Management's Report

To the Shareholders of Traverse Energy Ltd.

The accompanying consolidated financial statements of Traverse Energy Ltd. are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management has established systems of internal controls, which are designed to provide reasonable assurance that the assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. It exercises its responsibilities through the Audit Committee, which is comprised of independent, non-management directors. The Audit Committee has reviewed the consolidated financial statements with management and the auditors and has reported to the Board of Directors. On the recommendation of the Audit Committee, the accompanying consolidated financial statements have been approved by the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with auditing standards generally accepted in Canada on behalf of the shareholders.

(signed) "*Laurie J. Smith*"
Laurie J. Smith
President & Chief Executive Officer

(signed) "*Sharon A. Supple*"
Sharon A. Supple
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Traverse Energy Ltd.

We have audited the accompanying consolidated financial statements of Traverse Energy Ltd., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Traverse Energy Ltd. as at December 31, 2013 and December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) "*KPMG LLP"*

Chartered Accountants
Calgary, Canada
April 15, 2014

TRAVERSE ENERGY LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		$ 4,994,322	$ 3,267,511
Accounts receivable		1,712,206	1,562,283
Prepaid expenses and deposits		59,402	31,613
		6,765,930	4,861,407
Exploration and evaluation assets	6	5,056,426	3,721,166
Property and equipment	7	20,303,220	10,866,992
		$ 32,125,576	$ 19,449,565
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 3,641,510	$ 1,778,298
Financial derivative liability	14(b)	15,664	-
Income tax payable	10	694,000	-
		4,351,174	1,778,298
Deferred flow-through share premium		341,100	196,000
Decommissioning obligations	9	2,475,000	1,054,000
Deferred income taxes	10	1,964,710	828,630
		9,131,984	3,856,928
Shareholders' Equity			
Share capital	11	25,798,292	21,685,273
Contributed surplus		1,398,190	1,355,056
Deficit		(4,202,890)	(7,447,692)
		22,993,592	15,592,637
Commitments	11(c),13		
Subsequent event	16		
		$ 32,125,576	$ 19,449,565

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board:

(signed) "*A. David van der Lee*"
A. David van der Lee
Director

(signed) "*Laurie J. Smith*"
Laurie J. Smith
Director

TRAVERSE ENERGY LTD.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31,

	Notes	2013	2012
Revenue			
Petroleum and natural gas		$ 10,796,223	$ 4,600,364
Royalty income		3,877,339	3,321,586
Royalties		(1,167,162)	(299,282)
		13,506,400	7,622,668
Realized gain on financial derivatives		36,868	-
Unrealized loss on financial derivatives		(15,664)	-
		13,527,604	7,622,668
Expenses			
Operating		1,976,072	1,086,272
Transportation		235,965	145,412
General and administrative		744,054	815,210
Share based compensation		43,134	257,106
Exploration and evaluation expense	6	1,969,388	2,026,066
Depletion and depreciation	7	3,615,330	6,252,630
		8,583,943	10,582,696
Income (loss) from operating activities		4,943,661	(2,960,028)
Finance income		(21,311)	(11,928)
Finance expense	9	20,000	19,000
Net finance income		(1,311)	7,072
Income (loss) before income taxes		4,944,972	(2,967,100)
Income taxes	10(a)		
Current income tax		694,000	-
Deferred income tax (reduction)		1,006,170	(139,209)
		1,700,170	(139,209)
Net income (loss) and comprehensive income (loss)		$ 3,244,802	$ (2,827,891)
Net income (loss) per share - basic and diluted	11(d)	$ 0.07	$ (0.07)

