

**ROOSTER ENERGY LTD.**  
**Condensed Interim Consolidated Financial Statements**  
**Three and Six Months Ended June 30, 2014 and 2013**  
*(unaudited)*

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

	Notes	June 30, 2014	December 31, 2013
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	14	\$ 5,230,011	\$ 964,040
Restricted cash	3(b)	7,061,426	5,620,635
Accounts receivable	3(b)	4,478,030	4,071,505
Prepaid expenses and deposits	8	1,442,271	1,173,832
<b>Total current assets</b>		18,211,738	11,830,012
<b>Exploration and evaluation assets</b>	4	-	186,152
<b>Property and equipment</b>	5	96,031,443	95,208,469
<b>Asset retirement deposits</b>	7	300,000	300,000
<b>Total assets</b>		\$ 114,543,181	\$ 107,524,633
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	3(c)	17,279,498	19,839,404
Loans payable	6	39,301,340	27,469,712
Accrued interest payable	6	3,291,268	2,016,897
Due to related parties	16	4,199,899	3,970,348
Asset retirement obligations	7	5,392,167	5,392,167
<b>Total current liabilities</b>		69,464,172	58,688,528
<b>Long-term liabilities</b>			
Loans payable	6	-	3,223,626
Financing warrants	6	1,379,000	1,092,000
Accrued interest payable	6	-	84,618
Deferred income taxes	12(b)	4,879,000	4,575,000
Asset retirement obligations	7	13,004,436	13,203,660
<b>Total liabilities</b>		88,726,608	80,867,432
<b>Shareholders' equity</b>			
Share capital	9	40,911,182	40,911,182
Contributed surplus	10	2,329,048	1,511,146
Deficit		(17,423,657)	(15,765,127)
<b>Total shareholders' equity</b>		25,816,573	26,657,201
<b>Total liabilities and shareholders' equity</b>		\$ 114,543,181	\$ 107,524,633

Basis of presentation (note 2(b))  
Subsequent events (notes 6 and 18)  
Commitments (notes 3(d), and 15)  
Contingencies (note 17)

*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 Income (Loss)**  
**and Comprehensive Income (Loss)**  
*(amounts in US dollars)*  
*(unaudited)*

		Three Months Ended June 30,		Six Months Ended June 30,	
	Notes	2014	2013	2014	2013
<b>Revenue</b>					
Petroleum and natural gas revenue		\$ 7,877,628	\$ 10,731,229	\$ 15,571,769	\$ 22,289,783
<b>Expenses</b>					
Lease operating		3,315,940	3,299,099	6,126,843	6,624,686
Depreciation and depletion	5	1,327,881	2,150,488	2,639,565	4,664,744
Exploration and evaluation, net	5	-	46,030	-	2,159,159
Impairment expense (recovery), net	5	-	-	(714,050)	-
General and administrative		1,242,497	1,245,202	2,361,800	2,493,947
Bad debt	3(b)	89,303	184,685	176,276	2,670,862
Stock-based compensation	10	401,805	177,884	817,902	395,297
<b>Total expenses</b>		<b>6,377,426</b>	<b>7,103,388</b>	<b>11,408,336</b>	<b>19,008,695</b>
<b>Operating income (loss)</b>		<b>1,500,202</b>	<b>3,627,841</b>	<b>4,163,433</b>	<b>3,281,088</b>
<b>Unrealized loss on financing warrants</b>	6	<b>(1,038,000)</b>	<b>(1,515,000)</b>	<b>(287,000)</b>	<b>(1,464,000)</b>
<b>Finance expenses</b>	11	<b>(3,518,414)</b>	<b>(1,295,045)</b>	<b>(5,230,963)</b>	<b>(2,564,765)</b>
<b>Income (loss) before income taxes</b>		<b>(3,056,212)</b>	<b>817,796</b>	<b>(1,354,530)</b>	<b>(747,677)</b>
<b>Deferred income tax expense (recovery)</b>	12(a)	<b>(312,000)</b>	<b>759,000</b>	<b>304,000</b>	<b>(85,000)</b>
<b>Income (loss) and comprehensive income (loss)</b>		<b>\$ (2,744,212)</b>	<b>\$ 58,796</b>	<b>\$ (1,658,530)</b>	<b>\$ (662,677)</b>
<b>Income (loss) per share</b>					
	13				
Basic		\$ (0.03)	\$ -	\$ (0.02)	\$ (0.01)
Diluted		\$ (0.03)	\$ -	\$ (0.02)	\$ (0.01)

*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, 2012		40,394,823	\$ 11,746,587	65,071	\$ 29,162,552	\$ 507,298	\$ (13,731,276)	\$ 27,685,161
Stock-based compensation	10	-	-	-	-	395,297	-	395,297
Loss for the period		-	-	-	-	-	(662,677)	(662,677)
Balance, June 30, 2013		40,394,823	11,746,587	65,071	29,162,552	902,595	(14,393,953)	27,417,781
Issued on cashless exercise of stock options	10	2,500	2,043	-	-	(2,043)	-	-
Stock-based compensation	10	-	-	-	-	610,594	-	610,594
Loss for the period		-	-	-	-	-	(1,371,174)	(1,371,174)
Balance, December 31, 2013		40,397,323	11,748,630	65,071	29,162,552	1,511,146	(15,765,127)	26,657,201
Stock-based compensation	10	-	-	-	-	817,902	-	817,902
Loss for the period		-	-	-	-	-	(1,658,530)	(1,658,530)
Balance, June 30, 2014		40,397,323	\$ 11,748,630	65,071	\$ 29,162,552	\$ 2,329,048	\$ (17,423,657)	\$ 25,816,573

<sup>(1)</sup> The authorized and issued share capital of the Company consists of 40,397,323 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 105,468,323 common shares.

