This management's discussion and analysis ("MD&A") dated April 15, 2015 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, 2014 and 2013. 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 measures

Funds from operations

Funds from operations is a measure not defined in IFRS that is commonly used in the oil and gas industry. Funds from operations is calculated as cash provided by operating activities before non-cash working capital and settlement of decommissioning obligations as detailed under the heading "Cash and funds from operations and net income (loss)". The Company believes that in addition to net income (loss), funds from operations is a useful supplemental measure as it provides an indication of Traverse’s operating performance. Funds from operations should not be considered as an alternative to or more meaningful than cash provided by operating activities as determined in accordance with IFRS. Traverse's determination of funds from operations may not be comparable to that reported by other companies. Traverse also presents funds from operations per share whereby share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

Operating netback

Management uses certain industry benchmarks such as operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback reflects petroleum and natural gas revenue, royalty income and realized gain (loss) on financial derivatives, less royalties, operating and transportation costs and is calculated on a per unit basis. The calculation of Traverse's netbacks is detailed under the heading "Operating netback".

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 further exploitation and drilling in the Coyote area; the number of wells to be drilled in 2015; intentions for funding capital expenditures during 2015; and the decrease in the proportion of royalty interest production due to increased Company drilling 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) 2014	2013	Year ended December 31 2014	2013
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**5,508**	4,055	**19,717**	14,674
Cash provided by operations	**3,473**	2,723	**10,182**	10,594
Funds from operations [1]	**3,420**	1,958	**11,556**	9,914
Per share - basic and diluted	**0.05**	0.04	**0.18**	0.20
Net income (loss)	**(6,358)**	27	**(4,570)**	3,245
Per share - basic and diluted	**(0.10)**	0.00	**(0.07)**	0.07
Capital expenditures, net of dispositions	**7,725**	5,482	**30,821**	14,875
Total assets	**44,038**	32,126	**44,038**	32,126
Working capital (deficiency)	**(3,201)**	2,430	**(3,201)**	2,430
Bank debt	**(1,440)**	-	**(1,440)**	-
Common shares				
Outstanding *(millions)*	**70.5**	53.5	**70.5**	53.5
Weighted average *(millions)*	**69.6**	50.3	**65.8**	48.7
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**3,287**	1,666	**2,743**	1,569
Oil and NGL *(bbls/day)*	**701**	509	**518**	419
Total (BOE/day)	**1,249**	787	**975**	680
Average sales price				
Natural gas *($/mcf)*	**3.96**	3.50	**4.23**	3.44
Oil and NGL *($/bbl)*	**66.83**	75.16	**81.86**	83.11
Operating netback *($/BOE)* [2]				
Petroleum and natural gas revenue	**47.94**	56.04	**55.39**	59.10
Realized gain (loss) on financial derivatives	**(0.01)**	0.27	**(0.62)**	0.15
Royalties	**(4.60)**	(6.68)	**(7.85)**	(4.70)
Operating and transportation costs	**(12.86)**	(10.12)	**(11.73)**	(8.91)
Operating netback	**30.47**	39.51	**35.19**	45.64

[1] Funds from operations is calculated as cash provided by operating activities before changes in non-cash working capital and settlement of decommissioning obligations. Funds from operations does not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other companies.

[2] Operating netback equals petroleum and natural gas revenue and realized gain or loss on financial derivatives, less royalties, operating and transportation expenses and is calculated on a per unit basis. Operating netback does not have a standardized measure prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other companies.

Operations review

Traverse spent $16.2 million on drilling and completion activities in 2014 with a total of 14 wells drilled (14 net), resulting in nine oil wells and five natural gas wells. Equipping and facility expenditures of $11.9 million in 2014 related to well equipping and tie-ins, installation of a booster compressor at the Turin facility and the expansion of the Coyote battery.

