Traverse Energy Ltd.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## AS AT AND FOR THE NINE MONTHS ENDED

## SEPTEMBER 30, 2011

This management's discussion and analysis ("MD&A") dated November 22, 2011 should be read in conjunction with the unaudited interim financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the nine months ended September 30, 2011 and the audited financial statements and related notes for the year ended December 31, 2010. The interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Previously the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("previous GAAP"). The adoption of IFRS has not had an impact on the Company's operations, strategic decisions or cash flow from operations before changes in non-cash working capital. The reporting and measurement currency of Traverse is the Canadian dollar. 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 a Calgary based resource company engaged in the exploration for, and the development and production of natural gas, natural gas liquids and crude oil in Western Canada. The common shares of Traverse trade on the TSX Venture Exchange under the symbol “TVL”. In June 2009 the Company changed its name to Traverse (previously Firstland Energy Limited) and began operations under a new management group.

**Non-IFRS measures**

The MD&A contains terms that are not considered measures under IFRS, such as funds flow from operations and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and stakeholders. The reconciliation between cash flow from operations and funds flow from operations can be found in the statement of cash flows in the financial statements with funds flow from operations calculated before non-cash working capital and decommissioning expenditures. Management believes that in addition to net loss, funds flow from operations is a useful supplemental measure as it provides an indication of Traverse’s operating performance. Operating netback reflects petroleum and natural gas revenues less royalties, operating and transportation costs and is calculated on a per unit basis. Investors should be cautioned, however, that these measures may not be comparable to measures reported by other companies nor should they be construed as an alternative to cash flow from operations or other measures of financial performance calculated in accordance with IFRS.

**BOE presentation**

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

**Forward-looking information**

This MD&A contains forward-looking information. Forward-looking information is based upon the opinions, expectations and estimates of management as at the date the information is provided and, in some cases, information received from or disseminated by third parties. In particular, the Company’s statements with respect to a planned facility expansion at Turin, seismic activities for 2012, scheduled follow-up drilling in the Turin area, production rates and recoverable reserves from Pekisko horizontal wells being projected to be much more economic, projected horizontal drilling in the Carbon area, volatility in commodity markets impacting realized prices in 2011, increasing royalty rates on existing production, the range of operating costs, and intentions for funding capital expenditures during the remainder of 2011 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.

| **HIGHLIGHTS** | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| *(unaudited)* | **Sept. 30, 2011** | **Sept. 30, 2010** | **Sept. 30, 2011** | **Sept. 30, 2010** |
| Financial *($ thousands, except per share amounts)* | | | | |
| Petroleum and natural gas revenue | **1,105** | 346 | **2,991** | 983 |
| Funds flow from operations * | **600** | 86 | **1,463** | 159 |
| Per share - basic and diluted | **0.02** | 0.00 | **0.04** | 0.00 |
| Cash flow from operations | **599** | (15) | **1,544** | 243 |
| (including changes in working capital) | | | | |
| Per share - basic and diluted | **0.02** | 0.00 | **0.04** | 0.01 |
| Net loss | **(1,079)** | (478) | **(1,238)** | (826) |
| Per share - basic and diluted | **(0.03)** | (0.02) | **(0.04)** | (0.03) |
| Capital expenditures, net of dispositions | **2,836** | 1,314 | **7,129** | 4,401 |
| Total assets | **17,096** | 12,191 | **17,096** | 12,191 |
| Working capital | **2,078** | 3,045 | **2,078** | 3,045 |
| Common shares | | | | |
| Outstanding *(millions)* | **38.5** | 29.4 | **38.5** | 29.4 |
| Weighted average *(millions)* | **38.5** | 29.4 | **35.2** | 26.5 |
| Operations *(units as noted)* | | | | |
| Average production | | | | |
| Natural gas *(mcf/day)* | **452** | 419 | **418** | 352 |
| Oil and NGL *(bbls/day)* | **126** | 33 | **112** | 31 |
| Total (BOE/day) | **202** | 103 | **181** | 90 |
| Average sales price | | | | |
| Natural gas *($/mcf)* | **3.99** | 3.55 | **4.00** | 3.98 |
| Oil and NGL *($/bbl)* | **80.76** | 67.93 | **83.21** | 70.89 |
| Netback per BOE *($/BOE)* | | | | |
| Petroleum and natural gas revenue | **59.52** | 36.41 | **60.45** | 40.15 |
| Royalties | **3.09** | 2.30 | **3.43** | 1.75 |
| Operating | **16.85** | 12.98 | **13.81** | 12.81 |
| Transportation | **1.70** | 1.94 | **1.82** | 1.53 |
| Operating netback | **37.88** | 19.19 | **41.39** | 24.06 |

