This management's discussion and analysis ("MD&A") dated April 11, 2017 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, 2016 and 2015. 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 operations 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 net cash from operating activities prior to changes in non-cash working capital and settlement of decommissioning obligations as detailed below:

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Net cash from operating activities	**238,406**	1,641,785	**2,247,464**	7,598,188
Decommissioning expenditures	**32,412**	73,573	**93,111**	142,719
Change in non-cash working capital	**133,350**	308,662	**(617,242)**	(478,900)
Funds from operations	**404,168**	2,024,020	**1,723,333**	7,262,007

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 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 additional drilling in the west Coyote area; evaluating the productivity of a potential oil well at Watts; the timing of fracture treatments at Watts; its 2017 capital program; not being taxable on a current basis in 2017; and intentions for funding capital expenditures during 2017 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 Dec. 31 (unaudited)		Year ended December 31	
HIGHLIGHTS	**2016**	2015	**2016**	2015
Financial *($ thousands, except per share amounts)*				
Petroleum and natural gas revenue	**1,828**	3,172	**7,220**	12,882
Net cash from operating activities	**238**	1,642	**2,247**	7,598
Funds from operations (1)	**404**	2,024	**1,723**	7,262
Per share - basic and diluted	**0.01**	0.03	**0.02**	0.10
Net loss	**(856)**	(3,720)	**(3,434)**	(2,762)
Per share - basic and diluted	**(0.01)**	(0.05)	**(0.05)**	(0.04)
Capital expenditures before dispositions	**2,874**	3,913	**6,613**	11,444
Capital dispositions	**-**	-	**-**	(8,916)
Total assets	**41,610**	38,786	**41,610**	38,786
Working capital	**1,717**	767	**1,717**	767
Common shares				
Outstanding *(millions)*	**86.6**	71.9	**86.6**	71.9
Weighted average *(millions)*	**80.1**	71.6	**76.3**	70.9
Operations *(units as noted)*				
Average production				
Natural gas *(mcf/day)*	**2,075**	2,951	**2,107**	2,865
Oil and NGL *(bbls/day)*	**259**	563	**339**	534
Total (BOE/day)	**605**	1,055	**690**	1,011
Average sales price				
Natural gas *($/mcf)*	**2.99**	2.72	**2.37**	3.09
Oil and NGL *($/bbl)*	**52.77**	47.02	**43.51**	49.54
Netback *($/BOE)*				
Petroleum and natural gas revenue	**32.86**	32.69	**28.60**	34.90
Royalties	**(0.84)**	(0.61)	**(0.80)**	(1.13)
Operating and transportation expenses	**(20.04)**	(12.41)	**(16.83)**	(12.69)
Operating netback (2)	**11.98**	19.67	**10.97**	21.08
General and administrative	**(4.60)**	(2.25)	**(4.02)**	(2.91)
Net finance expense (3)	**(0.12)**	(0.05)	**(0.13)**	(0.34)
Current income tax	**-**	3.49	**-**	1.84
Funds from operations (1)	**7.26**	20.86	**6.82**	**19.67**

(1) Funds from operations represents net cash 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 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 2016 was reduced in response to the continuing weak commodity price environment. Two Banff test wells were drilled (100%) resulting in one oil well at Watts and one abandoned well in the west Coyote area. A water disposal facility at Coyote was completed and commissioned, reducing current water disposal costs and improving economics for future development. The Coyote battery tank vent piping system was also upgraded to allow for tank vapour recovery. Beginning in the second quarter of 2016, Traverse implemented a program of recompletions and workovers to optimize production.

The new oil well at Watts, drilled in the third quarter, was also equipped and tied in in 2016. Production did not commence until 2017 due to delays in gaining access to a third party pipeline. New production from completions of previously acquired wells at Turin was also delayed to 2017 due to weather and regulatory requirements. Production declined in the first half of 2016 due mainly to the initial steep decline curve on the Mannville horizontal oil wells at Coyote, which commenced production in August and November 2015. In the second half of 2016 production maintenance and workover activities continued and small production additions were realized due to completions and commingling in existing producing wellbores resulting in production stabilization.

In 2016 Traverse continued to maintain its acreage holdings in East Central Alberta, purchasing approximately 41,400 net undeveloped acres (100%) during the year. Undeveloped land holdings in Alberta at December 31, 2016 totalled 181,600 gross (180,700 net) acres. Traverse continues to evaluate existing and acquired lands for additional prospects. At December 31, 2016, the Corporation had working capital of $1.7 million and an undrawn credit facility of $7 million. The initial exploration and development program for 2017 has been approved at $14 million.