In the Coyote area, located approximately 40 kilometers east of Drumheller in East Central Alberta, Traverse holds a 100 percent working interest in 32,040 net acres. Traverse drilled a new Ellerslie oil discovery in 2013 which was placed on production in June, 2013. In 2013 two additional oil wells were drilled into this pool and three additional oil wells were drilled in the north Coyote area and placed on production. One dry hole was drilled in the north Coyote area; this well may be completed as a water disposal well. In 2014 Traverse drilled 10 wells in the Coyote area resulting in nine oil wells (including two horizontals) and one natural gas well. The Ellerslie oil pool is now designated as the Mannville Q13Q pool and has expanded to 10 producing oil wells and one shut-in oil well at the end of 2014. During 2014 Traverse directed its efforts to delineate the Mannville Q13Q oil pool and begin horizontal development drilling; the two horizontal wells were drilled and placed on production in Q4 2014. An additional 3D seismic program was shot in Q4 2014 to further delineate the oil pool. Further exploitation of this pool will be drilling to the west with vertical delineation wells, followed by additional horizontal wells.

A new Upper Mannville oil zone was discovered in the Coyote area when drilling to develop the deeper Mannville Q13Q oil pool. This shallower zone was delineated by wells drilled in 2013 and 2014 and one well was completed in the zone in Q4 2014 and placed on production subsequent to year-end. The vertical oil well is a modest producer. Further exploitation of this zone will be undertaken with horizontal drilling.

In the west Coyote area two wells were drilled in 2014 with one well placed on production in 2014 and the second well subsequent to year-end. Both wells are Mannville gas wells that produce minor amounts of oil. Traverse shot a 3D program in the area in Q1 2014 and plans further drilling in the area. The future wells to be drilled would be vertical delineation wells and horizontal development wells.

The Coyote battery expansion was completed in the third quarter of 2014 with clean oil shipments commencing in late August. The facility is licensed to treat up to 2,000 barrels of oil and water and 4 mmcf of gas per day. The battery expansion completed in 2014 included a new treater, additional storage tanks, water and gas separation facilities, gas sweetening unit and onsite power generation. A well 1.5 kilometers to the southwest of the battery was re-entered in 2014 and completed for water disposal. Traverse now has approval to dispose of produced water in this well which can be used as economics dictate. Other activities in 2014 included building multi-well satellite gathering facilities as well as additional multi-well drilling pad sites. Production for the 2014 year from Coyote averaged 400 BOE per day consisting of 72% oil, 25% natural gas and 3% natural gas liquids.

In the Turin area, located approximately 20 kilometers northeast of Lethbridge in Southern Alberta, Traverse holds a 100% interest in 7,720 acres. Production in 2014 was 445 BOE per day consisting of 32% oil, 64% natural gas and 4% natural gas liquids. The production is processed through the Company owned Turin battery which consists of a treater, water and gas separation facilities, gas sweetening unit, onsite power generation and a water disposal well.

In 2014 at Turin, the Company drilled two wells resulting in two natural gas wells which were placed on production in June and July. The Company installed gas compression at the Turin battery site in the second quarter of 2014 to allow for additional natural gas production from several shut in gas wells and decrease field operating pressures to allow for more stable oil and associated gas production.

Undeveloped land holdings in Alberta at December 31, 2014 totalled 187,300 gross (185,900 net) acres with an average working interest of 99%. At December 31, 2014, the Corporation had a working capital deficiency of $3.2 million and had drawn $1.4 million on the approved credit facility of $10 million.

In February 2015 Traverse announced a reduction in the 2015 exploration and development program to $15 million. The reduced program contains an estimated seven wells, including two horizontals. The 2015 program will continue to focus on light oil projects at Coyote and Michichi in southern Alberta. The budget is to be financed by cash flow and new equity issues or debt where appropriate.

In the first quarter of 2015, Traverse drilled one well in the Coyote area resulting in a potential oil well. This well appears to extend the Coyote oil pool approximately 0.4 miles further to the west. The well awaits tie-in (to conserve the associated natural gas) when field conditions permit after spring break up. 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; the zone tested encountered water and minor hydrocarbons and will be abandoned.