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

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

	Notes	Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
<b>Cash and cash equivalents provided by (used in):</b>					
<b>Cash flows from operating activities</b>					
Net Income (loss)		\$ (2,744,212)	\$ 58,796	\$ (1,658,530)	\$ (662,677)
Adjustments for:					
Depreciation and depletion	5	1,327,881	2,150,488	2,639,565	4,664,744
Dry hole costs included in exploration and evaluation expense	5	-	46,030	-	2,159,159
Impairment and asset retirement expense, net	5	-	-	(714,050)	-
Stock-based compensation	10	401,805	177,884	817,902	395,297
Unrealized (gain) loss on financing warrants	6	1,038,000	1,515,000	287,000	1,464,000
Unrealized foreign exchange (gain) loss on related party credit facility	11	43,368	-	52,945	-
Accretion of loans payable discounts	11	1,483,776	378,236	2,030,943	736,463
Asset retirement obligation accretion	11	118,547	142,185	237,095	284,370
Deferred income tax expense (recovery)	12(a)	(312,000)	759,000	304,000	(85,000)
Funds generated from operations		1,357,165	5,227,619	3,996,870	8,956,356
Cash abandonment costs	7	(430,659)	(41,545)	(436,319)	(723,980)
Changes in non-cash working capital	14	3,133,972	1,788,805	3,426,370	1,433,838
<b>Net cash flows provided by (used in) operating activities</b>		<b>4,060,478</b>	<b>6,974,879</b>	<b>6,986,921</b>	<b>9,666,214</b>
<b>Cash flows from (used in) investing activities</b>					
Capital expenditures for petroleum and natural gas properties	5	(557,521)	(9,662,513)	(2,545,424)	(9,897,528)
Capital expenditures for office furnishings and improvements	5	(16,323)	(15,203)	(16,913)	(22,503)
Exploration and evaluation expenditures related to dry holes	5	-	(46,030)	-	(2,159,159)
Proceeds relating to assets and liabilities held for sale		-	-	-	159,255
Changes in non-cash working capital	14	(4,125,770)	1,554,957	(7,872,480)	(333,285)
<b>Net cash flows used in investing activities</b>		<b>(4,699,614)</b>	<b>(8,168,789)</b>	<b>(10,434,817)</b>	<b>(12,253,220)</b>
<b>Cash flows from financing activities</b>					
Proceeds from loans payable	6	2,500,000	-	6,500,000	-
Change in accrued interest payable		861,686	91,986	1,213,867	184,967
Changes in non-cash working capital		-	-	-	-
<b>Net cash flows provided by financing activities</b>		<b>3,361,686</b>	<b>91,986</b>	<b>7,713,867</b>	<b>184,967</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>2,722,550</b>	<b>(1,101,924)</b>	<b>4,265,971</b>	<b>(2,402,039)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>2,507,461</b>	<b>6,067,733</b>	<b>964,040</b>	<b>7,367,848</b>
<b>Cash and cash equivalents, end of period</b>	14	<b>\$ 5,230,011</b>	<b>\$ 4,965,809</b>	<b>\$ 5,230,011</b>	<b>\$ 4,965,809</b>

Supplemental cash flow information (note 14)

*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 and Six Months Ended June 30, 2014 and 2013

(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 only area of operations is 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".

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, 2013.

These condensed interim consolidated financial statements were approved and authorized for issuance by the Board of Directors on August 29, 2014.

##### (b) Basis of presentation

At June 30, 2014 and December 31, 2013, the Company had a working capital deficiency of \$51,252,434 and \$46,858,516, respectively, including outstanding loans payable amounts which are due within the current year. In addition, a significant portion of the Company's accounts payable were past due, and the Company was not in compliance with required debt covenants under its senior secured notes at June 30, 2014 and December 31, 2013 (see notes 6 and 18).

Management has taken a number of steps subsequent to December 31, 2013 to address the Company's liquidity situation, including entering into two material acquisition agreements which are anticipated to contribute significant additional positive cash flows and cost synergies. In addition, the Company obtained an additional second lien credit facility for \$10 million, which has enabled the Company to reduce its accounts payable balances outstanding at June 30, 2014. The Company is also currently engaged in discussions for a \$100 million private offering of senior secured notes and a new credit facility, and may pursue issuing additional equity following the anticipated closing of the acquisitions. (See also note 18.)

Management believes that these transactions, combined with the Company's ongoing positive cash flows from operating activities and the continued support of its major shareholders, will be sufficient to fund its ongoing operations and fund its capital expenditures program over the upcoming year.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

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There is however, no assurance that the necessary financing will be obtained and accordingly there is material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern and to realize its assets and discharge its liabilities in the normal course of business.

(c) Changes in accounting policies

The Company adopted the following new standards and amendments:

The IASB amended IAS 39 to allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). The amendment is effective for annual periods beginning on or after January 1, 2014 and did not have an impact on the Company's results or financial position.

The IASB amended IAS 32, "Financial Instruments: Presentation" ("IAS 32") to clarify certain requirements for offsetting financial assets and liabilities. The amendment addresses the meaning and application of the concepts of legally enforceable right of set-off and simultaneous realization and settlement. IAS 32 relates to presentation and disclosures. The amendment is effective for annual periods beginning on or after January 1, 2014 and did not have an impact on the Company's results or financial position.

The IASB amended IAS 36, "Impairment of Assets" to require disclosure of the recoverable amount of an asset (including goodwill) or a cash generating-unit ("CGU") when an impairment loss has been recognized or reversed in the period. When the recoverable amount is based on fair value less costs of disposal, the valuation techniques and key assumptions must also be disclosed.

The Company adopted International Financial Reporting Interpretations Committee ("IFRIC") 21 – Levies ("IFRIC 21") on the accounting for levies imposed by governments clarifies the obligating event that gives rise to a liability to pay a levy. Adoption of this standard had no material impact on the Company's financial statements.

(d) Basis of measurement

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

(e) Functional and presentation currency

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

(f) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Rooster Energy, L.L.C., Rooster Petroleum LLC, Rooster Oil & Gas LLC and Probe Resources US Ltd.



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

(g) Use of estimates and judgments

The preparation of condensed interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, earnings and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

There have been no significant changes in the Company's critical accounting estimates and assumptions applied during the six months ended June 30, 2014 relative to those disclosed in the Company's most recent annual audited consolidated financial statements as at and for the year ended December 31, 2013.

3. Financial instruments and risk management

(a) Fair value of financial instruments

The fair values of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, loans payable, accrued interest payable, and due to related parties, approximate their carrying values due to the short-term maturity of those instruments.

