

**TRAVERSE ENERGY LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
*(Unaudited)*

**NOTICE TO READER**

The accompanying unaudited interim financial statements of Traverse Energy Ltd. for the nine months ended September 30, 2012 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

	Notes	September 30, 2012	December 31, 2011
<b>Assets</b>			
Current assets			
Cash and cash equivalents		\$ 1,400,244	\$ 4,230,532
Accounts receivable		1,393,485	931,677
Prepaid expenses and deposits		59,423	37,973
		2,853,152	5,200,182
Exploration and evaluation assets	3	3,762,541	2,958,415
Property and equipment	4	14,538,305	11,622,233
		\$ 21,153,998	\$ 19,780,830
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,125,844	\$ 2,667,767
Deferred flow-through share premium		5,580	313,445
Decommissioning liabilities		1,022,250	860,000
Deferred income taxes		1,864,600	564,230
		4,018,274	4,405,442
<b>Shareholders' Equity</b>			
Share capital	6(a)	20,125,344	18,897,239
Contributed surplus		1,202,749	1,097,950
Deficit		(4,192,369)	(4,619,801)
		17,135,724	15,375,388
Commitments	6(b)		
		\$ 21,153,998	\$ 19,780,830

*See accompanying notes to the interim financial statements*

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

	Notes	Three months ended Sept. 30,		Nine months ended Sept. 30,	
		2012	2011	2012	2011
<b>Revenue</b>					
Petroleum and natural gas		\$ 1,294,259	\$ 945,016	\$ 3,012,007	\$ 2,695,679
Royalty income		817,714	159,612	2,358,209	295,780
Royalties		(114,467)	(57,280)	(197,424)	(169,584)
		1,997,506	1,047,348	5,172,792	2,821,875
<b>Expenses</b>					
Operating		220,124	312,730	657,640	683,569
Transportation		50,433	31,611	97,074	89,846
General and administrative		128,239	111,721	618,291	609,694
Share based compensation		27,288	310,850	104,799	325,000
Gain on disposition of property and equipment	4	-	-	-	(21,196)
Exploration and evaluation expense		530,217	1,049,823	530,217	1,074,777
Depletion and depreciation	4	702,750	486,986	1,851,106	1,153,285
		1,659,051	2,303,721	3,859,127	3,914,975
Income (loss) from operating activities		338,455	(1,256,373)	1,313,665	(1,093,100)
Finance income		3,446	9,155	9,001	24,019
Finance expense		(4,750)	(6,000)	(14,250)	(15,250)
Net finance income (loss)		(1,304)	3,155	(5,249)	8,769
Income (loss) before income taxes		337,151	(1,253,218)	1,308,416	(1,084,331)
<b>Income taxes</b>					
Deferred income tax expense		305,109	(174,423)	880,984	153,601
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ 32,042</b>	<b>\$ (1,078,795)</b>	<b>\$ 427,432</b>	<b>\$ (1,237,932)</b>
<b>Net income (loss) per share - basic and diluted</b>	6(c)	<b>\$ 0.00</b>	<b>\$ (0.03)</b>	<b>\$ 0.01</b>	<b>\$ (0.04)</b>

See accompanying notes to the interim financial statements

**TRAVERSE ENERGY LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(Unaudited)*

	Share capital	Contributed surplus	Deficit	Total Shareholders' Equity
Balance December 31, 2010	\$ 11,279,307	\$ 748,956	\$ (2,797,848)	\$ 9,230,415
Net loss	-	-	(1,237,932)	(1,237,932)
Issued on exercise of common share options	40,000	-	-	40,000
Transfer of share based compensation on exercise	9,000	(9,000)	-	-
Share based compensation	-	325,000	-	325,000
Issued for cash	3,114,551	-	-	3,114,551
Issued for cash - flow-through	2,460,042	-	-	2,460,042
Deferred flow-through share premium	(349,690)	-	-	(349,690)
Share issue costs, net of tax of \$57,132	(171,397)	-	-	(171,397)
<b>Balance September 30, 2011</b>	<b>\$ 16,381,813</b>	<b>\$ 1,064,956</b>	<b>\$ (4,035,780)</b>	<b>\$ 13,410,989</b>
Balance December 31, 2011	\$ 18,897,239	\$ 1,097,950	\$ (4,619,801)	\$ 15,375,388
Net income	-	-	427,432	427,432
Share based compensation	-	104,799	-	104,799
Issued for cash - flow-through	1,392,260	-	-	1,392,260
Deferred flow-through share premium	(124,680)	-	-	(124,680)
Share issue costs, net of tax of \$13,159	(39,475)	-	-	(39,475)
<b>Balance September 30, 2012</b>	<b>\$ 20,125,344</b>	<b>\$ 1,202,749</b>	<b>\$ (4,192,369)</b>	<b>\$ 17,135,724</b>