Production

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
Average working interest production				
Natural gas *(mcf/day)*	**2,961**	1,152	**2,375**	1,280
Oil and NGL *(bbls/day)*	**665**	437	**469**	306
Total *(BOE/day)*	**1,159**	629	**864**	519
Average royalty production				
Natural gas *(mcf/day)*	**326**	514	**368**	289
Oil and NGL *(bbls/day)*	**36**	72	**49**	113
Total *(BOE/day)*	**90**	158	**111**	161
Total production				
Natural gas *(mcf/day)*	**3,287**	1,666	**2,743**	1,569
Oil and NGL *(bbls/day)*	**701**	509	**518**	419
Total *(BOE/day)*	**1,249**	787	**975**	680
% Oil and NGL	**56%**	65%	**53%**	62%

Production in the three months and year ended December 31, 2014 increased 59% and 43%, respectively, compared to the three months and year ended December 31, 2013 (the "Corresponding Periods") as a result of drilling in the Coyote, Michichi and Turin areas. At Coyote, modifications to the battery in early 2014 allowed for the delivery of solution gas to a nearby gas plant effective May 1, 2014. In the Turin area, a booster compressor became operational in early July allowing for new production from two shut-in gas wells and reducing the operating pressure from the field.

Production by area (BOE/day)

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
Brazeau	**76**	140	**97**	144
Coyote	**713**	260	**400**	161
Turin	**437**	345	**445**	321
Minor	**23**	42	**33**	54
Total BOE per day	**1,249**	787	**975**	680
% of BOE/day				
Royalty	**7%**	20%	**11%**	24%
Working interest	**93%**	80%	**89%**	76%

The royalty proportion of total Company production has decreased to 7% and 11% for the three months and year ended December 31, 2014 compared to 20% and 24%, respectively, in the Corresponding Periods. Future increases in royalty production will be dependent on the level of industry drilling on the royalty lands. Royalty interest production is anticipated to continue to decrease as a percentage of total production due to increased Company drilling.

Pricing

	Three months ended December 31,		Year ended December 31,	
	2014	2013	**2014**	2013
Average realized prices				
Oil *($/bbl)*	**68.45**	75.76	**84.13**	85.57
NGL *($/bbl)*	**45.73**	60.97	**56.24**	55.41
Natural gas *($/mcf)*	**3.96**	3.50	**4.23**	3.44
BOE *($/BOE)*	**47.94**	56.04	**55.39**	59.10

Traverse realized oil prices of $68.45 per bbl and $84.13 per bbl during the three months and year ended December 31, 2014, respectively (Corresponding Periods: $75.76 per bbl and $85.57 per bbl, respectively). During the three months and year ended December 31, 2014, Traverse's discount to Edmonton Par approximated $7 per bbl and $10 per bbl, respectively (Corresponding Periods; $11 per bbl and $7 per bbl, respectively). These pricing differentials are a function of North American refinery supply/demand fundamentals as well as crude quality.

In the three months and year ended December 31, 2014, Traverse realized natural gas prices of $3.96 per mcf and $4.23 per mcf, respectively (Corresponding Periods: $3.50 per mcf and $3.44 per mcf, respectively). 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 and year ended December 31, 2014 the impact on natural gas sales of these contracts were $52,971 and $(260,209), respectively (Corresponding Periods: $(17,680) and $26,455, respectively).

The average BOE sales price received in the three months and year ended December 31, 2014 decreased 14% and 6%, respectively, due mainly to declining oil prices and an increase in the proportion of natural gas in the Company's sales. The proportion of oil and NGL in the Company's sales mix for the three months and year ended December 31, 2014 has declined to 56% and 53%, respectively (Corresponding Periods: 65% and 62%, respectively).

Volatility in the commodity markets will continue to impact realized prices in 2015. At December 31, 2014 Traverse had natural gas physical delivery contracts pertaining to 2015 outstanding for an average of 500 GJ per day at $3.89 per GJ. The realized gain (loss) on financial derivatives for the three months and year ended December 31, 2014 was $(0.01) per BOE and $(0.62) per BOE, respectively (Corresponding Periods: $0.27 per BOE and $0.15 per BOE). There were no derivative commodity contracts outstanding at December 31, 2014.

Petroleum and natural gas revenue

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Petroleum and natural gas revenue by source				
Production income	**5,167,011**	3,341,077	**17,474,217**	10,796,223
Royalty income	**340,507**	714,272	**2,242,467**	3,877,339
Total	**5,507,518**	4,055,349	**19,716,684**	14,673,562
Petroleum and natural gas revenue by commodity				
Oil and NGL	**4,310,127**	3,519,042	**15,482,797**	12,703,397
Natural gas	**1,197,391**	536,307	**4,233,887**	1,970,165
Total	**5,507,518**	4,055,349	**19,716,684**	14,673,562

Revenues in the three months and year ended December 31, 2014 increased 36% and 34%, respectively over the Corresponding Periods due to increased production offset by declining oil prices.