** Management uses funds flow from operations (before changes in non-cash working capital and decommissioning expenditures) to analyze operating performance. Funds flow from operations does not have any standardized meaning prescribed by IFRS 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. The Company is focusing on its' existing medium and light oil properties located in central and southern Alberta. At September 30, 2011 undeveloped land holdings totalled 159,100 gross (155,700 net) acres with an average working interest of 97.8%.

During the third quarter Traverse completed the drilling of 2 gross (2 net) wells on the Company's Turin Property. Both wells were cased for potential oil production from several zones. These wells are currently being evaluated for production and potential tie in to Traverse's existing facilities. These facilities may have to be expanded to handle increased oil and water production. The Company's existing wells in the Turin area produce medium quality oil, minor associated sour natural gas and water. Other activities at Turin included the testing and conversion of an existing well for water injection and an application to the ERCB for approval to dispose of water in the converted well. The natural gas production capabilities were expanded by the addition of a larger chemical sweetening unit to treat the associated sour gas produced with the oil. This expansion is designed to handle all future drilling in the Turin area. Traverse's land holdings in the area total 7,600 gross (7,200 net) acres. The majority of recently acquired land in the area is exploratory and will require further evaluation. Seismic surveys (2D and 3D) are planned to assist in the exploration and development of the area. The seismic will be shot during frozen ground conditions, likely during the first quarter of 2012. Several exploratory wells are expected to be scheduled following the acquisition and interpretation of the additional seismic data.

In the Alliance area, Traverse drilled one horizontal well (0.93 net) targeting Viking oil in June. A 1,075 meter horizontal leg was drilled, completed and tied-in. The well was placed on production in early August with initial rates of 50 BOE/d (90% oil). The well continues to produce at a rate of approximately 45 BOE/d (75% oil). An application has been submitted to the ERCB to allow for an additional well to be drilled on the 320 acre spacing unit.

At Carbon Traverse recently placed a 100% working interest vertical Pekisko oil well on production. This well is producing at low oil rates with associated natural gas. The well confirms the existence of oil within the Pekisko zone which appears to be uneconomic in vertical wells. Production rates and recoverable reserves from Pekisko horizontal wells are projected to be much more economic. Other operators have been drilling horizontal Pekisko wells in nearby areas. Traverse recently spudded its' first horizontal well targeting Pekisko oil. This well is projected to drill a 1,000 meter horizontal section in the Pekisko formation and is the first horizontal in the area to be drilled by Traverse. Traverse's land holdings in the Carbon area total 9,500 acres at a 100% working interest.

In the Brazeau area of West Central Alberta, an industry partner commenced production in September from three horizontal wells in which the Company has a gross overriding royalty interest. Traverse's royalty is 5 to 10 percent on oil, dependent on production rates, and 10 percent on natural gas and liquids in 10 sections (6,400 acres). The operator has recently drilled one additional well and has licensed several more wells on the Traverse lands. Initial results appear to be encouraging.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **Sept. 30** | Sept. 30 | **Sept. 30** | Sept. 30 |
| **Production** | **2011** | 2010 | **2011** | 2010 |
| Average production (including royalty interests) | | | | |
| Natural gas *(mcf/day)* | 452 | 419 | 418 | 352 |
| Crude oil *(bbls/day)* | 126 | 33 | 112 | 31 |
| Total *(BOE/day)* | 202 | 103 | 181 | 90 |
| Average production by quarter *(BOE/d)* | | | | |
| Royalty production | 33 | 27 | 27 | 30 |
| Turin | 78 | 32 | 56 | 24 |
| Little Bow | 8 | 12 | 10 | 9 |
| Warwick | 13 | 26 | 11 | 19 |
| Long Coulee | 39 | - | 64 | - |
| Provost | 27 | - | 9 | - |
| Other | 4 | 6 | 4 | 8 |
| | 202 | 103 | 181 | 90 |
| % of BOE/d | | | | |
| Royalty | 16% | 26% | 15% | 33% |
| Working interest | 84% | 74% | 85% | 67% |

Production increased 96% to 202 BOE per day in the third quarter of 2011 as compared to the 2010 period. The increased production is due to new production at Turin, Long Coulee and Provost. Production increased 30% compared to the second quarter of 2011 (155 BOE/d) due to new production at Turin, Provost and Brazeau.

