

TRAVERSE ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	Notes	March 31, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 12,712,980	\$ 4,994,322
Accounts receivable		1,892,563	1,712,206
Prepaid expenses and deposits		58,928	59,402
		14,664,471	6,765,930
Exploration and evaluation assets	3	6,478,624	5,056,426
Property and equipment	4	25,080,085	20,303,220
		\$ 46,223,180	\$ 32,125,576
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,833,448	\$ 3,641,510
Financial derivative liability	7	160,087	15,664
Income tax payable		190,000	694,000
		6,183,535	4,351,174
Deferred flow-through share premium		43,360	341,100
Decommissioning liabilities		2,765,500	2,475,000
Deferred income taxes		2,682,070	1,964,710
		11,674,465	9,131,984
Shareholders' Equity			
Share capital	5	36,607,150	25,798,292
Contributed surplus		1,398,190	1,398,190
Deficit		(3,456,625)	(4,202,890)
		34,548,715	22,993,592
		\$ 46,223,180	\$ 32,125,576
Subsequent event	5 (d)		

See accompanying notes to the interim financial statements

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

	Notes	Three months ended March 31,	
		2014	2013
Revenue			
Petroleum and natural gas	8	\$ 4,534,852	\$ 2,761,097
Royalties		(632,889)	(113,097)
		3,901,963	2,648,000
Realized loss on financial derivatives		(78,526)	-
Unrealized loss on financial derivatives	7	(144,423)	-
		3,679,014	2,648,000
Expenses			
Operating		702,096	313,533
Transportation		61,081	55,540
General and administrative		284,572	246,722
Share based compensation		-	19,323
Exploration and evaluation expense	3	53,190	463,514
Depletion and depreciation	4	985,718	502,290
		2,086,657	1,600,922
Income from operating activities		1,592,357	1,047,078
Finance income		10,408	4,650
Finance expense		(16,500)	(5,000)
Net finance loss		(6,092)	(350)
Income before income taxes		1,586,265	1,046,728
Income taxes			
Current income tax		190,000	-
Deferred income tax		650,000	525,520
		840,000	525,520
Net income and comprehensive income		\$ 746,265	\$ 521,208
Net income per share - basic and diluted	5(c)	\$ 0.01	\$ 0.01

See accompanying notes to the interim financial statements

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

	Share capital	Contributed surplus	Deficit	Total Shareholders' Equity
Balance December 31, 2012	\$ 21,685,273	\$ 1,355,056	\$ (7,447,692)	\$ 15,592,637
Net income	-	-	521,208	521,208
Share based compensation	-	19,323	-	19,323
Balance March 31, 2013	\$ 21,685,273	\$ 1,374,379	\$ (6,926,484)	\$ 16,133,168
Balance December 31, 2013	\$ 25,798,292	\$ 1,398,190	\$ (4,202,890)	\$ 22,993,592
Net income	-	-	746,265	746,265
Issued for cash	11,500,000	-	-	11,500,000
Share issue costs, net of tax of \$230,380	(691,142)	-	-	(691,142)
Balance March 31, 2014	\$ 36,607,150	\$ 1,398,190	\$ (3,456,625)	\$ 34,548,715

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CASH FLOWS
(Unaudited)

Three months ended March 31,
2014 **2013**

Cash provided by (used in):

Operating activities:

Net income	\$	746,265	\$	521,208
Adjustments for:				
Depletion and depreciation		985,718		502,290
Exploration and evaluation expense		53,190		463,514
Share based compensation		-		19,323
Finance expense		16,500		5,000
Deferred income tax expense		650,000		525,520
Unrealized loss on financial derivatives		144,423		-
Changes in non-cash working capital		(508,278)		122,797
		<u>2,087,818</u>		<u>2,159,652</u>

Financing activities:

Proceeds on issue of common shares		11,500,000		-
Share issue costs		(921,522)		-
Changes in non-cash working capital		117,684		(11,455)
		<u>10,696,162</u>		<u>(11,455)</u>

Investing activities:

Exploration and evaluation asset additions		(5,904,554)		(2,101,561)
Property and equipment asset additions		(1,059,417)		(659,328)
Changes in non-cash working capital		1,898,649		571,341
		<u>(5,065,322)</u>		<u>(2,189,548)</u>

Change in cash and cash equivalents		7,718,658		(41,351)
Cash and cash equivalents, beginning of period		4,994,322		3,267,511
Cash and cash equivalents, end of period	\$	12,712,980	\$	3,226,160

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013 (Unaudited)

1. Reporting entity

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

2. Basis of presentation and statement of compliance

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These financial statements do not include all the necessary annual disclosures as prescribed by International Financial Reporting Standards ("IFRS") and should be read in conjunction with the annual financial statements as of December 31, 2013. These financial statements have been prepared following the same accounting policies and method of computation as the annual financial statements for the year ended December 31, 2013, except as noted below.

- (a) The IASB issued International Financial Reporting Interpretation ("IFRIC") 21, "Levies" which was adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation had no impact on the Company's financial statements.
- (b) On January 1, 2014 the Company implemented IAS 32 "Financial Instruments - Presentation", which clarifies the requirements for offsetting financial assets and liabilities. The amendments clarify when an entity has a legally enforceable right to offset and certain other requirements that are necessary to present a net financial asset or liability. The adoption of this standard has no impact on the financial statements of the Company.

