TRAVERSE ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2015

This management's discussion and analysis ("MD&A") dated April 14, 2016 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, 2015 and 2014. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The reporting and measurement currency is the Canadian dollar. 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 financial measures

In this MD&A references are made to certain financial measures (such as funds from operation and operating netback) which do not have standardized meanings prescribed by IFRS and therefore may not be comparable to the calculation of similar measures by other entities. Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. There are no comparable measures in accordance with IFRS for operating netback. Management believes that in addition to net income (loss), the non-IFRS measures set forth below 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 (loss) and net cash from operating activities, which are determined in accordance with IFRS, as indicators of the Company's performance.

Funds from operations

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 loss". Funds from operations per BOE is funds from operations divided by barrels of oil equivalent production volume for the applicable period. Funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income (loss) per share.

Operating netback

Operating netback represents revenue and realized gain or loss on financial derivatives, less royalties, operating and transportation expenses. Operating netback per BOE is the operating netback divided by barrels of oil equivalent production volume for the applicable period. The calculation of Traverse's operating netback is detailed under the heading "Operating netback".

BOE presentation

The term “BOE” or barrels of oil equivalent may be misleading, particularly if used in isolation. A BOE conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 Mcf: 1 bbl) is based upon an energy equivalency conversion method primarily applicable at the burner tip and does not represent value equivalency at the wellhead. Additionally, given that the value ratio based on the current price of crude oil, as compared to natural gas, is significantly different from the energy equivalency of 6:1, utilizing a conversion ratio of 6:1 may be misleading as an indication of value.

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 further exploitation and drilling in the Coyote area; further evaluations at Turin; and intentions for funding capital expenditures during 2016 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.

	Three months ended December 31 (unaudited)		Year ended December 31	
HIGHLIGHTS	**2015**	**2014**	**2015**	**2014**
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**3,172**	5,508	**12,882**	19,717
Cash provided by operations	**1,642**	3,473	**7,598**	10,182
Funds from operations (1)	**2,024**	3,420	**7,262**	11,556
Per share - basic and diluted	**0.03**	0.05	**0.10**	0.18
Net loss	**(3,720)**	(6,358)	**(2,762)**	(4,570)
Per share - basic and diluted	**(0.05)**	(0.09)	**(0.04)**	(0.07)
Capital expenditures before dispositions	**3,913**	7,725	**11,444**	30,821
Capital dispositions	**-**	-	**(8,915)**	-
Total assets	**38,786**	44,038	**38,786**	44,038
Working capital (deficiency)	**767**	(4,641)	**767**	(4,641)
Common shares				
Outstanding *(millions)*	**71.9**	70.5	**71.9**	70.5
Weighted average *(millions)*	**71.6**	69.6	**70.9**	65.8
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**2,951**	3,287	**2,865**	2,743
Oil and NGL *(bbls/day)*	**563**	701	**534**	518
Total (BOE/day)	**1,055**	1,249	**1,011**	975
Average sales price				
Natural gas *($/mcf)*	**2.72**	3.96	**3.09**	4.23
Oil and NGL *($/bbl)*	**47.02**	66.83	**49.54**	81.86
Netback *($/BOE)*				
Petroleum and natural gas revenue	**32.69**	47.94	**34.90**	55.39
Realized loss on financial derivatives	**-**	(0.01)	**-**	(0.62)
Royalties	**(0.61)**	(4.60)	**(1.13)**	(7.85)
Operating and transportation expenses	**(12.41)**	(12.86)	**(12.69)**	(11.73)
Operating netback (2)	**19.67**	30.47	**21.08**	35.19
General and administrative	**(2.25)**	(1.75)	**(2.91)**	(2.73)
Net finance expense (3)	**(0.05)**	(0.11)	**(0.34)**	(0.04)
Current income tax	**3.49**	1.18	**1.84**	0.04
Funds from operations (1)	**20.86**	**29.79**	**19.67**	**32.46**

(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 per BOE is funds from operations divided by barrels of oil equivalent production volumes for the applicable period.

(2) Operating netback represents revenue and realized gain or loss on financial derivatives, less royalties, operating and transportation expenses. Operating netback per BOE is the operating netback divided by barrels of oil equivalent production volume for the applicable period.

(3) Excludes non-cash accretion

Operations review

Traverse's capital program in 2015 was reduced in response to the commodity price environment. Traverse spent $7.3 million on drilling and completion activities in 2015 with a total of 4 wells drilled (4 net), resulting in three oil wells and one natural gas well. Equipping and facility expenditures of $3.2 million in 2015 related to well equipping and tie-ins at Coyote and Turin and construction of a sales gas pipeline at Coyote to a nearby gas plant.