*See accompanying notes to the interim financial statements*

**TRAVERSE ENERGY LTD.**  
**STATEMENTS OF CASH FLOWS**  
*(Unaudited)*

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	2012	2011
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net income (loss)	\$ 32,042	\$ (1,078,795)	\$ 427,432	\$ (1,237,932)
Adjustments for:				
Depletion and depreciation	702,750	486,986	1,851,106	1,153,285
Exploration and evaluation expense	530,217	1,049,823	530,217	1,074,777
Share based compensation	27,288	310,850	104,799	325,000
Gain on disposition of property and equipment	-	-	-	(21,196)
Finance expense	4,750	6,000	14,250	15,250
Deferred income tax expense	305,109	(174,423)	880,984	153,601
Changes in non-cash working capital	(470,492)	(1,095)	(414,610)	80,865
	1,131,664	599,346	3,394,178	1,543,650
<b>Financing activities:</b>				
Proceeds on issue of shares, net of issue costs	1,339,626	-	1,339,626	5,346,064
Proceeds on exercise of share options	-	-	-	40,000
Changes in non-cash working capital	-	(19,992)	(16,940)	(9,697)
	1,339,626	(19,992)	1,322,686	5,376,367
<b>Investing activities:</b>				
Exploration and evaluation asset additions	(2,674,914)	(1,992,125)	(3,855,451)	(6,223,403)
Property and equipment asset additions	(365,747)	(844,065)	(2,203,070)	(1,259,961)
Exploration and evaluation asset dispositions	-	-	105,000	175,000
Property and equipment asset dispositions	-	-	-	179,307
Changes in non-cash working capital	611,436	(1,355,160)	(1,593,631)	197,318
	(2,429,225)	(4,191,350)	(7,547,152)	(6,931,739)
Change in cash and cash equivalents	42,065	(3,611,996)	(2,830,288)	(11,722)
Cash and cash equivalents, beginning of period	1,358,179	6,730,651	4,230,532	3,130,377
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,400,244</b>	<b>\$ 3,118,655</b>	<b>\$ 1,400,244</b>	<b>\$ 3,118,655</b>

*See accompanying notes to the interim financial statements*

**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)**

---

**1. Reporting entity**

Traverse Energy Ltd. (the "Company" or "Traverse") is a oil and gas exploration, development and production company based in Calgary, Alberta, Canada. Traverse conducts its operations in the province of Alberta. The common shares of Traverse trade on the TSX Venture Exchange under the symbol "TVL". The Company's head and principal office is located at 780, 839 - 5 Avenue SW, Calgary, Alberta, T2P 3C8 and its registered office is located at 1900, 520 - 3 Avenue SW Calgary, Alberta T2P 0R3.

**2. Basis of presentation and statement of compliance**

These interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34, "Interim Financial Reporting" and have been prepared following the same accounting policies and method of computation as the annual financial statements for the year ended December 31, 2011. The disclosures provided below are incremental to those included with the annual financial statements. Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on November 15, 2012.

