This management's discussion and analysis ("MD&A") dated April 15, 2014 should be read in conjunction with the audited consolidated financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the years ended December 31, 2013 and 2012. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The reporting and measurement currency is the Canadian dollar. Additional information relating to the Company, including Traverse's Annual Information Form, is available on SEDAR at www.sedar.com.

Description of the Company

Traverse Energy Ltd. is 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 and settlement of decommissioning obligations as detailed under the heading "Cash and funds from operations and net income (loss)". The Company believes that in addition to net loss, 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 installing gas compression at its Turin facility in the second quarter; additional production testing and tie ins beginning in the second quarter; a battery expansion commencing in the second quarter; timing for delivery of solution gas to a third party gas plant from oil production at the Coyote battery; anticipated impact to production as a result of partial suspension of production at the Coyote battery pending commencement of deliveries of solution gas to the third party gas plant; the number of wells to be drilled in 2014; the decrease in the proportion of royalty interest production due to increased Company drilling; the anticipated decrease in the royalty netback per BOE due to the increased proportion of natural gas royalty income in the production mix; anticipated increases in general and administrative costs; being taxable on a current basis in 2014; and intentions for funding capital expenditures during 2014 are forward-looking information. This forward-looking information is subject to a variety of substantial known and unknown risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking information. The Company's Annual Information Form filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describes the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

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

HIGHLIGHTS	Three months ended December 31 (unaudited) 2013	2012	Year ended December 31 2013	2012
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**3,341**	1,588	**10,796**	4,600
Royalty income	**714**	964	**3,877**	3,322
Cash provided by operations	**2,723**	1,815	**10,594**	5,209
Funds from operations [(1)]	**1,958**	1,779	**9,914**	5,588
Per share - basic and diluted	**0.04**	0.04	**0.20**	0.13
Net income (loss)	**27**	(3,255)	**3,245**	(2,828)
Per share - basic and diluted	**0.00**	(0.07)	**0.07**	(0.07)
Capital expenditures, net of dispositions	**5,482**	2,158	**14,875**	8,111
Total assets	**32,126**	19,450	**32,126**	19,450
Working capital	**2,430**	3,083	**2,430**	3,083
Common shares				
Outstanding *(millions)*	**53.5**	47.1	**53.5**	47.1
Weighted average *(millions)*	**50.3**	44.9	**48.7**	43.3
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**1,666**	1,362	**1,569**	957
Oil and NGL *(bbls/day)*	**509**	318	**419**	245
Total (BOE/day)	**787**	545	**680**	405
Average sales price				
Natural gas *($/mcf)*	**3.50**	3.35	**3.44**	2.65
Oil and NGL *($/bbl)*	**75.16**	72.90	**83.11**	77.90
Operating netback *($/BOE)* [(2)]				
Petroleum and natural gas revenue	**57.75**	45.95	**56.97**	49.04
Realized gain on financial derivatives	**0.34**	0.00	**0.19**	0.00
Royalties	**8.36**	2.95	**6.16**	3.19
Operating and transportation costs	**12.66**	13.80	**11.67**	13.13
Working interest netback	**37.07**	29.20	**39.33**	32.72
Royalty netback	**49.22**	61.94	**65.95**	61.07
Operating netback	**39.51**	39.36	**45.64**	43.13

[(1)] Funds from operations is calculated as cash provided by operating activities before changes in non-cash working capital and settlement of decommissioning obligations. 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 2013 Traverse participated in the drilling of 9 net wells (100% working interest) resulting in 6 oil wells and 3 dry holes. In the Coyote area of East Central Alberta, Traverse drilled 7 wells resulting in 6 oil wells and 1 dry hole which will be converted to a water disposal well. The first well drilled in March was placed on production in June, 2013. The 6 additional wells were drilled in the second half of the year; 3 wells were brought on stream by year end and 2 wells were placed on production in the first quarter of 2014. Additional activities at Coyote included land acquisition, 2D and 3D seismic purchase and shooting and the construction of well site and initial production facilities.

In the Turin area 2 net wells were drilled in March, 2013 on the east side of the property resulting in 2 dry and abandoned wells. Production during the third quarter at Turin was interrupted by a five-week shutdown of a third party owned natural gas 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, assumed operatorship of the pipeline, and resumed production. 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 21 horizontal Cardium wells are producing on the property. At December 31, 2013 Traverse's undeveloped landholdings, all within Alberta, totalled 172,600 gross (168,000 net) acres with an average working interest of 97%.

