**TRAVERSE ENERGY LTD.**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014**

This management's discussion and analysis ("MD&A") of Traverse Energy Ltd. ("Traverse" or "the Company") dated November 13, 2014 should be read in conjunction with the Company's unaudited interim financial statements as at and for the three and nine months ended September 30, 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 ("2013 MD&A"), 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 (deficiency) 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 (deficiency) 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.

**Oil and gas advisory**

Any references in this MD&A to production tests are useful in confirming the presence of hydrocarbons, however, such tests are not necessarily determinative of the production rates at which such wells will commence production and decline thereafter. While encouraging, readers are cautioned not to place reliance on such rates in calculating aggregate production for the Company. In all cases in this MD&A, production test rates are not necessarily indicative of long-term performance of the relevant well or of the ultimate recovery of hydrocarbons.

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **HIGHLIGHTS *(Unaudited)*** | **2014** | 2013 | **2014** | 2013 |
| Financial *($ thousands, except per share amounts)* | | | | |
| Petroleum and natural gas revenue | **5,336** | 4,819 | **14,209** | 10,618 |
| Cash flow from operating activities | **3,160** | 3,789 | **6,709** | 7,871 |
| Per share - basic and diluted | **0.05** | 0.08 | **0.10** | 0.16 |
| Funds from operations (1) | **3,131** | 3,796 | **8,136** | 7,957 |
| Per share - basic and diluted | **0.05** | 0.08 | **0.12** | 0.17 |
| Net income | **635** | 1,636 | **1,788** | 3,217 |
| Per share - basic and diluted | **0.01** | 0.03 | **0.03** | 0.07 |
| Capital expenditures | **10,658** | 4,957 | **23,096** | 9,393 |
| Total assets | **49,007** | 26,489 | **49,007** | 26,489 |
| Working capital (deficiency) | **(1,695)** | 3,045 | **(1,695)** | 3,045 |
| Common shares | | | | |
| Outstanding *(millions)* | **69.2** | 49.5 | **69.2** | 49.5 |
| Weighted average *(millions)* | **68.8** | 49.5 | **64.6** | 48.1 |
| Operations *(units as noted)* | | | | |
| Average production | | | | |
| Natural gas *(mcf/day)* | **3,710** | 1,560 | **2,560** | 1,536 |
| Oil and NGL *(bbls/day)* | **497** | 505 | **457** | 389 |
| Total (BOE/day) | **1,115** | 765 | **883** | 644 |
| Average sales price | | | | |
| Natural gas *($/mcf)* | **4.04** | 3.06 | **4.35** | 3.42 |
| Oil and NGL *($/bbl)* | **86.63** | 94.25 | **89.65** | 86.61 |
| Operating netback *($/BOE)* (2) | | | | |
| Petroleum and natural gas revenue | **52.02** | 68.45 | **58.93** | 60.35 |
| Realized gain (loss) on financial derivatives | **(0.30)** | 0.19 | **(0.91)** | 0.10 |
| Royalties | **(8.22)** | (6.00) | **(9.40)** | (3.89) |
| Operating and transportation expenses | **(10.35)** | (7.60) | **(11.19)** | (8.40) |
| Operating netback | **33.15** | 55.04 | **37.43** | 48.16 |

*(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 nine months of 2014, Traverse drilled 13 wells resulting in 9 oil wells and 4 natural gas wells. At the end of the third quarter 5 oil wells and 4 gas wells had commenced production with 3 oil wells completed and awaiting tie in and one horizontal oil well to be completed. New and existing natural gas wells at Turin commenced production early in the quarter and a new gas well at Michichi commenced production in mid August. Additional oil production was added at Coyote, mainly after the battery expansion was completed in late August. New oil production from the recent horizontal wells will increase the total oil production during the fourth quarter.

The Coyote battery expansion was completed in the third quarter with clean oil shipments commencing in late August. The facility is licensed to treat up to 2,000 barrels of oil and water and 4 mmcf of gas per day. The facility is designed for higher volumes and possible expansion if required. Facility work in the fourth quarter will include additional storage tanks and tie in of the two new horizontal wells.