In the first half of 2015, Traverse drilled one well west of the existing Coyote production resulting in the discovery of a new natural gas pool. The well was tied in to the Coyote facilities, extending the existing pipeline infrastructure to the west. The gas zone was temporarily suspended and the Ellerslie zone was completed and placed on production. Facility work at the Coyote battery consisted of installing a 2,500 barrel tank for oil storage and a gas compressor to reduce field operating pressures. Activity on the Turin property included workovers of three existing wellbores resulting in minor natural gas production additions. In the Hanna area, the Company re-entered an existing wellbore which was abandoned after testing minor hydrocarbons and water.

In the third quarter, Traverse drilled one vertical and one horizontal well. The horizontal well was the first horizontal well drilled into an upper Mannville zone, previously delineated by wells drilled into the Coyote Ellerslie pool. The well was drilled to a total depth of 2,510 metres, including a 1,140 metre horizontal section and was fracture treated in 22 stages. The well was placed on production in mid August as a flowing oil well and produced 38,600 BOE (55% oil and natural gas liquids) to December 31, 2015. A vertical well, equipped with larger production casing to allow for a future horizontal leg, was drilled approximately 5 miles west of the existing Coyote production. The well was completed in a new Mannville pool and produced oil and gas at low rates. The well is currently shut in and the horizontal leg will be drilled when commodity prices improve.

In the fourth quarter, Traverse drilled its second horizontal well into the upper Mannville zone at Coyote. The well was drilled to a total depth of 2,565 metres, including a 1,200 metre horizontal section and was fracture treated in 24 stages. The well was placed on production in November and has produced 16,100 BOE (62% oil and natural gas liquids) to December 31, 2015. Traverse completed a two mile sales gas pipeline from its Coyote battery to a nearby gas plant to accommodate additional solution gas volumes from recent drilling and future development. In October, downhole gas separators were installed in the two existing Ellerslie horizontal wells resulting in increased production performance. The Alberta Energy Regulator granted GPP (good production practice) and issued a holding for increased well density in the Coyote Ellerslie pool which allows for future development with horizontal wells.

At Turin in the fourth quarter, Traverse tied in one natural gas well for production. In addition, two standing wellbores (100%) near the Traverse battery were acquired. One well was completed as a potential oil well. Both wells will be further evaluated in 2016.

In June, Traverse sold its royalty interest in the Brazeau area of Alberta for cash proceeds of approximately $8.9 million. The royalty property contributed a total of 22 BOE/day during the year ended December 31, 2015 (2014 - 98 BOE/day).

Undeveloped land holdings in Alberta at December 31, 2015 totalled 180,800 gross (180,100 net) acres with an average working interest of 99%. At December 31, 2015, the Corporation had working capital of $0.8 million and an undrawn credit facility of $10 million.

In November 2015, Traverse announced an initial exploration and development program for 2016 of $12 million. Due to the commodity price environment, Traverse curtailed drilling activities in the fall of 2015 which has resulted in a decline in production volumes. Production in the first quarter of 2016 is anticipated to be 775 BOE/day which, combined with the depressed commodity prices, has reduced projected cash flow. Traverse has reduced the 2016 program to $10 million and drilling activities have been delayed to the second half of 2016. Traverse will continue to monitor the commodity environment and adjust activity accordingly.

Production

	Year ended December 31,	
	2015	2014
Working interest production		
Natural gas *(mcf/day)*	**2,743**	2,375
Oil and NGL *(bbls/day)*	**521**	469
Total *(BOE/day)*	**978**	864
Royalty production		
Natural gas *(mcf/day)*	**122**	368
Oil and NGL *(bbls/day)*	**13**	49
Total *(BOE/day)*	**33**	111
Total production		
Natural gas *(mcf/day)*	**2,865**	2,743
Oil and NGL *(bbls/day)*	**534**	518
Total *(BOE/day)*	**1,011**	975
% Oil and NGL	**53%**	53%

Production for the year ended December 31, 2015 increased 4% compared to the year ended December 31, 2014 (the "Corresponding Period") due to horizontal drilling in the Coyote area partially offset by the sale of Brazeau royalty.