See accompanying notes to the consolidated financial statements

TRAVERSE ENERGY LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Contributed surplus	Deficit	Total Shareholders' Equity
Balance January 1, 2012	$ 18,897,239	$ 1,097,950	$ (4,619,801)	$ 15,375,388
Net loss	-	-	(2,827,891)	(2,827,891)
Share based compensation	-	257,106	-	257,106
Issued for cash - flow-through	3,212,260	-	-	3,212,260
Deferred flow-through share premium	(320,680)	-	-	(320,680)
Share issue costs, net of tax of $34,516	(103,546)	-	-	(103,546)
Balance December 31, 2012	$ 21,685,273	$ 1,355,056	$ (7,447,692)	$ 15,592,637
Net income	-	-	3,244,802	3,244,802
Share based compensation	-	43,134	-	43,134
Issued for cash - flow-through	4,864,500	-	-	4,864,500
Deferred flow-through share premium	(557,700)	-	-	(557,700)
Share issue costs, net of tax of $64,590	(193,781)	-	-	(193,781)
Balance December 31, 2013	$ 25,798,292	$ 1,398,190	$ (4,202,890)	$ 22,993,592

See accompanying notes to the consolidated financial statements

TRAVERSE ENERGY LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31,

	Notes	2013	2012
Cash provided by (used in):			
Operating activities:			
Net income (loss)		$ 3,244,802	$ (2,827,891)
Adjustments for:			
Depletion and depreciation		3,615,330	6,252,630
Exploration and evaluation expense		1,969,388	2,026,066
Share based compensation		43,134	257,106
Finance expense		20,000	19,000
Deferred income tax (reduction)		1,006,170	(139,209)
Unrealized loss on financial derivatives		15,664	-
Decommissioning expenditures		(35,765)	-
Changes in non-cash working capital		715,393	(378,538)
		10,594,116	5,209,164
Financing activities:			
Proceeds on issue of common shares, net of issue costs		4,606,129	3,074,198
Proceeds on exercise of common share options		-	-
Changes in non-cash working capital		(575)	(5,485)
		4,605,554	3,068,713
Investing activities:			
Exploration and evaluation asset additions		(13,389,619)	(6,031,783)
Property and equipment asset additions		(1,070,772)	(2,184,423)
Acquisition	5	(414,700)	-
Exploration and evaluation asset dispositions		-	105,000
Changes in non-cash working capital		1,402,232	(1,129,692)
		(13,472,859)	(9,240,898)
Change in cash and cash equivalents		1,726,811	(963,021)
Cash and cash equivalents, beginning of year		3,267,511	4,230,532
Cash and cash equivalents, end of year		**$ 4,994,322**	**$ 3,267,511**

See accompanying notes to the consolidated financial statements

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 S.W., Calgary, Alberta, T2P 3C8 and its registered office is located at 1900, 520 - 3 Avenue SW Calgary, Alberta T2P 0R3.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on April 15, 2014.

2. Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These financial statements have been prepared in accordance with the significant accounting policies and methods of computation as set forth in note 3.

Operating expenses in the statement of loss are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation are presented on a separate line by their nature, while operating expenses and net general and administrative expenses are presented on a functional basis. Significant expenses such as salaries and benefits and stock based compensation are presented by their nature in the notes to the financial statements.

These financial statements have been prepared on a historical cost basis. The methods used to measure fair values are discussed in note 4. These financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

3. Significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary DLS Energy Ltd.. Any reference to the "Company" throughout these consolidated financial statements refers to the Company and its subsidiary. All inter-entity transactions have been eliminated.

(b) Jointly controlled operations and jointly controlled assets

A portion of the Company's oil and natural gas activities involve jointly controlled assets. The financial statements include the Company's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured based on their classification. The Company has made the following classifications:

Cash and cash equivalents and accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method. Cash and cash equivalents comprise cash on hand, term deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

(ii) Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments will not be used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges and therefore has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all derivative contracts will be classified as fair value through profit or loss and will be recorded on the statement of financial position at fair value. Transaction costs will be recognized in profit or loss when incurred.

Contracts that are entered into for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements (such as physical delivery commodity contracts) are accounted for as executory contracts. These contracts are not fair valued on the statement of financial position. Settlements are recognized in the statement of income as they occur.

(iii) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(d) Exploration and evaluation assets and property and equipment

(i) Pre-license expenditures

Costs incurred prior to obtaining the legal rights to explore a specific area have been obtained are recognized in profit or loss as incurred.