Prior to 2010, the Company's production consisted mainly of natural gas royalty income. The contribution of royalty production to total production has decreased from 26% in the third quarter of 2010 to 16% in the third quarter of 2011 due mainly to the Company's drilling activities. No new royalty production was added in 2010 or within the first six months of 2011. During the third quarter of 2011, new royalty production was added from three wells in the Brazeau area increasing royalty income production to 33 BOE/d in the 2011 period from 27 BOE/d in the 2010 period.

In January 2011 the Company completed the disposition of a small, non-operated oil property consisting of 5 gross (1.2 net) oil wells for approximately $180,000 and the assumption of existing decommissioning obligations on the property. Production from the property averaged less than 5 bbls/day in 2010. As a result of the sale, the Company recorded a gain on sale of $21,196.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| **Pricing** | **Sept. 30 2011** | Sept. 30 2010 | **Sept. 30 2011** | Sept. 30 2010 |
| Average sales price | | | | |
| Natural gas *($/mcf)* | $ 3.99 | $ 3.55 | $ 4.00 | $ 3.98 |
| Crude oil *($/bbl)* | $ 80.76 | $ 67.93 | $ 83.21 | $ 70.89 |
| Total *($/BOE)* | $ 59.52 | $ 36.41 | $ 60.45 | $ 40.15 |

The average BOE sales price received during the third quarter of 2011 decreased 7% from the second quarter of 2011 and increased 63% compared to the third quarter of 2010. Natural gas prices decreased 2% in the third quarter of 2011 compared to the second quarter of 2011 and increased 12% compared to the third quarter of 2010. Crude oil prices decreased 14% in the 2011 third quarter as compared to the second quarter of the year. Crude oil prices have also impacted the average BOE price due to the increase in crude oil in the Company's production mix. Volatility in the commodity markets will continue to impact realized prices in 2011. Traverse currently has no commodity price risk management program in place due to the small volumes of production.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| **Petroleum and natural gas revenue** | **Sept. 30 2011** | Sept. 30 2010 | **Sept. 30 2011** | Sept. 30 2010 |
| Petroleum and natural gas revenue by source | | | | |
| Production income | $ 945,016 | $ 279,330 | $ 2,695,679 | $ 708,022 |
| Royalty income | 159,612 | 67,020 | 295,780 | 274,485 |
| Total | $ 1,104,628 | $ 346,350 | $ 2,991,459 | $ 982,507 |
| Petroleum and natural gas revenue by commodity | | | | |
| Oil and NGL | $ 938,479 | $ 209,283 | $ 2,534,357 | $ 600,355 |
| Natural gas | 166,149 | 137,067 | 457,102 | 382,152 |
| Total | $ 1,104,628 | $ 346,350 | $ 2,991,459 | $ 982,507 |

Petroleum and natural gas revenue for the third quarter of 2011 has increased 218% compared to the third quarter of 2010 due mainly to increased production volumes and the increased proportion of oil production. Revenue has increased 22% compared to the second quarter of 2011 due to increased oil production offset by decreased oil pricing.

**Royalties**

Royalties have increased in the third quarter of 2011 as compared to the 2010 period due to the shift to working interest production from royalty interest production. In the third quarter of 2010, royalty interest production represented 26% of total production but by the third quarter of 2011 this percentage has declined to 16%. New production areas added in 2010 consisted of both Crown and freehold lands. New production from Crown lands benefits from the new well incentive program which provides for a maximum five percent royalty rate for the first year of production. All of the Company's previously owned working interest properties produce at very low rates and as a result pay minimal royalties.

Royalties have decreased to $3.09 per BOE in the third quarter of 2011 compared to $4.08 per BOE in the second quarter of 2011. This decrease is due to new production at both Turin and Provost which benefits from the first year royalty rate of 5% on crown production. This reduced royalty rate on existing production at Turin, Little Bow and Long Coulee has expired and these areas will have higher royalty rates in 2011 then in 2010.

