



**FINANCIAL STATEMENTS**  
**AS AT AND FOR THE NINE MONTHS**  
**ENDED SEPTEMBER 30, 2010**  
**UNAUDITED**

## TRAVERSE ENERGY LTD.

### NOTICE TO READER

The accompanying unaudited interim financial statements of Traverse Energy Ltd. for the quarter ended September 30, 2010 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

### Balance Sheets

	September 30, 2010	Dec. 31, 2009
	(unaudited)	(audited)
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 3,307,825	\$ 4,868,983
Accounts receivable	433,602	149,554
Prepays and deposits	118,732	164,596
Income taxes receivable	-	136,611
	<b>3,860,159</b>	5,319,744
Petroleum and natural gas properties (Note 3)	<b>8,642,357</b>	4,920,999
	<b>\$ 12,502,516</b>	\$ 10,240,743
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 814,819	\$ 774,050
Asset retirement obligations	<b>459,700</b>	168,000
Future income taxes	<b>595,000</b>	581,000
<b>Shareholders' Equity</b>		
Share capital (Note 4(a))	<b>9,492,747</b>	6,969,498
Contributed surplus (Note 4(d))	<b>798,517</b>	491,150
Retained earnings	<b>341,733</b>	1,257,045
	<b>10,632,997</b>	8,717,693
	<b>\$ 12,502,516</b>	\$ 10,240,743

*See accompanying notes to financial statements.*

## TRAVERSE ENERGY LTD.

### Statements of Operations and Retained Earnings

For the three and nine months ended September 30,

<i>(Unaudited)</i>	2010	2009	2010	2009
Revenue				
Petroleum and natural gas sales	\$ 279,330	\$ 29,993	\$ 708,022	\$ 87,090
Petroleum and natural gas royalty income	67,020	87,391	274,485	303,777
Royalties	(21,910)	(192)	(42,814)	(2,641)
Interest and other	6,876	2,558	11,235	12,431
	<b>331,316</b>	119,750	<b>950,928</b>	400,657
Expenses				
Operating	123,498	34,646	313,575	87,063
Transportation	18,458	2,323	37,493	6,637
General and administrative	343,710	559,088	766,762	696,597
Depletion, depreciation and accretion	386,525	99,501	971,010	302,285
	<b>872,191</b>	695,558	<b>2,088,840</b>	1,092,582
Loss before income taxes	<b>(540,875)</b>	(575,808)	<b>(1,137,912)</b>	(691,925)
Income taxes				
Current	-	(87,000)	-	(126,000)
Future	(79,600)	26,000	(222,600)	(21,000)
	<b>(79,600)</b>	(61,000)	<b>(222,600)</b>	(147,000)
Net loss and comprehensive loss	<b>(461,275)</b>	(514,808)	<b>(915,312)</b>	(544,925)
Retained earnings, beginning of period	<b>803,008</b>	1,949,396	<b>1,257,045</b>	1,979,513
Retained earnings, end of period	<b>\$ 341,733</b>	\$ 1,434,588	<b>\$ 341,733</b>	\$ 1,434,588
Net loss per share (note 4(e))				
Basic and diluted	<b>\$ (0.02)</b>	\$ (0.02)	<b>\$ (0.03)</b>	\$ (0.03)

See accompanying notes to the financial statements.

