

TRAVERSE ENERGY LTD.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	Notes	June 30, 2016	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		\$ 2,248,035	\$ 1,050,938
Accounts receivable		769,089	991,845
Income tax receivable		416,121	678,904
Prepaid expenses and deposits		239,803	186,972
		3,673,048	2,908,659
Exploration and evaluation assets	3	4,764,970	4,781,709
Property and equipment	4	30,599,202	31,095,748
		\$ 39,037,220	\$ 38,786,116
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 1,458,172	\$ 2,141,215
Deferred flow-through share premium		319,900	-
Decommissioning liabilities		4,373,067	4,326,000
Deferred income taxes		1,701,000	2,215,900
		7,852,139	8,683,115
Shareholders' Equity			
Share capital	6 (a)	41,674,178	39,374,829
Contributed surplus		2,509,408	2,262,634
Deficit		(12,998,505)	(11,534,462)
Total Shareholders' Equity		31,185,081	30,103,001
Commitment	6 (b)		
		\$ 39,037,220	\$ 38,786,116

See accompanying notes to the condensed interim financial statements

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

	Notes	Three months ended June 30,		Six months ended June 30,	
		2016	2015	2016	2015
Revenue					
Petroleum and natural gas		\$ 1,969,277	\$ 3,273,149	\$ 3,604,454	\$ 6,786,081
Royalties		(36,054)	(70,892)	(95,790)	(289,207)
		1,933,223	3,202,257	3,508,664	6,496,874
Expenses					
Operating		1,034,030	948,145	1,832,752	1,989,437
Transportation		114,464	162,607	239,343	332,587
General and administrative		283,497	314,751	536,906	628,390
Share based compensation		235,736	572,726	246,774	597,193
Finance expense	9	33,191	78,586	65,315	148,458
Exploration and evaluation expense	3	150,926	282,739	286,257	543,938
Depletion and depreciation	4	1,079,446	1,688,219	2,214,360	3,801,554
Gain of sale of property and equipment	4	-	(8,785,982)	-	(8,785,982)
		2,931,290	(4,738,209)	5,421,707	(744,425)
Income (loss) before income taxes		(998,067)	7,940,466	(1,913,043)	7,241,299
Income taxes					
Current income tax (recovery)		-	(20,000)	-	(40,000)
Deferred income tax (recovery)		(205,000)	2,435,460	(449,000)	2,311,660
		(205,000)	2,415,460	(449,000)	2,271,660
Net income (loss) and comprehensive					
income (loss)		\$ (793,067)	\$ 5,525,006	\$ (1,464,043)	\$ 4,969,639
Net income (loss) per share - basic					
and diluted	6 (c)	\$ (0.01)	\$ 0.08	\$ (0.02)	\$ 0.07

See accompanying notes to the condensed interim financial statements

TRAVERSE ENERGY LTD.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Share capital	Contributed surplus	Deficit	Total Shareholders' Equity
Balance December 31, 2014	\$ 38,577,928	\$ 1,705,122	\$ (8,772,955)	\$ 31,510,095
Net income	-	-	4,969,639	4,969,639
Share based compensation	-	597,193	-	597,193
Issued on exercise of common share options	150,000	-	-	150,000
Transfer of share based compensation on exercise	87,190	(87,190)	-	-
Balance June 30, 2015	\$ 38,815,118	\$ 2,215,125	\$ (3,803,316)	\$ 37,226,927
Balance December 31, 2015	\$ 39,374,829	\$ 2,262,634	\$(11,534,462)	\$ 30,103,001
Net loss	-	-	(1,464,043)	(1,464,043)
Share based compensation	-	246,774	-	246,774
Issued for cash - flow-through	2,797,435	-	-	2,797,435
Deferred flow-through share premium	(319,900)	-	-	(319,900)
Share issue costs, net of tax of \$65,900	(178,186)	-	-	(178,186)
Balance June 30, 2016	\$ 41,674,178	\$ 2,509,408	\$(12,998,505)	\$ 31,185,081