**Operating and transportation costs**

Operating and transportation costs have increased to $18.55 per BOE in the third quarter of 2011 compared to $14.01 per BOE in the second quarter of 2011. This increase is attributable to the costs associated with new production at Turin which is accompanied by significant water. The Company is currently evaluating additions to the Turin facility to allow for water disposal. Operating and transportation costs in the third quarter of 2010 period were $14.92 per BOE. Operating costs are anticipated to remain in this range as future drilling is planned on same or similar properties.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| **Operating netbacks** | **Sept. 30** | Sept. 30 | **Sept. 30** | Sept. 30 |
| *($/BOE)* | **2011** | 2010 | **2011** | 2010 |
| Petroleum and natural gas revenue | $ 59.52 | $ 36.41 | $ 60.45 | $ 40.15 |
| Royalties | 3.09 | 2.30 | 3.43 | 1.75 |
| Operating | 16.85 | 12.98 | 13.81 | 12.81 |
| Transportation | 1.70 | 1.94 | 1.82 | 1.53 |
| Operating netback | $ 37.88 | $ 19.19 | $ 41.39 | $ 24.06 |

Operating netbacks decreased from $45.89 per BOE in the second quarter of 2011 to $37.88 per BOE in the third quarter of 2011 due to decreased commodity pricing and increasing operating costs. As a result of the decrease in the operating netback per BOE, the 30% increase in production realized in the third quarter only increased the total operating netback 9% from $647,776 to $703,007.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **Sept. 30** | Sept. 30 | **Sept. 30** | Sept. 30 |
| **General and administrative** | **2011** | 2010 | **2011** | 2010 |
| General and administrative costs - gross | $ 161,805 | $ 153,847 | $ 728,754 | $ 549,106 |
| Operator recoveries | 50,084 | 50,859 | 119,060 | 108,711 |
| General and administrative costs - net | $ 111,721 | $ 102,988 | $ 609,694 | $ 440,395 |
| **$/BOE** | | | | |
| General and administrative costs - gross | $ 8.72 | $ 16.17 | $ 14.73 | $ 22.43 |
| Operator recoveries | $ 2.70 | $ 5.35 | $ 2.41 | $ 4.43 |
| General and administrative costs - net | $ 6.02 | $ 10.82 | $ 12.32 | $ 18.00 |

Gross general and administrative costs have decreased approximately $85,000 in the third quarter of 2011 compared to the second quarter of 2011 due mainly to expenses associated with the preparation of the 2010 annual disclosure documents and shareholder meeting in the second quarter as well as the conversion to IFRS. General and administrative costs have increased slightly over the comparable period but are  declining on a BOE basis due to increasing production.

### Share based compensation

Share based compensation expense of $310,850 in the third quarter relates to the vesting of options granted to consultants in the fall of 2010 and a new grant of options to directors, officers and consultants in September 2011. Additional details on the stock option plan are available in the notes to both the interim and audited financial statements.

### Depletion and depreciation

As a result of conversion to IFRS, Traverse now depletes its developed oil and natural gas properties based on its proved and probable reserves as opposed to proved reserves under the previous GAAP. The calculation of depletion expense includes future development costs related to proved and probable reserves of $283,204 at September 30, 2011.

Depletion and depreciation for the third quarter of 2011 includes $1,050,000 for impairment of exploration and evaluation assets. Impairment was recognized on the Provost property due to technical difficulties encountered during completion. This resulted in over expenditures which current reserve estimates indicate will not be recoverable. In addition, the costs associated with the previous re-entry of an existing Turin wellbore were impaired as it was determined that the wellbore is not suitable for water injection purposes. A review of land expiries pending in 2012 resulted in an impairment of $175,000 as the lands are considered to be part of a natural gas project and current commodity prices do not support further exploration.

Depletion and depreciation expense, before the impairment provision, was $26.24 per BOE in the third quarter of 2011 compared to $30.57 per BOE in the third quarter of 2010.

### Finance income and costs

Finance income consists of interest earned on cash balances during the quarter. Finance costs is composed of the accretion of decommissioning liabilities which, under previous GAAP, was classified with depletion and depreciation for financial statement purposes.

### Income taxes and net loss

Third quarter operations in 2011 generated a loss before income taxes of $1,253,218 compared to a loss before income taxes of $391,155 in the third quarter of 2010 due to the provision for impairment in the 2011 period and increases in depletion partially offset by increased production income.