Royalties

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Royalties	**528,922**	483,356	**2,794,621**	1,167,162
$ per BOE	**4.60**	6.68	**7.85**	4.70
Percentage of revenue	**10%**	12%	**14%**	8%

The Company's corporate royalty rate (as a percentage of revenue) decreased in the three months ended December 31, 2014 and increased in the year ended December 31, 2014 compared to the Corresponding Periods. Royalties increased initially in 2014 due to the expiry of crown incentives on wells at both Turin and Coyote and the decline in royalty production but decreased in the final quarter of 2014 due to new horizontal production at Coyote.

Operating and transportation expenses

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Operating	**1,286,692**	667,496	**3,730,408**	1,976,072
Transportation	**191,203**	65,140	**444,241**	235,965
	1,477,895	732,636	**4,174,649**	2,212,037
$ per BOE	**12.86**	10.12	**11.73**	8.91

Operating and transportation expenses are presented on a combined basis 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 both the three months and year ended December 31, 2014 compared to the Corresponding Periods due mainly to the decline in royalty production, which does not have associated operating costs.

Operating netback

	Three months ended December 31,		Year ended December 31,	
Operating netback *($/BOE)*	**2014**	2013	**2014**	2013
Petroleum and natural gas revenue	**47.94**	56.04	**55.39**	59.10
Realized gain (loss) on financial derivatives	**(0.01)**	0.27	**(0.62)**	0.15
Royalties	**(4.60)**	(6.68)	**(7.85)**	(4.70)
Operating and transportation costs	**(12.86)**	(10.12)	**(11.73)**	(8.91)
Operating netback	**30.47**	39.51	**35.19**	45.64

The operating netback decreased 23% for both the three months and year ended December 31, 2014 compared to the Corresponding Periods. This decrease results from a combination of factors including increased production, an increased proportion of natural gas production, decreasing royalty income production and declining oil prices.

General and administrative

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
General and administrative costs - gross	**331,394**	305,212	**1,432,760**	983,930
Recoveries	**(130,014)**	(98,739)	**(460,286)**	(271,335)
General and administrative costs - net	**201,380**	206,473	**972,474**	712,595
Per BOE	**1.75**	2.85	**2.73**	2.87

Gross general and administrative costs in the three months and year ended December 31, 2014 increased 9% and 46%, respectively, compared to the Corresponding Periods. These increases were due to additional staffing and higher corporate compliance costs. Recoveries increased in both the three months and year ended December 31, 2014 compared to the Corresponding Periods due to increased capital expenditures. Net general and administrative costs decreased on a BOE basis by 39% and 5%, respectively, for the three months and year ended December 31, 2014 compared to the Corresponding Periods.

Share based compensation

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Share based compensation	**43,163**	4,219	**783,182**	43,134
Per BOE	**0.38**	0.06	**2.20**	0.17

Share based compensation expense increased for both the three months and year ended December 31, 2014 compared to the Corresponding Periods due to the grant of new options in 2014. No options were granted in 2013 - share based compensation expense in 2013 related to the vesting of options granted in 2012.

Net finance expense

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Interest income	**(7,097)**	(5,715)	**(44,294)**	(21,311)
Interest expense and financing charges	**20,215**	6,162	**58,677**	31,459
Accretion on decommissioning obligations	**24,000**	5,000	**81,000**	20,000
Net finance expense	**37,118**	5,447	**95,383**	30,148

Interest income increased for the three months and year ended December 31, 2014 compared to the Corresponding Periods due to higher interest earning cash balances. Interest expense and financing charges increased in the three months and year ended December 31, 2014 as compared to the Corresponding Periods due to increased financing charges related to a larger credit facility as well as utilization of the credit facility which began in November 2014.

The accretion on decommissioning obligations increased for the three months and year ended December 31, 2014 as compared to the Corresponding Periods due to the additional decommissioning obligations incurred by the Company.

Exploration and evaluation expense

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Land expiries	**232,302**	636,987	**674,654**	636,987
Unsuccessful exploration	**648,658**	828,691	**648,658**	1,332,401
Exploration and evaluation expense	**880,960**	1,465,678	**1,323,312**	1,969,388

Exploration and evaluation ("E&E") expenses result from impairment of E&E assets, unsuccessful E&E costs and the expiry of undeveloped lands. In 2014 Traverse expensed costs associated with the unsuccessful re-entry of a Coyote wellbore and pending expiries of land were impaired in areas where Traverse does not plan to pursue the projects before expiry.