The valuation of the Company's assets and liabilities measured on a fair value basis at June 30, 2014 and December 31, 2013, are as follows:

	Total	Level 1	Level 2	Level 3
<b>June 30, 2014</b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 5,230,011</u>	<u>\$ 5,230,011</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>				
Financing warrants	<u>\$ 1,379,000</u>	<u>\$ -</u>	<u>\$ 1,379,000</u>	<u>\$ -</u>
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>December 31, 2013</b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$ 964,040</u>	<u>\$ 964,040</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>				
Financing warrants	<u>\$ 1,092,000</u>	<u>\$ -</u>	<u>\$ 1,092,000</u>	<u>\$ -</u>

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(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 June 30, 2014 and December 31, 2013, is as follows:

	June 30, 2014	December 31, 2013
Cash and cash equivalents	\$ 5,230,011	\$ 964,040
Restricted cash	7,061,426	5,620,635
Accounts receivable	4,478,030	4,071,505
Asset retirement deposits	300,000	300,000
	\$ 17,069,467	\$ 10,956,180

*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.

*Restricted cash*

As of June 30, 2014 the Company had \$7,061,426 (December 31, 2013 - \$5,620,635) in restricted cash including \$3,462,000 (December 31, 2013 - \$3,462,000) of cash collateral for performance bonds for specific well and facility abandonments that must be completed within the next 12 months (note 7). In addition, restricted cash includes \$3,599,426 (December 31, 2013 - \$2,158,635) of disputed revenue proceeds held in escrow related to Vermilion Area Block 376 #A-3 and A-4 wells, with the offsetting amount included in accounts payable and accrued liabilities. All funds are held in financial institutions with high credit ratings and as such, management does not expect any credit risk losses. See also note 18.

*Accounts receivable*

All of the Company's operations are conducted in the United States. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer and/or partner. Significant changes in industry conditions and risks that negatively impact customers' or partners' ability to generate cash flow will increase the risk of not collecting receivables. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

During the six month period ended June 30, 2014, the Company sold a substantial portion of its product to one customer. Sales to this customer aggregated approximately \$12.1 million or approximately 78% of total revenue (June 30, 2013 - \$10.0 million and 93%). At June 30, 2014, amounts due from this customer included in accounts receivable totalled approximately \$2.5 million (December 31, 2013 - \$2.2 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.

As of June 30, 2014, substantially all of the Company's accounts receivable are due from petroleum and natural gas purchasers and joint operation partners. Management has evaluated receivables for collectability and as such, has recorded an allowance for doubtful accounts totalling \$3,363,672 (December 31, 2013 - \$3,187,396). Bad debt expense for the three month periods ended June 30, 2014 and 2013 totalled \$89,303 and \$184,685, respectively, and for the six month periods ended June 30, 2014 and 2013 totalled \$176,276, and \$2,670,862, respectively. Bad debt expense for 2014 and 2013 primarily relates to an allowance for non-payment of operating costs and capital expenditures by a joint interest partner.

As of June 30, 2014 and December 31, 2013, the Company's accounts receivable was comprised of the following:

	June 30, 2014	December 31, 2013
Petroleum and natural gas revenue	\$ 2,562,933	\$ 2,432,759
Joint operation receivables	5,278,769	4,826,142
	7,841,702	7,258,901
Allowance for doubtful accounts	(3,363,672)	(3,187,396)
Total accounts receivable	\$ 4,478,030	\$ 4,071,505

As of June 30, 2014 and December 31, 2013, the Company's accounts receivables were aged as follows:

	June 30, 2014	December 31, 2013
Current (0 - 30 days)	\$ 4,065,745	\$ 4,062,088
31 to 60 days	116,930	33,199
61 to 90 days	40,158	53,068
Past due (greater than 90 days)	3,618,869	3,110,546
Allowance for doubtful accounts	(3,363,672)	(3,187,396)
Total accounts receivable	\$ 4,478,030	\$ 4,071,505

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

#### Asset retirement deposits

Asset retirement deposits (note 7) consist of amounts deposited to secure a performance bond related to asset retirement obligations which were acquired by the Company in connection with the reverse acquisition of Probe during 2012. 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 June 30, 2014 and December 31, 2013 are aged as follows:

	June 30, 2014	December 31, 2013
Current (0 - 30 days)	\$ 14,425,232	\$ 7,960,672
31 to 60 days	547,600	1,729,709
61 to 90 days	879,880	6,307,520
Greater than 90 days	1,426,786	3,841,503
Total accounts payable and accrued liabilities	\$ 17,279,498	\$ 19,839,404

The repayment terms relating to the Company's due to related parties are further discussed in note 16.

The repayment terms relating to the Company's loans payable are further discussed in note 6.

The Company is also subject to future commitments and contingencies as disclosed in notes 3(d), 15 and 17.

Refer also to note 3(e) on the Company's management of capital.

Refer also to note 2(b) basis of presentation.

#### (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. The objective of the Company is to manage and mitigate market risk exposures within acceptable limits, while maximizing returns.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

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#### *Foreign currency risk*

Prices received by the Company for petroleum and natural gas are generally denominated in US dollars. The Company had nominal working capital amounts denominated in currencies other than US dollars other than the related party subordinated secured credit facility which is denominated in Canadian dollars ("CDN") (note 6), and had no forward exchange rate contracts in place as of or during the period ended June 30, 2014 or the year ended December 31, 2013. Shares of the Company are traded in Canadian dollars.

A 5% change in the US-CDN exchange rate would increase (decrease) the Company's net loss for the three and six months ended June 30, 2014 by approximately \$30,000 and \$60,000, respectively, based on the outstanding balance of the related party subordinated secured credit facility at June 30, 2014.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact floating rate borrowings. The Company's loans payable at June 30, 2014 are at fixed interest rates (note 6) and therefore are not subject to interest rate risk. The Company had no interest rate swaps or financial contracts in place as of or during six month period ended June 30, 2014.

#### *Commodity price risk*

The Company entered into certain fixed price contracts during 2013. These contracts were 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 currently does not have any derivative financial commodity contracts.

As of June 30, 2014, the Company did not have any fixed price physical delivery contracts outstanding.

