TRAVERSE ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2014

This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated May 15, 2014 should be read in conjunction with the Company's unaudited interim financial statements as at and for the three months ended March 31, 2014 and the audited financial statements as at and for the year ended December 31, 2013. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2013, as disclosure which is unchanged from December 31, 2013 may not be duplicated herein. Additional information relating to the Company, including Traverse's Annual Information Form, is available on SEDAR at www.sedar.com.

Description of the Company

Traverse Energy Ltd. is an oil and gas exploration, development and production company based in Calgary, Alberta, Canada. Traverse conducts its operations in the province of Alberta. The common shares of Traverse trade on the TSX Venture Exchange under the symbol “TVL”.

Non-IFRS measures

In this MD&A references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share, operating netback, operating netback per BOE and working capital are not defined by IFRS and therefore may not be comparable to performance measures presented by others. Funds from operations represents cash flow from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations as detailed under the heading "Funds from operations and net income". Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Working capital is calculated as current assets (excluding financial derivative assets) less current liabilities (excluding financial derivative liabilities). Operating netback represents revenue and realized gain or loss on financial derivatives, less royalties, operating and transportation expenses and is calculated on a per unit basis. The calculation of Traverse's operating netback is detailed under the heading "Operating netback". Management believes that in addition to net income, the aforementioned non-IFRS measures are useful supplemental measures as they assist in the determination of the Company's operating performance, leverage and liquidity. Investors should be cautioned however, that these measures should not be construed as an alternative to both net income and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

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; scheduled timing for oil wells tie ins; expansion of the Coyote Battery commencing in the second quarter; planned additional drilling at Coyote and Michichi; the number of wells to be drilled in 2014; the decrease in the proportion of royalty interest production due to increased Company drilling; 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 ***(Unaudited)***	Three months ended **March 31, 2014**	Dec. 31, 2013	March 31, 2013
Financial *($ thousands, except per share amounts)*			
Petroleum and natural gas revenue	**4,535**	4,055	2,761
Cash flow from operating activities	**2,088**	2,723	2,160
Funds from operations (1)	**2,596**	1,958	2,037
Per share - basic and diluted	**0.05**	0.04	0.04
Net income	**746**	27	521
Per share - basic and diluted	**0.01**	0.00	0.01
Capital expenditures, net of dispositions	**6,964**	5,482	2,761
Total assets	**46,223**	32,126	21,543
Working capital	**8,641**	2,430	2,359
Common shares			
Outstanding *(millions)*	**67.9**	53.5	47.1
Weighted average *(millions)*	**56.5**	50.3	47.1
Operations *(units as noted)*			
Average production			
Natural gas *(mcf/day)*	**1,809**	1,666	1,409
Oil and NGL *(bbls/day)*	**455**	509	331
Total (*BOE/day*)	**756**	787	566
Average sales price			
Natural gas *($/mcf)*	**5.49**	3.50	3.48
Oil and NGL *($/bbl)*	**88.98**	75.16	77.72
Operating netback *($/BOE)* (2)			
Petroleum and natural gas revenue	**66.65**	56.04	54.15
Realized gain (loss) on financial derivatives	**(1.15)**	0.27	0.00
Royalties	**(9.30)**	(6.68)	(2.22)
Operating costs	**(10.32)**	(9.22)	(6.15)
Transportation costs	**(0.90)**	(0.90)	(1.09)
Operating netback	**44.98**	39.51	44.69

(1) Funds from operations represents cash flow from operating activities prior to 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 represents revenue and realized gain or loss on financial derivatives, less royalties, operating and transportation expenses and is calculated on a per unit basis. Operating netback does not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other companies.

Operations review

In the 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 to the Company's facility. Traverse is also planning to install gas compression at the Turin facility in the second quarter. This compression will allow for additional natural gas production from several shut in gas wells and allow for increased solution gas volumes. In the Coyote area Traverse drilled 2 wells and re-entered an existing wellbore resulting in one oil well, one gas well and one well that will be production tested in the third quarter once access is improved. The oil well will be tied in to existing facilities to conserve gas during the second quarter. The Company also drilled an initial well in the Michichi area resulting in an oil well. The well is scheduled for tie in to gas facilities during the third quarter to provide for natural gas conservation.

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 currently processes production from three oil wells. The partial suspension commenced March 4, 2014. The Company subsequently completed modifications to the Coyote Battery to deliver solution gas to a nearby gas plant and the battery resumed full production of oil and the associated solution gas on May 1, 2014.