(ii) Exploration and evaluation assets

The costs of acquiring undeveloped land, technical services and studies, seismic acquisition and exploration drilling and completion are initially capitalized as exploration and evaluation assets. These costs are accumulated in cost centers by well, field or exploration area pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are assessed for impairment, on a license or field basis, if: (i) sufficient data exists to determine technical feasibility and commercial viability; or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is defined as the higher of fair value less costs to sell and value in use. The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved and/or probable reserves are determined to exist. Upon determination of proved and/or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified to development and production assets included in property and equipment.

Exploration and evaluation assets are measured at cost less accumulated impairment losses and are not subject to depletion expense until after the assets are reclassified to property and equipment. Gains or losses are not recognized on the disposition of exploration and evaluation assets. Any impairment loss on exploration and evaluation assets, unsuccessful costs and the cost of undeveloped land that has expired are charged to profit and loss as exploration and evaluation expense.

(iii) Development and production assets

Items of property and equipment, which include oil and natural gas properties, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into cash-generating units ("CGUs").

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred. Such capitalized oil and natural gas assets generally represent costs incurred in developing proved and/or probable reserve and bringing on or enhancing production from such reserves, and are accumulated on an area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

The costs of development and production assets are depleted on an area level using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves of the area, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers annually.

Gains and losses on disposal of development and production assets are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized in profit or loss.

(iv) Corporate assets

Corporate assets are stated at cost less accumulated depreciation and include office equipment and leasehold improvements.

Office equipment is depreciated on a declining balance basis at a rate of 30 percent per annum and leasehold improvements are amortized on a straight line basis over the term of the related lease.

(e) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to development and production assets, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of future cash flows expected to be derived from production of proved and probable reserves. Fair value less costs to sell is the amount for which the asset could be sold in an arm's length transaction and may be determined using discounted future net cash flows of proved and probable reserves. Consideration is given to acquisition metrics of recent transactions completed on similar assets to those contained within the relevant CGU.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment amounts are recognized in depletion and depreciation expense in the statement of income and comprehensive income. Impairment losses recognized in respect of CGUs reduce the carrying amounts of the assets in the CGU on a pro rata basis. Impairment losses recognized in prior years are assessed at each reporting date if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(f) Share based compensation

The Company has a share based compensation plan comprised of a stock option plan (Note 11(e)). The Company uses the fair value method for valuing stock option grants using the Black Scholes option pricing model. Under this method, the compensation cost attributable to stock options granted is measured at the fair value at the date of the grant and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the grant date and is subsequently adjusted each period to reflect the actual number of options that are expected to vest. Upon exercise of stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(g) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

(i) Decommissioning obligations

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion (within finance expense) whereas increases/decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(h) Revenue

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. Oil and natural gas royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(i) Finance income and expense

Finance expense is comprised of the accretion of the discount rate on provisions. Finance income is comprised of interest income and is recognized as it accrues in profit or loss.

(j) Income tax

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. On issuance, the premium received on the flow-through shares, being the difference in price over a common share with no tax attributes, is recognized as a liability on the statement of financial position. As qualifying expenditures are incurred, the liability is reversed and a corresponding deferred tax liability is recognized based on the Company's effective tax rate and the amount of expenditure. Any difference between the flow-through premium and the amount recognized by the Company as a deferred tax liability is recognized as deferred tax expense in profit or loss.

(l) Per share amounts

Basic income (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the net income per share attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted. If the Company is in a net loss position, there is no dilutive impact for outstanding stock options.

(m) Critical accounting judgments and key sources of estimation uncertainty

The timely preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

(i) *Identification of cash-generating units*

Traverse's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. The determination of these CGUs was based on management's judgment in regards to geographical proximity, geology, production profile, production type and similar exposure to market risk and materiality.

(ii) *Impairment of petroleum and natural gas assets*

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

(iii) *Exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing technical feasibility and commercial viability.

(iv) *Deferred income taxes*

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

(i) *Reserve estimates*

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries.