**3. Exploration and evaluation assets**

	<b>Total</b>
Balance December 31, 2010	\$ 2,230,870
Additions	9,186,046
Dispositions	(175,000)
Transfers to property and equipment	(5,851,643)
Changes in decommissioning liabilities	(23,250)
Exploration and evaluation expense - land expiries	(364,619)
Exploration and evaluation expense - unsuccessful exploration	(503,989)
Exploration and evaluation expense - impairments on transfer	(1,540,000)
Balance December 31, 2011	\$ 2,958,415
Additions	3,855,451
Dispositions	(105,000)
Transfers to property and equipment	(2,416,108)
Exploration and evaluation expense - unsuccessful exploration	(530,217)
Balance September 30, 2012	\$ 3,762,541

Exploration and evaluation assets ("E&E assets") consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Costs consist mainly of undeveloped land, geological and geophysical, and drilling costs until the drilling of the well is complete and the results have been evaluated. Additions represent the Company's share of costs incurred on E&E assets during the period.

The impairment of E&E assets and any subsequent reversal of such impairment losses are recognized in exploration and evaluation expense in the statements of income and comprehensive income. There were no impairment losses recorded for the nine months ended September 30, 2012. At September 30, 2011 the Company recognized impairment on a transfer to property and equipment, an unsuccessful re-entry and a provision for future land expiries in natural gas prone areas due to depressed commodity prices.

**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)**

**4. Property and equipment**

<b>Cost:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
Balance December 31, 2010	\$ 7,676,138	\$ 36,091	\$ 7,712,229
Additions	1,512,341	64,156	1,576,497
Dispositions	(242,235)	-	(242,235)
Transfers from exploration and evaluation	5,851,643	-	5,851,643
Changes in decommissioning liabilities	270,000	-	270,000
Balance December 31, 2011	\$ 15,067,887	\$ 100,247	\$ 15,168,134
Additions	2,190,972	12,098	2,203,070
Transfers from exploration and evaluation	2,416,108	-	2,416,108
Changes in decommissioning liabilities	148,000	-	148,000
Balance September 30, 2012	\$ 19,822,967	\$ 112,345	\$ 19,935,312

<b>Accumulated depletion and depreciation:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
Balance December 31, 2010	\$ (1,936,059)	\$ (7,900)	\$ (1,943,959)
Depletion and depreciation	(1,616,977)	(14,089)	(1,631,066)
Dispositions	29,124	-	29,124
Balance December 31, 2011	\$ (3,523,912)	\$ (21,989)	\$ (3,545,901)
Depletion and depreciation	(1,836,516)	(14,590)	(1,851,106)
Balance September 30, 2012	\$ (5,360,428)	\$ (36,579)	\$ (5,397,007)

<b>Net book value:</b>	<b>Oil and natural gas properties</b>	<b>Corporate</b>	<b>Total</b>
As at December 31, 2010	\$ 5,740,079	\$ 28,191	\$ 5,768,270
As at December 31, 2011	\$ 11,543,975	\$ 78,258	\$ 11,622,233
As at September 30, 2012	\$ 14,462,539	\$ 75,766	\$ 14,538,305

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

The calculation of depletion and depreciation for the nine months ended September 30, 2012 included \$767,000 (2011 - \$283,200) for future development costs and excluded \$367,000 (2011 - \$125,000) for estimated salvage values.

The impairment of property and equipment and any subsequent reversal of such impairment losses are recognized in depletion and depreciation in the statements of income and comprehensive income. There were no impairment losses recorded for the nine months ended September 30, 2012 and 2011.

**5. Banking facility**

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

**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)**

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

**6. Share capital**

**(a) Issued and outstanding**

<b>Common shares</b>	<b>Number</b>	<b>Amount</b>
Balance December 31, 2010	31,853,333	\$ 11,279,307
Issued for cash on exercise of stock options	100,000	40,000
Transferred from contributed surplus on exercise of stock options	-	9,000
Issued for cash	4,484,189	3,528,251
Issued for cash - flow-through	5,772,389	4,967,602
Deferred flow-through share premium	-	(663,135)
Share issue costs, net of tax of \$87,929	-	(263,786)
Balance December 31, 2011	42,209,911	\$ 18,897,239
Issued for cash - flow-through	2,078,000	1,392,260
Deferred flow-through share premium	-	(124,680)
Share issue costs, net of tax of \$13,159	-	(39,475)
Balance September 30, 2012	44,287,911	20,125,344

**(b) Private placements**

In May 2011 the Company completed a private placement of both common and flow-through common shares. A total of 6,531,128 common shares were issued for gross proceeds of \$5,574,593. Of this amount, 2,637,939 common shares were issued on a flow-through basis for gross proceeds of \$2,460,042. Directors and officers of the Company subscribed for 305,000 common shares for gross proceeds of \$263,125. The Company has incurred the required qualifying expenditures.