In the first quarter of 2017 Traverse drilled 3 wells (100%) resulting in one oil well at Coyote and 2 potential oil wells at Watts and west Coyote. The horizontal oil well at Coyote was tied into existing infrastructure in February and has averaged 300 BOE/day comprised of 250 bbls/day oil and 320 mcf/day sales gas in the first 40 days of production. The well is currently being equipped with artificial lift. The exploratory well at west Coyote is being production tested. Based on the initial production tests the well appears to be uneconomic as a single well tie in. Additional drilling in the area is planned later in the year. After break up, the potential oil well at Watts will be evaluated for productivity.

At Watts, an oil well drilled in 2016 was placed on production in early February 2017 and has averaged 125 BOE/day comprised of 85 bbls/day oil and 230 mcf/day sales gas in its first 60 days of production. A gas well tied in during the fourth quarter of 2016 was placed on production in early February. The well has since been recompleted in a Mannville zone and is waiting on services to fracture treat the zone after break up.

Production

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
	2016	2015	**2016**	2015
Natural gas *(mcf/day)*	**2,075**	2,951	**2,107**	2,865
Oil and NGL *(bbls/day)*	**259**	563	**339**	534
Total *(BOE/day)*	**605**	1,055	**690**	1,011
% Oil and NGL	**43%**	53%	**49%**	53%
Production by area (BOE/day)				
Coyote	**266**	626	**362**	523
Michichi	**54**	60	**49**	78
Turin	**257**	340	**253**	359
Minor	**28**	29	**26**	51
Total BOE per day	**605**	1,055	**690**	1,011

Production decreased 43% and 32%, respectively in the three months and year ended December 31, 2016 compared to the three months and year ended December 31, 2015 (the "Corresponding Periods"). Drilling activities were reduced in 2016 compared to 2015 and no new production was added in 2016. Minor area production, which includes royalty income, decreased 49% in 2016 due to the sale of the Brazeau royalty property in June 2015.

Pricing

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
	2016	2015	**2016**	2015
Average realized prices				
Oil *($/bbl)*	**54.17**	50.30	**45.36**	52.14
NGL *($/bbl)*	**35.80**	17.40	**23.91**	19.99
Natural gas *($/mcf)*	**2.99**	2.72	**2.37**	3.09
BOE *($/BOE)*	**32.86**	32.69	**28.60**	34.90

Traverse realized oil prices of $54.17 per bbl and $45.36 per bbl during the three months and year ended December 31, 2016 (Corresponding Periods: $50.30 and $52.14 per bbl, respectively). The realized oil price incorporates the result of any fixed physical delivery contracts. In 2016 there were no fixed delivery contracts for oil. During the Corresponding Periods the impact on oil sales of these contracts contributed $4.04 and $1.86 per bbl, respectively. During the three months and year ended December 31, 2016, Traverse's discount to CAL (Central Alberta) at Edmonton approximated $7 and $8 per bbl, respectively (Corresponding Periods: $7 and $9 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, 2016, Traverse realized natural gas prices of $2.99 and $2.37 per mcf, respectively (Corresponding Periods: $2.72 and 3.09 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, 2016 the impact on natural gas sales of these contracts was ($0.25) and $0.12 per mcf, respectively (Corresponding Periods: $0.15 and $0.26 per mcf, respectively).

The average BOE sales price received in the three months ended December 31, 2016 increased 1% over the fourth quarter of 2015 as all commodity prices improved over the comparable period. The average BOE sales price received in 2016 declined 18% from 2015 due to lower commodity prices. The proportion of oil and NGL in the Company's sales mix declined in the three months ended December 31, 2016 as compared to the fourth quarter of 2015 due to the addition of commingled gas zones in existing wellbores in the 2016 period. The proportion of oil and NGL in the Company's sales mix declined to 49% in calendar 2016 compared to 2015.

At December 31, 2016 Traverse had natural gas physical delivery contracts pertaining to the first 10 months of 2017 outstanding for an average of 1,000 GJ per day at $2.96 per GJ. Traverse also has an oil physical delivery contract for 77 barrels per day (January to August 2017) at $67.65 Cdn $/bbl CAL at Edmonton.