In 2013, drilling costs associated with two unsuccessful wells at Turin were expensed as well as pending expiries of undeveloped lands.

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 $4,765,000 at December 31, 2014 (2013 - $1,484,000) and excluded $1,340,000 (2013 - $723,000) for estimated salvage values. Future development costs at December 31, 2014 relate mainly to two additional horizontal wells at Coyote.

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Depletion and depreciation	**2,770,192**	1,133,765	**6,708,724**	3,615,330
Per BOE	**24.11**	15.67	**18.85**	14.56

Depletion and depreciation expense on a total dollar basis increased 144% and 86%, respectively, for the three months and year ended December 31, 2014 over the Corresponding Periods due to increased production as well as increases in the depletable base. On a per BOE basis, depletion and depreciation increased 54% and 29%, respectively, for the three months and year ended December 31, 2014 compared to the Corresponding Periods due to the higher cost of reserve additions in 2014 as well as negative technical reserve revisions resulting from production performance.

Impairment

At December 31, 2014 due to declining natural gas and oil prices and reserve revisions, the Company determined that impairment triggers were present and tested all of its cash-generating units ("CGUs") for impairment. The recoverable amounts of the Company's CGUs were based on value in use using the net present value of the before income tax cash flows from proved plus probable reserves estimated by the Company's third party reserve evaluators discounted at a rate of 10%. As a result, the Company recorded a total 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 oil and natural gas price forecasts. 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.

At December 31, 2013 the Company determined there were no impairment triggers identified at the end of the reporting period.

Income taxes

The Company recorded a recovery of income taxes in the three months and year ended December 31, 2014 compared to income tax expense in the Corresponding Periods due to the impairment of property and equipment recorded in the fourth quarter of 2014.

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Current income tax (recovery)	**(135,000)**	694,000	**(15,096)**	694,000
Deferred income tax (recovery)	**(1,814,585)**	(663,770)	**(654,585)**	1,006,170
Income taxes (recovery)	**(1,949,585)**	30,230	**(669,681)**	1,700,170

During the three months and year ended December 31, 2014 the Company realized a recovery of current income tax as compared to a payment of current income tax in the Corresponding Periods. Taxable income declined in 2014 due to the decreased operating netback as well as the type and level of capital expenditures in the current year.

Cash and funds from operations and net income (loss)

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Cash provided by operating activities	**3,473,252**	2,723,183	**10,182,157**	10,594,116
Decommissioning expenditures	**155,797**	35,765	**193,955**	35,765
Change in non-cash working capital	**(209,143)**	(801,108)	**1,179,792**	(715,393)
Funds from operations	**3,419,906**	1,957,840	**11,555,904**	9,914,488
Per share basic and diluted	**0.05**	0.04	**0.18**	0.20
Net income (loss)	**(6,358,080)**	27,320	**(4,570,065)**	3,244,802
Per share basic and diluted	**(0.10)**	0.00	**(0.07)**	0.07

Funds from operations increased 75% and 17%, respectively in the three months and year ended December 31, 2014 compared to the Corresponding Periods due mainly to increased production partially offset by declining operating netbacks.

The Company realized a net loss in the three months and year ended December 31, 2014 compared to net income in the Corresponding Periods due mainly to the impairment of property and equipment recorded in the fourth quarter of 2014.

Capital expenditures

The Company incurred $30.8 million in expenditures during 2014. Traverse drilled 14 wells at 100% interest, 10 at Coyote, two at Michichi and two at Turin. Drilling at Coyote resulted in nine oil wells, seven of which commenced production in 2014 and one natural gas well. Drilling at Michichi resulted in two natural gas wells, of which one commenced production in 2014 and the other in early 2015. Two gas wells drilled at Turin both commenced production during the year. Facility expenditures included the addition of a booster compressor at the Turin facility and the expansion of the Coyote battery. In 2014 Traverse acquired 36,200 net acres of land, purchased seismic in the Coyote area and conducted 3D seismic surveys at Coyote and Michichi.

