Traverse
Energy Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS AT AND FOR THE YEARS ENDED

DECEMBER 31, 2010 AND 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (MD&A) dated April 26, 2011 should be read in conjunction with the audited financial statements and accompanying notes of Traverse Energy Ltd. ("Traverse" or "the Company") as at and for the years ended December 31, 2010 and 2009. The financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and all figures provided herein and in the December 31, 2010 financial statements are reported in Canadian dollars. Additional information relating to Traverse, including Traverse's Annual Information Form, is available on SEDAR at www.sedar.com.

Description of the Company

Traverse Energy Ltd. is a Calgary based resource company engaged in the exploration for, and the development and production of natural gas, natural gas liquids and crude oil in Western Canada. The common shares of Traverse trade on the TSX Venture Exchange under the symbol "TVL". In June 2009 the Company changed its name to Traverse (previously Firstland Energy Limited) and began operations under a new management group.

Non-GAAP Measures

The MD&A contains terms that are not considered measures under Canadian GAAP, such as funds flow from operations and operating netback. These measures are commonly utilized in the oil and gas industry and are considered informative for management and stakeholders. The reconciliation between cash flow from operations and funds flow from operations can be found in the statement of cash flows in the financial statements with funds flow from operations calculated before non-cash working capital and asset retirement expenditures. Management believes that in addition to net loss, funds flow from operations is a useful supplemental measure as it provides an indication of Traverse's operating performance. Operating netback reflects petroleum and natural gas revenues less royalties, operating and transportation costs and is calculated on a per unit basis. Investors should be cautioned, however, that these measures may not be comparable to measures reported by other companies nor should they be construed as an alternative to cash flow from operations or other measures of financial performance calculated in accordance with GAAP.

BOE presentation

Where amounts are expressed on a barrel of oil equivalent basis (BOE), natural gas volumes have been converted to BOE using a ratio of 6,000 cubic feet of natural gas to one barrel of oil equivalent. This conversion ratio is based upon an energy equivalent conversion method primarily applicable at the burner tip and does not represent value equivalence at the wellhead. BOE figures may be misleading, particularly if used in isolation.

Forward-looking Information

This MD&A contains forward-looking information. Forward-looking information is based upon the opinions, expectations and estimates of management as at the date the information is provided and, in some cases, information received from or disseminated by third parties. In particular, the Company's statements with respect to volatility in commodity markets, increasing operating costs and intentions for funding capital expenditures are forward-looking information. This forward-looking information is subject to a variety of substantial known and unknown risks and uncertainties and other factors that could cause actual events or outcomes to differ materially from those anticipated or implied by such forward-looking information. The Company's Annual Information Form filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describes the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

The forward-looking information contained in this MD&A is made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

HIGHLIGHTS	Three Months Ended December 31 (unaudited)		Year Ended December 31		
	2010	2009	**2010**	2009	2008
Financial *($ thousands, except per share amounts)*					
Petroleum & natural gas revenue	**$ 1,136**	$ 156	**$ 2,118**	$ 547	$ 1,372
Funds flow from operations	**636**	(29)	**795**	128	847
Per share – basic and diluted	**0.02**	0.00	**0.03**	0.01	0.07
Cash flow from operations	**244**	17	**487**	(250)	974
Per share – basic and diluted	**0.01**	0.00	**0.02**	(0.01)	0.08
Net income (loss)	**(1,191)**	(177)	**(2,106)**	(722)	408
Per share – basic and diluted	**(0.04)**	(0.01)	**(0.08)**	(0.04)	0.03
Capital expenditures	**3,569**	1,290	**7,970**	1,790	457
Total assets	**14,177**	10,241	**14,177**	10,241	6,193
Working capital	**2,358**	4,546	**2,358**	4,546	2,501
Common shares					
Outstanding *(millions)*	**31.9**	24.9	**31.9**	24.9	12.9
Weighted average *(millions)*	**30.1**	24.1	**27.4**	18.2	12.9
Operations *(Units as noted)*					
Production *(BOE/d)*	**214**	48	**121**	48	65
Natural gas *(Mcf per day)*	**423**	233	**370**	237	346
Oil and NGL *(bbls per day)*	**143**	9	**59**	9	7
Average sale price					
Natural gas *($/Mcf)*	**3.73**	4.29	**3.91**	4.11	9.04
Oil and NGL *($/bbl)*	**75.10**	73.85	**73.46**	60.44	89.93
Netback per BOE *($/BOE)*					
Petroleum & natural gas revenue	**57.73**	35.84	**47.98**	31.26	57.83
Royalties	**2.71**	0.15	**2.18**	0.19	0.35
Operating	**12.59**	6.69	**12.72**	6.64	6.31
Transportation	**1.76**	1.22	**1.63**	0.69	1.04
Operating netback	**40.67**	27.78	**31.45**	23.74	50.13