Operating netback

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Petroleum and natural gas revenue	**1,828,389**	3,172,065	**7,220,383**	12,882,314
Royalties	**(46,879)**	(59,537)	**(202,184)**	(416,334)
Operating	**(1,027,969)**	(1,045,160)	**(3,822,424)**	(4,046,235)
Transportation	**(86,946)**	(159,039)	**(426,016)**	(638,225)
Operating netback	**666,595**	1,908,329	**2,769,759**	7,781,520
($ per BOE, unless otherwise noted)				
Average daily production (BOE/day)	**605**	1,055	**690**	1,011
Petroleum and natural gas revenue	**32.86**	32.69	**28.60**	34.90
Royalties	**(0.84)**	(0.61)	**(0.80)**	(1.13)
Operating	**(18.47)**	(10.77)	**(15.14)**	(10.96)
Transportation	**(1.57)**	(1.64)	**(1.69)**	(1.73)
Operating netback per BOE	**11.98**	19.67	**10.97**	21.08

Petroleum and natural gas revenue decreased 42% during the three months ended December 31, 2016 compared to the fourth quarter of 2015 due to declines in production volumes as no new production was added in 2016. Petroleum and natural gas revenue for the year ended December 31, 2016 declined 44% compared to 2015 due to declines in both production volumes and commodity prices.

Royalty expense, as a percentage of revenue and on a BOE basis, increased in the three months ended December 31, 2016 as compared to the fourth quarter of 2015 due to higher non-crown royalties on increased gas production offset by a smaller production base. Royalty expense on a per BOE basis decreased for the year ended December 31, 2016 compared to 2015 due to decreased commodity prices.

Operating costs increased on a BOE basis for the three months and year ended December 31, 2016 compared to the Corresponding Periods due to production maintenance and workover activities and the impact of a reduced production base over which fixed costs are amortized. Transportation costs decreased for both the three months and year ended December 31, 2016 compared to the Corresponding Periods due to cost reduction efforts.

The operating netback per BOE decreased 39% and 48%, respectively, for the three months and year ended December 31, 2016 compared to the Corresponding Periods due to a combination of decreased production and commodity prices and increased operating expenses related to production maintenance and workover activities.

General and administrative

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
General and administrative costs - gross	**309,298**	295,916	**1,147,592**	1,279,832
Recoveries	**(53,567)**	(77,516)	**(133,438)**	(205,678)
General and administrative costs - net	**255,731**	218,400	**1,014,154**	1,074,154
Per BOE	**4.60**	2.25	**4.02**	2.91

Gross general and administrative costs increased for the three months ended December 31, 2016 compared to the fourth quarter of 2015 due mainly to increased insurance premiums, but decreased year over year due to reductions in office staff associated with the reduced capital program. Recoveries decreased in the current and Corresponding Periods due to the decreased capital expenditures. Net general and administrative costs increased on a BOE basis for the three months and year ended December 31, 2016 compared to the Corresponding Periods due to the decrease in production volumes.

Share based compensation

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Share based compensation	**7,524**	15,653	**268,974**	644,702
Per BOE	**0.14**	0.16	**1.07**	1.75

Share based compensation expense decreased for the three months and year ended December 31, 2016 compared to the Corresponding Periods as a result of the lower fair value of stock options granted in 2016.

Net finance expense

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Interest income	**(2,078)**	(3,085)	**(4,949)**	(8,849)
Interest expense and financing charges	**8,774**	7,898	**37,221**	133,112
Accretion on decommissioning obligations	**23,500**	23,750	**91,500**	82,000
Net finance expense	**30,196**	28,563	**123,772**	206,263

Interest income decreased for the three months and year ended December 31, 2016 compared to the Corresponding Periods due to lower interest earning cash balances. Interest expense and financing charges increased in the three months ended December 31, 2016 as compared to the fourth quarter of 2016 due to higher standby fees associated with the credit facility. Interest expense and financing charges decreased in the year ended December 31, 2016 compared to 2015 as the credit facility was mainly unutilized during 2016.

Exploration and evaluation expense

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Land expiries	**210,378**	187,597	**603,721**	917,796
Unsuccessful exploration	**158,727**	3,100,219	**777,855**	3,371,254
Exploration and evaluation expense	**369,105**	3,287,816	**1,381,576**	4,289,050

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.

In the 2016 periods unsuccessful exploration expenses were recorded relating to a dry hole drilled at Coyote in the third quarter and costs relating to drilling locations which will not be pursued. In 2015, Traverse determined that two vertical wellbores drilled at Coyote were 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 $7.6 million at December 31, 2016 (2015 - $7.9 million) and excluded $1.4 million (2015 - $1.4 million) for estimated salvage values. Future development costs at December 31, 2016 relate mainly to four additional horizontal wells at Coyote.