In November 2011 the Company completed a private placement of both common and flow-through common shares. A total of 3,725,450 common shares were issued for gross proceeds of \$2,921,260. Of this amount, 3,134,450 common shares were issued on a flow-through basis for gross proceeds of \$2,507,560. Directors and officers of the Company subscribed for 542,500 common shares for gross proceeds of \$419,000. The Company has incurred the required qualifying expenditures.

In July 2012 the Company completed a private placement of 2,078,000 flow-through common shares at a price of \$0.67 per common share for gross proceeds of \$1,392,260. Directors and officers of the Company subscribed for 506,000 common shares for consideration of \$339,020. The obligation remaining for this flow-through issue at September 30, 2012 was \$60,260.

**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)**

**(c) Per share amounts**

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2012	2011	2012	2011
Net income (loss) for the period	\$ 32,042	\$ (1,078,795)	\$ 427,432	\$ (1,237,932)
Weighted average common shares outstanding - basic	44,059,748	38,484,461	42,831,024	35,166,528
Effect of outstanding options	521,354	-	609,520	-
Weighted average common shares outstanding - diluted	44,581,102	38,484,461	43,440,544	35,166,528
Net income (loss) per share - basic and diluted	\$ 0.00	\$ (0.03)	\$ 0.01	\$ (0.04)

The Company has experienced a net loss in the comparative period presented therefore the effect of outstanding options has been excluded as they are anti-dilutive.

**(d) Stock option plan**

The Company has established a stock option plan for the benefit of its directors, officers, employees and consultants. The Board of Directors establishes at the time of grant, subject to regulatory approval, the option exercise price, the expiry date and vesting provisions. The options granted to directors and officers vest immediately and the options granted to consultants vest over a one year time period. Options granted expire five years from the date of grant.

The following table sets forth a reconciliation of the stock option plan activity:

	Number of options	Weighted average exercise price
Balance December 31, 2010	2,625,000	\$ 0.47
Exercised - February 2011	(100,000)	\$ 0.40
Granted - September 2011	1,000,000	\$ 0.80
Balance December 31, 2011	3,525,000	\$ 0.57
Granted - May 2012	300,000	\$ 0.80
Balance September 30, 2012	3,825,000	\$ 0.59

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

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

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



**TRAVERSE ENERGY LTD.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (Unaudited)**

---

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2012:

<b>Exercise price</b>	<b>Number outstanding</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Weighted average exercise price</b>	<b>Number exercisable</b>	<b>Weighted average exercise price</b>
\$0.00 - \$0.40	1,500,000	2.0	\$ 0.40	1,500,000	\$ 0.40
\$0.41 - \$0.60	1,025,000	2.9	\$ 0.59	1,025,000	\$ 0.59
\$0.61 - \$0.80	1,300,000	4.1	\$ 0.80	1,100,000	\$ 0.80
\$0.40 - \$0.80	3,825,000	3.2	\$ 0.59	3,625,000	\$ 0.57

**7. Related party transactions**

**(a) Common management and directors**

During the first nine months of 2011, office expenses of approximately \$131,000 were paid to a company controlled by two directors of the Company. These transactions were in the normal course of business and on terms consistent with parties dealing at arm's length. There have been no transactions with this related company in 2012.

Certain directors of Traverse are also the directors or management of other entities that participate in joint operations with the Company. All transactions were completed on an arm's length basis consistent with normal industry terms. During the nine months ended September 30, 2012, the aggregate value of transactions entered into between Traverse and these entities was approximately \$564,000 (2011 - \$566,000). Traverse had outstanding payables to the related parties of \$91,000 (2011 - \$183,000) and accounts receivable due to Traverse of \$83,000 at September 30, 2012 (2011 - \$72,000).