Production by area (BOE/day)

	Year ended December 31,	
	2015	2014
Coyote	**523**	357
Michichi	**78**	43
Turin	**359**	445
Minor	**51**	130
Total BOE per day	**1,011**	975
% of BOE/day		
Royalty	**3%**	11%
Working interest	**97%**	89%

Production from the Coyote area increased 46% in the year ended December 31, 2015 compared to the Corresponding Period mainly as a result of the horizontal drilling program. The first two horizontal wells commenced production in the fourth quarter of 2014 while the third and fourth horizontals commenced production in August and November 2015, respectively. Production at Turin has declined as no new drilling has occurred. Production from minor areas, which includes royalty income, decreased 61% over the Corresponding Period due to the sale of the royalty interest in the Brazeau area of Alberta in June 2015.

Pricing

	Year ended December 31,	
	2015	2014
Realized prices		
Oil *($/bbl)*	**52.14**	84.13
NGL *($/bbl)*	**19.99**	56.24
Natural gas *($/mcf)*	**3.09**	4.23
BOE *($/BOE)*	**34.90**	55.39

Traverse realized oil prices of $52.14 per bbl during the year ended December 31, 2015 (Corresponding Period: $84.13 per bbl). The realized oil price incorporates the result of any fixed physical delivery contracts. During the year ended December 31, 2015 the impact on oil sales of these contracts was $333,710 (Corresponding Period: $0). During the year ended December 31, 2015, Traverse's discount to CAL (Central Alberta) at Edmonton approximated $9 per bbl (Corresponding Period: $9 per bbl). These pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

In the year ended December 31, 2015, Traverse realized natural gas prices of $3.09 per mcf (Corresponding Period: $4.23 per mcf). The Company's natural gas generally receives a premium of 5 to 10% above the AECO daily benchmark due to the higher heat content of its natural gas. The realized natural gas price also incorporates the result of any fixed physical delivery contracts. During the year ended December 31, 2015 the impact on natural gas sales of these contracts was $275,375 (Corresponding Period: $(260,209)).

The average BOE sales price received in the year ended December 31, 2015 decreased 37% compared to 2014 due to declining commodity prices. The proportion of oil and NGL in the Company's sales mix has remained stable at 53%.

At December 31, 2015 Traverse had natural gas physical delivery contracts pertaining to 2016 outstanding for an average of 1,000 GJ per day at $2.16 per GJ. The realized gain (loss) on financial derivatives for the year ended December 31, 2015 was $0 per BOE (Corresponding Period: $(0.62) per BOE). There were no derivative commodity contracts outstanding during 2015 or as at December 31, 2015.

Operating netback

	Year ended December 31,			
	2015		2014	
	$	**$/BOE**	$	$/BOE
Petroleum and natural gas revenue	**12,882,314**	**34.90**	19,716,684	55.39
Realized loss on financial derivatives	**-**	**-**	(219,749)	(0.62)
Royalties	**(416,334)**	**(1.13)**	(2,794,621)	(7.85)
Operating	**(4,046,235)**	**(10.96)**	(3,730,408)	(10.48)
Transportation	**(638,225)**	**(1.73)**	(444,241)	(1.25)
Operating netback	**7,781,520**	**21.08**	12,527,665	35.19

Petroleum and natural gas revenue for the year ended December 31, 2015 decreased 35% from the Corresponding Period due to declining commodity prices. There were no derivative commodity contracts outstanding during 2015.

The Company's corporate royalty rate (as a percentage of revenue) decreased to 3% in the year ended December 31, 2015 compared to 14% in the Corresponding Period as a result of crown incentives on new production, reduced crown royalty rates due to commodity price declines and increased crown gas deductions resulting from 2014 infrastructure expenditures.

Transportation expenses increased during the year ended December 31, 2015 as compared to the Corresponding Period due to the Coyote battery expansion which was completed in the third quarter of 2014. Prior to the battery expansion, oil from the Coyote area was shipped as emulsion and the related costs were classified as operating. After the battery expansion, clean oil hauling costs have been classified as transportation costs. Operating costs increased on a BOE basis for the year ended December 31, 2015 compared to the Corresponding Period due to the sale of royalty income volumes which did not have associated operating costs.

The operating netback per BOE decreased 40% for the year ended December 31, 2015 compared to the Corresponding Period as a result of decreased revenue, due to lower commodity prices, partially offset by lower royalties.