	Three months ended December 31,		Year ended December 31,	
($)	**2014**	2013	**2014**	2013
Land acquisition and rentals	**203,855**	401,756	**956,190**	1,005,453
Geological and geophysical	**414,925**	1,094,943	**1,555,306**	1,827,966
Drilling and completions	**3,689,433**	1,987,783	**16,217,723**	7,493,229
Equipping and facilities	**3,414,387**	1,580,877	**11,921,405**	4,126,124
Exploration and development capital	**7,722,600**	5,065,359	**30,650,624**	14,452,772
Corporate acquisitions	**-**	414,700	**-**	414,700
Corporate assets	**2,383**	2,403	**170,622**	7,619
Total capital expenditures	**7,724,983**	5,482,462	**30,821,246**	14,875,091

In December 2013 the Company completed the acquisition of a private company for consideration of $414,700. The acquisition was considered a Reviewable Transaction as defined in TSXV Policy 5.3 due to individuals who are common officers and directors of both Traverse and the acquired company. The common directors declared their interest in the acquisition to the Board of Directors of Traverse and abstained from the approval thereof. Traverse acquired the company to consolidate its interests in Southern Alberta and for the acquired company's tax pools.

Liquidity and capital resources

At December 31, 2014 Traverse had a working capital deficiency of approximately $3.2 million and $1.4 million of bank debt outstanding. The Company's Board of Directors has approved a $15 million exploration and development program for 2015. The Company intends to fund capital expenditures and commitments during 2015 with a combination of cash flow and working capital. New equity issues and debt may be used to expand future capital expenditures in 2015 where appropriate.

As at April 15, 2015 Traverse had 70,530,269 common shares outstanding and 4,590,000 common share options outstanding.

In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million. In December 2014 the Company completed a private placement of 1,300,000 flow-through common shares for gross proceeds of $1.5 million. During 2013 the Company completed two private placements for a total of 6,420,000 flow-through common shares for gross proceeds of approximately $4.9 million. The weighted average number of shares outstanding during 2014 increased 35% to 65,844,173 from 48,692,706 in 2013 due to these equity issues.

Related party transactions

Traverse participated in joint operations with DLS Energy Ltd. ("DLS"), a company related through common officers and directors. All transactions were completed on a basis consistent with normal industry terms. During the year ended December 31, 2013, the aggregate value of transactions entered into between Traverse and DLS was approximately $376,000. Traverse purchased DLS on December 16, 2013 (see capital expenditures above) and as a result no amounts were outstanding between Traverse and DLS at December 31, 2013.

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 ($)**
2015	210,400
2016	212,600
2017	223,900
2018	226,100
2019 and 2020	237,400
2021	197,800

In December 2014 the Company completed a private placement of flow-through common shares. The obligation remaining for this flow-through issue at December 31, 2014 was $1,495,000.

Summary of quarterly results

	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 (loss)	**(6,358)**	635	407	746
Per share - basic and diluted	**(0.10)**	0.01	0.01	0.01
Working capital (deficiency)	**(3,201)**	(1,695)	5,800	8,641
Bank debt	**(1,440)**	-	-	-
Production (BOE/d)	**1,249**	1,115	775	756
Capital expenditures	**7,725**	10,658	5,475	6,964

	Quarter ended (unaudited)			
	December 31	September 30	June 30	March 31
($ thousands, except per share amounts)	2013	2013	2013	2013
Petroleum and natural gas revenue	4,055	4,819	3,038	2,761
Cash provided by operating activities	2,723	3,789	1,922	2,160
Funds from operations	1,958	3,796	2,124	2,037
Per share - basic and diluted	0.04	0.08	0.04	0.04
Net income	27	1,636	1,060	521
Per share - basic and diluted	0.00	0.03	0.02	0.01
Working capital	2,430	3,045	4,191	2,359
Production (BOE/d)	787	765	599	566
Capital expenditures	5,482	4,957	1,674	2,761

In the first quarter of 2013 production volumes increased as a result of the additional royalty production added in December 2012. No new working interest production was added. Commodity prices improved and operating costs declined resulting in an increase in funds from operations. Net income was realized in the first quarter of 2013 versus the net loss in the final quarter of 2012 due to the impairment recorded in the 2012 quarter. Three wells were drilled in the first quarter resulting in two potential wells and one dry hole which was expensed in the quarter. Capital expenditures during the quarter also included the recompletion of a well at Carbon and purchase of seismic at Coyote.