These financial statements have been prepared on a historical cost basis. These financial statements are presented in Canadian dollars, which is the Company's functional currency, and include the accounts of Traverse only as there are no subsidiary companies.

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

3. Exploration and evaluation assets

	Total
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 - lease expiries	(636,987)
Exploration and evaluation expense - unsuccessful exploration	(1,332,401)
Balance December 31, 2013	\$ 5,056,426
Additions	5,904,554
Transfers to property and equipment	(4,477,166)
Changes in decommissioning liabilities	48,000
Exploration and evaluation expense - lease expiries	(53,190)
Balance March 31, 2014	\$ 6,478,624

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

The impairment of E&E assets and any subsequent reversal of such impairment losses are recognized in exploration and evaluation expense in the statements of income and comprehensive income. There were no impairment losses recorded for the three months ended March 31, 2014 or 2013.

4. Property and equipment

Cost:	Oil and natural gas properties	Corporate	Total
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	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
Additions	1,057,285	2,132	1,059,417
Transfers from exploration and evaluation	4,477,166	-	4,477,166
Changes in decommissioning liabilities	226,000	-	226,000
Balance March 31, 2014	\$ 39,357,568	\$ 122,096	\$ 39,479,664

Accumulated depletion and depreciation:	Oil and natural gas properties	Corporate	Total
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)
Depletion and depreciation	(982,068)	(3,650)	(985,718)
Balance March 31, 2014	\$ (14,337,011)	\$ (62,568)	\$ (14,399,579)

Net book value:	Oil and natural gas properties	Corporate	Total
As at December 31, 2013	\$ 20,242,174	\$ 61,046	\$ 20,303,220
As at March 31, 2014	\$ 25,020,557	\$ 59,528	\$ 25,080,085

The calculation of depletion and depreciation for the three months ended March 31, 2014 included \$2,059,000 (2013 - \$481,000) for future development costs and excluded \$763,000 (2013 - \$419,000) for estimated salvage values.

The impairment of property and equipment and any subsequent reversal of such impairment losses are recognized in depletion and depreciation in the statements of income and comprehensive income. At March 31, 2014 and 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 periods.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
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5. Share capital

(a) Issued and outstanding

Common shares	Number	Amount
Balance December 31, 2012	47,087,911	\$ 21,685,273
Issued for cash - flow-through	6,420,000	4,864,500
Deferred flow-through premium	-	(557,700)
Share issue costs, net of tax of \$64,590	-	(193,781)
Balance December 31, 2013	53,507,911	\$ 25,798,292
Issued for cash	14,375,000	11,500,000
Share issue costs, net of tax of \$230,380	-	(691,142)
Balance March 31, 2014	67,882,911	\$ 36,607,150

(b) Private placements

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 March 31, 2014 was \$405,000.

On March 12, 2014 the Company completed a bought deal financing by issuing 14,375,000 common shares at \$0.80 per common share for gross proceeds of \$11.5 million, before share issue costs.

(c) Per share amounts

Basic and diluted net income were calculated as follows:

	Three months ended March	
	2014	2013
Net income for the period	\$ 746,265	\$ 521,208
Weighted average number of common shares outstanding - basic	56,542,633	47,087,911
Effect of outstanding options	1,287,530	398,611
Weighted average number of common shares outstanding - diluted	57,830,163	47,486,522
Net income per share - basic and diluted	\$ 0.01	\$ 0.01

(d) Stock option plan

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

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The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2013 and March 31, 2014:

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	0.5	\$ 0.40	1,500,000	\$ 0.40
\$0.41 - \$0.60	1,630,000	2.2	\$ 0.59	1,630,000	\$ 0.59
\$0.61 - \$0.80	1,300,000	2.6	\$ 0.80	1,300,000	\$ 0.80
\$0.40 - \$0.80	4,430,000	1.7	\$ 0.59	4,430,000	\$ 0.59

No stock options were granted during the period ended March 31, 2014. On April 22, 2014 the Company granted 1,585,000 stock options to directors, officers and consultants.

6. 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.

7. Financial risk management

The Company utilizes both financial derivatives and physical delivery sales contracts to manage commodity price risks. Physical delivery contracts are accounted for as executory contracts. As of March 31, 2014 the Company held derivative commodity contracts as follows:

Product	Term	Type	Volume	Swap price	Index	As at March 31, 2014
Natural Gas	Jan. 1 to Dec. 31, 2014	Basis swap	1,000 mmbtu/d	US \$0.46/mmbtu	AECO - Henry Hub	\$ (67,028)
Oil	Jan. 1 to Jun. 30, 2014	Swap	100 bbls/d	Cdn \$101.00/bbl	WTI - NYMEX	(93,059)
Total						\$ (160,087)

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:

- 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.
- 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.
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- Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.
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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 price curves as at the period end date, using the remaining contracted petroleum and natural gas volumes. As at March 31, 2014 a 10% increase in the index prices would have increased the unrealized loss on financial derivatives by approximately \$100,000.

8. Revenue

The components of the Company's revenue are as follows:

	Three months ended March 31,	
	2014	2013
Petroleum and natural gas sales	\$ 3,818,816	\$ 1,463,732
Royalty income	716,036	1,297,365
Petroleum and natural gas	\$ 4,534,852	\$ 2,761,097