Financial and Operating Review

The change in management and business direction of Traverse that occurred in June 2009 has significantly impacted the financial and operating results for 2010. Prior year revenue consisted mainly of natural gas royalty income and minor working interest production. As a result the comparison of certain items between 2010 and prior years may not be meaningful.

In 2010 Traverse participated in the drilling of 10 gross (9.25 net) wells all within the province of Alberta. This drilling resulted in 4.25 net oil wells, 1 net natural gas well, 2 net suspended potential natural gas wells and 2 net abandonments. Production in the Turin area increased with the addition of 3 oil wells (2.25 net), the installation of a natural gas sweetening unit and the expansion of the oil battery. Oil production further increased with the success in the fall of a single oil well at Long Coulee (100% working interest). Gas production increased early in the year with the addition of a 100% interest well in the Warwick area. Additional drilling operations in the Warwick area resulted in two potential natural gas wells (100% working interest); however, additional completion activities in the wells have been delayed due to depressed natural gas prices. One horizontal well and one re-entry in the Manyberries area have been abandoned. Late in the year, a successful oil well was drilled in the Carbon area.

Revenue and Production

	For the year ended December 31,		
	2010	2009	Change
Average production (including royalty interests)			
Natural gas *(Mcf per day)*	370	237	56%
Crude oil *(bbls per day)*	59	9	556%
Total *(BOE per day)*	121	48	152%
Average sales price			
Natural gas *($ per Mcf)*	$3.91	$4.11	(5%)
Crude oil *($ per bbl)*	$73.46	$60.44	22%
Total *($ per BOE)*	$47.98	$31.26	53%
Petroleum and natural gas revenue			
Production income	$1,760,573	$121,305	1351%
Royalty income	$357,832	$425,955	(16%)
Total	$2,118,405	$547,620	287%

Petroleum and natural gas production increased in 2010 as new volumes resulting from Company drilling were added. New production was added in the first quarter of 2010 from Company drilling in the Little Bow, Turin and Warwick areas. In the second quarter additional volumes were added at Turin as the result of the acquisition of partner interests. Two new wells at Turin were added in the third quarter of 2010 and royalty volumes were sold. Additional production was added in the fourth quarter of 2010 from successful drilling at Long Coulee. Oil with associated natural gas is produced from the Turin and Long Coulee areas while the Little Bow and Warwick areas produce natural gas.

Average production by quarter for 2010 was as follows:

	Q1	Q2	Q3	Q4	2010	2009
Average BOE/d						
Royalty production	34	30	27	30	30	39
Turin	17	23	32	43	29	-
Little Bow	5	10	12	10	9	-
Warwick	2	27	26	15	18	-
Long Coulee	-	-	-	109	27	-
Other	8	9	6	7	8	9
	66	99	103	214	121	48
% of BOE/d						
Royalty	51%	30%	26%	14%	25%	81%
Working interest	49%	70%	74%	86%	75%	19%

The Company's revenue for 2009 consisted mainly (approximately 80%) of royalty income, all within the province of Alberta. During 2010, production income increased substantially as a result of drilling activities. Working interest production volumes increased from 32 barrels per day in the first quarter of 2010 to 184 barrels per day in the final quarter of the year. Flush production from the single oil well at Long Coulee added significantly to fourth quarter production and revenue. Pumping equipment is anticipated to be installed on the well in the second quarter of 2011. Data continues to be gathered on the well which is currently flowing at approximately 75 barrels per day of oil and associated gas. Average royalty production declined approximately 23% during 2010 due to a combination of natural declines and the sale of royalty properties. No new royalty production was added in 2010.