In the first quarter of 2014 the Company (100%) drilled 5 wells. Two wells were drilled at Turin resulting in 1 gas well and 1 oil well. The wells at Turin are in the process of being tied in and the Company is planning to install gas compression at its Turin facility in the second quarter. This compression will allow for additional natural gas production from several shut in gas wells and increase the solution gas volumes produced with the oil production. In the Coyote area Traverse drilled 2 wells and re-entered an existing wellbore. The Company also drilled an initial well in the Michichi area on Company owned lands. All of these wells are in various stages of evaluation with additional production testing and tie ins planned beginning in the second quarter. The Company is planning a battery expansion commencing in the second quarter to accommodate additional oil and gas volumes in the area.

In March 2014 the Company completed a bought deal financing for gross proceeds of $11.5 million. As a result, the Board of Directors approved an increase to the exploration and development budget to $25 million. The program includes the drilling of 15 wells on Company owned lands in the Coyote and Turin areas and on other properties located in east central Alberta.

Production	Three months ended December 31,		Year ended December 31,	
	2013	2012	**2013**	2012
Average working interest production				
Natural gas *(mcf/day)*	**1,152**	1,108	**1,280**	691
Oil and NGL *(bbls/day)*	**437**	191	**306**	141
Total *(BOE/day)*	**629**	376	**519**	256
Average royalty production				
Natural gas *(mcf/day)*	**514**	254	**289**	266
Oil and NGL *(bbls/day)*	**72**	127	**113**	104
Total *(BOE/day)*	**158**	169	**161**	149
Total production				
Natural gas *(mcf/day)*	**1,666**	1,362	**1,569**	957
Oil and NGL *(bbls/day)*	**509**	318	**419**	245
Total *(BOE/day)*	**787**	545	**680**	405
% Oil and NGL	**65%**	58%	**62%**	60%

Total production averaged 787 BOE per day in the fourth quarter of 2013, a 44% increase from the average production of 545 BOE per day in the same period of 2012, and slightly higher than the average production of 765 BOE per day in the third quarter of 2013. Production increased 68% to 680 BOE per day in 2013 compared to 405 BOE per day in 2012. This increased production in 2013 resulted from new production in the Coyote area and the full year impact of 2012 drilling in the Turin area.

On February 28, 2014 Traverse received a notice from the Alberta Energy Regulator ("AER") to partially suspend production at a producing oil battery in the Coyote area of East Central Alberta ("Coyote Battery") until the Company is able to conserve the solution gas which the Company had been flaring. The Coyote Battery is currently composed of three producing oil wells. The partial suspension commenced March 4, 2014. The Company is undertaking minor modifications to the Coyote Battery as requested by the operator of a nearby gas plant so that the plant can begin accepting Traverse's solution gas. Solution gas deliveries to the plant were initially anticipated to begin in late March or early April but are now anticipated to begin in May 2014 after the completion of the Coyote Battery modifications and the approval of those modifications by the gas plant operator. Until that time the Company continues to produce oil at the Coyote Battery but solution gas being flared is reduced by 75% from previous volumes. Traverse estimates that approximately 60 barrels of oil per day is producing within the AER guidelines resulting in an estimated cutback in production from the Coyote Battery of approximately 140 barrels of oil per day.

Production by area (BOE/day)	Three months ended December 31,		Year ended December 31,	
	2013	2012	**2013**	2012
Brazeau	**140**	148	**144**	129
Coyote	**260**	0	**161**	0
Turin	**345**	327	**321**	175
Minor	**42**	70	**54**	101
Total BOE per day	**787**	545	**680**	405
% of BOE/day				
Royalty	**20%**	31%	**24%**	37%
Working interest	**80%**	69%	**76%**	63%

The Company's 2013 drilling program in the Coyote area resulted in new production from 4 oil wells during the second half of 2013. Two additional oil wells drilled in the fourth quarter of 2013 at Coyote commenced production in early 2014. The Company's production in the Turin area increased 83% to 321 BOE per day in 2013 compared to 175 BOE per day in 2012. Drilling at Turin during 2012 resulted in new production during the second half of 2012. Fourth quarter production at Turin increased 6% in the 2013 period compared to the 2012 period.