General and administrative

	Year ended December 31,	
($)	**2015**	2014
General and administrative costs - gross	**1,279,832**	1,432,760
Recoveries	**(205,678)**	(460,286)
General and administrative costs - net	**1,074,154**	972,474
Per BOE	**2.91**	2.73

Gross general and administrative costs for the year ended December 31, 2015 decreased compared to the Corresponding Period due mainly to reductions in office staff associated with the reduced capital program. Recoveries also decreased in the year ended December 31, 2015 compared to the Corresponding Period due to the decreased capital expenditures. Net general and administrative costs increased on a BOE basis by 7% for the year ended December 31, 2015 compared to the Corresponding Period.

Share based compensation

	Year ended December 31,	
($)	**2015**	2014
Share based compensation	**644,702**	783,182
Per BOE	**1.75**	2.20

Share based compensation expense decreased for the year ended December 31, 2015 compared to the Corresponding Period as a result of the lower fair value of stock options granted in 2015.

Net finance expense

	Year ended December 31,	
($)	**2015**	2014
Interest income	**(8,849)**	(44,294)
Interest expense and financing charges	**133,112**	58,677
Accretion on decommissioning obligations	**82,000**	81,000
Net finance expense	**206,263**	95,383

Interest income decreased for the year ended December 31, 2015 compared to the Corresponding Period due to lower interest earning cash balances. Interest expense and financing charges increased in the year ended December 31, 2015 as compared to the Corresponding Period due to a larger credit facility as well as utilization of the credit facility.

Exploration and evaluation expense

	Year ended December 31,	
($)	**2015**	2014
Land expiries	**917,796**	674,654
Unsuccessful exploration	**3,371,254**	648,658
Exploration and evaluation expense	**4,289,050**	1,323,312

Exploration and evaluation ("E&E") expenses result from impairment of E&E assets, unsuccessful E&E costs and the expiry of undeveloped lands. Pending expiries of land are impaired in areas where Traverse does not plan to pursue the projects before expiry.

During the fourth quarter of 2015, Traverse determined that two vertical wellbores drilled at Coyote in 2015 were impaired. Both wells were tied in and produced briefly; however in the current commodity environment production is not economic and no reserves were assigned at year end. Accordingly all costs associated with the wells were expensed as impaired. In addition, a re-entry of a wellbore at Hanna in the first quarter of 2015 was unsuccessful, the wellbore was abandoned and the costs of the re-entry were expensed.

Depletion and depreciation

Traverse depletes its developed oil and natural gas properties, by area, based on proved and probable reserves. The calculation of depletion expense includes future development costs related to these reserves of $7,890,000 at December 31, 2015 (2014 - $4,765,000) and excluded $1,351,000 (2014 - $1,340,000) for estimated salvage values. Future development costs at December 31, 2015 relate to four additional horizontal wells at Coyote.

	Year ended December 31,	
($)	**2015**	2014
Depletion and depreciation	**7,273,039**	6,708,724
Per BOE	**19.70**	18.85

Depletion and depreciation expense on a total dollar basis increased 8% for the year ended December 31, 2015 over the Corresponding Period due to increased production as well as increases in the depletable base. On a per BOE basis, depletion and depreciation increased 5% for the year ended December 31, 2015 compared to the Corresponding Period due to the higher cost of reserve additions in 2015.

Impairment

Impairment expenses of $6.15 million for the year ended December 31, 2015 were recorded compared to $7.9 million in the Corresponding Period. On September 30, 2015, due to declining commodity prices, the Company determined that impairment triggers were present and tested all of its cash-generating units ("CGUs") for impairment. This assessment resulted in the carrying value of the Oil CGU exceeding its recoverable amount and an impairment charge of $4.5 million was recorded. At December 31, 2015 due to further weakening of the commodity price environment an additional impairment charge relating to the Oil CGU of $1.65 million was recorded.

At December 31, 2014 the Company recorded an impairment charge of $7.9 million relating to the Oil CGU. The impairment charge primarily related to negative technical reserve revisions based on production performance and a weakening of future commodity price forecasts.

The recoverable amounts of the Company's CGUs were estimated as value in use, calculated using the present value of the CGUs' expected future cash flows before tax at a discount rate of 10%. The cash flow information was derived from the external reserve evaluators reports as of December 31, 2015 and 2014. As the recoverable amount of the CGUs are sensitive to a decrease in commodity prices, further impairment could be recorded in future periods. Alternatively, an improvement of commodity prices could reverse any impairment charge recorded to date, less applicable depletion expense.

Income taxes

	Year ended December 31,	
($)	**2015**	2014
Current income tax (recovery)	**(678,904)**	(15,096)
Deferred income tax (recovery)	**372,484**	(654,585)
Income taxes (recovery)	**(306,420)**	(669,681)

During the year ended December 31, 2015 the Company realized a smaller recovery of income tax as compared to the Corresponding Period due to the sale of the Brazeau royalty property which resulted in a lower net loss in the 2015 year despite the commodity price declines.