See accompanying notes to the condensed interim financial statements

TRAVERSE ENERGY LTD.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ (793,067)	\$ 5,525,006	\$ (1,464,043)	\$ 4,969,639
Adjustments for:				
Depletion and depreciation	1,079,446	1,688,219	2,214,360	3,801,554
Exploration and evaluation expense	150,926	282,739	286,257	543,938
Share based compensation	235,736	572,726	246,774	597,193
Accretion on decommissioning obligations	22,750	20,750	45,250	39,500
Deferred income tax (recovery)	(205,000)	2,435,460	(449,000)	2,311,660
Gain on sale of property and equipment	-	(8,785,982)	-	(8,785,982)
Decommissioning expenditures	(3,678)	(12,575)	(36,183)	(28,954)
Changes in non-cash working capital	10 (a) 160,361	462,671	415,819	740,454
	647,474	2,189,014	1,259,234	4,189,002
Financing activities:				
Repayment of bank debt	-	(5,417,275)	-	(1,439,819)
Proceeds on issue of common shares	2,797,435	150,000	2,797,435	150,000
Share issue costs	(244,086)	-	(244,086)	-
Changes in non-cash working capital	10 (a) 46,957	-	44,936	(6,068)
	2,600,306	(5,267,275)	2,598,285	(1,295,887)
Investing activities:				
Exploration and evaluation asset additions	(429,214)	(728,886)	(851,357)	(1,984,044)
Property and equipment asset additions	(521,877)	(361,361)	(1,097,975)	(1,427,840)
Property and equipment asset dispositions	-	8,914,090	-	8,914,090
Changes in non-cash working capital	10 (a) (200,346)	(138,072)	(711,090)	(3,787,811)
	(1,151,437)	7,685,771	(2,660,422)	1,714,395
Change in cash and cash equivalents	2,096,343	4,607,510	1,197,097	4,607,510
Cash and cash equivalents, beginning of period	151,692	-	1,050,938	-
Cash and cash equivalents, end of period	\$ 2,248,035	\$ 4,607,510	\$ 2,248,035	\$ 4,607,510

See accompanying notes to the condensed interim financial statements

TRAVERSE ENERGY LTD.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (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 2500, 450 - 1 Street SW Calgary, Alberta T2P 5H1.

These condensed interim financial statements were approved and authorized for issuance by the Board of Directors of the Company on August 15, 2016.

2. Basis of presentation and statement of compliance

These condensed 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 condensed interim 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, 2015. These condensed interim 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, 2015.

These condensed interim 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.

3. Exploration and evaluation assets

	Total
Balance January 1, 2015	\$ 5,082,893
Additions	8,226,167
Transfers to property and equipment	(4,697,020)
Changes in decommissioning liabilities	458,719
Exploration and evaluation expense - land expiries	(917,796)
Exploration and evaluation expense - unsuccessful exploration	(3,371,254)
Balance December 31, 2015	\$ 4,781,709
Additions	851,357
Transfers to property and equipment	(619,839)
Changes in decommissioning liabilities	38,000
Exploration and evaluation expense - land expiries	(286,257)
Balance June 30, 2016	\$ 4,764,970

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 losses recorded for the six months ended June 30, 2016 or 2015.

TRAVERSE ENERGY LTD.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (Unaudited)

4. Property and equipment

Cost:	Oil and natural gas properties	Corporate	Total
Balance January 1, 2014	\$ 64,135,916	\$ 290,587	\$ 64,426,503
Additions	3,213,866	4,091	3,217,957
Transfers from exploration and evaluation	4,697,020	-	4,697,020
Dispositions	(247,005)	-	(247,005)
Changes in decommissioning liabilities	328,000	-	328,000
Balance December 31, 2015	\$ 72,127,797	\$ 294,678	\$ 72,422,475
Additions	1,097,233	742	1,097,975
Transfers from exploration and evaluation	619,839	-	619,839
Balance June 30, 2016	\$ 73,844,869	\$ 295,420	\$ 74,140,289