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Depletion and depreciation	**962,778**	1,621,155	**4,032,716**	7,273,039
Per BOE	**17.30**	16.71	**15.97**	19.70

Depletion and depreciation expense decreased for the three months and year ended December 31, 2016 over the Corresponding Periods due to decreased production and decreases in the depletable base as a result of the impairment recorded in the second half of 2015. On a per BOE basis, depletion and depreciation increased 4% for the three months ended December 31, 2016 compared to the fourth quarter of 2015 due to the higher cost of reserve additions in 2016. Depletion and depreciation per BOE decreased for 2016 compared to 2015 due to the impairment reduction in the depletable base in 2015.

Impairment

For the year ended December 31, 2016, there were no impairment or impairment reversal indicators for the Company's property and equipment.

Impairment expenses of $6.15 million for the year ended December 31, 2015 were recorded. 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.

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. 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

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Current income tax (recovery)	**-**	(338,904)	**-**	(678,904)
Deferred income tax (recovery)	**(103,200)**	(853,976)	**(617,200)**	372,484
Income taxes (recovery)	**(103,200)**	(1,192,880)	**(617,200)**	(306,420)

The Company recognized a recovery of income taxes in both the 2016 and 2015 periods, consistent with the losses before tax. In 2015 the Company recognized a recovery on current income taxes previously paid in 2013. At December 31, 2016 the Company has tax deductions of approximately $26 million available for deduction against future income and does not anticipate being taxable on a current basis in 2017.

Funds from operations and net loss

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Operating netback	**666,595**	1,908,329	**2,769,759**	7,781,520
General and administrative expenses	**(255,731)**	(218,400)	**(1,014,154)**	(1,074,154)
Finance expense excluding accretion	**(6,696)**	(4,813)	**(32,272)**	(124,263)
Current income tax recovery	**-**	338,904	**-**	678,904
Funds from operations	**404,168**	2,024,020	**1,723,333**	7,262,007
Share based compensation	**(7,524)**	(15,653)	**(268,974)**	(644,702)
Finance expense accretion	**(23,500)**	(23,750)	**(91,500)**	(82,000)
Exploration and evaluation expense	**(369,105)**	(3,287,816)	**(1,381,576)**	(4,289,050)
Depletion and depreciation	**(962,778)**	(1,621,155)	**(4,032,716)**	(7,273,039)
Gain on sale of property and equipment	**-**	-	**-**	8,787,761
Impairment of property and equipment	**-**	(1,650,000)	**-**	(6,150,000)
Deferred income tax (recovery)	**103,200**	853,976	**617,200**	(372,484)
Net loss	**(855,539)**	(3,720,378)	**(3,434,233)**	(2,761,507)

Per share basic and diluted

Weighted average common shares outstanding	**80,122,663**	71,830,095	**76,308,261**	70,881,869
Funds from operations	**$ 0.01**	$ 0.03	**$ 0.02**	$ 0.10
Net loss	**$ (0.01)**	$ (0.05)	**$ (0.05)**	$ (0.04)

Funds from operations decreased 80% and 76% in the three months and year ended December 31, 2016 compared to the Corresponding Periods due to decreased production and commodity prices and increased operating costs related to production maintenance.

Capital expenditures

Capital expenditures for the years ended December 31, 2016 and 2015 are summarized as follows:

	Three months ended Dec. 31 (unaudited)		Year ended December 31	
($)	**2016**	2015	**2016**	2015
Land acquisition and rentals	**350,776**	133,780	**664,049**	515,775
Geological and geophysical	**322,237**	70,999	**689,926**	371,712
Drilling and completions	**1,084,258**	2,273,935	**2,824,178**	7,315,456
Equipping and facilities	**1,117,139**	1,434,470	**2,432,344**	3,237,090
Exploration and development capital	**2,874,410**	3,913,184	**6,610,497**	11,440,033
Property dispositions	**-**	-	**-**	(8,915,869)
Corporate assets	**4,091**	-	**2,758**	4,091
Total net capital expenditures	**2,878,501**	3,913,184	**6,613,255**	2,528,255

In 2016 Traverse drilled 2 wells (100%) resulting in an oil well at Watts and a dry and abandoned well at Coyote. Multiple recompletions were done in the second half of the year. Two wells at Watts were equipped and tied in during 2016 although production did not commence until 2017 due to third party pipeline access. Two recompletions at Turin were equipped and tied in during the fourth quarter with production commencing in 2017. A water disposal facility was completed and commissioned in May 2016 at Coyote. Traverse acquired 41,400 net acres of crown and freehold land during 2016.