Funds from operations and net loss

	Year ended December 31,	
($)	**2015**	2014
Cash provided by operating activities	**7,598,188**	10,182,157
Decommissioning expenditures	**142,719**	193,955
Change in non-cash working capital	**(478,900)**	1,179,792
Funds from operations	**7,262,007**	11,555,904
Per share basic and diluted	**0.10**	0.18
Net loss	**(2,761,507)**	(4,570,065)
Per share basic and diluted	**(0.04)**	(0.07)

Funds from operations decreased 37% in the year ended December 31, 2015 compared to the Corresponding Period due to decreased commodity prices. The Company realized a net loss of $2.8 million in the year ended December 31, 2015 compared to a net loss of $4.6 million in the Corresponding Period due to the sale of the Brazeau royalty property.

Capital expenditures

Capital expenditures for the years ended December 31, 2015 and 2014 are summarized as follows:

	Year ended December 31,	
($)	**2015**	2014
Land acquisition and rentals	**515,775**	956,190
Geological and geophysical	**371,712**	1,555,306
Drilling and completions	**7,315,456**	16,217,723
Equipping and facilities	**3,237,090**	11,921,405
Exploration and development capital	**11,440,033**	30,650,624
Property dispositions	**(8,915,869)**	-
Corporate assets	**4,091**	170,622
Total net capital expenditures	**2,528,255**	30,821,246

As a result of lower commodity prices Traverse reduced its 2015 capital program. Traverse drilled 4 wells (100%) at Coyote during 2015 resulting in two uneconomic vertical wells and two Mannville horizontals which commenced production in August and November 2015, respectively. Two gas wells at Turin were equipped and tied in during 2015 and a gas sales pipeline was constructed at Coyote. Traverse acquired 20,680 net acres of land during 2015.

Liquidity and capital resources

At December 31, 2015, Traverse had working capital of approximately $0.8 million and an undrawn credit facility of $10 million. The Company's Board of Directors approved an initial exploration and development program for 2016 of $12 million however, the current commodity environment has reduced the Company's projected cash flow and resulted in a reduction of $2 million to the 2016 program. Traverse will continue to monitor the commodity price environment and modify activity accordingly. The Company intends to fund capital expenditures and commitments during 2016 with a combination of cash flow, working capital and new equity issues or debt.

As at April 14, 2016, Traverse had 71,948,269 common shares outstanding and 5,545,000 common share options outstanding.

In October 2015, the Company completed a private placement of 1,168,000 flow-through common shares for gross proceeds of $0.7 million. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million. In November 2014 the Company completed a private placement of 1,300,000 flow-through common shares for gross proceeds of $1.5 million. The weighted average number of shares outstanding during 2015 increased 8% to 70,881,869 from 65,844,173 in 2014 due to these equity issues.

In March 2016, Traverse announced a normal course issuer bid. During the period commencing March 22, 2016 and ending March 21, 2017 the Company may purchase for cancellation up to 2 million common shares. Management of Traverse believes that the present trading price of the common shares is at a significant discount to a figure which is reflective of the Company's value as a whole therefore it is in the best interests of all shareholders that, from time to time, common shares be acquired by the Company and returned to treasury thus increasing the net asset value per common share for the remaining shareholders.

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 approximately as follows:

Year	**Annual amount ($)**
2016	212,600
2017	223,900
2018	226,100
2019 and 2020	237,400
2021	197,800

Fourth quarter of 2015

Production in the three months ended December 31, 2015 decreased compared to the three months ended December 31, 2014 (the "2014 Period") due to the sale of the Brazeau royalty and the timing of flush horizontal production at Coyote.

	Three months ended Dec. 31,	
	2015	2014
Daily production		
Natural gas *(mcf/day)*	**2,951**	3,287
Oil and NGL *(bbls/day)*	**563**	701
Total *(BOE/day)*	**1,055**	1,249
% Oil and NGL	**53%**	56%
Realized prices		
Oil *($/bbl)*	**50.30**	68.45
NGL *($/bbl)*	**17.40**	45.73
Natural gas *($/mcf)*	**2.72**	3.96
BOE *($/BOE)*	**32.69**	47.94

Traverse realized oil prices of $50.30 per bbl during the three months ended December 31, 2015 compared to $68.45 per bbl in the 2014 Period. The realized oil price incorporates the result of any fixed physical delivery contracts. During the three months ended December 31, 2015 the impact on oil sales of these contracts was $188,237 (2014 Period: $0). During the three months ended December 31, 2015, Traverse's discount to CAL (Central Alberta) at Edmonton approximated $7 per bbl (2014 Period: $8 per bbl).

