

**ROOSTER ENERGY LTD.**  
**Condensed Interim Consolidated Financial Statements**  
**Three Months Ended March 31, 2013 and 2012**  
*(unaudited)*

**NOTICE OF NO AUDITOR REVIEW**

**Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a), the accompanying unaudited condensed interim consolidated financial statements have been prepared by management. The Company's independent auditors have not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.**

## Contents

Condensed Interim Consolidated Balance Sheets	1
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss	2
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity	3
Condensed Interim Consolidated Statements of Cash Flows	4
Notes to Condensed Interim Consolidated Financial Statements	5 - 21

**Rooster Energy Ltd.**  
**Condensed Interim Consolidated Balance Sheets**  
(amounts in US dollars)  
(unaudited)

	Notes	March 31, 2013	December 31, 2012
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	11(b)	\$ 6,067,733	\$ 7,367,848
Accounts receivable	3(b)	5,626,955	8,262,786
Prepaid expenses and deposits		1,391,807	986,900
Assets held for sale		-	352,782
<b>Total current assets</b>		13,086,495	16,970,316
<b>Property and equipment</b>	4	69,864,004	72,135,945
<b>Asset retirement deposits</b>	6	3,762,000	3,762,000
<b>Deferred income taxes</b>		4,369,000	3,709,000
<b>Total assets</b>		\$ 91,081,499	\$ 96,577,261
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	3(c)	5,735,370	9,630,700
Liabilities associated with assets held for sale		-	193,527
Due to related parties	13	4,157,670	4,736,472
<b>Total current liabilities</b>		9,893,040	14,560,699
<b>Long-term liabilities</b>			
Loans payable	5	26,291,653	25,933,426
Derivative liabilities	5	1,016,000	1,067,000
Accrued interest payable	5	355,716	262,735
Deferred income taxes		8,813,000	8,997,000
Asset retirement obligations	6	17,530,990	18,071,240
<b>Total liabilities</b>		63,900,399	68,892,100
<b>Shareholders' equity</b>			
Share capital	7	40,909,139	40,909,139
Contributed surplus	8	724,711	507,298
Deficit		(14,452,750)	(13,731,276)
<b>Total shareholders' equity</b>		27,181,100	27,685,161
<b>Total liabilities and equity</b>		\$ 91,081,499	\$ 96,577,261

Commitments (note 12)  
Contingencies (note 14)

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

**Approved by the Board:**  
(signed)"Paul Crilly"  
(signed)"Richard S. Buski"

**Rooster Energy Ltd.**  
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**  
*(amounts in US dollars)*  
*(unaudited)*

		Three Months Ended March 31,	
	Notes	2013	2012
<b>Revenue</b>			
Petroleum and natural gas revenue		\$ 11,558,554	\$ 3,757,922
<b>Expenses</b>			
Lease operating expenses		3,325,587	2,285,375
Depreciation and depletion	4	2,514,255	944,354
Exploration and evaluation, net	4	2,113,129	(303,543)
Plug and abandonments	6	-	2,362,072
General and administrative		1,248,746	554,461
Bad debt expense	3(b)	2,486,177	-
Stock-based compensation	8	217,413	-
<b>Total Expenses</b>		<b>11,905,307</b>	<b>5,842,719</b>
<b>Operating loss</b>		<b>(346,753)</b>	<b>(2,084,797)</b>
<b>Unrealized gain on derivative liabilities</b>	5	51,000	-
<b>Finance expenses</b>	9	(1,269,721)	(211,823)
<b>Loss before income taxes</b>		<b>(1,565,474)</b>	<b>(2,296,620)</b>
<b>Deferred income tax expense (recovery)</b>		<b>(844,000)</b>	<b>-</b>
<b>Loss and comprehensive loss</b>		<b>\$ (721,474)</b>	<b>\$ (2,296,620)</b>
<b>Loss per share</b>	10		
Basic		\$ (0.01)	\$ (0.03)
Diluted		\$ (0.01)	\$ (0.03)

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

## Rooster Energy Ltd.

### Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(amounts in US dollars)

(unaudited)

	Notes	Number of Common Shares <sup>(1)</sup>	Common Share Capital Stated Value	Number of Proportionate Voting Shares	Proportionate Voting Shares Stated Value	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2011		1,000	\$ 12,250,000	-	\$ -	\$ -	\$ (10,043,607)	\$ 2,206,393
Loss for the period		-	-	-	-	-	(2,296,620)	(3,687,669)
Balance, March 31, 2012		1,000	12,250,000	-	-	-	(12,340,227)	(90,227)
Reverse acquisition transactions	7	40,393,823	(503,413)	65,071	29,162,552	-	-	28,659,139
Stock-based compensation	8	-	-	-	-	507,298	-	507,298
Loss for the period		-	-	-	-	-	(1,391,049)	(1,391,049)
Balance, December 31, 2012		40,394,823	11,746,587	65,071	29,162,552	507,298	(13,731,276)	27,685,161
Stock-based compensation	8	-	-	-	-	217,413	-	217,413
Loss for the period		-	-	-	-	-	(721,474)	(721,474)
Balance, March 31, 2013		40,394,823	\$ 11,746,587	65,071	\$ 29,162,552	\$ 724,711	\$ (14,452,750)	\$ 27,181,100