#### (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 maintains a flexible capital structure to maximize its ability to pursue petroleum and natural gas exploration opportunities and sustain the future development of the business. The Company monitors the level of risk associated for each capital project to balance the proportion of debt and equity in its capital structure. The Company's management is responsible for managing the Company's capital and does so through quarterly meetings and regular reviews of financial information. The Company's Board of Directors are responsible for overseeing this process. The Company considers working capital to form its capital structure and strives to maintain positive working capital. When working capital deficits arise in the normal course of operations, the Company responds by minimizing capital and operating expenses and, when prudent, through selective asset divestitures until adequate working capital is restored.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

The Company's working capital surplus (deficiency) is as follows:

	June 30, 2014	December 31, 2013
Current assets	\$ 18,211,738	\$ 11,830,012
Current liabilities	(69,464,172)	(58,688,528)
Total	\$ (51,252,434)	\$ (46,858,516)

The Company is required to meet certain financial covenants relating to its loans payable as further discussed in note 6. 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 six months ended June 30, 2014.

#### 4. Exploration and evaluation assets and expenses

	June 30, 2014	December 31, 2013
Balance, beginning of period	\$ 186,152	\$ -
Exploration and evaluation expenditures	-	186,152
Transfers to property and equipment (note 5)	(186,152)	-
Balance, end of period	\$ -	\$ 186,152

Exploration and evaluation assets include undeveloped properties, seismic and other assets that management has not fully evaluated for technical feasibility and commercial viability. Capital expenditures represent the Company's share of costs incurred on exploration and evaluation assets during the period. Transfers to property and equipment, if any, represent successful drilling and related costs for which technical feasibility and commercial viability are determined to exist.

Exploration and evaluation expenses are charged to income (loss) and 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.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

#### 5. Property and equipment

	Petroleum and natural gas interests	Office furnishings and improvements	Total
<b>Cost</b>			
Balance at December 31, 2012	\$ 103,969,910	\$ 604,160	\$ 104,574,070
Additions	38,633,909	25,228	38,659,137
Transfers to exploration and evaluation expenses related to dry holes	(2,483,731)	-	(2,483,731)
Asset retirement obligations (note 7)	994,388	-	994,388
Balance at December 31, 2013	\$ 141,114,476	\$ 629,388	\$ 141,743,864
Additions	2,545,424	16,913	2,562,337
Transfers from exploration and evaluation assets (note 4)	186,152	-	186,152
Balance at June 30, 2014	\$ 143,846,052	\$ 646,301	\$ 144,492,353
<b>Depletion, depreciation and impairment</b>			
Balance at December 31, 2012	\$ 32,071,418	\$ 366,707	\$ 32,438,125
Depletion and depreciation for the year	8,646,027	62,182	8,708,209
Impairment expense	5,389,061	-	5,389,061
Balance at December 31, 2013	\$ 46,106,506	\$ 428,889	\$ 46,535,395
Depletion and depreciation	2,601,731	37,834	2,639,565
Impairment recovery	(714,050)	-	(714,050)
Balance at June 30, 2014	\$ 47,994,187	\$ 466,723	\$ 48,460,910
<b>Net book value</b>			
December 31, 2013	\$ 95,007,970	\$ 200,499	\$ 95,208,469
June 30, 2014	\$ 95,851,865	\$ 179,578	\$ 96,031,443

The calculation of depletion and depreciation for the six month period ended June 30, 2014 included estimated future development costs of \$52,955,000 (December 31, 2013 - \$55,340,000) associated with the development of the Company's proved and probable reserves.

The Company has not capitalized any interest or general and administrative expenses during the six months ended June 30, 2014 or 2013, or the year ended December 31, 2013.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

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At June 30, 2014, the Company tested its CGUs for impairment. The recoverable amount of each cash-generating unit was estimated based on fair value less costs of disposal. The estimate of fair value less costs of disposal was determined using forecasted proved plus probable reserves before tax cash flows, discounted at 10%, using escalating forward pricing and net of future development costs, as obtained from an independently prepared reserve report at December 31, 2013 and updated internally by management to June 30, 2014. In determining the appropriate discount rate, the Company considered acquisition metrics of recent transactions completed on assets similar to those in the specific CGU and an approximate cost of capital for potential acquirers of the Company or the Company's CGUs.

During the six month period ended June 30, 2014, the Company recognized recovery of impairments for the Company's interest in the High Island Block 141 lease totalling \$714,050, as a result of a reduction in future development costs required to produce the lease. The recoverable amount for High Island Block 141 is \$1,356,350.

#### 6. Loans payable and warrants

Loans payable at June 30, 2014 and December 31, 2013 consisted of the following:

	June 30, 2014	December 31, 2013
Senior secured notes dated October 22, 2012 for \$22,500,000 with interest at 18% payable quarterly, with an initial maturity date of October 22, 2014, secured by first priority security interest on all assets (the "Notes") (i)	\$ 22,500,000	\$ 21,006,712
Related party notes payable dated April 26, 2012, with initial maturity dates of April 26, 2014 and subordinated to the Notes, with interest at 14.5% per annum, interest payable at maturity, and secured by certain petroleum and natural gas properties (ii)	6,463,000	6,463,000
Related party subordinated secured credit facility dated October 11, 2013 for CDN \$4,000,000, payable 181 days following repayment of the Notes, subordinated to the Notes, with interest at 9% due quarterly, and secured by certain petroleum and natural gas properties (iii)	3,470,565	3,223,626
Related party subordinated secured credit facility dated March 7, 2014 for US \$7,150,000, payable 181 days following repayment of the Notes, subordinated to the Notes, with interest at 14% due in arrears, and secured by certain petroleum and natural gas properties (iv)	6,867,775	-
	\$ 39,301,340	\$ 30,693,338
Less: Short-term portion	(39,301,340)	(27,469,712)
Long-term portion	\$ -	\$ 3,223,626

All loans payable at June 30, 2014 are scheduled to mature within one year.



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

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- (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, with an initial maturity date of October 22, 2014. The Company is required to meet certain covenants including a quarterly collateral coverage covenant under the terms of the Note Payable 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.

During the year ended December 31, 2013, the Company negotiated an amendment to the Note Purchase Agreement. Pursuant to same, the Company and the Note holders agreed to covenant revisions related to altering the approved plan of drilling by the Company. The Company also received approval to enter into a subordinated secured credit facility for borrowings up to CDN \$8.0 million, as more specifically described below (note 6(iii)). The Company paid a consent fee of \$450,000 to the Note holders and legal fees incurred by the Note holders which are included in the discount on the related party subordinated credit facility (note 6(iii)).

