TRAVERSE ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated November 12, 2013 should be read in conjunction with the Company's unaudited interim financial statements as at and for the nine months ended September 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; planned seismic at Coyote; volatility in commodity markets impacting realized prices in 2013; the Company's tax horizon and intentions for funding capital expenditures during 2013 and 2014 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.

	Three months ended Sept. 30,		Nine months ended Sept.30,	
HIGHLIGHTS *(Unaudited)*	**2013**	2012	**2013**	2012
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**3,976**	1,294	**7,455**	3,012
Royalty income	**843**	818	**3,163**	2,358
Cash provided by operations	**4,197**	1,132	**8,279**	3,394
Funds from operations [1]	**3,796**	1,602	**7,957**	3,809
Per share - basic and diluted	**0.08**	0.04	**0.17**	0.09
Net income	**1,636**	32	**3,217**	427
Per share - basic and diluted	**0.03**	0.00	**0.07**	0.01
Capital expenditures, net of dispositions	**4,957**	3,041	**9,393**	5,954
Total assets	**26,489**	21,154	**26,489**	21,154
Working capital	**3,015**	1,727	**3,015**	1,727
Common shares				
Outstanding *(millions)*	**49.5**	44.3	**49.5**	44.3
Weighted average *(millions)*	**49.5**	44.1	**48.1**	42.8
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**1,560**	1,064	**1,536**	822
Oil and NGL *(bbls/day)*	**505**	266	**389**	221
Total (BOE/day)	**765**	444	**644**	358
Average sales price				
Natural gas *($/mcf)*	**3.06**	2.36	**3.42**	2.25
Oil and NGL *($/bbl)*	**94.25**	76.77	**86.61**	80.32
Operating netback *($/BOE)* [2]				
Petroleum and natural gas revenue	**67.83**	51.56	**56.63**	50.85
Realized gain on financial derivatives	**0.23**	0.00	**0.13**	0.00
Royalties	**7.21**	4.56	**5.19**	3.33
Operating and transportation costs	**9.13**	10.78	**11.24**	12.74
Working interest netback	**51.72**	36.22	**40.33**	34.78
Royalty netback	**71.56**	52.02	**71.43**	60.72
Operating netback	**55.04**	42.31	**48.16**	45.05

(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 third quarter of 2013 Traverse drilled 4 wells (100% working interest) in the Coyote area of east central Alberta resulting in 3 oil wells. The 4th well appears to be uneconomic and is being evaluated as a potential water injection well. The 4 wells were drilled as a follow up to the initial Coyote well which was drilled in March and placed on production in June, 2013. The 3 additional wells were placed on production later in the third quarter. Production from the Coyote area for the third quarter averaged 308 BOE per day (85% oil). Other activities included the acquisition of seismic data and the purchase of additional acreage in east central Alberta.

In the Turin area production was interrupted by a 5 week shutdown of a third party owned pipeline which transports Traverse's natural gas to market. During the shutdown, Traverse tested and confirmed the integrity of the pipeline. Traverse subsequently purchased an interest in the pipeline and became the pipeline operator. Normal production operations have resumed. Additional drilling (2 wells) is planned for the first quarter of 2014.

In the Brazeau area of West Central Alberta, Traverse has a gross overriding royalty interest in 10 sections of land (6,400 acres). A total of 20 horizontal Cardium wells are producing from the property. Net production to the Company for the third quarter of 2013 averaged 121 BOE per day (oil and NGL component of 75%).

At September 30, 2013 undeveloped land holdings totaled 141,400 gross (136,800 net) acres with an average working interest of 98%. Additional drilling (3 wells) and the shooting of a 3D seismic program are planned in the Coyote area prior to year end.

The Board of Directors has approved an initial exploration and development program and budget of $17 million for 2014. This budget is to be financed from working capital, cash flow, new equity issues and debt where appropriate. The program includes the drilling of 12 wells located on Company owned lands in the Turin and Coyote areas and on other properties located in east central Alberta.