<sup>(1)</sup> The authorized and issued share capital of the Company consists of 40,394,823 common shares and 65,071 Proportionate Voting Shares (1,000 to 1 conversion rights) for issued share capital on a fully diluted basis equivalent to 105,465,823 common shares.

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**Rooster Energy Ltd.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
*(amounts in US dollars)*  
*(unaudited)*

		Three Months Ended March 31,	
	Notes	2013	2012
<b>Cash and cash equivalents provided by (used in):</b>			
<b>Cash flows from operating activities</b>			
Net loss		\$ (721,474)	\$ (2,296,620)
Adjustments for:			
Depreciation and depletion	4	2,514,255	935,926
Dry hole costs included in exploration and evaluation expenses	4	2,113,129	-
Stock-based compensation	8	217,413	-
Unrealized gain on derivative liabilities	5	(51,000)	-
Accretion of note payable discount	9	358,227	-
Asset retirement obligation accretion	6	142,185	79,041
Deferred income tax recovery		(844,000)	-
Funds generated from operations		3,728,735	(1,281,653)
Cash abandonment costs	6	(682,435)	(1,598,978)
Changes in non-cash working capital	11(a)	(354,966)	4,241,269
<b>Net cash provided by operating activities</b>		<b>2,691,334</b>	<b>1,360,638</b>
<b>Cash flows from investing activities</b>			
Capital expenditures for petroleum and natural gas properties	4	(235,014)	(14,601,518)
Capital expenditures for office furnishings and improvements	4	(7,300)	(13,101)
Expenditures related to dry holes	4	(2,113,129)	-
Change in assets and liabilities assets held for sale		159,255	-
Changes in non-cash working capital	11(a)	(1,888,242)	12,233,851
<b>Net cash used in investing activities</b>		<b>(4,084,430)</b>	<b>(2,380,768)</b>
<b>Cash flows from financing activities</b>			
Repayment of loans payable	5	-	(415,797)
Change in accrued interest payable	5	92,981	-
Changes in non-cash working capital	11(a)	-	-
<b>Net cash provided by (used in) financing activities</b>		<b>92,981</b>	<b>(415,797)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(1,300,115)</b>	<b>(1,435,927)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>7,367,848</b>	<b>1,435,927</b>
<b>Cash and cash equivalents, end of period</b>	11(b)	<b>\$ 6,067,733</b>	<b>\$ -</b>

*The accompanying notes are an integral part of these condensed interim consolidated financial statements.*

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

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#### 1. General business description

Rooster Energy Ltd. (the "Company") is an independent company engaged in the acquisition, development and exploration of petroleum and natural gas. The Company's principal areas of operation are in the US Gulf of Mexico. The Company is incorporated in Canada under the British Columbia Corporations Act and is traded on the TSX Venture Exchange under the symbol "COQ".

On April 30, 2012, the Company (formerly Probe Resources Ltd. ("Probe")) completed a series of transactions under which it acquired all of the membership interest of Rooster Energy, L.L.C., a privately held Louisiana limited liability company ("Rooster"). The acquisition of Rooster was accounted for as a reverse acquisition of the Company by Rooster, with Rooster being the continuing entity for accounting purposes, as the acquisition resulted in the issuance of voting shares such that control of the Company passed to Rooster Resources, LLC, the sole member of Rooster. In conjunction with the transactions, the combined entity was continued under the name Rooster Energy Ltd.

The address and principal place of business of the Company is 16285 Park Ten Place, Suite 120, Houston, Texas, USA, 77804.

#### 2. Basis of preparation

##### (a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain financial information and disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB have been omitted or condensed.

These condensed interim consolidated financial statements have been prepared using the same accounting policies and methods as those used in the annual financial statements, except as follows, and should be read in conjunction with the Company's annual audited consolidated financial statements for the year end December 31, 2012.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 22, 2013.

