

TRAVERSE ENERGY LTD.
STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	Notes	September 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 1,522,248	\$ 4,994,322
Accounts receivable		2,215,553	1,712,206
Prepaid expenses and deposits		381,471	59,402
		4,119,272	6,765,930
Exploration and evaluation assets	3	8,044,752	5,056,426
Property and equipment	4	36,843,273	20,303,220
		\$ 49,007,297	\$ 32,125,576
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,814,012	\$ 3,641,510
Financial derivative liability	8	25,744	15,664
Income tax payable		-	694,000
		5,839,756	4,351,174
Deferred flow-through share premium		-	341,100
Decommissioning liabilities		3,306,842	2,475,000
Deferred income taxes		3,229,120	1,964,710
		12,375,718	9,131,984
Shareholders' Equity			
Share capital	6 (a)	37,358,245	25,798,292
Contributed surplus		1,688,209	1,398,190
Deficit		(2,414,875)	(4,202,890)
		36,631,579	22,993,592
		\$ 49,007,297	\$ 32,125,576

See accompanying notes to the interim financial statements

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

	Notes	Three months ended Sept.30,		Nine months ended Sept. 30,	
		2014	2013	2014	2013
Revenue					
Petroleum and natural gas	9	\$ 5,335,969	\$ 4,819,410	\$ 14,209,166	\$ 10,618,213
Royalties		(842,882)	(422,671)	(2,265,699)	(683,806)
		4,493,087	4,396,739	11,943,467	9,934,407
Realized gain (loss) on financial derivatives	8	(31,220)	13,324	(218,452)	17,465
Unrealized gain (loss) on financial derivatives	8	18,300	(25,963)	(10,080)	(30,036)
		4,480,167	4,384,100	11,714,935	9,921,836
Expenses					
Operating		951,729	479,318	2,443,716	1,308,576
Transportation		110,203	55,665	253,038	170,825
General and administrative		234,011	85,772	809,556	531,419
Share based compensation	6	82,377	4,799	740,019	38,915
Exploration and evaluation expense	3	206,604	12,538	442,352	503,710
Depletion and depreciation	4	1,933,760	1,325,670	3,938,532	2,481,565
		3,518,684	1,963,762	8,627,213	5,035,010
Income from operating activities		961,483	2,420,338	3,087,722	4,886,826
Finance income		10,428	6,407	37,197	15,596
Finance expense		(22,000)	(5,000)	(57,000)	(15,000)
Net finance income (loss)		(11,572)	1,407	(19,803)	596
Income before income taxes		949,911	2,421,745	3,067,919	4,887,422
Income taxes					
Current income tax		45,000	-	119,904	-
Deferred income tax expense		270,000	785,370	1,160,000	1,669,940
		315,000	785,370	1,279,904	1,669,940
Net income and comprehensive income		\$ 634,911	\$ 1,636,375	\$ 1,788,015	\$ 3,217,482
Net income per share - basic and diluted (6(c))		\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.07

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	-	-	3,217,482	3,217,482
Share based compensation	-	38,915	-	38,915
Issued for cash - flow-through	1,504,500	-	-	1,504,500
Deferred flow-through share premium	(197,700)	-	-	(197,700)
Share issue costs, net of tax of \$26,720	(80,154)	-	-	(80,154)
Balance September 30, 2013	\$ 22,911,919	\$ 1,393,971	\$ (4,230,210)	\$ 20,075,680
Balance December 31, 2013	\$ 25,798,292	\$ 1,398,190	\$ (4,202,890)	\$ 22,993,592
Net income	-	-	1,788,015	1,788,015
Share based compensation	-	740,019	-	740,019
Issued for cash	11,500,000	-	-	11,500,000
Share issue costs, net of tax of \$236,690	(710,047)	-	-	(710,047)
Issued on exercise of common share options	320,000	-	-	320,000
Transfer of share based compensation on exercise	210,000	(210,000)	-	-
Transfer of share based compensation on surrender	240,000	(240,000)	-	-
Balance September 30, 2014	\$ 37,358,245	\$ 1,688,209	\$ (2,414,875)	\$ 36,631,579