Liquidity and capital resources

At December 31, 2016, Traverse had working capital of approximately $1.7 million and an undrawn credit facility of $7 million. The Company's Board of Directors approved an initial exploration and development program for 2017 of $14 million. Traverse will continue to monitor the commodity price environment and modify activity accordingly. The Company intends to fund capital expenditures and commitments during 2017 with a combination of cash flow, working capital and new equity issues or debt.

As at April 11, 2017, Traverse had 86,644,402 common shares outstanding and 6,175,000 common share options outstanding.

In March 2017, the Company announced a normal course issuer bid (the “NCIB”). During the period commencing March 24, 2017 and ending March 23, 2018 the Company may purchase for cancellation up to 2,000,000 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. The previous NCIB commenced March 22, 2016 and terminated March 21, 2017. No common shares were purchased under the NCIB in the period ended December 31, 2016.

Commitments

The Company has entered into a lease commitment for office space. The annual payments under this commitment are as disclosed in the notes to the audited financial statements.

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 expenditures for the CEE must be incurred by December 31, 2017. The obligation remaining for the CEE flow-through at December 31, 2016 was $0.4 million.

In December 2016 the Company completed a private placement of 8 million common shares. The Company issued 2.4 million common shares at $0.40 per share and 5.6 million flow-through common shares eligible for CEE at $0.46 per share for total gross proceeds of $3.5 million. Directors and officers of the Company subscribed for 861,300 common and flow-through common shares for consideration of $357,198. The qualifying expenditures for the CEE must be incurred by December 31, 2017. The obligation remaining for the CEE flow-through at December 31, 2016 was $2.6 million.

Summary of quarterly results

	Quarter ended (unaudited)			
	December 31	September 30	June 30	March 31
($ thousands, except per share amounts)	**2016**	2016	2016	2016
Petroleum and natural gas revenue	**1,828**	1,788	1,969	1,635
Net cash from operating activities	**238**	750	647	612
Funds from operations	**404**	440	491	389
Per share - basic and diluted	**0.01**	0.01	0.01	(0.01)
Net loss	**(856)**	(1,115)	(793)	(671)
Per share - basic and diluted	**(0.01)**	(0.01)	(0.01)	(0.01)
Working capital	**1,717**	840	2,215	126
Production (BOE/d)	**605**	632	748	776
Capital expenditures	**2,874**	1,790	951	998

	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
Net cash from 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)
Working capital	767	2,063	4,460	177
Bank debt	-	-	-	(5,417)
Production (BOE/d)	1,055	951	924	1,116
Capital expenditures	3,913	4,117	(7,824)	2,322

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.

In the first quarter of 2016 production declined 36% mainly due to the initial decline curve on the Mannville horizontals added in 2015. Decreased production and continued commodity price decline resulted in decreased revenue and funds from operations. Capital expenditures for the quarter related mainly to the water disposal facility and tank farm venting system at the Coyote battery.

In the second quarter of 2016 production declined 4% as no new production was added. Commodity prices improved over the first quarter of 2016 resulting in increased revenue and funds from operations. Stock options were granted during the second quarter resulting in increased share based compensation expense which increased the net loss compared to the first quarter. Capital expenditures for the quarter related mainly to the water disposal facility at the Coyote battery, well equipping at Coyote and continued land acquisition and prospect development.

In the third quarter of 2016 production declined 15% as no new production was added. Although commodity prices improved over the second quarter of 2016, the decreased production resulted in decreased revenue and funds from operations. Capital expenditures for the quarter related mainly to the drilling of two wells and the recompletions of two additional wells.

In the fourth quarter of 2016 production declined 5% from the previous quarter as some additional gas production was added from commingling in existing wellbores. Capital expenditures for the quarter related to the equipping and tie in of the oil well drilled in the third quarter as well as several recompletions.

Selected annual information

($ thousands, except per share amounts)	**2016**	2015	2014
Petroleum and natural gas revenue	**7,220**	12,882	19,717
Cash provided by operating activities	**2,247**	7,598	10,182
Funds from operations	**1,723**	7,262	11,556
Per share - basic and diluted	**0.02**	0.10	0.18
Net loss	**(3,434)**	(2,762)	(4,570)
Per share - basic and diluted	**(0.05)**	(0.04)	(0.07)
Daily production	**690**	1,011	975
Total assets	**41,610**	38,786	44,038
Total non-current liabilities	**7,110**	6,542	5,336

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.