##### (b) Accounting policies

###### Consolidation

The Company adopted IFRS 10 *Consolidated Financial Statements* effective January 1, 2013. *IFRS 10* requires consolidation of an investee only if the investor possesses power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. The Company re-assessed its control conclusions and determined that there were no changes in the consolidation status of any of its subsidiaries.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

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#### Joint Arrangements

The Company adopted IFRS 11 *Joint Arrangements* effective January 1, 2013. *IFRS 11* establishes a principle-based approach to the accounting for joint arrangements by focussing on the rights and obligations of the arrangement and limits the application of proportionate consolidation to arrangements where sufficient rights and obligations are passed to the participants. The Company re-assessed its classification of its joint arrangements and determined that there were no changes in the accounting policies applied to its joint arrangements.

#### Fair Value Measurement

The Company adopted IFRS 13 *Fair Value Measurement* effective January 1, 2013. *IFRS 13* improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Adoption of this standard had no significant impact on the Company's financial statements other than the inclusion of fair value information disclosures for financial instruments in its condensed interim consolidated financial statements as set out in Note 3(a).

#### Disclosure

The Company adopted IFRS 12 *Disclosure of Interest in Other Entities* effective January 1, 2013. *IFRS 12* sets out the annual disclosure requirements for the Company's interests in subsidiaries, joint arrangements and associates. The adoption of *IFRS 12* had no impact on the amounts recognized in the Company's condensed interim consolidated financial statements or note disclosures for the three months ended March 31, 2013.

The Company adopted amendments to IFRS 7 *Financial Instruments: Disclosures* effective January 1, 2013. *IFRS 7* has been amended to require annual disclosure of information on rights to offset financial instruments and related arrangements. These amendments are not expected to impact the Company's annual disclosures.

(c) Basis of measurement

These condensed interim consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and financial liabilities, which are measured at fair value.

(d) Functional and presentation currency

These condensed interim consolidated financial statements are presented in US dollars, except as otherwise noted, which is the functional currency of the Company and its subsidiaries.



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

(e) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Rooster Energy LLC, Rooster Petroleum LLC, Rooster Oil & Gas LLC and Probe Resources US Ltd., included from the date of acquisition on April 30, 2012.

3. Financial instruments and risk management

(a) Fair value of financial instruments

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and due to related parties, approximate their carrying values due to the short-term maturity of those instruments. The Company's long-term loans payable bear interest at a rate approximating interest for equivalent debt instruments and, accordingly, approximates fair value.

The valuation of the Company's financial instruments which are measured at fair value on a recurring basis using a fair value hierarchy is as follows:

	Total	Level 1	Level 2	Level 3
<b>March 31, 2013</b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 6,067,733</u>	<u>\$ 6,067,733</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>				
Derivative liabilities	<u>\$ 1,016,000</u>	<u>\$ -</u>	<u>\$ 1,016,000</u>	<u>\$ -</u>
<b>December 31, 2012</b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 7,367,848</u>	<u>\$ 7,367,848</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>				
Derivative liabilities	<u>\$ 1,067,000</u>	<u>\$ -</u>	<u>\$ 1,067,000</u>	<u>\$ -</u>

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at March 31, 2013 and December 31, 2012, is as follows:

	March 31, 2013	December 31, 2012
Cash and cash equivalents	\$ 6,067,733	\$ 7,367,848
Accounts receivable	5,626,955	8,262,786
	\$ 11,694,688	\$ 15,630,634

*Cash and cash equivalents*

Cash and cash equivalents may include cash bank balances and short-term deposits. The Company manages the credit exposure related to cash and cash equivalents by selecting financial institutions with high credit ratings and monitors short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

*Accounts receivable*

As of March 31, 2013, the majority of accounts receivable relates to petroleum and natural gas production and joint operation partners and are subject to normal credit risk. Management has evaluated receivables for collectability and as such, has recorded an allowance for doubtful accounts totalling \$2,788,514 (December 31, 2012 - \$302,337). Bad debt expense for the periods ended March 31, 2013 and 2012 totalled \$2,486,177 and \$-0-, respectively.

During the period ended March 31, 2013, the Company sold a substantial portion of its product to three customers. Sales to those customers aggregated approximately \$11.2 million (March 31, 2012 - \$3.2 million) or approximately 97% (March 31, 2012 - 85%) of total revenue. At March 31, 2013, amounts due from those customers included in accounts receivable totalled approximately \$4.0 million (December 31, 2012 - \$2.6 million).

The Company historically has not experienced any collection issues related to these customers. The credit rating of the customers of the Company's petroleum and natural gas production is closely monitored by the Company's management to ensure no collection issues arise.