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Notes	Three months ended Sept. 30,		Nine months ended Sept. 30,	
		2014	2013	2014	2013
Cash provided by (used in):					
Operating activities:					
Net income		\$ 634,911	\$ 1,636,375	\$ 1,788,015	\$ 3,217,482
Adjustments for:					
Depletion and depreciation		1,933,760	1,325,670	3,938,532	2,481,565
Exploration and evaluation expense		206,604	12,538	442,352	503,710
Share based compensation		82,377	4,799	740,019	38,915
Finance expense		22,000	5,000	57,000	15,000
Deferred income tax expense		270,000	785,370	1,160,000	1,669,940
Unrealized loss on financial derivatives		(18,300)	25,963	10,080	30,036
Decommissioning expenditures		-	-	(38,158)	-
Changes in non-cash working capital		28,432	(6,392)	(1,388,935)	(85,715)
		3,159,784	3,789,323	6,708,905	7,870,933
Financing activities:					
Proceeds on issue of common shares		40,000	-	11,820,000	1,504,500
Share issue costs		(8,475)	-	(946,737)	(106,874)
Changes in non-cash working capital		(34,942)	(10,399)	(5,226)	(11,455)
		(3,417)	(10,399)	10,868,037	1,386,171
Investing activities:					
Exploration and evaluation asset additions	3	(5,784,167)	(4,923,924)	(16,623,856)	(8,489,136)
Property and equipment asset additions	4	(4,873,346)	(33,481)	(6,472,407)	(903,493)
Changes in non-cash working capital		431,345	479,131	2,047,247	419,152
		(10,226,168)	(4,478,274)	(21,049,016)	(8,973,477)
Change in cash and cash equivalents		(7,069,801)	(699,350)	(3,472,074)	283,627
Cash and cash equivalents, beginning of period		8,592,049	4,250,488	4,994,322	3,267,511
Cash and cash equivalents, end of period		\$ 1,522,248	\$ 3,551,138	\$ 1,522,248	\$ 3,551,138

See accompanying notes to the interim financial statements

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited)

1. Reporting entity

Traverse Energy Ltd. (the "Company" or "Traverse") 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". 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 November 13, 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	16,623,856
Transfers to property and equipment	(13,305,178)
Changes in decommissioning liabilities	112,000
Exploration and evaluation expense - lease expiries	(442,352)
Balance September 30, 2014	\$ 8,044,752

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited)

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 triggers for the nine months ended September 30, 2014 or 2013 other than lease expiries.

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	6,304,168	168,239	6,472,407
Transfers from exploration and evaluation	13,305,178	-	13,305,178
Changes in decommissioning liabilities	701,000	-	701,000
Balance September 30, 2014	\$ 53,907,463	\$ 288,203	\$ 54,195,666

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	(3,909,572)	(28,960)	(3,938,532)
Balance September 30, 2014	\$ (17,264,515)	\$ (87,878)	\$ (17,352,393)

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 September 30, 2014	\$ 36,642,948	\$ 200,325	\$ 36,843,273

The calculation of depletion and depreciation for the nine months ended September 30, 2014 included \$964,000 (2013 - \$671,000) for future development costs and excluded \$1,110,000 (2013 - \$640,000) 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 September 30, 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
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited)

5. Banking facility

The Company's bank facility consists of a revolving operating loan facility (the "facility") with a Canadian bank. The facility is provided on a demand basis in the amount of \$10.0 million subject to an annual review of the borrowing base. The borrowing base is determined by the lender based on the lender's interpretation of the Company's reserves, future commodity prices and other factors. There can be no assurance that the amount of the available facility will not be adjusted at the next scheduled borrowing base review on or before May 31, 2015.

The facility bears interest at the Lender's prime lending rate plus 1.30% and standby fees are charged on the undrawn facility at a rate of 0.35%. Under the terms of the facility, a financial covenant must be maintained. The Company must not permit the working capital ratio, as defined by the bank, to fall below 1.00:1. The bank defines the working capital ratio as the ratio of (i) current assets plus any undrawn availability under the facility, to (ii) current liabilities less (to the extent included therein) any amount drawn under the facilities. At September 30, 2014 the Company was in compliance with the financial covenant and no amount was owing under the facility. As security for the facility, the Company has provided a general security agreement providing a security interest over all present and after acquired personal property and a floating charge on all lands.