The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying value of the Company's petroleum and natural gas properties and equipment, the calculation of depletion, the provision for decommissioning obligations, and the recognition of deferred tax assets due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from the Company's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually. Traverse's petroleum and natural gas reserves are determined pursuant to National Instrument 51-101, Standards of Disclosures for Oil and Gas Activities.

(ii) *Decommissioning obligations*

The Company estimates future decommissioning obligations of production facilities, wells and pipelines based on current legal and constructive requirements, technology, price levels and expected plans for remediation. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability specific discount rates to determine the present value of these cash flows.

(iii) Share based compensation

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black Scholes model which is based on significant assumptions such as share price, volatility, forfeiture rate, dividend yield and expected term.

(iv) Income taxes

Tax interpretations, regulations and legislation in the jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable earnings.

(v) Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

(vi) Derivative financial instruments

The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

(n) Accounting policy changes

On January 1, 2013 the Company adopted new standards with respect to consolidations (IFRS 10), joint arrangements (IFRS 11), disclosures of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the consolidated financial statements as at January 1, 2013 or on the comparative periods.

There are currently no new accounting pronouncements issued or outstanding that are expected to have an impact on the Company's financial statements.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

(a) Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2013 and 2012, the fair value of these balances approximated their carrying value due to their short term to maturity.

(b) Stock options

The fair value of stock options is measured using a Black Scholes option pricing model. Measurement inputs include share price on the measurement date, exercise price of the option, expected volatility (based on the weighted average historical volatility), weighted average expected life of the options (based on historical experience and general option holder behaviour), expected dividends, estimated forfeitures at the initial grant date, and the risk-free interest rate (based on government bonds).

5. Acquisition

On December 16, 2013 the Company acquired all of the issued and outstanding shares of a privately held company, DLS Energy Ltd. ("DLS") for cash of $414,700. DLS was a related party (note 12 (a)) due to the controlling shareholders of DLS being directors and management of Traverse. DLS was acquired by the Company to consolidate its interests in Southern Alberta and for its tax pools. The estimated fair value of the property, plant and equipment acquired has been determined with reference to an internal reserve report with consideration also given for land, seismic and facility values. The decommissioning liabilities assumed were determined using internal estimates. A summary of the acquired assets and liabilities is presented below:

Consideration paid	$	414,700
Net assets acquired, at estimated fair value		
Property, plant and equipment	$	641,050
Working capital		(262,450)
Decommissioning liabilities		(182,000)
Deferred tax assets		218,100
	$	414,700

The above amounts are estimates, which were made by management at the time of the preparation of these financial statements based on information then available. Amendments may be made to these amounts as values subject to estimate are finalized.

DLS's results of operations are included in the Company's consolidated results of operations beginning December 16, 2013 and contributed approximately $21,100 of production revenue and $9,600 of profit before tax to the consolidated statement of income. If the acquisition had been effective January 1, 2013 the Company would have realized an estimated $296,000 of production revenue and an estimated additional $170,000 of profit before tax.

6. Exploration and evaluation assets

		Total
Balance, January 1, 2012	$	2,958,415
Additions		6,031,783
Dispositions		(105,000)
Transfers to property and equipment		(3,352,966)
Changes in decommissioning liabilities		215,000
Exploration and evaluation expense - land expiries		(153,943)
Exploration and evaluation expense - unsuccessful exploration		(1,222,123)
Exploration and evaluation expense - impairments on transfer		(650,000)
Balance, December 31, 2012		3,721,166
Additions		13,389,619
Transfers to property and equipment		(10,151,016)
Changes in decommissioning liabilities		66,045
Exploration and evaluation expense - land expiries		(636,987)
Exploration and evaluation expense - unsuccessful exploration		(1,332,401)
Balance, December 31, 2013	$	5,056,426

Exploration and evaluation ("E&E") assets consist of the Company's exploration projects which are pending the determination of proved and/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 year.

During 2012 the Company recognized impairments on the transfers of wells to property and equipment. These impairments of $650,000 were recognized as additional exploration and evaluation expense and any future reversals would be recognized as a reversal of exploration and evaluation expense.