When determining whether past due accounts are collectible, the Company factors in the past credit history of the counterparties. The Company considers all amounts greater than 90 days as past due.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

In 2012, the Company assigned a 25% working interest in two newly drilled and completed exploratory wells at Vermilion Area Block 376 in consideration of the assignee paying its agreed proportionate share of the drilling, completion and lease operating costs. The assignee has failed to pay certain invoiced amounts, and on November 20, 2012, the Company, as operator of the wells, filed a lien in the amount of \$2,264,701.15 against the interest in the wells. Additionally, on March 27, 2013, the Company filed a state court action to recover all amounts due per the lien in addition to unpaid lease operating expenses, damages, interest, attorney fees, etc. On April 13, 2013, the Company was served with a complaint naming it as defendant in a federal court action filed by the assignee's purported mortgagee of the 25% working interest in the wells seeking relief in the form of a declaration that the lien of the Company is not valid and perfected, and that it be withdrawn and for an unspecified amount of damages, costs and attorney fees. The Company asserts that it has a valid and perfected lien and defenses to the lawsuit and is of the opinion that it will not be subject to any material damage award in favor of the purported mortgagee even if the lien is held to be invalid or otherwise primed by the purported mortgagee. However, in the event that the lien is held to be invalid, then the Company may have an unsecured account receivable in the amount of at least \$2,264,701.15 and the debt may be uncollectible. Additionally, operating expenses incurred subsequent to filing of the aforementioned lien have added \$118,619 to the account receivable; this debt may also be uncollectible. After careful consideration, the Company has made provision for the loss of the account receivable.

As of March 31, 2013 and December 31, 2012, the Company's accounts receivable comprised the following:

	March 31, 2013	December 31, 2012
Petroleum and natural gas revenue	\$ 4,135,334	\$ 4,317,749
Joint operation receivables	4,280,135	4,247,374
	8,415,469	8,565,123
Allowance for doubtful accounts	(2,788,514)	(302,337)
Total accounts receivable	\$ 5,626,955	\$ 8,262,786

As of March 31, 2013 and December 31, 2012, the Company's accounts receivables are aged as follows:

	March 31, 2013	December 31, 2012
Current (0 - 30 days)	\$ 5,561,941	\$ 5,659,043
31 to 60 days	216,809	136,245
61 to 90 days	16,553	52,996
Past due (greater than 90 days)	2,620,166	2,716,839
Allowance for doubtful accounts	(2,788,514)	(302,337)
Total accounts receivable	\$ 5,626,955	\$ 8,262,786

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

#### *Abandonment deposits*

Abandonment deposits consist of amounts deposited to secure a performance bond related to asset retirement obligations which was acquired by the Company in connection with the Probe transaction. The exposure to credit risk has been assessed by management to be minimal.

#### (c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure it will have sufficient liquidity to meet its liabilities when due.

The Company's trade accounts payable are normally due within 30 - 60 days from receipt of invoice.

The Company's accounts payable and accrued liabilities as of March 31, 2013 and December 31, 2012 are aged as follows:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Current (0 - 30 days)	\$ 4,755,492	\$ 7,947,323
31 to 60 days	918,047	1,374,172
61 to 90 days	1,021	73,067
Greater than 90 days	60,810	236,138
Total accounts payable and accrued liabilities	\$ 5,735,370	\$ 9,630,700

The Company expects to meet its short-term obligations in the normal course of business. Refer also to note 3(e) for further disclosure on the management of capital.

The Company's repayment terms for amounts due to related parties are further discussed in note 13.

The Company's repayment terms for loans payable are further discussed in note 5.

The Company is also subject to future commitments and contingencies as disclosed in notes 12 and 14.

#### (d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's net income or the value of financial instruments.

#### *Foreign currency risk*

Prices received by the Company for petroleum and natural gas are denominated in U.S. dollars. The Company had nominal working capital amounts denominated in currencies other than US dollars and had no forward exchange rate contracts in place as of or during the period ended March 31, 2013 or year ended December 31, 2012. Shares of the Company are traded in Canadian dollars.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

#### *Interest rate risk*

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its floating rate borrowings under its outstanding loans payable. A one percentage change to the effective interest rate would have an approximate impact of \$11,000 (after tax) on net income (loss) for the period ended March 31, 2013, based on the outstanding loans payable balance at March 31, 2013. Cash flows from operating activities for the quarter ended March 31, 2013 would change by approximately \$16,000. The Company had no interest rate swaps or financial contracts in place as of or during the period ended March 31, 2013.

#### *Commodity price risk*

The Company has entered into certain fixed price contracts. These contracts have been entered into for the purpose of physical delivery of a non-financial item; therefore, the physical delivery contracts are not fair valued. Settlements on these contracts are included in petroleum and natural gas revenue as they occur.

The Company's fixed price contracts, net to its respective working interests, include the following contracts:

For the period January 1, 2013 through June 30, 2013, the Company is obligated to sell approximately 350 barrels per day of crude oil at a fixed price of \$102.00 per barrel. For the period January 1, 2013 through October 31, 2013, the Company is obligated to sell approximately 4,000 MMBtu per day of natural gas at a fixed price of \$3.86 per MMBtu.