A deferred income tax recovery of $174,423 has been recorded in the third quarter of 2011 composed of a recovery of deferred tax due to the current period loss and a deferred income tax expense relating to flow-through share expenditures. Under IFRS a premium is recognized on the issue of flow-through shares representing the difference in price over a common share with no tax attributes. This premium is set up as a liability on the statement of financial position and is reclassified to deferred income tax liability as the expenditures are incurred. To the extent that the Company's effective tax rate on the incurred expenditures exceeds this premium, a deferred income tax expense is recognized. During the quarter the Company incurred $655,000 of qualifying expenditures related to the flow-through issue completed in May 2011. The Company's expected tax rate on these expenditures is 25%. The difference of approximately 9% between the Company's expected tax rate and the premium realized on the flow-through share issue results in additional deferred income tax expense of $60,410.

After income taxes, a net loss of $1,078,795 has been recorded for the third quarter of 2011 compared to a net loss of $477,747 in the comparable period. Net loss per share was $0.03 in the 2011 third quarter compared to $0.02 in the 2010 period.

### Shareholders' equity

As at November 22, 2011 total common shares outstanding are 42,209,911 and total common share options outstanding are 3,525,000. The weighted average number of shares outstanding during the third quarter of 2011 increased 31% to 38,484,461 from 29,353,333 in the 2010 period due to private placements completed in both 2010 and 2011.

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. In December 2010 the Company completed a private placement of 2,500,000 flow-through common shares at a price of $0.95 per common share for gross proceeds of $2,375,000.

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. The flow-through commitment remaining for this private placement at June 30, 2011 was $265,000.

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.

**Funds flow from operations**

Funds flow from operations increased to $600,441 in the third quarter of 2011 compared to $86,372 in the third quarter of 2010 due mainly to increased oil production. Funds flow from operations in the third quarter of 2011 increased from the second quarter of 2011 ($458,551) due to increased oil production and decreased general and administrative expenses. As finance income currently consists of interest income earned on cash balances, Traverse has chosen to continue classifying this income under operating activities and as a result the conversion to IFRS has not resulted in a change to cash flow from operations as reported under previous GAAP.

**Liquidity and capital resources**

During the third quarter of 2011 the Company incurred expenditures in the following categories: 16% land acquisition and retention, 3% geological and geophysical, 46% drilling and completions and 34% on facilities. Two wells were drilled the third quarter of 2011, three wells were placed on production and the natural gas facilities at Turin were expanded.

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | **Sept. 30** | Sept. 30 | **Sept. 30** | Sept. 30 |
| **Capital expenditures** | **2011** | 2010 | **2011** | 2010 |
| Land acquisition and rentals | 444,685 | 401,458 | 1,008,659 | 709,239 |
| Geological and geophysical | 73,101 | 125,677 | 470,613 | 411,836 |
| Drilling and completions | 1,317,565 | 1,318,033 | 4,798,765 | 2,711,728 |
| Equipping and facilities | 959,232 | 288,886 | 1,142,416 | 1,282,984 |
| Exploration and development capital | 2,794,583 | 2,134,054 | 7,420,453 | 5,115,787 |
| Corporate assets | 41,607 | 3,250 | 62,911 | 38,648 |
| Net property dispositions | - | 823,705 | 354,307 | 753,767 |
| Total capital expenditures | 2,836,190 | 1,313,599 | 7,129,057 | 4,400,668 |

At September 30, 2011 the Company had working capital of approximately $2.1 million and no debt outstanding. The Company intends to fund capital expenditures during the remainder of 2011 with a combination of cash flow, working capital and the proceeds of the equity issue completed in November 2011. New equity issues and debt may be used to expand future capital expenditures where appropriate.

**Related party transactions**

*Equity transactions*

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. Directors and officers of the Company subscribed for 317,400 units for consideration of $412,620.

In December 2010 the Company completed a private placement of 2,500,000 flow-through common shares at a price of $0.95 per common share for gross proceeds of $2,375,000. Directors and officers of the Company subscribed for 233,300 flow-through common shares for consideration of $221,635.

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 and flow-through common shares for gross proceeds of $263,125.

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.

*Common management and directors*

During the first nine months of 2011, office expenses of approximately $131,000 (2010 - $154,000) 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, 2011 an amount of $90,000 (2010 - $107,000), representing prepaid rent and security deposit, is included within prepaid expenses and deposits. Subsequent to September 30, 2011 in connection with the new office lease (see commitment) these amounts were refunded.