The average sales price received during 2010 increased 53% from the prior year. Crude oil prices received increased 22% while natural gas prices received declined 5%. Production averaged approximately 50% oil in 2010 compared to the 2009 average of 20%. Increased production volumes in 2010 represented approximately 54% of the increased petroleum and natural gas revenue while increased average pricing accounted for the remaining 46%. Volatility in the commodity markets will continue to impact realized prices in 2011. Traverse currently has no risk management program in place for commodity prices due to the small volumes of production. The combined increase in production volumes and commodity pricing increased petroleum and natural gas revenue to approximately $2.1 million for the year ended December 31, 2010.

Royalties and Operating Expenses

Operating netback $/BOE	Q1	Q2	Q3	Q4	2010	2009*
Revenue	$49.34	$38.08	$36.41	$57.73	$47.98	$31.26
Royalties	1.23	1.51	2.30	2.71	2.18	0.19
Operating	12.29	12.98	12.98	12.59	12.72	6.64
Transportation	1.25	1.29	1.94	1.76	1.63	0.69
Operating netback	$34.57	$22.30	$19.19	$40.67	$31.45	$23.74

**Due to the large percentage of royalty production in 2009 which did not attract royalties, operating costs or significant transportation, a comparison on a unit basis is not meaningful.*

Royalties increased to $96,117 in 2010 from $3,320 in the prior year due to the addition of new working interest production. Production added in 2010 from the Turin, Little Bow and Long Coulee areas is subject to Crown royalties, which for the first 12 production months is computed at a rate of 5% (the "new well royalty rate"). Crown royalties associated with these wells will increase at the end of the initial 12 month period. Production added from the Warwick area is subject to freehold royalties. Crown royalties increased in the fourth quarter of 2010 due to the new oil production at Long Coulee.

All of the Company's previously owned working interest properties produce at very low rates and as a result pay minimal royalties. Royalties on production from existing properties has remained virtually unaffected by changes to Alberta's royalty system.

Operating expenses increased from $116,813 in 2009 to $561,405 in 2010 due to the increase in volumes produced from working interest properties. On a per unit basis, operating costs increased from $6.64 per BOE in 2009 to $12.72 per BOE in 2010. Total operating costs increased in the last quarter of 2010 with the addition of production from Long Coulee but remained consistent on a unit basis at $12.59 per BOE. Operating costs on existing production will likely increase as the flush production at Long Coulee temporarily decreased overall operating costs on a per unit basis.

Transportation costs increased in 2010 with the additional working interest volumes and include costs of clean oil trucking and transportation on natural gas pipelines. Transportation averaged $1.63 per BOE in 2010 (compared to $0.69 per BOE in 2009) and was slightly higher in the fourth quarter at $1.76 per BOE.

Increased production and commodity prices resulted in an increase to the operating netback of approximately $7.71 per BOE in 2010 compared to 2009. The operating netback increased to $40.67 per BOE in the final quarter of 2010 as a result of the combination of increased crude oil pricing and the initial flush production from the Long Coulee well.

General and Administrative and Stock Based Compensation

General and administrative expenses, net of operator recoveries, increased 39% in 2010 due to the impact of a full year of Company operations as an active exploration and production company. In July 2009, the Company added office space and new accounting, land and seismic systems. Personnel related to these activities were also added in the third quarter of 2009. Initially these changes caused an increase in the general and administrative expenses on both an absolute and unit basis; however in 2010 these increases have been rationalized over a larger production base resulting in a decrease on a unit basis from $25.08 in 2009 to $13.85 in 2010.

Compensation expense of $345,900 in 2010 (2009 - $473,150) relates to the Company's stock option plan. Compensation expense is recognized over the vesting period of the options and is based on the estimated fair value of the options at the date of grant using a Black-Scholes option pricing model. Some of the inputs to the option valuation model are subjective, including assumptions regarding expected stock price volatility.

Depletion, Depreciation and Accretion (DD&A)

Traverse recorded $3,173,650 (2009 - $449,134) in depletion and depreciation of capital assets and accretion of asset retirement obligations during 2010. The depletion expense recorded in the fourth quarter of 2010 includes a write down of $1,169,000 ($26.48 per BOE) resulting from application of the ceiling test at December 31, 2010. In addition, fourth quarter depletion increased substantially from the third quarter of 2010 due to a combination of increased production and a higher depletable base with lower associated proved reserve additions.