For the period April 1, 2013 through October 31, 2013, the Company is obligated to sell approximately 3,100 MMBtu per day of natural gas at a fixed price of \$3.60 per MMBtu.

#### (e) Capital management

The Company's capital management policy is to maintain a strong capital base that optimizes the Company's ability to grow, to maintain investor and creditor confidence and to provide a platform to create value for its shareholders. The Company considers its capital structure to include working capital.

The Company's working capital surplus is as follows:

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Current assets	\$ 13,086,495	\$ 16,970,316
Current liabilities	(9,893,040)	(14,560,699)
Total	\$ 3,193,455	\$ 2,409,617

The Company is required to meet certain financial covenants relating to its loans payable as further discussed in note 5. The Company is not subject to any other externally imposed capital requirements. There has been no change to management's approach to managing capital during the period ended March 31, 2013.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

#### 4. Property and equipment

	Petroleum and natural gas interests	Office furnishings and improvements	Total
<b>Cost</b>			
Balance at January 1, 2012	\$ 59,463,066	\$ 565,892	\$ 60,028,958
Additions	36,201,825	38,268	36,240,093
Non-cash additions from Probe transaction	14,932,966	-	14,932,966
Dispositions	(2,791,777)	-	(2,791,777)
Transfers to assets held for sale	(3,968,381)	-	(3,968,381)
Transfers to exploration and evaluation expenses related to dry holes	(4,031,388)	-	(4,031,388)
Asset retirement obligations	4,163,599	-	4,163,599
Balance at December 31, 2012	\$ 103,969,910	\$ 604,160	\$ 104,574,070
Balance at January 1, 2013	\$ 103,969,910	\$ 604,160	\$ 104,574,070
Additions	2,348,143	7,300	2,355,443
Transfers to exploration and evaluation expenses related to dry holes	(2,113,129)	-	(2,113,129)
Asset retirement obligations	-	-	-
Balance at March 31, 2013	\$ 104,204,924	\$ 611,460	\$ 104,816,384
<b>Depletion, depreciation and impairment</b>			
Balance at January 1, 2012	\$ 27,243,987	\$ 304,252	\$ 27,548,239
Dispositions	(282,772)	-	(282,772)
Transfers to assets held for sale	(3,615,599)	-	(3,615,599)
Depletion and depreciation for the period	8,355,531	62,455	8,417,986
Impairment	370,271	-	370,271
Balance at December 31, 2012	\$ 32,071,418	\$ 366,707	\$ 32,438,125
Balance at January 1, 2013	\$ 32,071,418	\$ 366,707	\$ 32,438,125
Depletion and depreciation for the period	2,500,405	13,850	2,514,255
Impairment	-	-	-
Balance at March 31, 2013	\$ 34,571,823	\$ 380,557	\$ 34,952,380
<b>Net book value</b>			
December 31, 2012	\$ 71,898,492	\$ 237,453	\$ 72,135,945
March 31, 2013	\$ 69,633,101	\$ 230,903	\$ 69,864,004

The calculation of depletion and depreciation for the period ended March 31, 2013 included estimated future development costs of \$40,163,900 (December 31, 2012 - \$40,246,900) associated with the development of the Company's proved and probable reserves.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

Through March 31, 2013, the Company has not capitalized any interest or general and administrative expenses.

Exploration and evaluation expenses include pre-license seismic and other pre-license evaluation costs incurred, net of any recoveries from joint venture partners, and transfers from property and equipment related to unsuccessful drilling costs.

At March 31, 2013, the Company tested its cash-generating units for impairment. There were no impairments or impairment reversals recognized during the three month period ended March 31, 2013.

#### 5. Loans payable

Loans payable at March 31, 2013 and December 31, 2012 consist of the following:

	March 31, 2013	December 31, 2012
Senior secured notes dated October 22, 2012 for \$22,500,000 with interest at 12% per annum payable quarterly, due October 22, 2014, secured by first priority security interest on all assets (i)	\$ 19,828,653	\$ 19,470,426
Related party note payable dated April 26, 2012, payable the earlier of April 26, 2014 subject to other terms of the agreement, or one year after commencement of production from South Timbalier 198 # A-7 ST1 well ("ST198"), with interest at Libor plus 5% per annum (5.8435% at December 31, 2012), interest due at maturity, and secured by certain petroleum and natural gas properties (ii)	6,463,000	6,463,000
	26,291,653	25,933,426
Less: short-term portion	-	-
Long-term portion	\$ 26,291,653	\$ 25,933,426

The loans payable at March 31, 2013 are scheduled to mature as follows:

2013	\$ -
2014	26,291,653
2015	-
Total	<u>\$ 26,291,653</u>

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

- (i) On October 22, 2012, the Company entered into a Note Purchase Agreement and issued Senior Secured Notes (the "Notes") in the amount of \$22,500,000 due on October 22, 2014 and issued warrants exercisable for up to 9,000,000 common shares of the Company at an exercise price of US\$1.00 per common share until October 22, 2017.