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, 2011, the aggregate value of transactions entered into between Traverse and these entities was approximately $566,000 (2010 - $1,477,200). Traverse had outstanding payables to the related parties of $183,000 (2010 - $48,900) and accounts receivable due to Traverse of approximately $72,000 at September 30, 2011 (2010 - $157,100).

*Legal services*

During the first nine months of 2011, the Company incurred approximately $46,000 (2010 - $36,000) 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, 2011 accounts payable and accrued liabilities include $4,135 (2010 - $4,600) to the legal firm.

**Commitment**

In March 2011 Traverse entered into an operating lease for office premises beginning on November 1, 2011 and expiring on October 31, 2021. The annual payments under this commitment are approximately as follows:

| **Period** | | **Annual amount** |
|---|---|---|
| November 1, 2011 to October 31, 2013 | $ | 178,200 |
| November 1, 2013 to October 31, 2016 | $ | 191,700 |
| November 1, 2016 to October 31, 2018 | $ | 205,200 |
| November 1, 2018 to October 31, 2021 | $ | 218,700 |

**Summary of quarterly results**

*($ thousands, except per share amounts)*
*(unaudited)*

| Quarter ended | September 30 2011 | June 30 2011 | March 31 2011 | December 31 2010 [1] |
|---|---|---|---|---|
| Revenue | 1,086 | 903 | 984 | 1,136 |
| Net loss | (1,093) | (152) | (7) | (2,709) |
| Per share - basic and diluted | (0.03) | 0.00 | 0.00 | (0.09) |
| Working capital | 2,059 | 4,314 | 1,924 | 2,358 |
| Shareholders' equity | 13,397 | 14,179 | 9,274 | 9,230 |
| Production (BOE/d) | 202 | 155 | 187 | 214 |
| Capital expenditures | 2,836 | 3,415 | 878 | 3,569 |

| Quarter ended | September 30 2010 (1) | June 30 2010 (1) | March 31 2010 (1) | December 31 2009 (2) |
|---|---|---|---|---|
| Revenue | 346 | 345 | 291 | 156 |
| Net loss | (478) | (232) | (116) | (177) |
| Per share - basic and diluted | (0.02) | (0.01) | (0.01) | (0.01) |
| Working capital | 3,045 | 4,274 | 2,243 | 4,546 |
| Shareholders' equity | 9,987 | 10,252 | 9,810 | 8,718 |
| Production (BOE/d) | 103 | 100 | 66 | 48 |
| Capital expenditures | 1,314 | 739 | 2,348 | 1,290 |

(1) As restated under IFRS
(2) As reported under previous GAAP

In 2010 production volumes and revenues increased as a result of drilling activities. Losses continued throughout the year due mainly to higher depletion expenses. In the final quarter of 2010 depletion expense included approximately $2.8 million of impairment on exploration and evaluation assets relating to an abandoned well at Manyberries and the suspension of activity on Warwick natural gas wells due to declining commodity prices. Additional impairment of $0.8 million was included in depletion relating to impairment of the Company's gas producing properties due to natural gas prices.

In 2011 production volumes and revenue initially declined as no new production was added. In the third quarter of 2011 new production commenced from 2011 drilling activities and production volumes and revenue began increasing. The net loss increased in the third quarter of 2011 mainly due to impairments recognized on exploration and evaluation assets relating to pending land expiries, limitations on recoverable amounts due to over expenditures and an unsuccessful re-entry well.

**Business environment and risk**

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

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

**Adoption of International Financial Reporting Standards ("IFRS")**

The September 30, 2011 interim financial statements present Traverse's initial financial results of operations and financial positions under IFRS, including 2010 comparative periods. As a result, they have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". The interim financial statements do not include all the necessary annual disclosures in accordance with IFRS. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("previous GAAP").

The Company's IFRS accounting policies are provided in Note 3 to the interim financial statements. Note 14 to the interim financial statements provides details on the transition to IFRS, including a reconciliation of the statement of financial position as at September 30, 2010 and reconciliations of the statements of income and comprehensive income for the three and nine months ended September 30, 2010. Note 14 also details the IFRS 1 "First-time adoption of International Financial Reporting Standards" exemptions taken.