The royalty proportion of total Company production has decreased to 24% in 2013 versus 37% in 2012. Industry drilling on the Company's royalty lands at Brazeau slowed in 2013 compared to 2012. Future increases in royalty production will be dependent on the level of industry drilling on the royalty lands. Royalty interest production is anticipated to continue to decrease as a percentage of total production due to increased Company drilling.

Pricing	Three months ended December 31,		Year ended December 31,	
	2013	2012	**2013**	2012
Average sales price				
Natural gas *($/mcf)*	**$ 3.50**	$ 3.35	**$ 3.44**	$ 2.65
Oil and NGL *($/bbl)*	**75.16**	72.90	**83.11**	77.90
Total before realized gain on financial derivatives ($/BOE)	**56.04**	50.91	**59.10**	53.46
Realized gain on financial derivatives (*$/BOE)*	**0.27**	0.00	**0.15**	0.00
Total after realized gain on financial derivatives (*$/BOE)*	**$ 56.31**	$ 50.91	**$ 59.25**	$ 53.46

The average BOE sales price received in the fourth quarter of 2013, after the realized gain on financial derivatives, increased 11% to $56.31 per BOE compared to $50.91 per BOE in the 2012 period but declined 18% from the third quarter of 2013. This decrease was caused by a decline of 20% in the crude oil prices received from the third to fourth quarter of 2013 offset by an increase of 14% in natural gas prices. The oil percentage of the Company's average BOE remained at approximately 65% in the third and fourth quarters of 2013 which increased from an average of 58% in the fourth quarter of 2012 due to the addition of new oil production at Coyote.

The average BOE sales price received in 2013 increased 11% compared to 2012. Crude oil pricing and natural gas pricing increased 7% and 30% respectively in 2013 compared to 2012. The Company's average oil production increased to 62% of total production in 2013 compared to 60% in 2012.

Volatility in the commodity markets will continue to impact realized prices in 2014. At December 31, 2013 Traverse had natural gas physical delivery contracts pertaining to 2014 outstanding for an average of 900 GJ per day at $3.24 per GJ as well as the following derivative contracts:

Product	**Term**	**Type**	**Volume**	**Swap price**	**Index**
Natural Gas	Jan. 1 to Dec. 31	Basis swap	1,000 mmbtu/d	US $0.46/mmbtu	AECO - Henry Hub
Oil	Jan. 1 to Mar. 31	Swap	100 bbls/d	$106.70/bbl	WTI - NYMEX
Oil	Jan. 1 to Jun. 30	Swap	100 bbls/d	$101.00/bbl	WTI - NYMEX

The realized gain on financial derivatives for 2013 was $36,868 or $0.15 per BOE. The unrealized loss on the financial derivatives detailed above was $15,664 at December 31, 2013.

Petroleum and natural gas revenue *($)*	Three months ended December 31,		Year ended December 31,	
	2013	2012	**2013**	2012
Petroleum and natural gas revenue by source				
Production income	**3,341,077**	1,588,357	**10,796,223**	4,600,364
Royalty income	**714,273**	963,376	**3,877,339**	3,321,586
Total	**4,055,350**	2,551,733	**14,673,562**	7,921,950
Petroleum and natural gas revenue by commodity				
Oil and NGL	**3,519,043**	2,131,809	**12,703,397**	6,994,225
Natural gas	**536,307**	419,924	**1,970,165**	927,725
Total	**4,055,350**	2,551,733	**14,673,562**	7,921,950

A 44% increase in production, combined with an 11% increase in revenue per BOE, resulted in revenues of $4.1 million in the fourth quarter of 2013, up 59% from $2.6 million in the same period of 2012. The fourth quarter revenue of $4.1 million decreased 16% from the third quarter of 2013 mainly due to the decrease in crude oil prices. The average commodity price received in the fourth quarter of 2013 declined 18% from the third quarter.

Petroleum and natural gas revenue in 2013 increased 85% from the prior year due mainly to the 68% increase in production volumes complemented by the 11% increase in commodity prices. Petroleum and natural gas revenue in the fourth quarter of 2013 decreased by 16% compared to the third quarter of 2013 due mainly to a 20% decrease in crude oil pricing.