During the third quarter Traverse expanded the Ellerslie pool to the west by drilling two additional vertical wells. One well is being equipped and will be placed on production during the fourth quarter and the second well was subsequently completed in a new separate Mannville oil zone and will also be placed on production during the fourth quarter. Further development of this second zone will be undertaken in early 2015 with a horizontal well. Traverse has applied to the Alberta Energy Regulator ("AER") to expand its existing holding which allows for four wells per quarter section in the Ellerslie pool. This expansion will allow for additional wells to be drilled in the west portion of the pool.

The first two horizontal wells drilled in the Coyote Ellerslie pool were completed in October. The first well was completed with 252 tonnes of sand placed in 16 stages. The well was production tested for 4.25 days and produced 1,290 barrels of oil and 4.2 mmcf of raw gas. Final flow rates for the last 24 hours of the test were 305 barrels of oil per day and 530 mcf of raw gas per day. The second well was completed with 364 tonnes of sand placed in 19 stages. The well was production tested for 7.2 days producing 4,275 barrels of oil and 7 mmcf of raw gas. Final flow rates for the last 24 hours of the test were 440 barrels of oil per day and 700 mcf of raw gas per day. The two horizontal wells are being tied into the Coyote battery and are expected to commence production in mid November. These early production tests, although preliminary, are encouraging based on analogous similar pools in East Central Alberta. The test results are not necessarily indicative of long-term performance or of ultimate recovery.

There are now eight vertical wells producing from the Ellerslie pool. Third quarter production from the Coyote area was 370 BOE per day (72% oil). A 3D seismic program was recently completed in the west Coyote area which will help select drilling locations to further delineate the Coyote Ellerslie pool. Further vertical delineation wells and additional horizontal wells will be drilled in 2015 to develop the Ellerslie pool.

At Michichi Traverse placed its first well on production in mid August. The well was tied in to conserve gas and is producing at 700 mcf per day of sales gas and 10 barrels of oil and natural gas liquids per day. The well was recently reclassified as a gas well due to lower amounts of oil produced. Third quarter production from the Michichi area was 68 BOE per day (8% oil). In the third quarter a second well was drilled 2 kilometres north of the first well. The second well has been completed as an oil well and is awaiting tie in to conserve gas prior to being placed on production. Plans for 2015 include additional vertical delineation wells to be followed up by development horizontal drilling if warranted.

At Turin, Traverse completed the installation of a booster compressor at its central battery, which became operational in early July and allowed for production of gas from two shut-in wells and lowered the operating pressure for oil production from the field. In early 2015 Traverse plans to drill one well and recomplete several shut-in wells for sweet gas production, which can be produced through the existing facilities. Production at Turin for the third quarter was 558 BOE per day (31% oil).

At September 30, 2014 undeveloped land holdings totalled 186,400 gross (183,200 net) acres. The Board of Directors approved an initial exploration and development budget of $34 million for 2015. The program includes the drilling of up to 14 wells, including 7 horizontal wells, on Company owned lands in the Coyote, Michichi and Turin areas and on other properties located in east central Alberta.

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **Production** | **2014** | 2013 | **2014** | 2013 |
| Average working interest production | | | | |
| Natural gas *(mcf/day)* | **3,360** | 1,373 | **2,177** | 1,322 |
| Crude oil *(bbls/day)* | **454** | 408 | **403** | 262 |
| Total *(BOE/day)* | **1,014** | 637 | **765** | 482 |
| Average royalty production | | | | |
| Natural gas *(mcf/day)* | **350** | 187 | **383** | 214 |
| Crude oil *(bbls/day)* | **43** | 97 | **54** | 127 |
| Total *(BOE/day)* | **101** | 128 | **118** | 162 |
| Total production | | | | |
| Natural gas *(mcf/day)* | **3,710** | 1,560 | **2,560** | 1,536 |
| Crude oil *(bbls/day)* | **497** | 505 | **457** | 389 |
| Total *(BOE/day)* | **1,115** | 765 | **883** | 644 |
| % Oil and NGL | **45%** | 66% | **52%** | 60% |