Accumulated depletion and depreciation:	Oil and natural gas properties	Corporate	Total
Balance January 1, 2014	\$(27,924,697)	\$ (97,888)	\$(28,022,585)
Dispositions	118,897	-	118,897
Depletion and depreciation	(7,232,099)	(40,940)	(7,273,039)
Impairment	(6,150,000)	-	(6,150,000)
Balance December 31, 2015	\$(41,187,899)	\$ (138,828)	\$(41,326,727)
Depletion and depreciation	(2,196,545)	(17,815)	(2,214,360)
Balance June 30, 2016	\$(43,384,444)	\$ (156,643)	\$(43,541,087)

Net book value:	Oil and natural gas properties	Corporate	Total
As at December 31, 2015	\$ 30,939,898	\$ 155,850	\$ 31,095,748
As at June 30, 2016	\$ 30,460,425	\$ 138,777	\$ 30,599,202

The calculation of depletion and depreciation for the six months ended June 30, 2016 included estimated future development costs of \$7.3 million (2015 - \$4.8 million) associated with the development of the Company's proved and proved plus probable reserves and excluded salvage value of \$1.4 million (2015 - \$1.3 million) for estimated salvage values.

In June 2015 the Company disposed certain assets for gross proceeds of approximately \$8.9 million. As the property sold was entirely composed of royalty interests, there were no associated asset retirement obligations. This resulted in a gain on sale for the period of \$8,785,982.

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 June 30, 2016 and 2015 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 CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (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 \$7.0 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, 2017. As at June 30, 2016 the credit facility was undrawn (2015 - nil).

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 June 30, 2016 the Company was in compliance with the financial covenant. 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 January 1, 2015	70,530,269	\$ 38,577,928
Issued for cash on exercise of stock options	250,000	150,000
Transferred from contributed surplus on exercise of stock options	-	87,190
Issued for cash - flow-through	1,168,000	700,800
Deferred flow-through premium	-	(116,800)
Share issue costs, net of tax of \$8,984	-	(24,289)
Balance December 31, 2015	71,948,269	\$ 39,374,829
Issued for cash - flow-through	6,696,133	2,797,435
Deferred flow-through premium	-	(319,900)
Share issue costs, net of tax of \$65,900	-	(178,186)
Balance June 30, 2016	78,644,402	\$ 41,674,178

(b) Private placements

In October 2015 the Company completed a private placement of 1,168,000 flow-through common shares at a price of \$0.60 per common share for gross proceeds of \$700,800. Directors and officers of the Company subscribed for 454,667 common shares for consideration of \$272,800. The Company has incurred the qualifying expenditures.

In June 2016 the Company completed a private placement of 6,696,133 flow-through common shares for gross proceeds of \$2.8 million. Flow-through common shares eligible for Canadian exploration expense ("CEE") were issued at \$0.45 per share (2,379,633 shares) and flow-through common shares eligible for Canadian development expenses ("CDE") were issued at a price of \$0.40 per common share (4,316,500 shares). Directors and officers of the Company subscribed for 992,406 common shares for consideration of \$407,249. The qualifying CDE expenditures must be incurred by December 31, 2016 and the qualifying CEE expenditures must be incurred by December 31, 2017. The obligation remaining for this flow-through at June 30, 2016 was \$2.8 million.

TRAVERSE ENERGY LTD.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (Unaudited)

(c) Per share amounts

Basic and diluted net income (loss) per share amounts were calculated as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income (loss) for the period	\$ (793,067)	\$ 5,525,006	\$ (1,464,043)	\$ 4,969,639
Weighted average number of common shares outstanding - basic	74,450,121	70,626,423	73,199,195	70,578,612
Effect of outstanding options	-	-	-	-
Weighted average number of common shares outstanding - diluted	74,450,121	70,626,423	73,199,195	70,578,612
Net income (loss) per share - basic and diluted	\$ (0.01)	\$ 0.08	\$ (0.02)	\$ 0.07

The Company experienced a net loss in 2016 and therefore the effect of outstanding options were excluded as they were anti-dilutive. In computing per diluted per share amounts for the period ended June 30, 2015, 6,330,000 stock options were excluded from the calculation as anti-dilutive.