At December 31, 2010 the calculation of depletion expense excluded undeveloped land costs of $1,103,000 (2009 - $2,004,000) and included future development costs of $743,200 (2009 - $200,750) related to proved developed non-producing reserves. The excluded amounts, which represent costs incurred for unproved properties, are added to costs subject to depletion as proved reserves are assigned or as the property's value is assessed to be impaired. At December 31, 2010 the Company determined that an amount of $1,257,000 relating to historical crown land acquisitions was impaired due to the combination of natural gas commodity prices and the limited lease terms remaining to expiry. This amount was added to the costs subject to depletion at December 31, 2010. In addition, costs incurred with respect to the potential natural gas wells at Warwick and the abandoned wells at Manyberries resulted in increases to the depletion base with no corresponding reserve additions.

Depreciation and accretion expense have increased year over year in accordance with the acquisition of additional administrative assets and the incurring of additional asset retirement obligations associated with new drilling activities.

Income Taxes and Net Loss

A loss before income taxes of $2,724,318 in 2010 resulted as gains in production and revenue were more than offset by increased depletion, including a write down of the petroleum and natural gas properties in the fourth quarter of the year. As a result of the loss the Company has recorded a reduction in the future income taxes liability. The Company was taxable in 2008 and as a result, the 2009 loss resulted in a recovery of cash income taxes.

The net loss for 2010 was $2,106,418 resulting in a net loss per share of $0.08 compared to $0.04 for 2009.

Shareholders' Equity

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. In December 2010 the Company completed a private placement of 2,500,000 flow-through common shares at a price of $0.95 per common share for gross proceeds of $2,375,000. The flow-through commitment remaining for these private placements at December 31, 2010 was $1,150,000.

In June 2009, as part of the annual and special meeting, shareholders approved the private placement of 8,000,000 shares for gross proceeds of $2.0 million. In October 2009 the Company completed a private placement of 2,000,000 units at a price of $0.90 per unit for gross proceeds of $1,800,000. Each unit consisted of one common share at $0.40 and one flow-through common share at $0.50.

As at April 26, 2011 total common shares outstanding are 31,953,333 and total common share options outstanding are 2,525,000. The weighted average number of shares outstanding increased to 27,409,689 for 2010 (18,199,315 in 2009) as a result of these private placements.

Funds Flow from Operations

Funds flow from operations increased to approximately $795,000 in 2010 compared to $128,000 in 2009 mainly due to increased production volumes and crude oil prices. Funds flow from operations per share increased to $0.03 per share in 2010 from $0.01 per share in 2009.

Liquidity and Capital Resources

Capital expenditures	2010	2009
Exploration and development		
Land acquisition and rentals	$ 915,589	$ 875,072
Geological and geophysical	611,829	409,954
Drilling, completion and workovers	5,060,623	662,084
Well equipment and facilities	2,202,561	80,506
Administrative assets	24,398	13,104
	$ 8,815,000	$ 2,040,720
Property dispositions and acquisitions	(844,650)	(362,749)
Corporate acquisition	-	120,800
Net capital expenditures	$ 7,970,350	$ 1,798,771

In 2010 the Company incurred $8.8 million of net capital expenditures as detailed above. During the year Traverse acquired 32,000 acres of undeveloped land and sold 6,000 acres of undeveloped lands. Traverse will continue to rationalize the existing land portfolio. At year end the Company has 156,000 gross acres (148,000 net) of undeveloped land. In the fourth quarter of 2010 the Company participated in the drilling of three wells resulting in one oil well, one potential oil well and one abandoned well. Capital expenditures were financed through existing working capital and the proceeds of the private placement completed in December 2010.

At December 31, 2010 the Company had working capital of approximately $2.4 million and no debt outstanding. The Company intends to fund capital expenditures during 2011 with a combination of cash flow and working capital. New equity issues and debt may be utilized to expand future capital expenditures where appropriate. Subsequent to year end the Company established a revolving production loan facility with a Canadian banking institution in the amount of $1.5 million.

Related Party Transactions

Equity transactions

In December 2010 the Company completed a private placement of 2,500,000 common shares at a price of $0.95 per common share for gross proceeds of $2,375,000. Directors and officers of the Company subscribed for 233,300 common shares for consideration of $221,635.

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. Directors and officers of the Company subscribed for 317,400 units for consideration of $412,620.

In October 2009 the Company completed a private placement of 2,000,000 units at a price of $0.90 per unit for gross proceeds of $1,800,000. Directors and officers of the Company subscribed for 280,000 units for consideration of $252,000.