In the second quarter Traverse initiated an expansion of the Coyote Battery which will allow for treatment of the Company's oil produced at Coyote and Michichi. Facilities to be installed include a treater, a natural gas sweetening unit, additional storage tanks and water disposal facilities. The expanded facility is anticipated to be operational late in the third quarter. Additional drilling in the Coyote area is scheduled to begin late in the second quarter. In March, Traverse completed a 3D seismic program at Michichi to define additional locations on its lands with additional drilling planned for the third quarter.

At March 31, 2014 undeveloped land holdings totalled 177,600 gross (173,700 net) acres. In March 2014 the Company completed a bought deal financing for gross proceeds of $11.5 million. The Board of Directors approved an increase to the exploration and development budget to $29.1 million. The program includes the drilling of up to 15 wells on Company owned lands in the Coyote and Turin areas and on other properties located in east central Alberta.

	Three months ended		
Production	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Average working interest production			
Natural gas *(mcf/day)*	**1,391**	1,152	1,182
Oil and NGL *(bbls/day)*	**396**	437	164
Total *(BOE/day)*	**628**	629	361
Average royalty production			
Natural gas *(mcf/day)*	**418**	514	227
Oil and NGL *(bbls/day)*	**59**	72	167
Total *(BOE/day)*	**128**	158	205
Total production			
Natural gas *(mcf/day)*	**1,809**	1,666	1,409
Oil and NGL *(bbls/day)*	**455**	509	331
Total *(BOE/day)*	**756**	787	566
% Oil and NGL	**60%**	65%	58%

Production increased 34% to 756 BOE per day in the first quarter of 2014 as compared to 566 BOE per day in the 2013 period mainly as a result of the 2013 drilling in the Coyote area. Total Company production decreased 4% compared to the final quarter of 2013 due to a partial suspension of production at the Coyote Battery which came in to effect in early March.

	Three months ended		
Production by area (BOE/day)	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Brazeau	**114**	140	184
Coyote	**207**	260	0
Turin	**394**	345	319
Minor	**41**	42	63
Total BOE per day	**756**	787	566
% of BOE/day			
Royalty	**17%**	20%	36%
Working interest	**83%**	80%	64%

The royalty proportion of total Company production has decreased to 17% in the 2014 period compared to 36% in the 2013 period. 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.

	Three months ended		
Pricing	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Average sales price			
Natural gas *($/mcf)*	**5.49**	3.50	3.48
Oil and NGL *($/bbl)*	**88.98**	75.16	77.72
$/BOE before realized gain (loss) on financial derivatives	**66.65**	56.04	54.15
Realized gain (loss) on financial derivatives ($/BOE)	**(1.15)**	0.27	0.00
$/BOE after realized gain (loss) on financial derivatives	**65.50**	56.31	54.15

The average BOE sales price received, after the realized gain (loss) on financial derivatives, during the first three months of 2014 increased 21% from the first quarter of 2013 and 16% from the last quarter of 2013. Oil and NGL prices have increased 18% compared to the last quarter of 2013 and natural gas prices have increased 57% over the same period. The realized loss on financial derivatives for the first quarter of 2014 was $78,526 or $1.15 per BOE (2013 - $nil). The unrealized loss on financial derivatives was $144,423 at March 31, 2014.

Volatility in the commodity markets will continue to impact realized prices in 2014. At March 31, 2014 Traverse had two natural gas physical delivery contracts outstanding for the remainder of 2014 averaging 700 GJ per day at $3.23 per GJ. In addition, the Company had the following derivative commodity contracts outstanding at March 31, 2014:

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 Jun. 30	Swap	100 bbls/d	$101.00/bbl	WTI - NYMEX

	Three months ended		
Petroleum and natural gas revenue ($)	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Revenue by source			
Working interest production	**3,818,816**	3,341,077	1,463,732
Royalty interest production	**716,036**	714,273	1,297,365
Total	**4,534,852**	4,055,350	2,761,097
Revenue by commodity			
Oil and NGL	**3,640,410**	3,519,043	2,319,861
Natural gas	**894,442**	536,307	441,236
Total	**4,534,852**	4,055,350	2,761,097

Revenue in the first quarter of 2014 increased 64% compared to the first quarter of 2013 due to increased oil production volumes and increased commodity prices. Revenue in the first quarter of 2014 increased 12% from the final quarter of 2013 due to increasing commodity prices.