In the three months ended December 31, 2015, Traverse realized natural gas prices of $2.72 per mcf (2014 Period: $3.96 per mcf). The Company's natural gas generally receives a premium of 5 to 10% above the AECO daily benchmark due to the higher heat content of its natural gas. The realized natural gas price also incorporates the result of any fixed physical delivery contracts. During the three months ended December 31, 2015 the impact on natural gas sales of these contracts was $39,699 (2014 Period: $52,971).

The average BOE sales price received in the three months ended December 31, 2015 decreased 32% compared to the 2014 Period due to declining commodity prices. The proportion of oil and NGL in the Company's sales mix has remained stable at approximately 53%.

Operating netback

	Three months ended December 31,			
	2015		2014	
	$	**$/BOE**	$	$/BOE
Petroleum and natural gas revenue	**3,172,066**	**32.69**	5,507,518	47.94
Realized loss on financial derivatives	**-**	**-**	(1,297)	(0.01)
Royalties	**(59,537)**	**(0.61)**	(528,922)	(4.60)
Operating	**(1,045,160)**	**(10.77)**	(1,286,692)	(11.20)
Transportation	**(159,039)**	**(1.64)**	(191,203)	(1.66)
Operating netback	**1,908,330**	**19.67**	3,499,404	30.47

Revenues in the three months ended December 31, 2015 decreased 42% from the 2014 Period due to declining commodity prices. The Company's corporate royalty rate (as a percentage of revenue) decreased in the three months ended December 31, 2015 compared to the 2014 Period as a result of crown incentives on new production, reduced crown royalty rates due to commodity price declines and increased crown gas deductions resulting from 2014 infrastructure expenditures.

Operating costs decreased 4% on a BOE basis for the three months ended December 31, 2015 compared to the 2014 Period while transportation expenses on a per unit basis were unchanged. The operating netback on a BOE basis decreased 35% during the three months ended December 31, 2015 compared to the 2014 Period due to the decline in commodity prices.

General and administrative

	Three months ended Dec. 31,	
($)	**2015**	2014
General and administrative costs - gross	**295,915**	331,394
Recoveries	**(77,516)**	(130,014)
General and administrative costs - net	**218,399**	201,380
Per BOE	**2.25**	1.75

Gross general and administrative costs decreased in the three months ended December 31, 2015 compared to the 2014 Period due to reductions in staff associated with the reduced capital activity. This reduced capital activity also resulted in decreased recoveries during the fourth quarter of 2015 resulting in an increase in net general and administrative costs. Net general and administrative costs for the three months ended December 31, 2015 increased on a BOE basis due to the reduced recoveries and a lower production base over which the costs are calculated.

Share based compensation

	Three months ended Dec. 31,	
($)	**2015**	2014
Share based compensation	**15,653**	43,163
Per BOE	**0.16**	0.38

Share based compensation expense decreased for the three months ended December 31, 2015 compared to the 2014 Period as a result of the lower fair value of stock options granted in 2015.

Net finance expense

	Three months ended Dec. 31,	
($)	**2015**	2014
Interest income	**(3,085)**	(1,443)
Interest expense and financing charges	**7,898**	14,561
Accretion on decommissioning obligations	**23,750**	24,000
Net finance expense	**28,563**	37,118

Interest income increased for the three months ended December 31, 2015 compared to the 2014 Period due to higher interest earning cash balances. Interest expense and financing charges decreased in the three months ended December 31, 2015 as compared to the 2014 Period as the credit facility was not utilized in the fourth quarter of 2015.

Exploration and evaluation expense

	Three months ended Dec. 31,	
($)	**2015**	2014
Land expiries	**187,597**	232,302
Unsuccessful exploration	**3,100,219**	648,658
Exploration and evaluation expense	**3,287,816**	880,960

In the three months ended December 31, 2015 Traverse expensed costs associated with two uneconomic vertical wells drilled at Coyote. In the 2014 Period the costs associated with an unsuccessful re-entry of a Coyote wellbore were expensed.

