Condensed Interim Consolidated Financial Statements
Three and Six Months Ended June 30, 2015 and 2014

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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

Three and Six Months Ended June 30, 2015

Contents

Condensed Interim Consolidated Balance Sheets

(unaudited - amounts in US dollars)

	Notes	June 30, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents	4(b), 15	$ 11,278,377	$ 137,670
Restricted cash	4(b)	3,804,155	3,804,155
Accounts receivable	4(b)	15,663,889	12,739,540
Fair value of commodity contracts	4(g)	3,096,714	6,638,736
Decommissioning contracts receivable	9	22,345,645	30,542,962
Prepaid expenses	10	7,879,101	5,036,937
Total current assets		64,067,881	58,900,000
Fair value of commodity contracts	4(g)	-	531,234
Decommissioning contracts receivable	9	40,113,972	40,113,972
Exploration and evaluation assets	5	207,172	207,172
Property and equipment	6	104,468,044	106,783,591
Note receivable	7	4,169,177	4,104,712
Asset retirement deposits	9	1,654,645	1,654,645
Deferred income taxes		5,565,000	5,565,000
Total assets		$ 220,245,891	$ 217,860,326
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	4(c)	$ 17,202,214	$ 16,912,740
Deferred revenue	9	3,727,748	5,418,348
Loans payable	8	9,881,364	1,296,819
Due to related parties	16	8,124,469	6,635,761
Asset retirement obligations	9	26,377,670	36,330,069
Total current liabilities		65,313,465	66,593,737
Long-term liabilities			
Fair value of commodity contracts	4(g)	764,398	-
Deferred revenue	9	7,116,254	7,116,254
Loans payable	8	63,555,264	56,450,061
Financing warrants	8	-	1,000
Accrued interest payable	8	4,509,739	3,313,699
Due to related parties	16	3,671,353	3,943,111
Deferred income taxes		5,657,000	7,448,000
Asset retirement obligations	9	53,103,240	53,114,360
Total liabilities		203,690,713	197,980,222
Shareholders' equity			
Share capital	11	122,112,182	122,112,182
Reserve from common control		(77,545,026)	(77,545,026)
Contributed surplus	11	3,937,408	2,816,379
Deficit		(31,949,386)	(27,503,431)
Total shareholders' equity		16,555,178	19,880,104
Total liabilities and shareholders' equity		$ 220,245,891	$ 217,860,326

Commitments and contingencies (note 15)

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

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

(unaudited - amounts in US dollars)

	Notes	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
			(Note 3)		(Note 3)
Revenue					
Petroleum and natural gas		**$ 6,650,150**	$ 13,806,134	**$ 12,560,303**	$ 24,178,561
Production handling		**45,755**	434,515	**87,811**	980,207
Well services		**3,640,590**	8,319,470	**7,311,817**	13,099,764
Decommissioning contracts		**2,677,236**	2,832,508	**5,863,625**	3,841,564
Revenue before the following:		**13,013,731**	25,392,627	**25,823,556**	42,100,096
Realized gain on commodity contracts	4(g)	**1,751,890**	-	**4,113,450**	-
Unrealized gain (loss) on commodity contracts	4(g)	**(4,139,789)**	-	**(4,837,654)**	-
Total revenue		**$ 10,625,832**	$ 25,392,627	**$ 25,099,352**	$ 42,100,096
Expenses					
Lease operating		**5,384,030**	7,314,255	**11,595,654**	15,225,163
Cost of well services		**2,295,030**	5,040,106	**5,241,869**	8,888,284
Depreciation and depletion	6	**1,958,081**	2,444,916	**3,725,768**	4,730,135
Repairs and maintenance		**352,813**	368,324	**528,029**	822,058
General and administrative		**3,263,560**	4,080,091	**6,318,501**	8,053,113
Bad debt	4(b)	**-**	89,303	**17,174**	176,276
Stock-based compensation	11	**934,966**	401,805	**1,121,029**	817,902
Impairment expense (recovery), net	6	**-**	-	**-**	(714,050)
Asset retirement expense	9	**555,641**	-	**-**	-
Total expenses		**14,744,121**	19,738,800	**28,548,024**	37,998,881
Operating income (loss)		**(4,118,289)**	5,653,827	**(3,448,672)**	4,101,215
Gain (loss) on asset retirement obligations	9	**2,308,657**	209,382	**3,359,099**	-
Unrealized gain (loss) on financing warrants	8	**-**	(1,038,000)	**1,000**	(287,000)
Finance expenses	12	**(3,114,069)**	(3,780,579)	**(6,148,382)**	(5,779,744)
Loss before income taxes		**(4,923,701)**	1,044,630	**(6,236,955)**	(1,965,529)
Deferred income tax expense (recovery)		**(1,396,000)**	(312,000)	**(1,791,000)**	304,000
Loss and comprehensive loss		**$ (3,527,701)**	$ 1,356,630	**$ (4,445,955)**	$ (2,269,529)
Loss per share	13				
Basic		**($0.01)**	**$0.00**	**($0.01)**	($0.01)
Diluted		**($0.01)**	**$0.00**	**($0.01)**	($0.01)