	Three months ended		Nine months ended	
Production	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Average working interest production				
Natural gas *(mcf/day)*	**1,373**	629	**1,322**	552
Crude oil *(bbls/day)*	**408**	168	**262**	124
Total *(BOE/day)*	**637**	273	**482**	216
Average royalty production				
Natural gas *(mcf/day)*	**187**	435	**214**	270
Crude oil *(bbls/day)*	**97**	98	**127**	97
Total *(BOE/day)*	**128**	171	**162**	142
Total production				
Natural gas *(mcf/day)*	**1,560**	1,064	**1,536**	822
Crude oil *(bbls/day)*	**505**	266	**389**	221
Total *(BOE/day)*	**765**	444	**644**	358

Production increased 72% to 765 BOE per day in the third quarter of 2013 as compared to 444 BOE per day in the 2012 period. Working interest production increased 133% due to new oil production volumes from the Coyote area. Royalty volumes have declined 25% from the third quarter of 2012. Total Company production in the third quarter increased 28% compared to the second quarter of 2013 due to new oil production at Coyote.

	Three months ended		Nine months ended	
Production by area (BOE/day)	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Brazeau	**121**	152	**146**	123
Coyote	**308**	0	**128**	0
Turin	**287**	203	**313**	124
Minor	**49**	89	**57**	111
Total BOE per day	**765**	444	**644**	358
% of BOE/day				
Royalty	**17%**	39%	**25%**	40%
Working interest	**83%**	61%	**75%**	60%

Drilling activity in 2013 resulted in new oil production from the Coyote area. The Company's working interest production at Turin increased 41% to 287 BOE per day in the third quarter of 2013 compared to 203 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 39% in the third quarter of 2012 to 17% in the third 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 decreased to 121 BOE per day in the 2013 period compared to 152 BOE per day in the third quarter of 2012.

	Three months ended		Nine months ended	
Pricing	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Average sales price				
Natural gas *($/mcf)*	**3.06**	2.36	**3.42**	2.25
Crude oil *($/bbl)*	**94.25**	76.77	**86.61**	80.32
Total *($/BOE)*	**68.46**	51.74	**60.35**	54.76

The average BOE sales price received during the third quarter of 2013 increased 32% compared to the third quarter of 2012. The oil component of the Company's production mix increased to 66% in the third quarter of 2013 (2012 - 60%) due to the new volumes of oil at Coyote.

Volatility in the commodity markets will continue to impact realized prices in 2013. At September 30, 2013 Traverse had the following derivative commodity contracts outstanding:

Type	Period	Volume	Price
Crude oil call option	Oct. 1, 2013 to Dec. 31, 2013	100 bbl/d	$100.00 Cdn.
Crude oil swap	Oct. 1, 2013 to Dec. 31, 2013	100 bbl/d	$107.25 Cdn.
Crude oil swap	Jan. 1, 2014 to March 31, 2014	100 bbl/d	$106.70 Cdn.
Crude oil swap	Jan. 1, 2014 to June 30, 2014	100 bbl/d	$101.00 Cdn.

At September 30, 2013 the mark-to-market value of these contracts totaled $(30,036).

	Three months ended		Nine months ended	
Petroleum and natural gas revenue ($)	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Revenue by source				
Working interest production	**3,976,224**	1,294,259	**7,455,146**	3,012,007
Royalty interest production	**843,186**	817,714	**3,163,067**	2,358,209
Total	**4,819,410**	2,111,973	**10,618,213**	5,370,216
Revenue by commodity				
Oil	**4,380,504**	1,881,052	**9,184,355**	4,862,415
Natural gas	**438,906**	230,922	**1,433,858**	507,801
Total	**4,819,410**	2,111,974	**10,618,213**	5,370,216

Revenue in the third quarter of 2013 increased 128% compared to the third quarter of 2012 due to increases in working interest production volumes and commodity prices. Revenue from working interest production increased approximately $2.7 million of which 65% was attributable to volume increases and 35% was attributable to commodity price increases. Revenue in the third quarter of 2013 increased 59% from the second 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		Nine months ended	
Operating netback ($/BOE)	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Petroleum and natural gas revenue	**67.83**	51.56	**56.63**	50.85
Realized gain on financial derivatives	**0.23**	0.00	**0.13**	0.00
Royalties	**7.21**	4.56	**5.19**	3.33
Operating and transportation costs	**9.13**	10.78	**11.24**	12.74
Working interest netback	**51.72**	36.22	**40.33**	34.78
Royalty netback	**71.56**	52.02	**71.43**	60.72
Operating netback	**55.04**	42.31	**48.16**	45.05

The working interest netback has increased from $36.22 per BOE in the third quarter of 2012 to $51.72 per BOE in the 2013 period due to an increase in the crude oil price and an increase in the proportion of crude oil production volumes.