Depletion and depreciation

	Three months ended Dec. 31,	
($)	**2015**	2014
Depletion and depreciation	**1,621,155**	2,770,192
Per BOE	**16.71**	24.11

Depletion and depreciation expense on a total dollar basis decreased 41% for the three months ended December 31, 2015 compared to the 2014 Period due to decreased production and a decrease in the per unit rate. On a per BOE basis, depletion and depreciation decreased 31% for the three months ended December 31, 2015 compared to the 2014 Period due to reserve additions, positive technical reserve revisions and a lower depletable base due to the impairment recognized in the third quarter of 2015.

Income taxes

	Three months ended Dec. 31,	
($)	**2015**	2014
Current income tax (recovery)	**(338,904)**	(135,000)
Deferred income tax (recovery)	**(853,976)**	(1,814,585)
Income taxes (recovery)	**(1,192,880)**	(1,949,585)

During the three months ended December 31, 2015 the Company realized a smaller recovery of income tax as compared to the 2014 Period due to the larger impairment recorded in the fourth quarter of 2014.

Funds from operations and net loss

	Three months ended Dec. 31,	
($)	**2015**	2014
Cash provided by operating activities	**1,641,785**	3,473,252
Decommissioning expenditures	**73,573**	155,797
Change in non-cash working capital	**308,662**	(209,143)
Funds from operations	**2,024,020**	3,419,906
Per share basic and diluted	**0.03**	0.05
Net loss	**(3,720,377)**	(6,358,079)
Per share basic and diluted	**(0.05)**	(0.09)

Funds from operations decreased 41% in the three months ended December 31, 2015 compared to the 2014 Period due to decreased production and commodity prices. The Company realized a net loss of $4.2 million in the three months ended December 31, 2015 compared to a net loss of $6.4 million in the 2014 Period due to the larger impairment recognized in the 2014 Period partially offset by the commodity price declines in the 2015 period.

Capital expenditures

Capital expenditures for the three months ended December 31, 2015 and 2014 are summarized as follows:

	Three months ended Dec. 31,	
($)	**2015**	2014
Land acquisition and rentals	**133,780**	203,855
Geological and geophysical	**70,999**	414,925
Drilling and completions	**2,273,935**	3,689,433
Equipping and facilities	**1,434,470**	3,414,387
Exploration and development capital	**3,913,184**	7,722,600
Corporate assets	**-**	2,383
Total capital expenditures	**3,913,184**	7,724,983

During the last quarter of 2015, Traverse drilled, completed and tied in one horizontal well at Coyote, constructed a sales gas pipeline at Coyote and tied in a natural gas well at Turin. In the 2014 Period Traverse drilled one horizontal well at Coyote and completed and tied in two horizontal wells at Coyote.

Summary of quarterly results

	Quarter ended (unaudited)			
	December 31	September 30	June 30	March 31
($ thousands, except per share amounts)	**2015**	2015	2015	2015
Petroleum and natural gas revenue	**3,172**	2,924	3,273	3,513
Cash provided by operating activities	**1,642**	1,767	2,189	2,000
Funds from operations	**2,024**	1,760	1,739	1,739
Per share - basic and diluted	**0.03**	0.02	0.02	0.02
Net income (loss)	**(3,720)**	(4,011)	5,525	(555)
Per share - basic and diluted	**(0.05)**	(0.06)	0.08	(0.01)
Adjusted working capital (deficiency)	**767**	2,063	4,460	(5,240)
Production (BOE/d)	**1,055**	951	924	1,116
Capital expenditures	**3,913**	4,117	(7,824)	2,322

	Quarter ended (unaudited)			
	December 31	September 30	June 30	March 31
($ thousands, except per share amounts)	2014	2014	2014	2014
Petroleum and natural gas revenue	5,508	5,336	4,338	4,535
Cash provided by operating activities	3,473	3,160	1,461	2,088
Funds from operations	3,420	3,131	2,409	2,596
Per share - basic and diluted	0.05	0.05	0.03	0.05
Net income	(6,358)	635	407	746
Per share - basic and diluted	(0.09)	0.01	0.01	0.01
Adjusted working capital (deficiency)	(4,641)	(1,695)	5,800	8,641
Production (BOE/d)	1,249	1,115	775	756
Capital expenditures	7,725	10,658	5,475	6,964

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 option 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.

In the fourth quarter of 2014 production volumes increased as new production from two horizontal wells at Coyote commenced. Increased production resulted in increased revenue despite declining commodity prices. New production resulted in a decline in royalties and these decreased costs combined with increased revenue resulted in increased funds from operations. During the fourth quarter the Company recorded an impairment of property and equipment resulting in a net loss for the quarter. Capital expenditures in the quarter related mainly to the drilling of a second horizontal well at Coyote and the completion and tie in of both horizontals.