Operating netback

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 December 31			
	2013		2012	
Operating netback	**$**	**$/BOE**	$	$/BOE
Petroleum and natural gas revenue	**3,341,077**	**57.75**	1,588,357	45.95
Realized gain on financial derivatives	**19,403**	**0.34**	0	0.00
Royalties	**483,356**	**8.36**	101,858	2.95
Operating	**667,496**	**11.54**	428,632	12.40
Transportation	**65,140**	**1.12**	48,338	1.40
Working interest netback	**2,144,488**	**37.07**	1,009,529	29.20
Royalty netback	**714,273**	**49.22**	963,376	61.94
Operating netback	**2,858,761**	**39.51**	1,972,905	39.36

The working interest netback per BOE increased 27% in the fourth quarter of 2013 compared to the 2012 period. Increases in commodity prices and the proportion of oil in the production mix contributed to a 26% increase in the average price received per BOE. Royalties increased to $8.36 per BOE (14.5% of revenue per BOE) from $2.95 per BOE (6.4% of revenue per BOE) due to the expiry of the New Well Royalty Rate (NWRR) at Turin and a higher royalty burden on the wells drilled in 2012, offset by new production subject to the NWRR at Coyote. Operating and transportation costs on a BOE basis decreased 8% in the fourth quarter of 2013 compared to the 2012 period due to lower operating costs experienced at Coyote.

The royalty netback decreased in the fourth quarter of 2013 compared to 2012 despite increasing commodity prices due to the increase in the proportion of natural gas in the royalty production mix. The Brazeau natural gas royalty production is subject to deductions for gathering and processing. The natural gas royalty volume received is reduced by these deductions. The Company receives and records royalty income and volumes only to the extent that the natural gas price exceeds these deductions. Due to the depressed natural gas prices in the previous periods the natural gas royalty volumes received were significantly reduced by these deductions. In the final quarter of 2013 natural gas prices increased resulting in higher gas royalty production volumes. These natural gas royalty volumes represented 54% of the total royalty production in the fourth quarter of 2013 compared to 25% in the 2012 period. The higher proportion of lower priced gas (compared to oil) results in a decreased royalty netback per BOE.

The operating netback for the fourth quarter of 2013 is comparable to the final quarter of 2012, although the composition of the netback has changed. The working interest contribution to the operating netback has increased to 75% in the 2013 period from 51% in the 2012 fourth quarter. The royalty netback contribution to the operating netback has declined from 49% in the 2012 fourth quarter to 25% in the final quarter of 2013.

	Year ended December 31			
	2013		2012	
Operating netback	**$**	**$/BOE**	$	$/BOE
Petroleum and natural gas revenue	**10,796,223**	**56.97**	4,600,364	49.04
Realized gain on financial derivatives	**36,868**	**0.19**	0	0.00
Royalties	**1,167,162**	**6.16**	299,282	3.19
Operating	**1,976,072**	**10.42**	1,086,272	11.58
Transportation	**235,965**	**1.25**	145,412	1.55
Working interest netback	**7,453,892**	**39.33**	3,069,398	32.72
Royalty netback	**3,877,339**	**65.95**	3,321,586	61.07
Operating netback	**11,331,231**	**45.64**	6,390,984	43.13

The working interest netback increased 20 percent in 2013 to $39.33 per BOE compared to $32.72 per BOE in 2012 due mainly to increased commodity prices and reduced operating costs, partially offset by increased royalties. Royalties as a percentage of revenue increased to 11% in 2013 from 7% in 2012. Royalties increased in 2013 as a result of the expiry of the NWRR at Turin and the impact of a full year of the higher burdened production added in 2012 at Turin. New production in the Coyote area is eligible for the NWRR providing for a maximum 5% royalty for the first year of production.

New oil production at Coyote is currently trucked as emulsion which is reflected in the financial statements as operating costs versus transportation costs which consists of clean oil hauling and natural gas transportation. As a result, analysis of the operating and transportation costs is conducted on a combined basis. Operating and transportation costs combined decreased 11% per BOE in 2013 compared to 2012 due to lower costs at Turin, where water disposal facilities became operational in March 2012 and lower operating costs per BOE were incurred at Coyote due to the higher initial production base.

The royalty netback increased in 2013 compared to 2012, however the royalty netback per BOE is anticipated to decrease in 2014 due to the increased proportion of natural gas royalty income in the production mix.

The operating netback of $45.64 per BOE for 2013 is composed of 86% working interest netback and 14% royalty income netback. The operating netback for 2013 is comparable to the 2012 netback of $43.13 per BOE however the increased working interest production is now the majority of the operating netback.