Production in the three and nine months ended September 30, 2014 increased compared to the three and nine months ended September 30, 2013 (the "Corresponding Periods") as a result of drilling in the Coyote, Michichi and Turin areas. In the Turin area, a booster compressor became operational in early July allowing for new production from two shut-in gas wells and reducing the operating pressure from the field. At Coyote and Michichi an additional 5 wells commenced production during the third quarter. Production for the third quarter of 2014 increased 44% to 1,115 BOE per day from 775 BOE per day in the second quarter of 2014.

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **Production by area (BOE/day)** | **2014** | 2013 | **2014** | 2013 |
| Brazeau | **83** | 121 | **101** | 146 |
| Coyote & Michichi | **438** | 308 | **294** | 128 |
| Turin | **558** | 287 | **448** | 313 |
| Minor | **36** | 49 | **40** | 57 |
| **Total BOE per day** | **1,115** | 765 | **883** | 644 |
| % of BOE/day | | | | |
| Royalty | **9%** | 17% | **13%** | 25% |
| Working interest | **91%** | 83% | **87%** | 75% |

The royalty proportion of total Company production decreased to 9% in the 2014 period compared to 17% in the 2013 period. 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 Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **Pricing** | **2014** | 2013 | **2014** | 2013 |
| Average sales price | | | | |
| Natural gas *($/mcf)* | **4.04** | 3.06 | **4.35** | 3.42 |
| Oil and NGL *($/bbl)* | **86.63** | 94.25 | **89.65** | 86.61 |
| $/BOE before financial derivatives | **52.02** | 68.45 | **58.93** | 60.35 |
| Realized gain (loss) on financial derivatives | **(0.30)** | 0.19 | **(0.91)** | 0.10 |
| $/BOE after financial derivatives | **51.72** | 68.64 | **58.02** | 60.45 |

The average BOE sales price received, after the realized gain (loss) on financial derivatives, during the 2014 periods has decreased over the Corresponding Periods due mainly to an increase in the proportion of natural gas in the Company's sales. The average sales price per BOE declined 14% in the third quarter of 2014 compared to the second quarter of 2014 due mainly to increased natural gas production. The realized loss on financial derivatives for the third quarter of 2014 was $31,220 compared to a realized gain on financial derivatives of $13,324 in the comparable 2013 period and a realized loss in the second quarter of 2014 of $108,706.

Volatility in the commodity markets will continue to impact realized prices in 2014. At September 30, 2014 Traverse had natural gas physical delivery contracts outstanding for the remainder of 2014 averaging 1,900 GJ per day at $3.70 per GJ. In addition, the Company had physical delivery contracts for the first half of 2015 of 1,000 GJ per day at $3.89 per GJ. The Company had the following derivative commodity contracts outstanding at September 30, 2014:

| Product | Term | Type | Volume | Swap price | Index |
|---|---|---|---|---|---|
| Natural Gas | Jan. 1 to Dec. 31, 2014 | Basis swap | 1,000 mmbtu/d | US $0.46/mmbtu | AECO - Henry Hub |

At September 30, 2014 the mark-to-market value of these contracts totaled $(25,744).

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **Petroleum and natural gas revenue ($)** | **2014** | 2013 | **2014** | 2013 |
| Revenue by source | | | | |
| Working interest production | **4,838,809** | 3,976,224 | **12,307,206** | 7,455,146 |
| Royalty interest production | **497,160** | 843,186 | **1,901,960** | 3,163,067 |
| Total | **5,335,969** | 4,819,410 | **14,209,166** | 10,618,213 |
| Revenue by commodity | | | | |
| Oil | **3,956,898** | 4,380,504 | **11,172,670** | 9,184,355 |
| Natural gas | **1,379,071** | 438,906 | **3,036,496** | 1,433,858 |
| Total | **5,335,969** | 4,819,410 | **14,209,166** | 10,618,213 |

Revenue in the third quarter of 2014 increased 11% over the comparable period due mainly to the increased gas production in the Company's production mix. Revenue for the nine months ended September 30 increased 34% in 2014 compared to the 2013 period due to increased production and pricing. Revenue in the third quarter of 2014 increased 23% from the second quarter due to increased production.

