(309)	(145)	(178)
Per share – basic & diluted	(0.02)	(0.01)	(0.01)	(0.01)
Working capital	3,045	4,274	2,243	4,546
Shareholders' equity	10,633	10,855	8,351	8,718
Production (BOE/d)	103	100	66	48

Quarter Ended	Sept. 30, 2009	Jun. 30, 2009	Mar. 31, 2009	Dec. 31, 2008
Revenue	$117	$97	$177	$249
Net income (loss)	(515)	(24)	(6)	(5)
Per share – basic & diluted	(0.02)	0.00	0.00	0.00
Working capital	4,089	4,329	2,505	2,501
Shareholders' equity	7,061	7,164	5,300	5,236
Production (BOE/d)	47	43	54	59

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

Business Environment and Risk

The business risks to which the Company is exposed are those inherent in the oil and gas industry as well as those governed by the individual nature of Traverse's operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of new reserves, commodity prices, interest rate and foreign exchange risks, competition and government regulations – all of these govern the business and influence the controls and management at the Company.

Traverse manages these risks by attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company, operating properties in order to maximize opportunities, maintaining a strong financial position and maintaining strict environmental, safety and health practices.

Change in Accounting Policies

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

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

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

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

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

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

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

Asset retirement obligations

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

Stock based compensation

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

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