General and administrative *($)*	Three months ended December 31,		Year ended December 31,	
	2013	2012	**2013**	2012
General and administrative costs - gross	**311,374**	265,667	**1,015,389**	993,142
Operator recoveries	**98,739**	68,748	**271,335**	177,932
General and administrative costs - net	**212,635**	196,919	**744,054**	815,210
Per BOE	**2.94**	3.93	**3.00**	5.50

General and administrative costs, both gross and net, are comparable between the 2013 and 2012 periods. Operator recoveries increased in 2013 due to the increased level of capital expenditures. On a BOE basis net general and administrative costs have decreased 45% to $3.00 per BOE due to higher total production in 2013. General and administrative costs are anticipated to increase in 2014 with increased drilling activity and production operations but will continue to decrease on a BOE basis with production increases.

Share based compensation

Share based compensation expense of $43,134 (2012 - $257,106) relates to the vesting of options granted to consultants in 2012. Stock based compensation expense decreased in 2013 as no new options were granted during the year.

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 2013 Traverse recorded $2.0 million of E&E expense (2012 - $2.0 million) related to impairments on current drilling projects and the impairment of land costs related to pending expiries.

Drilling costs associated with the drilling of 2 gross (2.0 net) unsuccessful wells at Turin were expensed in 2013. Pending expiries of undeveloped lands within mainly natural gas project areas were also impaired as Traverse does not plan to pursue these projects before expiry.

In 2012 drilling costs associated with the drilling of 2 gross (1.75 net) unsuccessful wells at Turin were expensed and costs associated with the drilling of 2 gross (1.75 net) natural gas wells at Turin were also impaired at the time of transfer to development and production assets as reserve estimates indicated that the full amount of the expenditures would not be recoverable. Pending expiries of land within natural gas project areas were also impaired.

Depletion and depreciation

Traverse depletes its developed oil and natural gas properties, by area, based on proved and probable reserves. The calculation of depletion expense includes future development costs related to these reserves of $1,484,000 at December 31, 2013 (2012 - $481,000) and excluded $723,000 (2012 - $387,000) for estimated salvage values. Future development costs at December 31, 2013 relate to the equipping of two oil wells at Coyote and the tie-in of suspended natural gas wells at Turin.

	Three months ended December 31,		Year ended December 31,	
($)	**2013**	2012	**2013**	2012
Depletion working interest production	**1,100,300**	661,095	**3,485,520**	2,399,194
Depletion royalty interest production	**28,840**	35,565	**112,335**	133,982
Depreciation on office equipment	**4,625**	4,864	**17,475**	19,454
Impairment on property and equipment	**0**	3,700,000	**0**	3,700,000
Total depletion and depreciation expense	**1,133,765**	4,401,524	**3,615,330**	6,252,630
($/BOE)				
Depletion working interest production	**19.02**	19.12	**18.39**	25.58
Depletion royalty interest production	**1.99**	2.29	**1.91**	2.46
Depletion expense before impairment per BOE	**15.67**	13.90	**14.56**	17.09

Depletion expense on working interest production declined to $18.39 per BOE in 2013 (fourth quarter 2013 - $19.02) from $25.58 per BOE in 2012 (fourth quarter 2012 - $19.12) as a result of lower cost reserve additions at Coyote and increased reserves at Turin resulting from positive production performance revisions. Depletion expense on royalty production decreased as a result of reserve additions at Brazeau which have no additional associated costs to Traverse.

The Company reviews its petroleum and natural gas properties for impairment in accordance with International Accounting Standard ("IAS") 36. Petroleum and natural gas properties are grouped into cash-generating units ("CGU") for the purpose of determining impairment. CGUs are reviewed at each reporting date for both internal and external indicators of impairment. Traverse performed an impairment assessment of its petroleum and natural gas assets on a CGU basis and determined that there were no impairment triggers identified at December 31, 2013. As a result, no impairment test was required at December 31, 2013.

At December 31, 2012 due to declining forward natural gas and oil prices and reserve revisions, the Company tested its CGUs for impairment. The recoverable amounts of the Company's CGUs were estimated at their fair values based on the net present value of the before income tax cash flows from oil and gas proved and probable reserves as estimated by the Company's third party reserve evaluators discounted at a rate of 10%. It was determined that the net book value of certain areas within the oil CGU exceeded their recoverable amounts and as a result the Company recognized a $3.7 million impairment charge. The impairment charge primarily related to negative reserve revisions based on production performance and a weakening of future oil and natural gas price forecasts. As the recoverable amount of the CGUs are sensitive to a decrease in commodity prices, further impairment could be recorded in future periods. Alternatively, an improvement of commodity prices could reverse any impairment charge recorded to date, less applicable depletion expense.