## TRAVERSE ENERGY LTD.

### Statements of Cash Flows

For the three and nine months ended September 30,

<i>(Unaudited)</i>	2010	2009	2010	2009
Cash provided by (used in):				
Operating activities				
Net loss	\$ (461,275)	\$ (514,808)	\$ (915,312)	\$ (544,925)
Items not involving cash:				
Stock based compensation	240,722	420,000	326,367	420,000
Depletion, depreciation and accretion	386,525	99,501	971,010	302,285
Future income tax reduction	(79,600)	26,000	(222,600)	(21,000)
	<b>86,372</b>	30,693	<b>159,465</b>	156,360
Change in non-cash working capital	<b>(101,007)</b>	(355,990)	<b>83,766</b>	(423,859)
	<b>(14,635)</b>	(325,297)	<b>243,231</b>	(267,499)
Financing activities				
Issue of share capital, net of issue costs	(1,484)	(11,492)	2,740,849	1,931,616
Change in non-cash working capital	(30,818)	(20,485)	-	-
	<b>(32,302)</b>	(31,977)	<b>2,740,849</b>	1,931,616
Investing activities				
Petroleum and natural gas properties	(2,135,304)	(259,172)	(5,153,185)	(499,804)
Petroleum and natural gas property acquisitions	-	-	(319,188)	-
Petroleum and natural gas property dispositions	821,705	-	1,071,705	-
Change in non-cash working capital	407,763	94,761	(144,570)	94,761
	<b>(905,836)</b>	(164,411)	<b>(4,545,238)</b>	(405,043)
Increase in cash and cash equivalents	<b>(952,773)</b>	(521,685)	<b>(1,561,158)</b>	1,259,074
Cash and cash equivalents, beginning of period	<b>4,260,598</b>	4,342,101	<b>4,868,983</b>	2,561,342
Cash and cash equivalents, end of period	<b>\$ 3,307,825</b>	\$ 3,820,416	<b>\$ 3,307,825</b>	\$ 3,820,416

See accompanying notes to financial statements.

**TRAVERSE ENERGY LTD.**  
**Notes to Financial Statements**  
**Nine months ended September 30, 2010**  
**(unaudited)**

**1. Basis of Presentation**

The Company's name changed to Traverse Energy Ltd. from Firstland Energy Limited effective June 11, 2009.

The interim financial statements of the Company have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the interim financial statements and accompanying notes. Actual results could differ from those estimates and assumptions. The interim financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below. These interim financial statements and the notes thereto should be read in conjunction with the most recent audited financial statements as at and for the year ended December 31, 2009. The significant accounting policies follow those of the most recently reported audited financial statements except as described below.

**2. Future Accounting Changes**

On January 1, 2011 the Company will be required to adopt International Financial Reporting Standards ("IFRS") and prepare its financial statements under this new set of standards, including comparative figures for 2010. Although IFRS is principles-based and uses a conceptual framework similar to Canadian GAAP, there are significant differences and choices in accounting policies as well as increased disclosure requirements under IFRS. The Company is currently assessing the impact of the conversion from Canadian GAAP to IFRS on its financial statements.

**3. Petroleum and natural gas properties**

	September 30, 2010	December 31, 2009
Petroleum and natural gas properties	\$ 12,159,324	\$ 7,516,304
Administrative assets	58,192	19,544
	\$ 12,217,516	\$ 7,535,848
Less: accumulated depletion and depreciation	3,575,159	2,614,849
	\$ 8,642,357	\$ 4,920,999

At September 30, 2010 future development costs of \$425,000 (2009 - \$nil) were included in the depletion calculation and costs of unproved properties in the amount of \$3,580,000 (2009 - \$2,270,000) were excluded from the depletion calculation.

#### 4. Share capital

The Company is authorized to issue an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares. No preferred shares have been issued.

a) Common shares issued

	Number of Shares		Amount
Balance, December 31, 2009	24,950,000	\$	6,969,498
Issued on exercise of stock options	133,333		53,333
Transferred from contributed surplus	-		19,000
Issued for cash	2,135,000		1,281,000
Issued for cash – flow-through	2,135,000		1,494,500
Issue costs, net of income tax effect of \$22,400	-		(65,584)
Tax effect of flow through shares issued in 2009	-		(259,000)
Balance, September 30, 2010	29,353,333	\$	9,492,747

b) Private placement

In June 2010 the Company completed a private placement of 2,135,000 units at a price of \$1.30 per unit for gross proceeds of \$2,775,500. Each unit consisted of one common share at \$0.60 and one flow-through common share at \$0.70. As a result, the Company must incur \$1,494,500 of qualifying resource expenditures before December 31, 2011. The related tax impact will be recorded in the first quarter of 2011. The obligation remaining for this flow-through issue was \$300,000 at September 30, 2010. Directors and officers of the Company subscribed for 317,400 units for consideration of \$412,620.

c) Stock option plan

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

The following table sets forth a reconciliation of the stock option plan activity for the nine months ended September 30, 2010:

	Number of Options	Weighted average exercise price
Balance, December 31, 2009	1,875,000	\$0.40
Exercised	(133,333)	\$0.40
Forfeited	(66,667)	\$0.40
Granted	950,000	\$0.60
Balance, September 30, 2010	2,625,000	\$0.47

The fair value of options granted during the third quarter of 2010 was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield, expected volatility of sixty percent, risk-free interest rates of two percent and an expected life of five years. The fair market value of options granted during the period was \$0.31 per option.