Operating netback

	Three months ended		
Operating netback ($/BOE)	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Petroleum and natural gas revenue	**66.65**	56.04	54.15
Realized gain (loss) on financial derivatives	**(1.15)**	0.27	0.00
Royalties	**(9.30)**	(6.68)	(2.22)
Operating	**(10.32)**	(9.22)	(6.15)
Transportation	**(0.90)**	(0.90)	(1.09)
Operating netback	**44.98**	39.51	44.69

The operating netback has increased from $44.69 per BOE in the first quarter of 2013 to $44.98 per BOE in the 2014 period due to a combination of increased commodity prices offset by increasing royalties and operating costs. Royalties per BOE have increased in the first quarter of 2014 compared to the first quarter of 2013 due mainly to the expiry of the New Well Royalty Rate (NWRR) at Turin as well as the decline in the royalty production. Operating costs have increased on a BOE basis due mainly to the decline in the royalty production, which does not have associated operating costs. The operating netback per BOE increased 14% from the final quarter of 2013 due to increasing commodity prices offset by increasing royalties and operating costs.

	Three months ended		
Operating netback ($)	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Petroleum and natural gas revenue	**4,534,852**	4,055,350	2,761,097
Realized loss (gain) on financial derivatives	**78,526**	(19,403)	0
Royalties	**632,889**	483,356	113,097
Operating	**702,096**	667,496	313,533
Transportation	**61,081**	65,140	55,540
Operating netback	**3,060,260**	2,858,761	2,278,927

The operating netback in the first quarter of 2014 increased 34% to $3.1 million compared to $2.3 million in the 2013 first quarter due mainly to increased production and commodity pricing.

	Three months ended		
General and administrative ($)	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
General and administrative costs - gross	**384,205**	311,374	305,400
Operator recoveries	**99,633**	98,739	58,678
General and administrative costs - net	**284,572**	212,635	246,722
Per BOE	**4.18**	2.94	4.84

Net general and administrative costs increased in the first quarter of 2014 compared to the first quarter of 2013 but have declined on a BOE basis due to increasing production. Net general and administrative costs on a BOE basis have increased in the first quarter of 2014 compared to the final quarter of 2013. Gross general and administrative expenses are higher in the first quarter due to the cost of the annual financial statement audit and the external engineering report prepared for the year end.

Share based compensation

The Company did not grant stock options during 2013 or the first quarter of 2014 and as a result no share based compensation expense was recorded. Share based compensation expense of $19,323 in the 2013 period related to the vesting of options granted late in 2012. On April 22, 2014 the Company granted 1,585,000 stock options to directors, officers and consultants.

Exploration and evaluation expense

Exploration and evaluation ("E&E") expenses result from impairment of E&E assets, unsuccessful E&E costs and the expiry of undeveloped lands. In the first quarter of 2014, E&E expenses of $53,190 were recorded relating mainly to lease expiries. In the first quarter of 2013, E&E expenses of $463,514 were recorded related to the drilling of one unsuccessful well at Turin.

Depletion and depreciation

Traverse depletes its developed oil and natural gas properties based on proved and probable reserves. The calculation of depletion expense includes future development costs related to these reserves of $2,059,000 at March 31, 2014 (2013 - $481,000) and excluded $763,000 (2013 - $419,000) for estimated salvage values. The majority of future development costs at March 31, 2014 relate to the tie-in of suspended natural gas wells at Turin and the equipping of oil wells at Coyote.

Depletion and depreciation expense was $14.49 per BOE in the first quarter of 2014 compared to $9.85 per BOE in the first quarter of 2013 and $15.67 per BOE in the final quarter of 2013. Depletion increased in 2014 compared to the first quarter of 2013 due to the higher cost of reserve additions in 2013. Depletion has decreased in the first quarter of 2014 compared to the last quarter of 2013 as a result of the lower cost additions at both Turin and Coyote in 2014.

Finance income and costs

Finance income consists of interest earned on cash balances during the year. Finance income increased in 2014 from the first quarter of 2013 due to an increase in the average daily cash balance. Finance expense is composed of the accretion of decommissioning liabilities.

Income taxes

The Company recorded an income tax expense of $840,000 for the three months ended March 31, 2014 as compared to $525,520 in the 2013 period. In the 2014 period, the Company's net income before income taxes increased approximately $0.5 million from the comparable amount in the 2013 period resulting in additional income tax expense. Additional income tax expense also related to flow-through expenditures. During the 2014 period deferred income tax expense related to flow-through expenditures was $397,070 (2013 - $266,520).

At March 31, 2014 the Company's tax pools available for deduction against future taxable income are estimated at $17 million. The approximate average rate of deduction from these tax pools is an annual rate of 25%. The Company was taxable on a current basis in 2013 and anticipates being taxable on a current basis in 2014. The current taxable amount will depend on the level and type of capital expenditures during the remainder of 2014 as well as the results of such expenditures.