Finance income and costs

Finance income consists of interest earned on cash balances during the year. Finance income increased in 2013 to $21,311 from $11,928 in 2012 due to a higher average daily cash balance. Finance expense is composed of the accretion of decommissioning liabilities.

Income taxes

The Company recorded an income tax expense of $30,230 for the three months ended December 31, 2013 and $1.7 million for the 2013 year as compared to an income tax reduction of $1.0 million and $139,209 for the comparable periods of 2012. The components of the income tax expense are as follows:

	Three months ended December 31,		Year ended December 31,	
($)	**2013**	2012	**2013**	2012
Current income tax	**694,000**	0	**694,000**	0
Deferred income tax	**(663,770)**	(1,020,193)	**1,006,170**	(139,209)
	30,230	(1,020,193)	**1,700,170**	(139,209)

In 2013 the Company's net income before income taxes increased approximately $8.0 million from the net loss before income taxes of $3.0 million in 2012. This increase resulted in a total income tax provision of $1.7 million compared to the income tax recovery recorded in 2012. At December 31, 2013 the Company's tax pools available for deduction against future taxable income are estimated at $15.0 million. The Company anticipates being taxable on a current basis in 2014. The current taxable amount will depend on the level and type of capital expenditures in 2014 as well as the results of such expenditures.

A deferred tax expense is recognized related to flow-through expenditures. A premium is recognized on the issue of flow-through shares representing the difference in price over a common share with no tax attributes. To the extent that the Company's effective tax rate on the incurred expenditures exceeds this premium, a deferred income tax expense is recognized. During the year the Company incurred approximately $3.5 million of qualifying expenditures related to the flow-through issues completed in December 2012, June 2013 and December 2013. The Company's expected tax rate on these expenditures is 25%. The difference of approximately 13% between the Company's expected tax rate and the premium realized on the flow-through share issue results in additional deferred income tax expense of $462,525 (2012 - $536,830).

Cash and funds from operations and net income (loss)

	Three months ended December 31,		Year ended December 31,	
($)	**2013**	2012	**2013**	2012
Cash provided by operating activities	**2,723,183**	1,814,986	**10,594,116**	5,209,164
Decommissioning expenditures	**35,765**	0	**35,765**	0
Change in non-cash working capital	**(801,108)**	(36,072)	**(715,393)**	378,538
Funds from operations	**1,957,840**	1,778,914	**9,914,488**	5,587,702
Per share basic and diluted	**0.04**	0.04	**0.20**	0.13
Net income (loss)	**27,320**	(3,255,323)	**3,244,802**	(2,827,891)
Per share basic and diluted	**0.00**	(0.07)	**0.07**	(0.07)

Funds from operations increased 10% to approximately $2.0 million in the fourth quarter of 2013 compared to the final quarter of 2012 due to new production from the Coyote area. Increased production from the Turin area, new production at Coyote and increased commodity prices contributed to a 77% increase in funds from operations for 2013 as compared to 2012.

Net income before income taxes of approximately $4.9 million in 2013 resulted from increased production and commodity prices. The loss before income taxes of $3.0 million in 2012 resulted as gains in production were more than offset by commodity price declines, exploration and evaluation expense and impairment charges. The net income for 2013, after income taxes, increased 215% to $3.2 million from a net loss of $2.8 million in 2012.

Capital expenditures

The Company incurred $14.9 million in expenditures during 2013. Traverse drilled 9 wells at 100% interest, 7 at Coyote and 2 at Turin. Drilling at Coyote resulted in 6 oil wells, 4 of which commenced production in 2013, 1 dry hole at Coyote which is being evaluated as a water disposal well and 2 dry holes at Turin. In 2013 Traverse acquired 53,000 net acres of land, purchased seismic in the Coyote and Willow areas and conducted a 2D and 3D seismic survey at Coyote.

In December 2013 the Company completed the acquisition of a private company for consideration of $414,700. The acquisition was considered a Reviewable Transaction as defined in TSXV Policy 5.3 due to individuals who are common officers and directors of both Traverse and the acquired company. The common directors declared their interest in the acquisition to the Board of Directors of Traverse and abstained from the approval thereof. Traverse acquired the company to consolidate its interests in Southern Alberta and for the acquired company's tax pools.