The following table summarizes stock options granted and outstanding at September 30, 2010.

Options Outstanding				Options Exercisable		
Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	
\$0.40	1,600,000	3.7	\$0.40	1,600,000	\$0.40	
\$0.47	75,000	4.1	\$0.47	75,000	\$0.47	
\$0.60	950,000	4.9	\$0.60	833,333	\$0.60	
	2,625,000	4.1	\$0.47	2,508,333	\$0.47	

d) Contributed surplus

The following table reconciles the Company's contributed surplus:

Balance, December 31, 2009	\$ 491,150
Transferred on exercise of stock options	(19,000)
Stock based compensation	326,367
<b>Balance, September 30, 2010</b>	<b>\$ 798,517</b>

e) Per share amounts

The following table summarizes the weighted average common shares used in calculating net loss per share. Options outstanding are anti-dilutive because the Company is in a net loss position.

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Basic	29,353,333	20,950,000	26,489,121	16,241,706
Diluted	25,909,192	22,530,743	27,134,939	16,741,620

## 5. Related party transactions

a) Common management and directors

During the first nine months of 2010, office expenses of approximately \$154,000 (2009 - \$60,800) were paid to a company controlled by two directors of the Company. These transactions were in the normal course of business and are on terms that are consistent with parties dealing at arm's length. At September 30, 2010 an amount of \$107,000 (2009 - \$122,000), representing prepaid rent and security deposit, is included within prepaids and deposits.

Certain directors of Traverse are also the directors or management of other entities that participate in joint operations with the Company. All transactions were completed on an arm's length basis consistent with normal industry terms. During the nine months ended September 30, 2010, the aggregate value of transactions entered into between Traverse and these entities was approximately \$1,477,200 (2009 - \$nil). Traverse had outstanding payables to the related parties of \$48,900 and accounts receivable due to Traverse of approximately \$157,100 at September 30, 2010 (2009 - \$nil).

During the first nine months of 2009, management fees of \$54,000 were paid to a company controlled by a director of the Company. The fees related to the administration and overall operations of the Company. These transactions were in the normal course of business and were measured at the exchange amount, which is the consideration established and agreed to by the related party.

b) Legal services

During the first nine months of 2010, the Company incurred approximately \$36,000 (2009 - \$27,400) in legal services and disbursements with a legal firm in which a director of Traverse is a partner. These transactions were in the normal course of business and are measured at the exchange amount. At September 30, 2010 accounts payable and accrued liabilities include \$4,600 (2009 - \$9,600) to the legal firm.

**6. Financial and capital risk management**

The Company carries a number of financial instruments, such as cash, accounts receivable and accounts payable. The fair value of these instruments approximates their carrying value due to their short terms to maturity.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from joint venture partners and petroleum and natural gas marketers. Virtually all of Traverse's accounts receivable are from counterparties in the oil and gas industry and are subject to normal industry credit risks. The maximum exposure to credit risk is equal to the carrying value of the financial assets. During the nine months ended September 30, 2010 there was no impairment provision required of any of the financial assets of the Company due to the historical success of collecting receivables. At September 30, 2010 approximately \$15,000 or 4% of the Company's accounts receivable were outstanding for over 90 days. The Company does not have any significant credit risk exposure to any single counterparty.

b) Market risk

Market risk is the risk that changes in market prices, such as currency risk, commodity price risk and interest rate risk will affect the Company's net earnings, future cash flows or the fair value of its assets and liabilities. Although the Company generally does not sell or transact in foreign currency, the United States dollar influences the price of petroleum and natural gas sold in Canada. Commodity prices for crude oil, natural gas liquids and natural gas are also impacted by political events, meteorological conditions, disruptions in supply and changes in demand. The Company currently has no financial derivative sale contracts or physical sale contracts in place. The Company currently has no interest bearing debt and is therefore not subject to interest rate risk.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The financial liabilities on the balance sheet consist of accounts payable. The Company anticipates that it will continue to have adequate liquidity to fund its financial liabilities through its future cash flows and existing cash.

d) Capital risk management

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

The Company is not subject to any externally imposed capital requirements. During 2010, the Company's strategy in managing its capital was unchanged.