As at June 30, 2014 and December 31, 2013, the Company was not in compliance with all covenants, obligations and conditions under the agreements governing the Notes. As a result of the non-compliance, the stated interest rate increased to 18% from 12%. In order to enter into the membership interest contribution agreements to acquire Cochon Properties, LLC and Morrison Well Services, LLC (note 18), the Company obtained the consent of the holders of the Notes pursuant to a limited consent and forbearance agreement dated March 7, 2014 (the "Limited Consent"). Therein, the holders of the Notes and the Company acknowledged that the Company was in existing and continuing default of the collateral coverage ratio covenant of the Notes as at December 31, 2013. In order to allow for the acquisition of Cochon and Well Services, the Limited Consent provides that, the holders of the Notes will forbear from exercising certain rights and remedies under the Note Purchase Agreement and certain related documents in respect of the default until July 7, 2014, or such earlier date if certain events of insolvency or other customary events of default occur. On July 7, 2014, the Limited Consent and Forbearance Agreement was extended in respect of default by the Company to August 31, 2014, and the Company agreed to a premium repayment amount of 5% to 7% based on the actual repayment date between August 1 and August 31, 2014. On August 29, 2014, the Company entered into a fifth amendment to the Note Purchase Agreement and second amendment to the Limited Consent and Forbearance Agreement extending the termination date therein to September 30, 2014 and agreed to a premium repayment amount of up to 7.5% to 9% based on the actual repayment date between September 1, 2014 and September 30, 2014.

The Company is negotiating terms of a \$100 million private offering of senior secured notes and is engaged in discussions for a new revolving credit facility that would allow it to satisfy its obligations to the holders of the Notes and resolve its working capital deficiency (see also notes 2(b) and 18). However, there can be no assurance that such financings will be made available on terms acceptable to the Company or at all.

Unpaid interest of \$1,023,750 and \$690,000 has been included in accrued interest payable at June 30, 2014 and December 31, 2013, respectively.

In conjunction with the issuance of the Notes, the Company also 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 warrants are also eligible to be exercised on a "cashless" basis in accordance with the terms of the agreement. No warrants have been exercised to date.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

The fair value of the warrants was estimated on initial recognition and at the end of each reporting period using a Level 2 fair value hierarchy, with changes in fair value recognized in income (loss) as unrealized gain (loss) on financing warrants. 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 to the principal value on maturity, with a corresponding non-cash charge to income (note 11).

The fair value of the financing warrants at June 30, 2014 and December 31, 2013 was determined using the Black-Scholes model with the following assumptions:

	June 30, 2014	December 31, 2013
Risk-free interest rate	1.62%	1.75%
Expected life (years)	3.31	3.81
Expected volatility	50.0%	50.0%
Expected annual dividend yield	0.00%	0.00%
Stock price	\$0.58	\$0.55
Exercise price	\$1.00	\$1.00
Fair value per warrant	\$0.15	\$0.12

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

	Loans payable	Financing warrants	Total
Balance, December 31, 2012	\$ 19,470,426	\$ 1,067,000	\$ 20,537,426
Accretion	1,536,286	-	1,536,286
Unrealized loss on revaluation	-	25,000	25,000
Balance, December 31, 2013	21,006,712	1,092,000	22,098,712
Accretion	1,219,220	-	1,219,220
Unrealized loss (gain) on revaluation	-	287,000	287,000
Balance, June 30, 2014	\$ 22,225,932	\$ 1,379,000	\$ 23,604,932

- (ii) The related party notes payable of \$6,463,000 at June 30, 2014 is due to a significant shareholder of the Company. Accrued interest payable totalling \$1,798,069 and \$1,326,897 at June 30, 2014 and December 31, 2013, respectively, is due at maturity. The initial maturity date was April 26, 2014 subject to other terms of the agreement. However, pursuant to an intercreditor subordination agreement, the principal amount of the note plus accrued interest is subordinate to the Note Purchase Agreement (note 6(i)) and therefore payment is not required prior to repayment of amounts due under the Note Purchase Agreement.

As a result of the Note Purchase Agreement, the related party note payable bears interest at the Notes rate of 12% plus 2.5%.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

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- (iii) Effective October 11, 2013, the Company entered into a First Amendment to the Note Purchase Agreement. Pursuant to same, the Company and the Notes holders agreed to covenant revisions related to altering the approved plan of drilling by the Company. The Company also received approval to enter into a subordinated secured credit facility for borrowings up to CDN \$8.0 million, as more specifically described below. The Company paid a consent fee of \$450,000 to the Notes holders and legal fees incurred by the Note holders (note 6(i)).

On October 11, 2013, the Company entered into a subordinated secured credit facility with two related parties who are significant shareholders and/or directors of the Company that provides for borrowing up to CDN \$8.0 million to be used for general corporate purposes. The initial advance under the credit facility was CDN \$4.0 million (net of a 2% original issue discount and administrative fees of \$10,000) resulting in net proceeds of \$3,234,466. The discount is being accreted over the term of the facility up to the principal amount on the maturity date using an effective interest rate of approximately 25%, with \$240,165, and \$322,397 recorded as accretion for the three and six months ended June 30, 2014, respectively. The interest rate is 9% on all advances, and the credit facility matures 181 days following full satisfaction of the terms of the existing Note Purchase Agreement, as amended. Additionally, it is secured only by certain oil and gas properties and proceeds therefrom owned by Probe Resources US Ltd. No further amounts have been drawn on the facility as at or subsequent to June 30, 2014.

- (iv) Effective March 7, 2014, the Company entered into an additional second lien credit facility with a related party who is a significant shareholder and director of the Company, for borrowing of up to \$10 million. The initial advance was \$4.4 million, net of an original issue discount of 10%, for a funded amount equal to \$4 million. During the three months ended June 30, 2014, the Company drew an additional \$2.75 million on the facility, net of original issue discount of 10%, for a funded amount of \$2.5 million. The discounts are being accreted over the term of the facility up to the principal amount on maturity using an effective interest rate of approximately 30%, with \$190,071 and \$215,258 recorded as accretion for the three and six month periods ended June 30, 2014, respectively. The credit facility is fully subordinated to the Notes (note 6(i)). Amounts drawn on the credit facility bear interest at 14% per annum, and are repayable 181 days after the full satisfaction of the Senior Secured Notes. The credit facility is secured by the Company's petroleum and natural gas properties and assets.