The fair value of the warrants are estimated at the end each reporting period, with changes in fair value recognized in income as unrealized gain (loss) on derivative liabilities. The loans payable component, net of the loan origination fees, is measured at amortized cost using the effective interest rate method, and is being accreted over two years to the principal value on maturity, with a corresponding non-cash charge to income.

The following table shows the changes in the financing arrangement balances:

	Long-term debt	Warrant feature	Total
Balance, October 22, 2012	\$ 19,215,410	\$ 2,384,000	\$ 21,599,410
Accretion	255,016	-	255,016
Derivative (gain) loss on revaluation	-	(1,317,000)	(1,317,000)
Balance, December 31, 2012	19,470,426	1,067,000	20,537,426
Accretion	358,227	-	358,227
Derivative (gain) loss on revaluation	-	(51,000)	(51,000)
Balance, March 31, 2013	\$ 19,828,653	\$ 1,016,000	\$ 20,844,653

The warrants were measured at fair value on initial recognition using a Level 2 fair value hierarchy. The fair value of the warrants on the grant date was determined to be \$2,384,000 using the Black-Scholes model with the following assumptions:

	March 31, 2013	December 31, 2012	October 22, 2012 (issuance date)
Risk-free interest rate	0.77%	0.73%	0.78%
Expected life (years)	4.56	4.81	5
Expected volatility	50.0%	50.0%	50.0%
Expected annual dividend yield	0.00%	0.00%	0.00%
Stock price	\$0.50	\$0.50	\$0.75
Exercise price	\$1.00	\$1.00	\$1.00

The Company is required to meet certain covenants including a quarterly collateral coverage covenant under the terms of the Note Purchase Agreement. The collateral coverage ratio, which is a non-IFRS measure, is defined as the ratio between the value of proved developed producing reserves, as defined in the Note Purchase Agreement, plus cash and cash equivalents, to the outstanding unpaid principal and unpaid accrued interest of the Notes plus any outstanding accounts payable. As at March 31, 2013 and December 31, 2012, the Company was in compliance with all covenants, obligations and conditions under the Note Purchase Agreement.



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

Interest relating to the principal balance of \$675,000 and \$525,000 has been accrued in accounts payable and accrued liabilities at March 31, 2013 and December 31, 2012, respectively.

- (ii) The related party note payable totalling \$6,463,000 at March 31, 2013 and December 31, 2012 is due to a significant shareholder. Accrued interest payable totalling \$355,716 at March 31, 2013 and \$262,735 at December 31, 2012 is due at maturity, and is therefore included in long-term liabilities on the balance sheet. As no reserves have been assigned to ST198, the maturity date is April 26, 2014. However, the note is subordinate to the Note Purchase Agreement and payment of same is governed by the terms of an inter-creditor agreement.

#### 6. Asset retirement obligations and deposits

Asset retirement obligations were determined by management based on the Company's net ownership interest, the estimated future costs to reclaim and abandon the wells and facilities, and the estimated timing of when the costs will be incurred.

The following table summarizes changes in the asset retirement obligations for the period ended March 31, 2013 and the year ended December 31, 2012:

	March 31, 2013	December 31, 2012
Asset retirement obligations, beginning of period	\$ 18,071,240	\$ 13,008,253
Liabilities incurred	-	223,914
Liabilities acquired	-	3,837,917
Liabilities disposed	-	(19,824)
Transfers to liabilities associated with assets held for sale	-	(193,527)
Liabilities settled	(682,435)	(4,232,235)
Revisions to estimates and changes in discount rate	.	2,591,030
Loss on plug and abandonments	-	2,362,072
Accretion (unwinding of discount)	142,185	493,640
Asset retirement obligations, end of period	\$ 17,530,990	\$ 18,071,240

The estimated inflated undiscounted cash flows required to settle the provisions, before considering salvage, are approximately \$24.8 million (December 31, 2012 - \$25.5 million), which has been discounted using a risk-free rate of 2.55% (December 31, 2012 - 2.55%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 14 years into the future and will be funded from general corporate resources at the time of abandonment.