Royalties per BOE increased in the third quarter of 2013 compared to the third quarter of 2012 due to the expiry of the new well royalty rate as well as the impact of the higher burdened wells added at Turin in 2012. Operating costs per BOE have decreased 15% since the third quarter of 2012.

The royalty income netback has increased from $52.02 per BOE in the third quarter of 2012 to $71.56 per BOE in the 2013 period as a result of increasing oil prices and an increase in the proportion of oil in the royalty production. In the third quarter of 2013, royalty production was 128 BOE per day (76% oil) compared to the 2012 period at 171 BOE per day (57% oil).

	Three months ended		Nine months ended	
Operating netback ($)	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Petroleum and natural gas revenue	**3,976,224**	1,294,259	**7,455,146**	3,012,007
Realized gain on financial derivatives	**13,324**	0	**17,465**	0
Royalties	**422,671**	114,467	**683,806**	197,424
Operating and transportation costs	**534,983**	270,557	**1,479,401**	754,714
Working interest netback	**3,031,894**	909,235	**5,309,404**	2,059,869
Royalty netback	**843,186**	817,714	**3,163,067**	2,358,209
Operating netback	**3,875,080**	1,726,949	**8,472,471**	4,418,078

The operating netback in the third quarter of 2013 increased 124% to $3.9 million compared to $1.8 million in the 2012 third quarter due mainly to increased oil production and pricing. On a per unit basis, the operating netback increased 30% to $55.04 per BOE in the 2013 third quarter compared to $42.31 per BOE in the third quarter of 2012 due to an increase in the price of oil and an increase in the proportion of oil in the production mix.

	Three months ended		Nine months ended	
General and administrative ($)	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
General and administrative costs - gross	**166,986**	176,716	**704,015**	727,475
Operator recoveries	**81,214**	48,477	**172,596**	109,184
General and administrative costs - net	**85,772**	128,239	**531,419**	618,291
Per BOE	**1.22**	3.14	**3.02**	6.31

Gross general and administrative costs decreased slightly in the 2013 periods compared to the 2012 periods. Operator recoveries have increased in the 2013 periods with the increased capital expenditure levels. Net general and administrative costs have declined on a BOE basis due to increasing production.

Share based compensation

Share based compensation expense in the third quarter of 2013 of $4,799 (2012 - $27,288) 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 nine months of 2013, E&E expenses of $503,710 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 $671,000 at September 30, 2013 (2012 - $767,000) and excluded $640,000 (2012 - $367,000) for estimated salvage values. The majority of future development costs at September 30, 2013 relate to the tie-in of standing natural gas wells at Turin.

Depletion and depreciation expense was $18.83 per BOE in the third quarter of 2013 compared to $17.21 per BOE in the third quarter of 2012. Depletion has increased on a BOE basis as a result of the increased cost of reserve additions in 2013.

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 was recorded in the third quarter of 2013 (2012 - $351,310) composed of deferred income tax on income of $606,945 (2012 - $91,709) and deferred income tax relating to flow-through expenditures of $178,425 (2012 - $213,400). 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.

The Company was not taxable on a current basis in 2012. The Company anticipates being taxable on a current basis for the 2013 taxation year dependent on the level and type of capital expenditures the Company incurs in the fourth quarter.