6. 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 share 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
Issued for cash on exercise of stock options	800,000	320,000
Issued on surrender of stock options	472,358	-
Transferred from contributed surplus on exercise of stock options	-	210,000
Transferred from contributed surplus on surrender of stock options	-	240,000
Share issue costs, net of tax of \$236,690	-	(710,047)
Balance September 30, 2014	69,155,269	\$ 37,358,245

(b) Private placements

In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of \$1,504,500. Flow-through common shares eligible for Canadian exploration expenses were issued at \$0.67 per share (750,000 shares) and flow-through common shares eligible for Canadian development expenses were issued at \$0.60 per share (1,670,000 shares). The Company has incurred the required qualifying expenditures.

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 Company has incurred the required qualifying expenditures.

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.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited)

(c) Per share amounts

Basic and diluted net income were calculated as follows:

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	2014	2013
Net income for the period	\$ 634,911	\$ 1,636,375	\$ 1,788,015	\$ 3,217,482
Weighted average number of common shares outstanding - basic	68,750,886	49,507,911	64,567,631	48,142,783
Effect of outstanding options	2,038,271	552,521	1,696,367	429,337
Weighted average number of common shares outstanding - diluted	70,789,157	50,060,432	66,263,998	48,572,120
Net income per share - basic and diluted	\$ 0.01	\$ 0.03	\$ 0.03	\$ 0.07

(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.

The following table sets forth a reconciliation of the stock option plan activity:

	Number of options	Weighted average exercise price
Balance December 31, 2012 and 2013	4,430,000	\$ 0.59
Exercised for cash	(800,000)	0.40
Surrendered for shares	(700,000)	0.40
Granted	1,735,000	0.96
Balance September 30, 2014	4,665,000	\$ 0.79

The weighted average share price at the date stock options were exercised and surrendered in 2014 was \$1.08.

In September 2014, as permitted under the stock option plan, certain officers, employees and consultants surrendered unexercised options to the Company in consideration for payment of an amount equal to the excess of the aggregate fair market value of the common shares on that date over the aggregate exercise price for those common shares pursuant to the options, payable in common shares. The fair market value of the common shares was determined as the weighted average trading price of the common shares during the five trading days preceding the surrender date.

No options were granted during the year ended December 31, 2013. The fair value of options granted in 2014 was estimated using a Black Scholes model with the following weighted average assumptions:

Assumptions	2014
Risk free interest rate (%)	1.6
Expected life (years)	4.8
Expected volatility (%)	57.4
Forfeiture rate (%)	2.2
Weighted average fair value of options	\$ 0.46

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited)

The following table summarizes stock options outstanding and exercisable under the plan at September 30, 2014:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.40 - \$0.50	75,000	0.1	\$ 0.47	75,000	\$ 0.47
\$0.51 - \$0.70	1,555,000	1.8	\$ 0.60	1,555,000	\$ 0.60
\$0.71 - \$0.90	1,300,000	2.1	\$ 0.80	1,300,000	\$ 0.80
\$0.91 - \$1.10	1,735,000	4.6	\$ 0.96	1,228,331	\$ 0.95
\$0.40 - \$1.10	4,665,000	2.9	\$ 0.79	4,158,331	\$ 0.77

7. 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 and September 30, 2014. 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.

8. 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 September 30, 2014 the Company held derivative commodity contracts as follows:

Product	Term	Type	Volume	Swap price	Index	As at Sept. 30, 2014
Natural Gas	Jan. 1 to Dec. 31, 2014	Basis swap	1,000 mmbtu/d	US \$0.46/mmbtu	AECO - Henry Hub	\$ (25,744)
Total						\$ (25,744)

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.
- Level 3: Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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 September 30, 2014 a 10% increase in the index prices would have increased the unrealized loss on financial derivatives by approximately \$28,000.

TRAVERSE ENERGY LTD.
NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 (Unaudited)

9. Revenue

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

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2014	2013	2014	2013
Petroleum and natural gas sales	\$ 4,838,809	\$ 3,976,224	\$ 12,307,206	\$ 7,455,146
Royalty income	497,160	843,186	1,901,960	3,163,067
Petroleum and natural gas	\$ 5,335,969	\$ 4,819,410	\$ 14,209,166	\$ 10,618,213