In 2016 Traverse drilled 2 wells (100%) in the Coyote and Watts areas of Alberta resulting in one oil well and one abandoned well. Production declined from the prior year as no new production was added and the impact of the decline on the 2015 horizontal wells was realized. Commodity price decline combined with production declines resulted in decreased petroleum and natural gas revenue and funds from operations. Exploration expenses for the year related to the abandoned well and pending expiries of land which Traverse does not intend to pursue.

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. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities:

Reserve estimates

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.

Share 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.

Derivative financial instruments

The Company's estimate of the fair value of derivative financial instruments is dependent on estimated forward prices and volatility in those prices.

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.

Future accounting pronouncements

In future accounting periods, the Company will adopt the following IFRS:

- *IFRS 15 Revenue from Contracts with Customers* - IFRS 15 was issued in May 2014 and is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. IFRS 15 will be adopted by the Company on January 1, 2018 and is not anticipated to have a material impact on the Company's financial statements.

- *IFRS 9 Financial Instruments* - IFRS 9 was amended in July 2014 and is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The IFRS 9 amendments will be adopted by the Company on January 1, 2018 and the extent of the impact of the adoption of the standard has not yet been determined.

- *IFRS 16 Leases* - IFRS 16 was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted for entities that apply IFRS 15 at or before the initial adoption date of January 1, 2018. The Company intends to adopt IFRS 16 on January 1, 2019 and the extent of the impact of the adoption of the standard has not yet been determined.

Business environment and risk

The business risks the Company is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Traverse’s operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of new reserves, commodity prices, interest rate and foreign exchange risks, competition and government regulations – all of these govern the business and influence the controls and management at the Company.

The oil and gas industry is highly competitive. Traverse competes with numerous other participants for all of its business activities, including exploration and development prospects, access to commodity markets and available capital. Traverse’s competitors include companies with greater financial resources, staff and facilities than those of Traverse. Exploration, development and production of petroleum and natural gas involves many risks that even a combination of experience, knowledge and careful evaluation may not be sufficient to overcome. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Traverse.

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived, including many factors that are beyond the control of the Company. The marketability of oil and natural gas discovered or acquired will be affected by numerous factors beyond the control of Traverse. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of oil and natural gas pipelines and processing equipment and government regulation. The effect of these factors cannot be accurately predicted.

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Traverse’s oil and natural gas operations may also be subject to compliance with international, federal, provincial and local laws, regulations and policies relating to taxation and controlling the discharge of materials into the environment or otherwise relating to the protection of the environment. Although the Company believes that it is in material compliance with current applicable environmental regulations, changing regulations may have a material adverse effect on the Company. Aboriginal peoples have claimed Aboriginal and treaty rights to portions of Western Canada. The Company is not aware that any claims have been made in respect of the Company’s assets; however, if a claim arose and was successful this could have a material adverse effect on the Company and its operations.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The marketability and price of oil and natural gas that may be acquired or discovered by the Company is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising outside of Canada have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Company’s net production revenue.

Both oil and natural gas prices are unstable and are subject to fluctuation. Material declines in commodity prices could result in a reduction in the Company's future production revenue and overall value. The Company may enter into agreements to receive fixed or collared prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, the Company will not benefit from such increases. The Company is or may be exposed to third party credit risk through its contractual arrangements with future joint venture partners, marketers of its petroleum and natural gas production, counterparties to financial instruments and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures could have a material adverse effect on the Company, its cash flow from operations and its liquidity structure.

Oil and natural gas operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. Traverse maintains a comprehensive insurance program that insures liability and property consistent with industry practice. The program is designed to mitigate risks and protect against significant loss. However, the Company is not fully insured against all these risks, nor are all such risks insurable.

Traverse's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Traverse may require additional financing in order to carry out its oil and natural gas exploitation, acquisition, exploration, development and production activities. Failure to obtain such financing on a timely basis could cause Traverse to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. The Company may issue additional common shares in the future, which may dilute a shareholder's holdings in the Company. The Company is not obligated to pay dividends on its common shares. The payment of dividends is at the sole discretion of the Company's board of directors and as at the date hereof, the Company has not paid dividends.

Many risk factors are listed above but these risk factors should not be construed as exhaustive. 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. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from anticipated results.