In June 2009 the Company completed a private placement of 8,000,000 common shares (gross proceeds of $2,000,000) to two directors and officers of the Company and members of their immediate families. This private placement was approved by the shareholders of the Company on June 11, 2009.

Common management and directors

During 2010, office expenses of approximately $205,000 (2009 - $112,000) 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 December 31, 2010 an amount of $106,949 (2009 - $106,224), representing prepaid rent and a security deposit, are 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 2010, the aggregate value of transactions entered into between Traverse and these entities was approximately $1,775,000 (2009 - $540,000). Traverse had outstanding payables to the related parties of $83,905 (2009 - $439,436) and accounts receivable and prepaid cash calls due to Traverse of approximately $54,960 at December 31, 2010 (2009 - $71,952).

During 2009, management fees of $72,000 (2008 - $52,000) 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 fees 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.

Legal services

During 2010, the Company incurred approximately $68,000 (2009 - $59,000) 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 December 31, 2010 accounts payable and accrued liabilities include $10,945 (2009 - $14,991) to the legal firm.

Commitment

In March 2011 Traverse entered into an operating lease for office premises beginning on November 1, 2011 and expiring on October 31, 2021. The annual payments under this commitment are approximately as follows:

Period	Annual amount
November 1, 2011 to October 31, 2013	$178,200
November 1, 2013 to October 31, 2016	$191,700
November 1, 2016 to October 31, 2018	$205,200
November 1, 2018 to October 31, 2021	$218,700

Fourth Quarter 2010 Results

Production for the fourth quarter averaged 214 BOE per day, an increase of 111 BOE per day from the third quarter, due to flush production from the oil well at Long Coulee. Commodity prices increased in the fourth quarter averaging $75.10 per barrel for oil ($67.93 in the third quarter) and $3.73 per mcf for natural gas ($3.55 per mcf in the third quarter). Both commodity prices were lower when compared to the final quarter of 2009. Revenue increased compared to the fourth quarter of 2009 mainly reflecting the flush production from Long Coulee.

Traverse recorded a net loss of $1,191,107 in the fourth quarter of 2010 compared to a net loss of $177,543 in the fourth quarter of 2009. This increase reflects the higher depletion recorded in 2010 due to capital additions increasing the depletable base without corresponding reserve additions. The increased production volumes in the fourth quarter resulted in an increase in funds flow from operations to $635,766 in the 2010 period compared to a usage of funds of $28,544 in the 2009 period.

In December 2010 Traverse completed a private placement of 2.5 million flow-through common shares for gross proceeds of $2,375,000. Capital expenditures in the fourth quarter of 2010 were up significantly from the previous quarter as the Company drilled 3 wells at 100% working interest including a horizontal well at Manyberries. Fourth quarter drilling resulted in 1 oil well, 1 potential oil well and 1 abandoned well at Manyberries.

Summary of Quarterly Results – *($ thousands, except per share amounts)*

Quarter Ended	Mar. 31, 2010	Jun. 30, 2010	Sept. 30, 2010	Dec. 31, 2010
Revenue	$ 291	$ 345	$ 346	$ 1,136
Net loss	(145)	(309)	(461)	(1,191)
Per share – basic & diluted	(0.01)	(0.01)	(0.02)	(0.04)
Working capital	2,243	4,274	3,045	2,358
Shareholders’ equity	8,351	10,855	10,633	11,777
Production (BOE/d)	66	100	103	214
Capital expenditures	2,348	739	1,314	3,569

Quarter Ended	Mar. 31, 2009	Jun. 30, 2009	Sept. 30, 2009	Dec. 31, 2009
Revenue	$ 177	$ 97	$ 117	$ 156
Net loss	(6)	(24)	(515)	(177)
Per share – basic & diluted	0.00	0.00	(0.02)	(0.01)
Working capital	2,505	4,329	4,089	4,546
Shareholders’ equity	5,300	7,164	7,061	8,718
Production (BOE/d)	54	43	47	48
Capital expenditures	77	164	259	1,290

Production declined during 2009 as no new production volumes were added. Revenue, although declining with production, fluctuated quarterly with changes in commodity prices. Drilling activities late in 2009 had no impact on revenue for the year as new production did not commence until 2010. The change in Traverse’s operations to an active exploration and production company resulted in large increases in general and administrative costs in 2009. In 2010 production volumes and revenues increased as a result of drilling activities. Losses continued throughout the year due mainly to higher depletion expenses.