Segment Information (Note 17)

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(unaudited –amounts in US dollars)

	Notes	Number of Common Shares [1]	Common Share Capital Stated Value	Number of Proportionate Voting Shares	Proportionate Voting Shares Stated Value	Reserve From Common Control	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2013		259,028,502	$ 92,949,630	65,071	$ 29,162,552	$ (65,798,473)	$ 1,511,146	$ (17,764,065)	$ 40,060,790
Stock-based compensation		-	-	-	-		817,902	-	817,902
Loss for the period		-	-	-	-		-	(2,269,529)	(2,269,529)
Balance, June 30, 2014		259,028,502	$ 92,949,630	65,071	$ 29,162,552	$ (65,798,473)	$ 2,329,048	$ (20,033,594)	$ 38,609,163
Stock-based compensation	11	-	-	-	-		487,331	-	487,331
Adjustment to reserve account						(11,746,553)			(11,746,553)
Loss for the period		-	-	-	-		-	(7,469,837)	(7,469,837)
Balance, December 31, 2014		259,028,502	$ 92,949,630	65,071	$ 29,162,552	$ (77,545,026)	$ 2,816,379	$ (27,503,431)	$ 19,880,104
Stock-based compensation	11	-	-	-	-		1,121,029	-	1,121,029
Loss for the period		-	-	-	-		-	(4,445,955)	(4,445,955)
Balance, June 30, 2015		259,028,502	$ 92,949,630	65,071	$ 29,162,552	$ (77,545,026)	$ 3,937,408	$ (31,949,386)	$ 16,555,178

[1] The authorized and issued share capital of the Company consists of 259,028,502 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 324,099,502 common shares (prior to the exercise of 19,039,190 stock options and 13,429,819 warrants.)

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

Condensed Interim Consolidated Statements of Cash Flows

(unaudited - amounts in US dollars)

	Notes	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014 (Note 3)	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014 (Note 3)
Cash and cash equivalents provided by (used in):					
Cash flows from operating activities					
Net loss		**$ (3,527,701)**	$ 1,356,630	**$ (4,445,955)**	$ (2,269,529)
Adjustments for:					
Depreciation and depletion	6	**1,958,081**	2,444,916	**3,725,768**	4,730,135
Impairment expense	6	**-**	-	**-**	(714,050)
Bad debt		**-**	89,303	**17,174**	176,276
Stock-based compensation	11	**934,966**	401,805	**1,121,029**	817,902
Unrealized (gain) loss on commodity contracts	4(g)	**4,139,789**	-	**4,837,654**	-
Unrealized (gain) loss on financing warrants	8	**-**	1,038,000	**(1,000)**	287,000
Unrealized foreign exchange gain on related party credit facility	12	**43,000**	43,368	**(253,518)**	52,945
Accretion of loans payable discount	12	**1,016,304**	1,483,776	**1,998,801**	2,030,943
Gain on debt revaluation		**(376,780)**	-	**(376,780)**	-
Asset retirement obligation accretion	9	**321,975**	413,123	**649,516**	825,054
Gain on asset retirement obligation	9	**(2,308,657)**	(209,382)	**(3,359,099)**	-
Asset retirement expense		**555,641**	-	**-**	
Deferred income tax expense		**(1,396,000)**	(312,000)	**(1,791,000)**	304,000
Income attributable to reserve from common control	3	**-**	(1,370,105)	**-**	523,637
Funds generated from operations		**1,360,618**	5,379,434	**2,122,590**	6,764,313
Cash abandonment costs	9	**(4,964,875)**	(2,162,237)	**(7,254,250)**	(2,622,349)
Changes in non-cash working capital	14	**(5,657,143)**	(5,393,262)	**(3,830,080)**	(2,767,524)
Changes in deferred revenue	9	**(826,782)**	3,259,764	**(1,690,600)**	4,358,712
Changes in decommissioning contracts receivable	9	**5,146,046**	1,942,940	**8,197,317**	2,311,298
Change in accrued interest payable	8	**598,832**	829,275	**1,131,575**	1,174,689
Net cash flows provided by (used in) operating activities		**(4,343,304)**	3,855,914	**(1,323,448)**	9,219,139
Cash flows from investing activities					
properties	6	**(2,039,783)**	(1,895,121)	**(3,647,493)**	(4,194,696)
Capital expenditures for well service equipment		**(99,094)**	-	**(99,094)**	-
Acquisition of petroleum and natural gas properties	6	**-**	-	**(18,420)**	-
Capital expenditures for office furnishings and improvements	6	**(10,221)**	(16,323)	**(28,255)**	(16,913)
Changes in non-cash working capital	14	**(625,450)**	(4,125,770)	**(175,425)**	(7,872,480)
Net cash flows used in investing activities		**(2,774,548)**	(6,037,214)	**(3,968,687)**	(12,084,089)
Cash flows from financing activities					
Proceeds from loans payable	8	**63,001,619**	5,353,002	**63,001,619**	9,353,002
Repayment of loans payable	8	**(45,518,728)**	-	**(46,296,819)**	-
Advances from related parties	16	**-**	-	**(271,758)**	(4,000,000)
Net cash flows provided by financing activities		**17,482,891**	5,353,002	**16,433,042**	5,353,002
Net (decrease) increase in cash and cash equivalents		**10,365,039**	3,171,702	**11,140,907**	2,488,052
Cash and cash equivalents, beginning of period		**913,538**	5,103,678	**137,670**	5,787,328
Cash and cash equivalents, end of period	14	**$ 11,278,577**	$ 8,275,380	**$ 11,278,577**	$ 8,275,380