In order to enter into the second lien credit facility, the Company obtained the consent of the holders of the Notes pursuant to a second amendment to the Note Purchase Agreement dated March 7, 2014 (note 6(i)), which provides for various conditions including the requirement for the Company to restrict any payments under the facility as provided for in a subordination agreement. In addition, the Company will be required to pay to the holders of the Notes, an amount equal to 3% of the principal amount of the Notes at the time of repayment.

#### 7. Asset retirement obligations and deposits

Asset retirement obligations ("ARO") were determined by management and were 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.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

The following table summarizes changes in the ARO for the six month period ended June 30, 2014 and the year ended December 31, 2013:

	June 30, 2014	December 31, 2013
Asset retirement obligations, beginning of year	\$ 18,595,827	\$ 18,071,240
Liabilities incurred	-	282,193
Liabilities acquired	-	-
Liabilities disposed	-	-
Transfers to liabilities associated with assets held for sale (note 8)	-	-
Liabilities settled	(436,319)	(941,614)
Revisions to estimates and changes in discount rate	-	712,195
Loss on plug and abandonments	-	-
Accretion (unwinding of discount)	237,095	471,813
Asset retirement obligations, end of year	\$ 18,396,603	\$ 18,595,827
Less: Short-term portion	(5,392,167)	(5,392,167)
Long-term portion	\$ 13,004,436	\$ 13,203,660

The Company's ARO result from its ownership interest in petroleum and natural gas assets, including well sites and gathering systems. The total ARO are estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The estimated inflated undiscounted cash flows required to settle the provisions, before considering salvage, are approximately \$20.4 million (December 31, 2013 - \$20.9 million), which has been discounted using a risk-free rate of 2.55% (December 31, 2013 - 2.55%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 15 years into the future and will be funded from general corporate resources at the time of abandonment.

At June 30, 2014 and December 31, 2013, the Company had a \$3,762,000 cash deposit held as security by the surety of the supplemental bonds that are required by the Bureau of Ocean Energy Management (BOEM) on the ARO for properties owned by Probe Resources US Ltd. prior to April 30, 2012. These funds are restricted for use in meeting Probe Resources US Ltd.'s ARO specific to those properties and will be released by the surety upon satisfactory completion of plugging and abandonment operations for specific wells and/or structures as the work is completed. The Company is required to abandon certain fields covered by this bond within the next 12 months. As a result, \$3,462,000 of the deposit has been classified as short-term and included in restricted cash as at June 30, 2014 and December 31, 2013 (note 3(b)).

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

#### 8. Prepaid expenses and deposits

Prepaid expenses and deposits consist of the following:

	June 30, 2014	December 31, 2013
Prepaid insurance	\$ 296,200	\$ 997,436
Prepaid bonds	54,637	83,916
Prepaid plug and abandonment	-	-
Prepaid inspection fees	105,601	65,500
Prepaid other	985,833	26,980
Total prepaid expenses and deposits	\$ 1,442,271	\$ 1,173,832

#### 9. Share capital

##### (a) Authorized

The authorized share capital of the Company consists of an unlimited number of voting common shares, voting proportionate shares, and preferred 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, 2012	40,394,823	\$ 11,746,587
Issued on cashless exercise of stock options (note 10)	2,500	2,043
Outstanding, December 31, 2013 and June 30, 2014	40,397,323	\$ 11,748,630
<b>Proportionate voting shares</b>		
Outstanding, December 31, 2013 and June 30, 2014	65,071	\$ 29,162,552
<b>Total share capital stated value</b>		
December 31, 2013 and June 30, 2014		\$ 40,911,182

- (c) 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.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

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- (d) There were no stock options exercised during the six month period ended June 30, 2014. During the year ended December 31, 2013, 6,666 stock options were exercised under a cashless exercise provision of the Company's stock option plan, whereby the Company issued 2,500 common shares in settlement of the stock options (note 10).

#### 10. Stock-based compensation

The Company has a stock option plan under which options may be granted to employees, officers directors and consultants. As at June 30, 2014, the Company had 21,093,164 common shares authorized for issuance under the stock option plan.

On June 5, 2012, 4,820,645 stock options were granted with an exercise price of CDN \$0.50. On September 11, 2013, 4,532,759 stock options were granted with an exercise price of CDN \$0.82. Additionally, on May 16, 2014, 300,000 stock options were granted with an exercise price of CDN \$0.61. Each 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.

The Company's original stock option plan provided that a holder of an option may, rather than exercise such option, elect a cashless exercise of such option payable in common shares equalling the amount by which the value of an underlying common share at that time exceeded the exercise price of an option to acquire such share. On a cashless exercise, the holder of an option would receive a lesser amount of shares in lieu of paying the exercise price based on the market price of the shares on the exercise date, and withholding taxes, if the holder so elected. The Company's stock option plan was subsequently amended during 2013 to remove the cashless exercise feature for future option grants. In addition, the authorized number of shares for issuance under the plan was amended.

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

	Six months ended		Year ended	
	June 30, 2014		December 31, 2013	
	Number	Exercise Price(CDN\$)	Number	Exercise Price(CDN\$)
Outstanding, beginning of period	9,293,404	\$ 0.66	4,820,645	\$ 0.50
Granted	300,000	0.61	4,532,759	0.82
Exercised (1)	-	-	(6,666)	0.50
Forfeited	-	-	(53,334)	0.50
Outstanding, end of period	9,593,404	\$ 0.65	9,293,404	\$ 0.66
Exercisable, end of period	3,173,763	\$ 0.50	1,586,882	\$ 0.50

- (1) The difference from the number of shares issued upon exercise of stock options (note 9(d)) is due to the cashless exercise. The price of the Company's common shares at the date the stock options were exercised was CDN \$0.80

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

The following table outlines the exercise price and years to expiry of all outstanding options, as well as the number of options exercisable as of June 30, 2014:

Options Outstanding			Options Exercisable	
Exercise Price (CDN\$)	Number Outstanding	Remaining Life	Number Exercisable	Exercise Price
\$0.50	4,760,645	7.9	3,173,763	\$ 0.50
\$0.61	300,000	9.9	-	\$ -
\$0.82	4,532,759	9.2	-	\$ -
<b>Total</b>	<b>9,593,404</b>	<b>8.6</b>	<b>3,173,763</b>	<b>\$ 0.50</b>

The fair value of options granted during the six months ended June 30, 2014 were estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values:

For the six month period ended	June 30, 2014
Assumptions:	
Stock price (CDN\$)	\$ 0.61
Exercise price (CDN\$)	\$ 0.61
Risk free interest rate (%)	2%
Expected life (years)	10
Expected volatility (%)	50%
Estimated forfeiture rate (%)	5%
Expected dividend yield	-
<b>Fair value of options granted (CDN\$)</b>	<b>\$ 0.50</b>
<b>Share price on date of grant (CDN\$)</b>	<b>\$ 0.61</b>

During the three and six month periods ended June 30, 2014, \$401,805 and \$817,902 (2013 - \$177,844 and \$395,297), respectively, was recorded as stock-based compensation relating to stock options granted in 2014 and prior years, with a corresponding increase in contributed surplus.

#### 11. Finance expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest expense on senior secured notes (note 6(i))	\$ 1,361,250	\$ 682,500	\$ 2,036,250	\$ 1,357,500
Interest on notes payable to related party (note 6(ii))	236,888	91,987	471,172	184,968
Interest on related party subordinated secured credit facilities (notes 6(iii),(iv))	276,048	-	408,945	-
Accretion of discount on senior secured notes (note 6(i))	1,053,540	378,236	1,493,288	736,463
Accretion of discount on related party subordinated secured credit facilities (notes 6(iii),(iv))	430,236	-	537,655	-
Accretion of asset retirement obligations (note 7)	118,547	142,185	237,095	284,370
Foreign exchange loss on related party subordinated secured credit facility (note 6(iii))	43,368	-	52,945	-
Other	(1,463)	137	(6,387)	1,464
<b>Total finance expenses</b>	<b>\$ 3,518,414</b>	<b>\$ 1,295,045</b>	<b>\$ 5,230,963</b>	<b>\$ 2,564,765</b>

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

#### 12. Income taxes

##### (a) Deferred income tax expense (recovery)

The provision for income taxes differs from the results which would have been obtained by applying the combined federal and provincial income tax rate to the Company's income before income tax. The difference results from the following items:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Income (loss) before income taxes	\$ (3,056,212)	\$ 817,796	\$ (1,354,530)	\$ (747,677)
Statutory tax rate:	35.0 %	35.0 %	35.0 %	35.0 %
Expected income tax expense (recovery)	(1,070,000)	286,000	(474,000)	(262,000)
Difference resulting from:				
Stock-based compensation	52,000	62,000	225,000	138,000
Unrealized (gain) loss on financing warrants	363,000	530,000	100,000	512,000
Accretion of note payable discount (note 6(i))	343,000	132,000	453,000	180,000
Changes in permanent differences and other	(56,000)	(251,000)	(12,000)	(653,000)
Change in valuation allowance	56,000	-	12,000	-
<b>Total income tax expense (recovery)</b>	<b>\$ (312,000)</b>	<b>\$ 759,000</b>	<b>\$ 304,000</b>	<b>\$ (85,000)</b>

The US federal rate is 35%. All of the Company's producing petroleum and natural gas interests are currently located offshore in US federal waters, and accordingly, no US state taxes have been applied.

##### (b) Deferred income tax assets and liabilities:

The components of the Company's deferred income tax liabilities (assets) and associated movements are as follows:

	December 31, 2013	Recognized in Income	June 30, 2014
Property and equipment assets	\$ 29,286,000	\$ 820,000	\$ 30,106,000
Asset retirement obligations	(6,508,000)	69,000	(6,439,000)
US net operating losses	(18,208,000)	(639,000)	(18,847,000)
Canadian non-capital losses	(1,400,000)	(151,000)	(1,551,000)
Share issuance and other temporary differences	(289,000)	193,000	(96,000)
Valuation allowance	1,694,000	12,000	1,706,000
	<b>\$ 4,575,000</b>	<b>\$ 304,000</b>	<b>\$ 4,879,000</b>



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

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The amount and timing of reversals of temporary differences will be dependent upon a number of factors including the Company's future operating results. The US net operating losses are available for deduction against future taxable income until 2034.

Future tax benefits related to tax deductions in Canada for Rooster Energy, Ltd. have been offset with a valuation allowance, applied using a combined federal and provincial tax rate of 25%, due to the uncertainty of realization. The Canadian non-capital losses expire between 2030 and 2034.

#### 13. 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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic	105,468,323	105,465,823	105,468,323	105,465,823
Effect of dilutive stock options	-	308,521	-	-
Diluted	105,468,323	105,774,344	105,468,323	105,465,823

Basic income (loss) per share figures for the six month periods ended June 30, 2014 and 2013 have been calculated using the weighted average number of common shares 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. All outstanding options and warrants were excluded from the calculation of diluted loss per share for the three month period ended June 30, 2014 and the six month periods ended June 30, 2014 and 2013, as they were anti-dilutive.

#### 14. Supplemental cash flow information

- (a) Changes in non-cash working capital, excluding non-cash changes for the increase in restricted cash, comprise the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Source (uses) of cash:				
Restricted cash	\$ (635,075)	\$ -	\$ (1,440,791)	\$ -
Non-cash changes in restricted cash (note 3(b))	-	-	-	-
Accounts receivable	(455,796)	(439,954)	(406,525)	2,195,877
Prepaid expenses and deposits	381,786	(2,142,002)	(268,439)	(2,546,909)
Accounts payable and accrued liabilities	(350,711)	6,438,477	(2,559,906)	2,543,146
Due to related parties	67,998	(512,759)	229,551	(1,091,561)
Changes in non-cash working capital	\$ (991,798)	\$ 3,343,762	\$ (4,446,110)	\$ 1,100,553
Related to operating activities	\$ 3,133,972	\$ 1,788,805	\$ 3,426,370	\$ 1,433,838
Related to investing activities	(4,125,770)	1,554,957	(7,872,480)	(333,285)
Related to financing activities	-	-	-	-
	\$ (991,798)	\$ 3,343,762	\$ (4,446,110)	\$ 1,100,553

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

At June 30, 2014 and December 31, 2013, all of the Company's cash and cash equivalents were comprised of cash on deposit.