(d) Normal course issuer bid

On March 16, 2016, the Company announced that it had received approval from the TSX Venture Exchange (the "TSX-V") to proceed with a normal course issuer bid (the "NCIB") whereby the Company may purchase for cancellation, through the facilities of the TSX-V and at the market price of the common shares at the time of purchase, up to 2,000,000 common shares, representing approximately 2.78% of the Corporation's issued and outstanding common shares as of March 16, 2016. The NCIB commenced March 22, 2016 and is expected to be terminated March 21, 2017. No common shares were purchased under the NCIB in the period ended June 30, 2016.

7. Share based compensation 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 employees and 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, 2015	5,545,000	\$ 0.75
Granted	1,630,000	0.36
Balance June 30, 2016	7,175,000	\$ 0.66

TRAVERSE ENERGY LTD.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (Unaudited)

The fair value of options granted was estimated using a Black Scholes model with the following weighted average assumptions:

Assumptions	Six months ended June 30,	
	2016	2015
Risk free interest rate (%)	0.9	0.9
Expected life (years)	4.9	4.9
Expected volatility (%)	51.9	49.9
Forfeiture rate (%)	1.2	1.2
Weighted average fair value of options	\$ 0.16	\$ 0.28

The following table summarizes stock options outstanding and exercisable under the plan at June 30, 2016:

Exercise price	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.30 - \$0.40	1,630,000	4.8	\$ 0.36	1,376,666	\$ 0.36
\$0.60 - \$0.70	2,865,000	3.3	\$ 0.62	2,865,000	\$ 0.62
\$0.71 - \$0.80	1,000,000	0.2	\$ 0.80	1,000,000	\$ 0.80
\$0.91 - \$1.00	1,530,000	2.8	\$ 0.95	1,530,000	\$ 0.95
\$1.01 - \$1.10	150,000	2.9	\$ 1.07	150,000	\$ 1.07
\$0.30 - \$1.10	7,175,000	3.1	\$ 0.66	6,921,666	\$ 0.68

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 June 30, 2016 the Company held no derivative commodity contracts.

9. Finance expense

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest income	\$ (891)	\$ (1,188)	\$ (1,533)	\$ (1,188)
Interest expense and financing charges	11,332	59,024	21,598	110,146
Accretion of decommissioning obligations	22,750	20,750	45,250	39,500
	\$ 33,191	\$ 78,586	\$ 65,315	\$ 148,458

TRAVERSE ENERGY LTD.
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015 (Unaudited)

10. Supplemental information

(a) Changes in non-cash working capital:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Provided by (used in):				
Accounts receivable	\$ 43,992	\$ 559,566	\$ 485,539	\$ 992,497
Prepaid expenses and deposits	23,930	(37,724)	(52,831)	(73,717)
Accounts payable and accrued liabilities	(60,950)	(197,243)	(683,043)	(3,972,205)
	\$ 6,972	\$ 324,599	\$ (250,335)	\$ (3,053,425)

Provided by (used in):				
Operating	\$ 160,361	\$ 462,671	\$ 415,819	\$ 740,454
Financing	46,957	-	44,936	(6,068)
Investing	(200,346)	(138,072)	(711,090)	(3,787,811)
	\$ 6,972	\$ 324,599	\$ (250,335)	\$ (3,053,425)

(b) Interest and taxes paid:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest received	\$ (891)	\$ -	\$ (1,533)	\$ -
Interest paid	1,925	46,329	1,925	46,263
Taxes received	(262,783)	-	(262,783)	-
	\$ (261,749)	\$ 46,329	\$ (262,391)	\$ 46,263