In the first quarter of 2015 production volumes declined as flush production from the Coyote horizontals declined. Commodity price declines resulted in decreased revenue and funds from operations. Increased depletion resulting from increased volumes and higher finding costs resulted in a net loss for the quarter. Capital expenditures in the quarter related mainly to the drilling and completion of one well at Coyote and the re-entry and abandonment of a well at Hanna.

In the second quarter of 2015 production volumes declined mainly due to the decrease in flush production from the Coyote horizontals. Commodity price declines resulted in decreased revenue. Funds from operations was unchanged as revenue declines were offset by decreases in operating and royalty expenses. The sale of the Brazeau royalty property resulted in a gain on sale which resulted in net income for the quarter. Capital expenditures for the quarter related mainly to the tie in of one well in the Coyote area and pre drill expenditures.

In the third quarter of 2015 production volumes increased due to the addition of a new production from the Coyote area. Commodity price declines resulted in decreased revenue. Funds from operations was consistent as revenue declines were offset by decreases in general and administrative expenses and increases in current tax recoveries. During the third quarter the Company recorded an impairment of property and equipment resulting in a net loss for the quarter. Capital expenditures for the quarter related mainly to the drilling, completion and tie in of a horizontal Mannville well at Coyote, the drilling of a vertical well at Coyote and recompletions and workovers.

In the fourth quarter of 2015 production volumes increased due to the addition of a new horizontal well in the Coyote area. Despite continued commodity price decline, increased production resulted in increased revenue and funds from operations. During the fourth quarter the Company recognized additional impairment of property and equipment. Capital expenditures for the quarter related mainly to the drilling, completion and tie in of a horizontal Mannville well at Coyote, the construction of a sales gas pipeline at Coyote and the tie in of a natural gas well at Turin.

Recent accounting pronouncements

The following accounting standards and amendments, issued by the International Accounting Standards Board ("IASB"), are effective between January 1, 2016 and January 1, 2019: IFRS 11 (amendments to *Joint Arrangements)* , IAS 16 and IAS 38 (amendments to *Clarification of Acceptable Methods of Depreciation and Amortization*), IFRS 15 *Revenue from Contracts with Customers* , IFRS 16 *Leases* and IFRS 9 *Financial Instruments* . The impact of these accounting standards and amendments are not expected to have a material impact on the Company's financial statements, although the Company is still finalizing its assessment.

Selected annual information

($ thousands, except per share amounts)	**2015**	2014	2013
Petroleum and natural gas revenue	**12,882**	19,717	14,674
Cash provided by operating activities	**7,598**	10,182	10,594
Funds from operations	**7,262**	11,556	9,914
Per share - basic and diluted	**0.10**	0.18	0.20
Net income (loss)	**(2,762)**	(4,570)	3,245
Per share - basic and diluted	**(0.04)**	(0.07)	0.07
Daily production	**1,011**	975	680
Total assets	**38,786**	44,038	32,126
Total non-current liabilities	**6,542**	5,336	4,781

In 2013 Traverse participated in the drilling of 9 wells (100% interest) in the Coyote and Turin areas of Alberta. Petroleum and natural gas revenue, cash provided by operating activities, funds from operations and daily production all increased as a result of both Company drilling and commodity price increases. Exploration expenses relating to two dry holes during the year and pending expiry of lands in natural gas project areas were recorded. Net income resulted from the increased production and higher commodity pricing.

In 2014 Traverse drilled 14 wells (100%) in the Coyote, Michichi and Turin areas of Alberta. Petroleum and natural gas revenue, funds from operations and daily production all increased as a result of Company drilling. Exploration expenses relating to a unsuccessful re-entry of a well at Coyote were recorded as well as pending expiries of lands which Traverse does not intend to pursue. At year end, due to declining commodity prices and negative technical reserve revisions, the Company recorded impairment of $7.9 million of property and equipment resulting in a net loss for 2014.

In 2015 Traverse drilled 4 wells (100%) in the Coyote area of Alberta however due to declining commodity prices, petroleum and natural gas revenue and funds from operations decreased from the prior year. In June 2015 the Company sold its royalty interest in the Brazeau area of Alberta. Exploration expenses relating to two uneconomic vertical wells at Coyote were recorded as well as pending expiries of land which Traverse does not intend to pursue. In the third and fourth quarter, due to declining commodity prices, the Company recorded impairments of $6.15 million resulting in a net loss for 2015.

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 2015 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 forecast 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.