	Three months ended December 31,		Year ended December 31,	
($)	**2013**	2012	**2013**	2012
Land acquisition and rentals	**401,756**	212,148	**1,005,453**	697,717
Geological and geophysical	**1,094,943**	429,689	**1,827,966**	1,216,718
Drilling and completions	**1,987,783**	1,083,144	**7,493,229**	3,803,357
Equipping and facilities	**1,580,877**	432,704	**4,126,124**	2,486,316
Exploration and development capital	**5,065,359**	2,157,685	**14,452,772**	8,204,108
Corporate acquisitions	**414,700**	0	**414,700**	0
Corporate assets	**2,403**	0	**7,619**	12,098
Net property dispositions	**0**	0	**0**	105,000
Total capital expenditures	**5,482,462**	2,157,685	**14,875,091**	8,111,206

Liquidity and capital resources

At December 31, 2013 Traverse had working capital of approximately $2.4 million and no debt outstanding. The Company's Board of Directors has approved a $25 million exploration and development program for 2014. The Company intends to fund capital expenditures and commitments during 2014 with a combination of cash flow and working capital. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million. New equity issues and debt may be used to expand future capital expenditures in 2014 where appropriate.

As at April 15, 2014 Traverse had 67,882,911 common shares outstanding and 4,430,000 common share options outstanding. During 2013 the Company completed two private placements for a total of 6,420,000 flow-through common shares for gross proceeds of approximately $4.9 million as detailed in the notes to the 2013 audited annual financial statements. In 2012 the Company completed two private placements of flow-through common shares for a total of 4,878,000 common shares and gross proceeds of approximately $3.2 million. The weighted average number of shares outstanding during 2013 increased 12% to 48,692,706 from 43,345,695 in 2012 due to these private placements.

Related party transactions

Certain directors of Traverse were also the directors or management of a private company that participated in joint operations with the Company. All transactions were completed on a 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 (see capital expenditures above) 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.

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 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

In December 2013 the Company completed a private placement of flow-through common shares. The obligation remaining for this flow-through issue at December 31, 2013 was $3,184,000.

Summary of quarterly results	Quarter ended (unaudited)			
($ thousands, except per share amounts)	**December 31 2013**	September 30 2013	June 30 2013	March 31 2013
Petroleum and natural gas revenue	3,341	3,976	2,015	1,464
Royalty income	714	843	1,023	1,297
Cash provided by operating activities	2,723	3,789	1,922	2,160
Funds from operations	1,958	3,796	2,124	2,037
Per share - basic and diluted	0.04	0.08	0.04	0.04
Net income	27	1,636	1,060	521
Per share - basic and diluted	0.00	0.03	0.02	0.01
Working capital	2,430	3,045	4,191	2,359
Shareholders' equity	22,994	20,076	18,435	16,133
Production (BOE/d)	787	765	599	566
Capital expenditures	5,482	4,957	1,674	2,761

	Quarter ended (unaudited)			
($ thousands, except per share amounts)	**December 31 2012**	September 30 2012	June 30 2012	March 31 2012
Petroleum and natural gas revenue	**1,588**	1,294	739	979
Royalty income	**964**	818	691	849
Cash provided by operating activities	**1,815**	1,132	1,209	1,054
Funds from operations	**1,779**	1,602	990	1,217
Per share - basic and diluted	**0.04**	0.04	0.02	0.03
Net income (loss)	**(3,255)**	32	39	357
Per share - basic and diluted	**(0.07)**	0.00	0.00	0.01
Working capital	**3,083**	1,727	1,826	1,266
Shareholders' equity	**15,593**	17,136	15,848	15,761
Production (BOE/d)	**545**	444	301	329
Capital expenditures	**2,158**	3,041	430	2,483

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 July 2012 the Company completed a private placement of 2,078,000 flow-through common shares for gross proceeds of $1.4 million.

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 December 2012 the Company completed a private placement of 2,800,000 flow-through common shares for gross proceeds of $1.8 million.

In the first quarter of 2013 production volumes increased as a result of the additional royalty production added in December 2012. No new working interest production was added. Commodity prices improved and operating costs declined resulting in an increase in funds from operations. Net income was realized in the first quarter of 2013 versus the net loss in the final quarter of 2012 due to the impairment recorded in the 2012 quarter. Three wells were drilled in the first quarter resulting in two potential wells and one dry hole which was expensed in the quarter. Capital expenditures during the quarter also included the recompletion of a well at Carbon and purchase of seismic at Coyote.