Business Environment and Risk

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.

Change in Accounting Policies

Effective January 1, 2011, Canadian public companies are required to adopt International Financial Reporting Standards ("IFRS"). The conversion to IFRS will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. There are significant differences between IFRS and Canadian GAAP, as well as a number of accounting policy choices and increased disclosure requirements under IFRS. The conversion to IFRS is a significant undertaking and may materially impact the Company's reported financial operating results and position.

The Company commenced a conversion project in 2009 which consisted of the following phases: 1) initial scoping, 2) impact analysis, and 3) implementation and review. The Company has prepared a preliminary balance sheet as at January 1, 2010 utilizing the following exemptions:

- The Company applied the amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* which allows full cost accounting companies to elect, at the time of adoption, to measure exploration and evaluation ("E&E") assets at the amount determined under the entity's previous GAAP. The amendment also permits full cost accounting companies to measure, at the time of adoption, petroleum and natural gas ("P&NG") assets in the development and production ("D&P") phase by using the total value determined under the entity's previous GAAP and allocating values at the unit of account level based on the Company's reserve volumes or reserve values as of the date of conversion. Under this exemption, companies are required to measure decommissioning, restoration and similar liabilities as at the date of transition in accordance with International Accounting Standard ("IAS") 37 and recognize directly in retained earnings any difference between that amount and the carrying amount of those liabilities at the date of transition to IFRS determined under Canadian GAAP.

- The Company elected not to apply IFRS 3 *Business Combinations* to acquisitions of subsidiaries that occurred before January 1, 2010, the Company's transition date.

- The Company elected not to apply IFRS 2 *Share-based Payment* to equity instruments granted after November 2, 2002 that vested before January 1, 2010.

The Company anticipates making the following adjustments to the opening balance sheet at the date of transition to IFRS; however these adjustments may change as a result of changes in IFRS or changes to the Company's selected policies. Readers are cautioned that the preliminary balance sheet prepared for adoption of IFRS as at January 1, 2010 has not been audited at this time and may still be subject to change.

- Canadian GAAP allows for full cost accounting for petroleum and natural gas assets and does not distinguish between E&E and D&P assets. IFRS has a separate reporting standard for assets in the E&E phase. Traverse has estimated the E&E assets at the date of transition to be $1.5 million, consisting of undeveloped land costs. A transition date impairment test was performed on the E&E value and concluded that the E&E assets were not impaired.

- The remaining P&NG asset value was allocated to Cash Generating Units ("CGUs") based on reserve values. Traverse has identified two CGUs at the time of transition being the Royalty Interest CGU and the Working Interest CGU. An IFRS impairment test was completed for each CGU as at January 1, 2010 and as a result the Company anticipates recognizing impairment of approximately $800,000 on the D&P assets at the transition date.

- Asset retirement obligations have already been recognized under Canadian GAAP however IFRS standards require that the liability be discounted at a different rate. Traverse has recalculated the liability at January 1, 2010 using a risk-free interest rate of 4% as compared to the credit adjusted rate of 8.5% used for Canadian GAAP purposes. This calculation results in an increase to the liability of approximately $50,000.

- The tax treatment of flow-through shares differs under Canadian GAAP and IFRS. Under Canadian GAAP, share capital is recorded at net proceeds less the deferred tax liability related to the renounced expenditures. Under IFRS, the increase to share capital when flow-through shares are issued is measured based on the current market price of the shares. The incremental proceeds, or “premium”, are recorded as a deferred charge. As expenditures are incurred a deferred tax liability is recognized and the deferred charge is reversed such that the net amount is recognized as a deferred tax expense. At January 1, 2010 this will result in the recording of a remaining flow-through share premium of $76,000, a decrease in share capital of $200,000, a reduction in retained earnings of $36,000 and an increase in deferred income tax liability of $160,000.

- Deferred income taxes are calculated under IFRS using a liability approach which is conceptually similar to Canadian GAAP however there are differences in the manner in which deferred income taxes are calculated. In addition, each other adjustment recorded on adoption of IFRS was assessed to determine if there was a related income tax impact, resulting in a decrease of $226,000 in deferred income taxes with a corresponding increase in retained earnings.

Traverse is currently in the process of preparing the IFRS comparatives for 2010 and expects to be ready to report first quarter 2011 results under IFRS.

CORPORATE INFORMATION

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