In the second quarter of 2013 production volumes increased as a result of new oil production at Coyote. Commodity prices improved resulting in increased funds from operations and net income. Capital expenditures in the second quarter of 2013 related to land and seismic acquisition and the completion and tie-in of the oil well at Coyote. In June 2013 the Company completed a private placement of 2,420,000 flow-through common shares for gross proceeds of $1.5 million.

In the third quarter of 2013 production volumes increased as a result of additional new oil production at Coyote. Production in the Turin area was disrupted by a 5 week shutdown of a third party owned pipeline which transports the Company's natural gas to market. During the shutdown, Traverse tested and confirmed the integrity of the pipeline and subsequently purchased an interest in the pipeline and became the pipeline operator. By early October normal production operations had resumed. No new royalty production was added and royalty income continued to decline. Commodity prices continued to improve resulting in an increase in funds from operations and net income. Three wells were drilled, completed and equipped during the quarter and a fourth well was drilled and completed.

In the fourth quarter of 2013 production volumes increased as a result of higher natural gas prices resulting in increased natural gas royalty volumes. No new working interest production was added. Commodity prices declined from the third quarter resulting in decreased revenue, funds from operations and net income. Two wells were drilled, completed and equipped during the quarter and a third well commenced drilling at year end. Capital expenditures were also incurred on facility expansion at Coyote and seismic acquisition. A well drilled at Turin in the first quarter was completed and expensed as a dry hole. In December 2013 the Company completed the acquisition of a private company to consolidate its interest in Southern Alberta and for the tax pools of the acquired company. Traverse also completed a private placement of 4 million flow-through common shares for gross proceeds of $3.4 million.

In the first quarter of 2014 production volumes decreased as a result of a partial suspension of production in the Coyote area relating to the conservation of solution gas. Subsequent to quarter end, modifications were completed to allow conservation of solution gas and the battery returned to production May 1, 2014. Despite a decrease in production volumes, commodity price increases resulted in increased funds from operations and net income. Capital expenditures in the first quarter relating to the drilling of 5 wells and the re-entry of an existing wellbore. In March 2014 the Company completed a bought deal financing of 14,375,000 common shares for gross proceeds of $11.5 million.

In the second quarter of 2014 production volumes increased slightly as the partial suspension of production in the Coyote area ended May 1 and new production from 2014 drilling commenced late in June. Declines in the natural gas price resulted in decreased revenue during the second quarter. The expiration of the New Well Royalty Rate on certain wells resulted in increased royalties in the second quarter. These additional royalties combined with increased operating costs relating to start up of new wells and compression resulted in decreased funds from operations. Stock based compensation relating to 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.

Recent accounting pronouncements

On January 1, 2014 the Company adopted the following new standards: IFRIC 21 Levies and amendments to IAS 32 Financial Instruments Presentation. The adoption of these standards had no impact on the amounts recorded in the financial statements as at January 1, 2014 or on the comparative periods.

There are currently no new accounting pronouncements issued or outstanding that are expected to have a material impact on the Company's financial statements.

Selected annual information

($ thousands, except per share amounts)	**2014**	2013	2012
Petroleum and natural gas revenue	**19,717**	14,674	7,922
Cash provided by operating activities	**10,182**	10,594	5,209
Funds from operations	**11,556**	9,914	5,588
Per share - basic and diluted	**0.18**	0.20	0.13
Net income (loss)	**(4,570)**	3,245	(2,828)
Per share - basic and diluted	**(0.07)**	0.07	(0.07)
Daily production	**975**	680	405
Total assets	**44,038**	32,126	19,450
Total non-current liabilities	**5,336**	4,781	2,079

In 2012 Traverse participated in the drilling of 7 gross (6.25 net) wells in the Turin area 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 industry drilling on Company owned lands. A net loss resulted in 2012 due to the impairment of current year drilling and completion costs related to 2 dry holes and 2 natural gas wells where current reserve estimates indicate that the full amount of expenditures will not be recoverable. In addition, Traverse expensed the costs associated with the pending expiry of lands in natural gas project areas and impaired producing areas due to current year reserve revisions.

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.

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 2014 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.