7. Property and equipment

Cost:	**Oil and natural gas properties**	**Corporate**	**Total**
Balance, January 1, 2012	$ 15,067,887	$ 100,247	$ 15,168,134
Additions	2,172,325	12,098	2,184,423
Transfers from exploration and evaluation	3,352,966	-	3,352,966
Changes in decommissioning liabilities	(40,000)	-	(40,000)
Balance, December 31, 2012	20,553,178	112,345	20,665,523
Additions	1,063,153	7,619	1,070,772
Transfers from exploration and evaluation	10,151,016	-	10,151,016
Acquisition (note 5)	641,050	-	641,050
Changes in decommissioning liabilities	1,188,720	-	1,188,720
Balance, December 31, 2013	$ 33,597,117	$ 119,964	$ 33,717,081

Accumulated depletion and depreciation:	**Oil and natural gas properties**	**Corporate**	**Total**
Balance, January 1, 2012	$ (3,523,912)	$ (21,989)	$ (3,545,901)
Depletion and depreciation	(2,533,176)	(19,454)	(2,552,630)
Impairment	(3,700,000)	-	(3,700,000)
Balance, December 31, 2012	(9,757,088)	(41,443)	(9,798,531)
Depletion and depreciation	(3,597,855)	(17,475)	(3,615,330)
Balance, December 31, 2013	$ (13,354,943)	$ (58,918)	$ (13,413,861)

Net book value:	**Oil and natural gas properties**	**Corporate**	**Total**
As at December 31, 2012	$ 10,796,090	$ 70,902	$ 10,866,992
As at December 31, 2013	$ 20,242,174	$ 61,046	$ 20,303,220

The calculation of depletion at December 31, 2013 included estimated future development costs of $1,484,000 (2012 - $481,000) associated with the development of the Company's proved plus probable reserves and excluded salvage value of $723,000 (2012 - $387,000).

At December 31, 2013 the Company performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined there were no impairment triggers identified at the end of the reporting period. As a result, no impairment test was required at December 31, 2013. At December 31, 2012 the Company recorded a total impairment charge of $3,700,000 related to the Alliance, Carbon and Long Coulee areas within the oil CGU.

8. Banking facility

The Company's bank facility as at December 31, 2013 consisted of a revolving operating loan facility (the “facility”) with a Canadian bank. The facility is provided on a demand basis in the amount of $5.0 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, 2014.

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 December 31, 2013 the Company was in compliance with the financial covenant and no amount was owing under the facility. 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.

9. Decommissioning obligations

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and facilities. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The Company has estimated the net present value of the decommissioning obligations to be $2.5 million as at December 31, 2013 (2012 - $1.1 million) based on an undiscounted total future liability of $3.5 million (2012 - $1.3 million). These payments are expected to be made over the next 25 years with the majority of the costs to be incurred between 2025 and 2032. The inflation rate applied to the liability is 2% (2012 - 2%). The discount factor, being the risk-free interest rate related to the liability, is 3.1% (2012 - 2.5%).

A reconciliation of the decommissioning obligations is provided below:

		Total
Balance, January 1, 2012	$	860,000
Obligations incurred and acquired		217,000
Revision of estimates		(42,000)
Accretion expense		19,000
Balance, December 31, 2012		1,054,000
Obligations incurred		770,000
Acquisition (note 5)		182,000
Revision of estimates		484,765
Settled during the year		(35,765)
Accretion expense		20,000
Balance, December 31, 2013	$	2,475,000

10. Deferred income tax

(a) Deferred income tax (reduction)

The provision for income tax in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial income tax rate to the Company's loss before income taxes. This difference results from the following items:

	Year ended Dec. 31, 2013	Year ended Dec. 31, 2012
Income (loss) before income taxes	$ 4,944,972	$ (2,967,100)
Combined federal and provincial income tax rate	25.0%	25.0%
Computed "expected" income tax reduction	$ 1,236,243	$ (741,775)
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation expense	10,785	64,270
Other	(9,383)	1,466
Flow-through shares	462,525	536,830
Income tax expense (reduction)	1,700,170	(139,209)
Current income tax expense	694,000	-
Deferred income tax expense (reduction)	$ 1,006,170	$ (139,209)