At March 31, 2013 and December 31, 2012, the Company had a \$3,762,000 cash deposit made to back the performance bond that was required by the Bureau of Ocean Energy Management (BOEM) on the ownership interest in properties owned by Probe prior to April 30, 2012. These funds are restricted for use in meeting the Company's asset retirement obligation specific to those properties and will be released upon satisfactory completion of plugging and abandonment operations for specific wells and/or structures as the work is completed.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

During the period ended March 31, 2012, the Company incurred and expensed costs in excess of the previously recorded asset retirement obligation in the amount of \$2,362,072 for the plugging operations of two wells at East Cameron 129, which is included in earnings as plug and abandonment expense. The costs were due to unexpected downhole issues which required additional equipment and services.

#### 7. Share capital

##### (a) Authorized

The authorized share capital of the Company consists of an unlimited number of voting common shares and voting proportionate shares.

##### (b) Issued

The following table summarizes the changes in common shares and proportionate voting shares outstanding:

	Number of Shares	Stated Value
<b>Common shares</b>		
Outstanding, December 31, 2011	1,000	\$ 12,250,000
Probe common shares outstanding at December 31 2011 <sup>(1)</sup>	14,184,423	-
Elimination of Rooster voting shares	(1,000)	-
Subscription receipts issued, net of issuance costs	-	20,122,951
Issued on reverse acquisition transactions	26,210,400	8,536,188
Allocation of stated value to proportionate voting shares	-	(29,162,552)
Outstanding, March 31, 2013 and December 31, 2012	40,394,823	\$ 11,746,587
<b>Proportionate voting shares</b>		
Outstanding, December 31, 2011	-	\$ -
Issued on reverse takeover transaction	65,071	29,162,552
Outstanding, March 31, 2013 and December 31, 2012	65,071	29,162,552
Total share capital stated value, March 31, 2013 and December 31, 2012		\$ 40,909,139

<sup>(1)</sup> Represents the number of common shares of Probe after 250:1 consolidation.

- (c) In conjunction with the Probe transactions (note 1), the Company received net capital of \$20,122,951 through a subscription receipts offering. Share issuance costs incurred of \$802,308 represent costs associated with agents' commissions of \$678,095 and legal fees of \$124,213.

Of the total subscription receipts issued, an aggregate of 18,941,700 subscription receipts were issued to related parties who were significant shareholders, directors, and/or officers of the Company on the same terms as outside parties.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

The common shares may at any time, at the option of the holder, be converted into proportionate voting shares of the Company on the basis of 1,000 common shares for one proportionate voting share for no consideration. Each issued and outstanding proportionate voting share may at any time, at the option of the holder, be converted into 1,000 common shares of the Company for no consideration. The common shares and proportionate voting shares have the same rights and are equal in all respects as if they were shares of one class only. For purposes of voting and dividend rights, the proportionate voting shares are multiplied by 1,000, equal to the conversion ratio. The values assigned to the common shares and the proportionate voting shares at acquisition were based on the proportion of new shares issued in the reverse acquisition.

(d) Warrants

The Company issued 9,000,000 warrants as part of the Note Purchase Agreement on October 22, 2012. The warrants entitle the holder to acquire one common share of the Company for each warrant held at an exercise price of \$1.00 US until October 22, 2017. See also note 5 (i). No warrants have been exercised to date.

8. Stock-based compensation

The Company has a stock option plan under which options may be granted to employees, officers, directors and consultants.

On June 5, 2012, 4,820,645 stock options were granted with an exercise price of CDN \$0.50. Each stock option is exercisable to acquire one common share of the Company for a period of ten years and vests as to 1/3 on each of the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> anniversary dates from the date of grant.

A summary of the changes in the outstanding options awarded under the Company's stock option plan is as follows:

	Three months ended		Year ended	
	March 31, 2013		December 31, 2012	
	Number	Exercise Price(CDN\$)	Number	Exercise Price(CDN\$)
Outstanding, beginning of period	4,820,645	0.50	-	-
Granted	-	-	4,820,645	0.50
Outstanding, end of period	4,820,645	0.50	4,820,645	0.50
Exercisable, end of period	-	-	-	-

During the three month period ended March 31, 2013, \$217,413 was recorded as stock-based compensation relating to the stock options granted in June 2012 with a corresponding increase in contributed surplus (2012 - \$Nil).