**Operating netback**

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **Operating netback ($/BOE)** | **2014** | 2013 | **2014** | 2013 |
| Petroleum and natural gas revenue | **52.02** | 68.45 | **58.93** | 60.35 |
| Realized gain (loss) on financial derivatives | **(0.30)** | 0.19 | **(0.91)** | 0.10 |
| Royalties | **(8.22)** | (6.00) | **(9.40)** | (3.89) |
| Operating and transportation costs | **(10.35)** | (7.60) | **(11.19)** | (8.40) |
| Operating netback | **33.15** | 55.04 | **37.43** | 48.16 |

The operating netback decreased in the three and nine months ended September 30, 2014 compared to the Corresponding Periods due to the combination of increased natural gas production, increasing royalties and increased operating costs. Royalties per BOE increased in the 2014 periods due to the expiry of the New Well Royalty Rate (NWRR) on wells at both Turin and Coyote as well as the decline in royalty production. Royalties per BOE will continue to fluctuate based on the proportion of the NWRR wells in the production mix. Operating costs in 2014 have increased compared to the Corresponding Periods due mainly to the decline in the royalty production, which does not have associated operating costs.

The operating netback in the third quarter of 2014 decreased 9% from the operating netback in the second quarter ($36.43) due to a decreased commodity price resulting from increased gas production partially offset by reduced royalties and operating costs. Royalties decreased in the third quarter of 2014 compared to the second quarter as new production eligible for the NWRR was added. Operating costs decreased in the third quarter of 2014 compared to the second quarter of 2014 as fixed costs were rationalized over a larger production base and the Coyote battery became operational.

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **Operating netback ($)** | **2014** | 2013 | **2014** | 2013 |
| Petroleum and natural gas revenue | **5,335,969** | 4,819,410 | **14,209,166** | 10,618,213 |
| Realized gain (loss) on financial derivatives | **(31,220)** | 13,324 | **(218,452)** | 17,465 |
| Royalties | **842,882** | 422,671 | **2,265,699** | 683,806 |
| Operating and transportation costs | **1,061,932** | 534,983 | **2,696,754** | 1,479,401 |
| Operating netback | **3,399,935** | 3,875,080 | **9,028,261** | 8,472,471 |

The operating netback in the third quarter of 2014 decreased to $3.4 million compared to $3.9 million in the 2013 period due mainly to increased royalties and operating costs. The operating netback for the nine months ended September 30, 2014 increased over the comparable period due to increased production and commodity prices partially offset by increasing costs. The operating netback in the third quarter of 2014 increased 32% from $2.6 million in the second quarter to $3.4 million due mainly to increased production and decreased royalties and operating costs.

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| **General and administrative ($)** | **2014** | 2013 | **2014** | 2013 |
| General and administrative costs - gross | **371,482** | 166,986 | **1,139,828** | 704,015 |
| Operator recoveries | **137,471** | 81,214 | **330,272** | 172,596 |
| General and administrative costs - net | **234,011** | 85,772 | **809,556** | 531,419 |
| Per BOE | **2.28** | 1.22 | **3.36** | 3.02 |

Net general and administrative costs increased in the 2014 periods compared to the Corresponding Periods due to increased staffing and higher corporate compliance costs. Third quarter gross general and administrative costs were virtually unchanged from the second quarter of 2014 but operator recoveries increased in the third quarter of 2014 due to increased capital expenditures. Net general and administrative costs decreased on a BOE basis from $4.13 in the second quarter of 2014 to $2.28 in the third quarter due to increased recoveries and production volumes.

### Share based compensation

Share based compensation expense of $82,377 (2013 - $4,799) was recorded in the third quarter of 2014 related to the grant of options during the second quarter. No options were granted during the comparable quarter of 2013 and share compensation expense in that quarter related to the vesting of options granted late in 2012.