(b) Deferred income tax liability

The components of the Company's deferred income tax liability are as follows:

	2013	2012
Deferred tax liabilities:		
E&E assets & property & equipment	$ 2,836,830	$ 1,190,730
Deferred tax assets:		
Decommissioning liabilities	(618,750)	(263,500)
Loss carryforwards	(136,220)	-
Financial derivative liability	(3,920)	-
Share issue costs	(113,230)	(98,600)
Deferred income tax liability	$ 1,964,710	$ 828,630

The Company's assets have an approximate tax basis of $15.0 million at December 31, 2013 (2012 - $10.2 million) available for deduction against future taxable income. The Company has approximately $550,000 (2012 - Nil) of non-capital losses available to shelter future taxable income. These losses expire between 2026 and 2033. A deferred tax asset has not been recognized in respect of approximately $175,000 (2012 - Nil) of successored Canadian Exploration expenses at December 31, 2013 because it is not probable that the Company will be able to utilize the benefit.

A continuity of the net deferred income tax liability (asset) is provided below:

	Balance December 31, 2011	Recognized in income or loss	Recognized in equity	Flow-through shares	Balance December 31, 2012
E&E assets and property & equipment	$ 1,156,680	$ (404,075)	$ -	$ 438,125	$ 1,190,730
Decommissioning liabilities	(215,000)	(48,500)	-	-	(263,500)
Non-capital losses	(279,460)	279,460	-	-	-
Share issue costs	(97,990)	33,906	(34,516)	-	(98,600)
	$ 564,230	$ (139,209)	$ (34,516)	$ 438,125	$ 828,630

	Balance December 31, 2012	Recognized in income or loss	Recognized in equity	Corporate acquisition (note 5)	Flow-through shares	Balance December 31, 2013
E&E assets & property & equipment	$ 1,190,730	$ 1,315,380	$ -	$ (81,880)	$ 412,600	$ 2,836,830
Decommissioning liabilities	(263,500)	(355,250)	-	-	-	(618,750)
Non-capital losses	-	-	-	(136,220)	-	(136,220)
Financial derivatives	-	(3,920)	-	-	-	(3,920)
Share issue costs	(98,600)	49,960	(64,590)	-	-	(113,230)
	$ 828,630	$ 1,006,170	$ (64,590)	$ (218,100)	$ 412,600	$ 1,964,710

11. Share capital

(a) Authorized

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. No preferred shares have been issued. The holders of common shares are entitled to receive dividends as declared by the Company and are entitled to one vote per share.

(b) Issued and outstanding

Common shares	Number	Amount
Balance January 1, 2012	42,209,911	$ 18,897,239
Issued for cash - flow-through	4,878,000	3,212,260
Deferred flow-through share premium	-	(320,680)
Share issue costs, net of tax of $34,516	-	(103,546)
Balance December 31, 2012	47,087,911	$ 21,685,273
Issued for cash - flow-through	6,420,000	4,864,500
Deferred flow-through share premium	-	(557,700)
Share issue costs, net of tax of $64,590	-	(193,781)
Balance December 31, 2013	53,507,911	$ 25,798,292

(c) Private placements

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 Company has incurred the required qualifying expenditures.

In December 2012 the Company completed a private placement of 2,800,000 flow-through common shares at a price of $0.65 per common share for gross proceeds of $1,820,000. Directors and officers of the Company subscribed for 356,200 common shares for consideration of $231,530. The Company has incurred the required qualifying expenditures.

In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of $1,504,500. Flow-through common shares eligible for Canadian exploration expenses were issued at $0.67 per share (750,000 shares) and flow-through common shares eligible for Canadian development expenses were issued at a price of $0.60 per common share (1,670,000 shares.) The Company has incurred the required qualifying expenditures.