In the second quarter of 2013 production volumes increased as a result of new oil production at Coyote. Commodity prices improved resulting in increased funds from operations and net income. Capital expenditures in the second quarter of 2013 related to land and seismic acquisition and the completion and tie-in of the oil well at Coyote. In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of $1.5 million.

In the third quarter of 2013 production volumes increased as a result of additional new oil production at Coyote. Production in the Turin area was disrupted by a 5 week shutdown of a third party owned pipeline which transports the Company's natural gas to market. During the shutdown, Traverse tested and confirmed the integrity of the pipeline and subsequently purchased an interest in the pipeline and became the pipeline operator. By early October normal production operations had resumed. No new royalty production was added and royalty income continued to decline. Commodity prices continued to improve resulting in an increase in funds from operations and net income. Three wells were drilled, completed and equipped during the quarter and a fourth well was drilled and completed.

In the fourth quarter of 2013 production volumes increased as a result of higher natural gas prices resulting in increased natural gas royalty volumes. No new working interest production was added. Commodity prices declined from the third quarter resulting in decreased revenue, funds from operations and net income. Two wells were drilled, completed and equipped during the quarter and a third well commenced drilling at year end. Capital expenditures were also incurred on facility expansion at Coyote and seismic acquisition. A well drilled at Turin in the first quarter was completed and expensed as a dry hole. In December 2013 the Company completed the acquisition of a private company to consolidate its interest in Southern Alberta and for the tax pools of the acquired company. Traverse also completed a private placement of 4 million flow-through common shares for gross proceeds of $3.4 million.

Recent accounting pronouncements

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.

Selected annual information

($ thousands, except per share amounts)	**2013**	2012	2011
Petroleum and natural gas revenue	**10,796**	4,600	3,731
Royalty income	**3,877**	3,322	830
Cash provided by operating activities	**10,594**	5,209	2,358
Funds from operations	**9,914**	5,588	2,398
Per share - basic and diluted	**0.20**	0.13	0.07
Net income (loss)	**3,245**	(2,828)	(1,822)
Per share - basic and diluted	**0.07**	(0.07)	(0.05)
Daily production	**680**	405	197
Total assets	**32,126**	19,450	19,781
Total non-current liabilities	**4,781**	2,079	1,738

In 2011 petroleum and natural gas sales, royalty income, cash provided by operating activities, funds from operations and daily production all increased as a result of both Company drilling and industry drilling on Company owned lands. Increases in production, both working interest and royalty, originated in oil projects which have higher netback than natural gas. This resulted in the commodity mix moving towards more oil and increased the overall Company netbacks, revenues and funds from operations. A net loss resulted in 2011 due to the impairment of current year drilling and completion costs related to 3 wells where reserve estimates indicated that the full amount of expenditures would not be recoverable. In addition, Traverse expensed the costs associated with an unsuccessful re-entry and impaired costs associated with the pending expiry of lands in natural gas project areas.

In 2012 Traverse participated in the drilling of 7 gross (6.25 net) wells in the Turin area of Alberta. Petroleum and natural gas sales, royalty income, cash provided by operating activities, funds from operations and daily production all increased as a result of both Company drilling and industry drilling on Company owned lands. A net loss resulted in 2012 due to the impairment of current year drilling and completion costs related to 2 dry holes and 2 natural gas wells where current reserve estimates indicate that the full amount of expenditures will not be recoverable. In addition, Traverse expensed the costs associated with the pending expiry of lands in natural gas project areas and impaired producing areas due to current year reserve revisions.

In 2013 Traverse participated in the drilling of 9 wells (100% interest) in the Coyote and Turin areas of Alberta. Petroleum and natural gas sales, royalty income, cash provided by operating activities, funds from operations and daily production all increased as a result of both Company drilling and commodity price increases. Exploration expenses relating to two dry holes during the year and pending expiry of lands in natural gas project areas were recorded. Net income resulted from the increased production and higher commodity pricing.

Critical accounting estimates

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Reserves

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.

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.

Stock 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.

Financial derivatives

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

Deferred 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.

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.

Business environment and risk

Additional risk factors can be found under "Risk Factors" in the Company's 2013 Annual Information Form ("AIF"), which can be found on www.sedar.com. Many risk factors are listed below and in the AIF, but these risk factors should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.

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

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