### 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 three and nine months ended September 30, 2014 E&E expenses recorded related to lease expiries. In the first nine months of 2013, E&E expenses of $491,172 were recorded mainly relating 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 $964,000 at September 30, 2014 (2013 - $671,000) and excluded $1,110,000 (2013 - $640,000) for estimated salvage values. Future development costs at September 30, 2014 relate to the equipping of oil wells at Coyote and the tie-in of standing natural gas wells at Turin.

Depletion and depreciation expense was $18.85 per BOE in the third quarter of 2014 compared to $18.83 per BOE in the third quarter of 2013 and $14.46 per BOE in the second quarter of 2014. Depletion increased in the third quarter of 2014 compared to the second quarter due to facility expenditures in the quarter.

### Finance income and costs

Finance income consists of interest earned on cash balances during the year. Finance income increased in the three and nine months ended September 30, 2014 from the Corresponding Periods 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 $315,000 for the three months ended September 30, 2014 as compared to $785,370 in the 2013 period. In the 2014 period, the Company's net income before income taxes decreased approximately $1.5 million from the comparable amount in the 2013 period resulting in decreased income tax expense. During the first nine months of 2014 deferred income tax expense related to flow-through expenditures was $455,000 (2013 - $607,000).

At September 30, 2014 the Company's tax pools available for deduction against future taxable income are estimated at $27 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.

### Cash and funds from operations and net income

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| ***($)*** | **2014** | 2013 | **2014** | 2013 |
| Cash provided by operating activities | **3,159,784** | 3,789,323 | **6,708,905** | 7,870,933 |
| Decommissioning expenditures | **-** | - | **38,158** | - |
| Change in non-cash working capital | **(28,432)** | 6,392 | **1,388,935** | 85,715 |
| Funds from operations | **3,131,352** | 3,795,715 | **8,135,998** | 7,956,648 |
| Per share basic and diluted | **0.05** | 0.08 | **0.12** | 0.17 |
| Net income | **634,911** | 1,636,375 | **1,788,015** | 3,217,482 |
| Per share basic and diluted | **0.01** | 0.03 | **0.03** | 0.07 |

Funds from operations decreased in the three months ended September 30, 2014 compared to the 2013 period due to increased production with a higher natural gas component and increased operating costs and royalties. Funds from operations for the first nine months of 2014 increased 2% from the 2013 comparable period. Net income for the 2014 periods decreased compared to the Corresponding Periods due to increases in depletion and share based compensation expenses.

### Capital expenditures

The Company incurred $10.7 million in expenditures in the third quarter of 2014 related to the drilling and completion of 3 wells at Coyote, the drilling of the first horizontal well at Coyote and the construction of the Coyote battery.

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|---|---|---|---|---|
| ***($)*** | **2014** | 2013 | **2014** | 2013 |
| Land acquisition and rentals | **221,012** | 368,991 | **752,335** | 603,697 |
| Geological and geophysical | **252,033** | 194,834 | **1,140,381** | 733,023 |
| Drilling and completions | **5,039,757** | 2,817,597 | **12,528,290** | 5,505,446 |
| Equipping and facilities | **5,021,173** | 1,575,816 | **8,507,018** | 2,545,247 |
| Exploration and development capital | **10,533,975** | 4,957,238 | **22,928,024** | 9,387,413 |
| Corporate assets | **123,538** | 167 | **168,239** | 5,216 |
| Net capital expenditures | **10,657,513** | 4,957,405 | **23,096,263** | 9,392,629 |

### Liquidity and capital resources

At September 30, 2014 Traverse had a working capital deficiency of approximately $1.7 million, no debt outstanding and an unutilized credit facility of $10 million. The Company intends to fund capital expenditures and commitments during the remainder of 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 November 13, 2014 total common shares outstanding are 69,230,269 and total common share options outstanding are 4,590,000. 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 2013 MD&A. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of approximately $11.5 million. The weighted average number of shares outstanding during 2014 increased 34% to 64,567,631 from 48,142,783 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 nine months ended September 30, 2013, the aggregate value of transactions entered into between Traverse and the private company was approximately $198,600.