In December 2013 the Company completed a private placement of 4,000,000 flow-through common shares at a price of $0.84 per common share for gross proceeds of $3,360,000. Directors and officers of the Company subscribed for 966,950 common shares for consideration of $812,238. The qualifying expenditures were renounced to shareholders as at December 31, 2013 and the Company has to incur the qualifying expenditures before December 31, 2014. The obligation remaining for this flow-through issue at December 31, 2013 was $3,184,000.

(d) Per share amounts

Basic and diluted net loss were calculated as follows:

	2013	2012
Net income (loss) for the year	$ 3,244,802	$ (2,827,891)
Weighted average number of common shares - basic	48,692,706	43,345,695
Effect of dilutive stock options	561,938	-
Weighted average number of common shares - diluted	49,254,644	43,345,695
Net income (loss) per share - basic and diluted	$ 0.07	$ (0.07)

In computing diluted per share amounts at December 31, 2013, 1,905,000 options were excluded from the calculation as their effect was anti-dilutive. The Company experienced a net loss in the 2012 year and therefore the effect of outstanding options was excluded as they were anti-dilutive.

(e) 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 January 1, 2012	3,525,000	$ 0.57
Granted	905,000	0.67
Balance December 31, 2012 and 2013	4,430,000	$ 0.59

No options were granted during the year ended December 31, 2013. The fair value of options granted in 2012 was estimated using a Black Scholes model with the following weighted average assumptions:

Assumptions	2012
Risk free interest rate (%)	1.4
Expected life (years)	4.7
Expected volatility (%)	57.7
Forfeiture rate (%)	2.8
Weighted average fair value of options	$0.28

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2013:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.00 - \$0.40	1,500,000	0.7	\$ 0.40	1,500,000	\$ 0.40
\$0.41 - \$0.60	1,630,000	2.5	\$ 0.59	1,630,000	0.59
\$0.61 - \$0.80	1,300,000	2.8	\$ 0.80	1,300,000	0.80
\$0.40 - \$0.80	4,430,000	1.9	\$ 0.59	4,430,000	\$ 0.59

12. Related party transactions

(a) Common management and directors

Certain directors of Traverse were also the controlling shareholders of a private company that participated in joint operations with the Company. All transactions were completed on an arm’s length basis consistent with normal industry terms. During the year ended December 31, 2013, the aggregate value of transactions entered into between Traverse and the private company was approximately \$376,000 (2012 - \$895,000). Traverse purchased the related company on December 16, 2013 (Note 5) and as a result no amounts were outstanding between Traverse and the related company at December 31, 2013. At December 31, 2012 Traverse had outstanding payables to the related parties of \$90,000 and accounts receivable due to Traverse of \$161,000.

(b) Key management compensation

Key management includes senior officers and directors of the Company. The compensation paid or payable to key management for employee services is shown below:

	2013	2012
Salary, wages and fees	\$ 131,325	\$ 136,725
Share based compensation	-	120,429
Key management compensation	\$ 131,325	\$ 257,154

13. Commitment

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 approximately as follows:

Year	Annual amount (\$)
2014 and 2015	210,400
2016	212,600
2017	223,900
2018	226,100
2019 and 2020	237,400
2021	197,800

14. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as credit risk, market risk and liquidity risk. This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint venture partners and oil and natural gas marketers.

Substantially all of the Company's petroleum and natural gas production is marketed under standard industry terms. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large credit worthy purchasers. During 2013, two third party purchasers marketed 71% of the Company's petroleum and natural gas revenue. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers.

Substantially all of the Company's royalty income production is marketed by the operator of the property. Royalty income receivables are normally paid within the second month following the month of production. During 2013, one industry partner accounted for 95% of the Company's royalty income. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to the expenditure.

However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however the Company can elect or take overriding production royalties in kind, cash call for major projects and does have the ability, in some cases, to withhold production from joint venture partners in the event of non-payment.