Funds from operations and net income

	Three months ended		
($)	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Cash flow from operating activities	**2,087,818**	2,723,183	2,159,652
Decommissioning expenditures	**0**	35,765	0
Change in non-cash working capital	**508,278**	(801,108)	(122,797)
Funds from operations	**2,596,096**	1,957,840	2,036,855
Per share basic and diluted	**0.05**	0.04	0.04
Net income	**746,265**	27,320	521,208
Per share basic and diluted	**0.01**	0.00	0.01

Funds from operations increased 27% to approximately $2.6 million in the first quarter of 2014 compared to $2.0 million in the first quarter of 2013 due to new production at Coyote and increasing commodity prices. Funds from operations increased 33% from the fourth quarter of 2013 mainly as a result of increased commodity prices. Increased funds from operations translated into increased net income for the first quarter of 2014 as compared to the 2013 first quarter.

Capital expenditures

The Company incurred $7 million in expenditures in the first quarter of 2014 mainly related to the drilling of five wells (100% working interest). Two wells were drilled in the Turin area resulting in one gas well and one oil well. Three wells were drilled in the Coyote area resulting in one oil well, one gas well and one cased well awaiting completion.

	Three months ended		
($)	**March 31, 2014**	Dec. 31, 2013	March 31, 2013
Land acquisition and rentals	**241,397**	401,756	70,468
Geological and geophysical	**681,825**	1,094,943	264,097
Drilling and completions	**4,858,155**	1,987,783	2,174,716
Equipping and facilities	**1,180,462**	1,580,877	249,869
Exploration and development capital	**6,961,839**	5,065,359	2,759,150
Corporate acquisitions	**0**	414,700	0
Corporate assets	**2,132**	2,403	1,739
Net capital expenditures	**6,963,971**	5,482,462	2,760,889

Liquidity and capital resources

At March 31, 2014 Traverse had working capital of approximately $8.6 million and no debt outstanding. The Company's Board of Directors has approved a $29.1 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. New equity issues and debt may be used to expand future capital expenditures where appropriate.

As at May 15, 2014 total common shares outstanding are 68,282,911 and total common share options outstanding are 5,615,000. During 2013 the Company completed two private placements for a total of 6,420,000 flow-though common shares for gross proceeds of approximately $4.9 million as detailed in the notes to the 2013 audited financial statements. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million. The weighted average number of shares outstanding during 2014 increased 20% to 56,542,633 from 47,087,911 in the 2013 period due to these equity issues.

Related party transactions

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. Traverse purchased the related company on December 16, 2013 and as a result no amounts were outstanding between Traverse and the related company at December 31, 2013. During the three months ended March 31, 2013, the aggregate value of transactions entered into between Traverse and the private company was approximately $79,700. At March 31, 2013 Traverse had outstanding payables to the related company of $144,350 and accounts receivable due to Traverse of $172,050.

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 as disclosed in the notes to the audited financial statements.

Summary of quarterly results
($ thousands, except per share amounts)
(Unaudited)

Quarter ended	March 31 2014	December 31 2013	September 30 2013	June 30 2013
Petroleum and natural gas revenue	4,535	4,055	4,819	3,038
Cash provided by operating activities	2,088	2,723	3,789	1,922
Funds from operations	2,596	1,958	3,796	2,124
Per share - basic and diluted	0.05	0.04	0.08	0.04
Net income	746	27	1,636	1,060
Per share - basic and diluted	0.01	0.00	0.03	0.02
Working capital	8,641	2,430	3,045	4,191
Shareholders' equity	34,549	22,994	20,076	18,435
Production *(BOE/day)*	756	787	765	599
Capital expenditures, net of dispositions	6,964	5,482	4,957	1,674

Quarter ended	March 31 2013	December 31 2012	September 30 2012	June 30 2012
Petroleum and natural gas revenue	2,761	2,552	2,112	1,430
Cash provided by operating activities	2,160	1,815	1,132	1,209
Funds from operations	2,037	1,779	1,602	990
Per share - basic and diluted	0.04	0.04	0.04	0.02
Net income (loss)	521	(3,255)	32	39
Per share - basic and diluted	0.01	(0.07)	0.00	0.00
Working capital	2,359	3,083	1,727	1,826
Shareholders' equity	16,133	15,593	17,136	15,848
Production *(BOE/day)*	566	545	444	301
Capital expenditures, net of dispositions	2,761	2,158	3,041	430

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 owned by certain directors and officers of Traverse 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.

In the first quarter of 2014 production volumes decreased as a result of a partial suspension of production in the Coyote area relating to the conservation of solution gas. Subsequent to quarter end, modifications were completed to allow conservation of solution gas and the battery returned to production May 1, 2014. Despite a decrease in production volumes, commodity price increases resulted in increased funds from operations and net income. Capital expenditures in the first quarter relating to the drilling of 5 wells and the re-entry of an existing wellbore. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million.

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 anticipated 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.