### 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 as disclosed in the 2013 MD&A.

**Summary of quarterly results**

*($ thousands, except per share amounts)*
*(Unaudited)*

| Quarter ended | September 30 2014 | June 30 2014 | March 31 2014 | December 31 2013 |
|---|---|---|---|---|
| Petroleum and natural gas revenue | 5,336 | 4,338 | 4,535 | 4,055 |
| Cash provided by operating activities | 3,160 | 1,461 | 2,088 | 2,723 |
| Funds from operations | 3,131 | 2,409 | 2,596 | 1,958 |
| Per share - basic and diluted | 0.05 | 0.03 | 0.05 | 0.04 |
| Net income | 635 | 407 | 746 | 27 |
| Per share - basic and diluted | 0.01 | 0.01 | 0.01 | 0.00 |
| Working capital (deficiency) | (1,695) | 5,800 | 8,641 | 2,430 |
| Shareholders' equity | 36,632 | 35,881 | 34,549 | 22,994 |
| Production *(BOE/day)* | 1,115 | 775 | 756 | 787 |
| Capital expenditures | 10,658 | 5,475 | 6,964 | 5,482 |

| Quarter ended | September 30 2013 | June 30 2013 | March 31 2013 | December 31 2012 |
|---|---|---|---|---|
| Petroleum and natural gas revenue | 4,819 | 3,038 | 2,761 | 2,552 |
| Cash provided by operating activities | 3,789 | 1,922 | 2,160 | 1,815 |
| Funds from operations | 3,796 | 2,124 | 2,037 | 1,779 |
| Per share - basic and diluted | 0.08 | 0.04 | 0.04 | 0.04 |
| Net income (loss) | 1,636 | 1,060 | 521 | (3,255) |
| Per share - basic and diluted | 0.03 | 0.02 | 0.01 | (0.07) |
| Working capital | 3,045 | 4,191 | 2,359 | 3,083 |
| Shareholders' equity | 20,076 | 18,435 | 16,133 | 15,593 |
| Production *(BOE/day)* | 765 | 599 | 566 | 545 |
| Capital expenditures, net of dispositions | 4,957 | 1,674 | 2,761 | 2,158 |

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.

In the second quarter of 2014 production volumes increased slightly as the partial suspension of production in the Coyote area ended May 1 and new production from 2014 drilling commenced late in June. Declines in the natural gas price resulted in decreased revenue during the second quarter. The expiration of the New Well Royalty Rate on certain wells resulted in increased royalties in the second quarter. These additional royalties combined with increased operating costs relating to start up of new wells and compression resulted in decreased funds from operations. Stock based compensation relating to options grants during the second quarter further reduced net income. Capital expenditures in the second quarter related to the drilling of 4 oil wells at Coyote, equipping and tie in activities and the installation of compression at the Turin facility.

In the third quarter of 2014 production volumes increased as new production from 2014 drilling commenced. Increased production and commodity prices resulted in increased revenue during the third quarter. New production resulted in a decline in royalties and new facilities helped to reduce operating costs on a unit basis. These decreased costs combined with increased revenue resulted in increased funds from operations and net income. Capital expenditures in the quarter related to the drilling and completion of 3 wells at Coyote, the drilling of a horizontal well at Coyote and the construction of the Coyote battery.

## 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.

**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 the increase in oil production during the fourth quarter; planned facility work in the fourth quarter; expected commencement of production from one Mannville and one Ellerslie oil well; timing for further horizontal well development of the Mannville zone in the Ellerslie pool; expected commencement of production from two horizontal wells; further horizontal and vertical well development of the Ellerslie pool; planned additional drilling at Coyote, Michichi and Turin in 2015; planned recompletions at Turin; the number of wells to be drilled in 2015; the anticipated decrease in the proportion of royalty interest production due to increased Company drilling; the anticipation of being taxable on a current basis in 2014; and intentions for funding capital expenditures and commitments during the remainder of 2014 contain 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.