The carrying amount of accounts receivable represents the maximum credit exposure. As at December 31, 2013 the Company's receivables consisted of $1,021,433 (2012 - $579,616) of receivables from petroleum and natural gas marketers, $447,839 (2012 - $732,585) from industry partners relating to royalty income, $44,358 (2012 - $197,096) from joint venture partners and $198,576 (2012 - $52,986) of receivables from government agencies. During the year ended December 31, 2013 and 2012 there were no impairment provisions required on any of the financial assets of the Company due to the historical success of collecting receivables. The Company does not consider any receivables to be past due.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates will affect the Company's cash flow, income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return.

(i) Foreign currency exchange risk

Foreign currency exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Substantially all of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canadian to U.S. dollar exchange rate.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in market interest rates. The Company currently has no interest bearing debt and is therefore not subject to interest rate risk other than on its cash and cash equivalents where any exposure is considered insignificant.

(iii) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Company enters into various derivative financial instruments and physical commodity contracts.

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instruments:

a) Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

b) Level 2: Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

c) Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's derivative commodity contracts are classified as level 2 measurements. The fair value of commodity contracts is determined by discounting the difference between the contracted price and published forward prices curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes. At December 31, 2013 the Company had derivative commodity contracts as follows:

Product	Term	Type	Volume	Swap price	Index	December 31, 2013
Natural Gas	Jan. 1 to Dec. 31, 2014	Basis swap	1,000 mmbtu/d	US $0.46/mmbtu	AECO - Henry Hub	$ 24,943
Oil	Jan. 1 to Mar. 31, 2014	Swap	100 bbls/d	Cdn $106.70/bbl	WTI - NYMEX	16,817
Oil	Jan. 1 to Jun. 30, 2014	Swap	100 bbls/d	Cdn $101.00/bbl	WTI - NYMEX	(57,424)
Total						$ (15,664)

As at December 31, 2013 a 10% increase in the index prices would have increased the unrealized loss on financial derivatives by approximately $272,000.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's financial liabilities consist of accounts payable which are invoices payable to trade suppliers for office expenses, field operating activities and capital expenditures. The Company processes invoices within a normal payment period and all accounts payable have contractual maturities of less than one year. The Company manages liquidity by monitoring cash flows and maintaining a banking facility, as outlined in note 8.

(d) Capital management

The Company's objective in managing its capital structure is to maintain financial flexibility through periods of market fluctuations and to sustain the future development of the business. The Company considers its capital structure to include shareholders' equity, debt and working capital. The Company manages its capital structure and makes adjustments relative to changes in economic conditions and the Company's risk profile. In order to maintain the capital structure, the Company may from time to time issue shares, adjust its capital spending or consider utilizing debt. The Company monitors its working capital in order to assess capital and operating efficiency.

The Company is not subject to any externally imposed capital requirements. The banking facility is subject to an annual review of the borrowing base which is directly impacted by the value of the oil and natural gas reserves. During 2013, the Company's strategy in managing its capital was unchanged.

15. Supplemental information

(a) Cash Flow Statement Presentation

Changes in non-cash working capital is comprised of:

		2013		2012
Provided by (used in):				
Accounts receivable	$	(149,923)	$	(630,606)
Prepaid expenses and deposits		(27,789)		6,360
Accounts payable and accrued liabilities		1,863,212		(889,469)
Income taxes payable		694,000		-
Working capital on acquisition (note 5)		(262,450)		-
	$	2,117,050	$	(1,513,715)
Provided by (used in):				
Operating	$	715,393	$	(378,538)
Financing		(575)		(5,485)
Investing		1,402,232		(1,129,692)
	$	2,117,050	$	(1,513,715)

(b) Income Statement Presentation

A mixed presentation of nature and function was used for the Company's presentation of operating expenses in the statements of loss and comprehensive loss for the current and comparative years. General and administrative expenses are presented by their function. Other expenses, including operating, transportation, exploration and evaluation and depletion and depreciation are presented by their nature. Such presentation is in accordance with industry practice.

Total compensation costs included in operating and general and administrative expenses in the statements of loss and comprehensive loss are detailed in the following table:

		2013		2012
Operating	$	51,970	$	1,960
General and administrative		325,393		341,030
Compensation costs	$	377,363	$	342,990

16. Subsequent event

On March 12, 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million.