Cash and funds from operations and net income

	Three months ended		Nine months ended	
($)	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Cash provided by operating activities	**3,789,323**	1,131,664	**7,870,933**	3,394,178
Change in non-cash working capital	**(6,392)**	(470,492)	**(85,715)**	(414,610)
Funds from operations	**3,795,715**	1,602,156	**7,956,648**	3,808,788
Per share basic and diluted	**0.08**	0.04	**0.17**	0.09
Net income	**1,636,375**	32,042	**3,217,482**	427,432
Per share basic and diluted	**0.03**	0.00	**0.07**	0.01

Funds from operations increased 137% to approximately $3.8 million in the third quarter of 2013 compared to $1.6 million in the third quarter of 2012 due to increased production at Turin, new production at Coyote and an increase in the oil price. Funds from operations for the first nine months of 2013 increased to $8.0 million from $3.8 million in 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 $5.0 million in expenditures in the third quarter of 2013 related to the drilling, completion and equipping of 4 additional wells in the Coyote area.

	Three months ended		Nine months ended	
($)	**Sept. 30, 2013**	Sept. 30, 2012	**Sept. 30, 2013**	Sept. 30, 2012
Land acquisition and rentals	**368,991**	184,654	**603,697**	485,569
Geological and geophysical	**194,834**	69,426	**733,023**	787,029
Drilling and completions	**2,817,597**	2,414,469	**5,505,446**	2,720,213
Equipping and facilities	**1,575,816**	364,234	**2,545,247**	2,053,612
Exploration and development capital	**4,957,238**	3,032,783	**9,387,413**	6,046,423
Corporate assets	**167**	7,878	**5,216**	12,098
Net property dispositions	**0**	0	**0**	105,000
Net capital expenditures	**4,957,405**	3,040,661	**9,392,629**	5,953,521

Liquidity and capital resources

At September 30, 2013 Traverse had working capital of approximately $3.0 million, no debt outstanding and an unutilized credit facility of $5 million. In October 2013 the Company's Board of Directors approved an increase to the 2013 program to $14.4 million and approved an exploration and development program for 2014 of $17 million. The Company intends to fund capital expenditures and commitments 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 November 12, 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 nine months ended September 30, 2013, the aggregate value of transactions entered into between Traverse and these entities was approximately $198,600 (2012 - $564,000). Traverse had outstanding payables to the related parties of $33,200 (2012 - $91,000) and accounts receivable due to Traverse of $19,100 at September 30, 2013 (2012 - $83,000).

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.

Summary of quarterly results

($ thousands, except per share amounts)
(Unaudited)

Quarter ended	**September 30 2013**	June 30 2013	March 31 2013	December 31 2012
Petroleum and natural gas revenue	**3,976**	2,015	1,464	1,588
Royalty income	**843**	1,023	1,297	964
Cash provided by operating activities	**3,789**	1,922	2,160	1,815
Funds from operations	**3,796**	2,124	2,037	1,779
Per share - basic and diluted	**0.08**	0.04	0.04	0.04
Net income (loss)	**1,636**	1,060	521	(3,255)
Per share - basic and diluted	**0.03**	0.02	0.01	(0.07)
Working capital	**3,015**	4,202	2,359	3,083
Shareholders' equity	**20,076**	18,435	16,133	15,593
Production *(BOE/day)*	**645**	599	566	545
Capital expenditures, net of dispositions	**4,957**	1,674	2,761	2,158

Quarter ended	September 30 2012	June 30 2012	March 31 2012	December 31 2011
Petroleum and natural gas revenue	1,294	739	979	1,035
Royalty income	818	691	849	534
Cash provided by operating activities	1,132	1,209	1,054	814
Funds from operations	1,602	990	1,217	936
Per share - basic and diluted	0.04	0.02	0.03	0.02
Net loss	32	39	357	(584)
Per share - basic and diluted	0.00	0.00	0.01	(0.01)
Working capital	1,727	1,826	1,266	2,532
Shareholders' equity	17,136	15,848	15,761	15,375
Production *(BOE/day)*	444	301	329	243
Capital expenditures, net of dispositions	3,041	430	2,483	3,279

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.

In the third quarter of 2013 production volumes increased as a result of additional new oil production at Coyote. Commodity prices continued to improve resulting in an increase in funds from operations. Three wells were drilled, completed and equipped during the quarter and a fourth well was drilled and completed.

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.