(b) Interest and income taxes paid

The Company made interest payments in the amounts of \$1,365,000 and \$1,200,000 during the six month periods ended June 30, 2014 and 2013, respectively.

The Company has not paid any income taxes during the six months ended June 30, 2014 or the year ended December 31, 2013.

15. Commitments

There were no changes to the commitments during the six months ended June 30, 2014 as compared to those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2013. See also note 18.

16. Other 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. In addition, two parties, related to the Company by way of common directors and officers, participated as to a 7.5% working interest in the drilling of the High Island A494 #B-4 well.

Balances due to (from) related parties and related party transactions are as follows:

	June 30 2014	December 31, 2013
Due to related parties (1)	\$ 4,199,899	\$ 3,970,348
Notes payable due to related party (note 6(ii))	6,463,000	6,463,000
Accrued interest payable on notes payable to related party (note 6(ii))	1,798,069	1,326,897
Subordinated secured credit facility amounts due to related parties (notes 6(iii),(iv))	10,338,340	3,223,626
Accrued interest payable on subordinated secured credit facility amounts due to related parties (note 6(iii),(iv))	469,449	84,618
Accounts receivable due from related parties participating in drilling of well	(3,723)	(265,547)
<b>Total</b>	<b>\$ 23,265,034</b>	<b>\$ 14,802,942</b>

(1) Represents amounts payable to related parties in the ordinary course of business for operating expenses and capital expenditures. Payments are made as cash flows allow within the constraints of the Note Purchase Agreement (note 6(i)). The amounts are unsecured, non-interest bearing, and have no fixed terms of repayment.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

(amounts in US dollars)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Purchases from related parties	\$ 67,998	\$ 48,400	\$ 229,551	\$ 203,630
Interest expense on amounts due to related parties	-	-	-	-
Interest expense on note payable to related party (note 11)	236,888	91,987	471,172	184,968
Interest expense and origination fees on CDN\$ related party subordinated secured credit facility (note 11)	82,533	-	164,097	-
Interest expense on related party subordinated secured credit facility (note 11)	193,515	-	244,848	-
Total	\$ 580,934	\$ 140,387	\$ 1,109,668	\$ 388,598

Purchases from related parties during the six month periods ended June 30, 2014 and 2013 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.

Additional related party transactions relating to the Company's related party loans payable are outlined in note 6.

#### 17. 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 June 30, 2014 condensed interim consolidated financial statements relating to these actions.

There was only one threatened or pending legal matter that, in the opinion of management, could have a material impact on the Company's consolidated results of operations, financial position or cash flows, as disclosed in the Company's annual audited consolidated financial statement for the year ended December 31, 2013 (See also note 18).

#### 18. Other subsequent events

Effective March 7, 2014, the Company entered into membership interest contribution agreements whereby the Company will acquire all of the membership interests of Morrison Well Services, LLC ("Well Services") and Cochon Properties, LLC ("Cochon") for aggregate consideration of \$125 million, with \$95 million and \$30 million relating to the acquisitions of Well Services and Cochon, respectively, subject to working capital adjustments as outlined in the membership interest contribution agreements. Of the total consideration, \$10 million (plus or minus any working capital adjustments) is payable by the Company in cash, with the remaining amount payable by way of common shares of the Company. The number of Rooster common shares to be issued will equal that number obtained by dividing \$115 million by the average daily closing price of the Rooster common shares on the TSX Venture Exchange for the 20 consecutive trading days ending on and including the date that is 10 business days prior to the special shareholder meeting to approve the transactions, subject to a floor price of CDN \$0.40 and a cap of CDN \$0.70. Pursuant to the transactions, Well Services and Cochon will each become a wholly-owned

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Six Months Ended June 30, 2014 and 2013

*(amounts in US dollars)*

*(unaudited)*

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subsidiary of the Company. Well Services and Cochon are controlled by a related party who is a significant shareholder and director of the Company. The majority shareholder entitled to vote on the acquisitions has provided a support agreement to vote in favor of the acquisitions and that shareholder represents more than 51% of the Company's shares entitled to vote on the acquisitions. The transactions were approved at the special meeting of the shareholders on May 16, 2014, resulting in 161,596,958 and 57,034,221 common shares of the Company to be issued for the Well Services and Cochon acquisitions, respectively. Closing of the transactions are expected to occur prior to the end of fiscal 2014, subject to, among other conditions, satisfaction of the Company's obligations under the Note Purchase Agreement (note 6(i)), funding of the \$10 million cash consideration portion of the acquisitions, and receipt of required regulatory approval.

On July 16, 2014, the Company entered into a Settlement Agreement that resulted in the dismissal of the litigation discussed in note 17. Pursuant to the terms of the settlement, the assignee assigned all of its 25% participation interest in the Vermilion Area Block 376 #A-3 and #A-4 wells to the Company in consideration of the sum of \$3,500,574. The related amounts held in trust at June 30, 2014 of \$3,599,426 (note 3(b)) were also released to the plaintiff in conjunction with the settlement.

On July 17, 2014, the Company announced that it intends to commence a private offering to eligible purchasers, subject to market and other conditions, of \$100 million in aggregate principal amount of senior secured notes due 2019. The Company intends to use the net proceeds from the proposed offering to repay existing indebtedness, fund the cash portion of the acquisition of Well Services and for general corporate purposes.

The Company also announced that it has received a proposal for a new revolving credit facility (the "New Credit Facility") of up to \$25.0 million from Wells Fargo Bank, National Association, which will be secured by a first priority lien on substantially all of the assets of the Company and its subsidiaries. Management expects the New Credit Facility will provide an initial borrowing base of approximately \$11.5 million based solely upon a recent evaluation of eligible assets of Well Services. Further borrowing capacity is expected to be made available dependent upon the lender's review of oil and gas collateral of the Company's subsidiaries. The New Credit Facility is expected to be finalized and made available substantially concurrently with the issuance of the notes, but remains subject to satisfactory completion of lender due diligence and credit and security documentation. Accordingly, the availability of the New Credit Facility is not a condition to the closing of the notes and there is no assurance the New Credit Facility will be made available on the terms described or at all following issuance of the notes.