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

#### 9. Finance expenses

	Three Months Ended March 31,	
	2013	2012
Interest expense on loans payable (note 5)	\$ 675,000	\$ -
Interest on due to related parties (note 13)	92,981	132,782
Accretion of debt discount (note 5)	358,227	-
Accretion of asset retirement obligations (note 6)	142,185	79,041
Other	1,328	-
Total finance expenses	\$ 1,269,721	\$ 211,823

#### 10. Income (loss) per share

The following table summarizes the weighted average number of common shares used in calculating income (loss) per share:

	Three Months Ended March 31,	
	2013	2012
Basic	105,465,823	91,281,400
Diluted	105,465,823	91,281,400

Basic income (loss) per share figures for the periods ended March 31, 2013 and 2012 have been calculated using the weighted average number of common shares (post-consolidation) outstanding plus the weighted average number of proportionate voting shares outstanding at the conversion ratio of 1,000 common shares for each outstanding proportionate voting share. The total weighted average number of shares outstanding for the period ended March 31, 2012 has been adjusted to reflect the equivalent number of Probe shares issued to Rooster shareholders upon the reverse acquisition transactions. All outstanding options and warrants were excluded from the diluted per share calculations for March 31, 2013 and 2012 as they were anti-dilutive.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

#### 11. Supplemental cash flow information

- (a) Changes in non-cash working capital, excluding non-cash changes for working capital balances acquired in the Probe acquisition, comprise the following:

	Three Months Ended March 31,	
	2013	2012
Source (use) of cash:		
Accounts receivable	\$ 2,635,831	\$ (3,278,649)
Prepaid expenses and deposits	(404,907)	330,483
Accounts payable and accrued liabilities	(3,895,330)	18,403,343
Due to related parties	(578,802)	1,019,943
Changes in non-cash working capital	\$ (2,243,208)	\$ 16,475,120
Related to operating activities	\$ (354,966)	\$ 4,241,269
Related to investing activities	(1,888,242)	12,233,851
Related to financing activities	-	-
	\$ (2,243,208)	\$ 16,475,120

- (b) Cash and cash equivalents comprised the following:

	March 31, 2013	December 31, 2012
Bank balances	\$ 6,067,733	\$ 7,367,848
Cash equivalents	\$ -	\$ -

- (c) Interest and income taxes paid

The Company made cash outlays for interest in the amounts of \$525,000 and \$-0- during the three months ended March 31, 2013 and 2012, respectively.

The Company has not paid any income taxes during the three month periods ended March 31, 2013 or 2012.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

#### 12. Commitments

##### (a) Operating leases

The Company leases its corporate headquarters in Houston, Texas, under a non-cancellable operating lease expiring in June 2017. The Company is obligated for the following future rental payments under this lease at March 31, 2013:

2013	\$	149,568
2014		202,464
2015		206,112
2016		209,760
2017		<u>105,792</u>
Total	\$	<u>873,696</u>

The Company also leases a field office facility in Abbeville, Louisiana under a non-cancellable operating lease expiring May 31, 2013. The monthly rent is \$1,900.

##### (b) Production imbalances

The volumes of petroleum and natural gas sold may differ from the volumes to which the Company is entitled based on its interests in the properties. These differences create imbalances that are recognized as a liability only when the estimated remaining reserves will not be sufficient to enable the under-produced owner to recoup its entitled share through production. No receivables are recorded for those volumes where the Company has received less than its share of production. If an imbalance exists at the time the wells reserves are fully depleted, settlements are made among the joint interest owners under a variety of arrangements. The Company is obligated to discharge imbalance positions from future production.

#### 13. Related party transactions

The Company has transactions with affiliates, including field services, rental of equipment, the reimbursement of operating expenses, and the payment of certain administrative services at terms determined by management. Related party balances and transactions are as follows:

	March 31, 2013	December 31, 2012
Due to related parties	\$ 4,157,670	\$ 4,736,472
Note payable related party (see note 5(ii))	6,463,000	6,463,000
Accrued interest payable to related party (see note 5(ii))	355,716	262,735
Total	\$ 10,976,386	\$ 11,462,207

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three Months Ended March 31, 2013 and 2012

(amounts in US dollars)

(unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
Purchases from related parties	\$ 200,630	\$ 2,133,148
Interest expense to related parties	92,981	132,782
Total	\$ 293,611	\$ 2,265,930

At March 31, 2013 and December 31, 2012, amounts due to related parties totalled \$4,157,670 and \$4,736,472, respectively. Purchases from related parties totalled \$293,611 for the period ended March 31, 2013, including related party interest of \$92,981. Purchases from related parties totalled \$2,265,930 for the period ended March 31, 2012, including related party interest of \$132,782.

All related party transactions were considered by management to be in the normal course of business and transacted on terms equivalent to those that would have prevailed in an arm's length transaction.

#### 14. Contingencies

Certain claims and counterclaims have been filed against the Company which arise in the normal course of business. Management has assessed these legal actions to be without merit and/or the Company expects to be fully indemnified, and the likelihood of loss to the Company is remote. Accordingly, no amounts have been accrued in the March 31, 2013 or December 31, 2012 consolidated financial statements relating to these actions.