Supplemental cash flow information (note 14).

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

1. General business description

Rooster Energy Ltd. (the "Company") is an integrated oil and natural gas company with an exploration and production (E&P) business and a leading downhole and subsea well intervention and plugging and abandonment (P&A) service business. 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 its shares are publically traded on the TSX Venture Exchange under the symbol "COQ".

On November 17, 2014, Rooster closed: (i) a membership interest contribution agreement (the "Cochon Agreement") with the members of Cochon Properties, LLC ("Cochon") to acquire 100% of the membership interests in Cochon (the "Cochon Acquisition"); and (ii) a membership interest contribution agreement (the "Well Services Agreement") and, together with the Cochon Agreement, (the "Agreements") with Morrison Energy Group, LLC, ("MEG") to acquire 100% of the membership interest in Morrison Well Services, LLC ("Well Services") (the "Well Services Acquisition"). The Well Services Acquisition together with the Cochon Acquisition, are hereinafter referred to as the "Transaction". Cochon and Well Services were controlled by a related party who is a significant controlling shareholder and director of Rooster; consequently, all three entities were under common control at the time of the Transaction.

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

The condensed interim consolidated financial statements for Rooster Energy, Ltd. as at June 30, 2015 and for the three and six months ended June 30, 2015 should be read in conjunction with the audited consolidated financial statements as at December 31, 2014 and for the year ended December 31, 2014. The condensed interim consolidated financial statements are prepared using the same accounting policies and methods of computation as disclosed in the annual consolidated financial statements.

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 were approved and authorized for issue by the Board of Directors on August 26, 2015.

3. Significant accounting policies

There were no new or amending accounting standards or interpretations adopted during the six months ended June 30, 2015 that had a material effect on the Company's condensed interim consolidated financial statements.

There are no new or amending accounting standards or interpretations issued during the six months ended June 30, 2015 that are applicable to the Company in future periods.

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.

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.

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, 2015 relative to those disclosed in the Company's most recent annual audited consolidated financial statements as at and for the year ended December 31, 2014.

Basis of consolidation

As mentioned in Note 1, Cochon and Well Services were controlled by a related party who is a significant controlling shareholder and director of Rooster; consequently, all three entities were under common control at the time of the Transaction. The Transaction has been accounted for using the predecessor values since inception method. The consolidated financial statements have been presented by combining the entity financial statements of Rooster, the entity financial statements of Cochon and carved-out financial information of Well Services at their carrying values since the closing date, November 17, 2014 along with comparative periods as if the Transaction had occurred as at the earliest period presented. The difference between the consideration paid and the net assets acquired was recognized in the reserve from common control in shareholders' equity. 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; Probe Resources US Ltd.; Cochon Properties, LLC and Morrison Well Services, LLC.

The effects on the consolidated financial statements for the three and six months ended June 30, 2014 for the common control transaction are as follows:

Consolidated Balance Sheet June 30, 2014	Rooster	Cochon	Well Services	Effect of Common Control Transaction	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 5,230,011	$ 3,045,369	$ -		$ 8,275,380
Restricted cash	7,061,426	-	-		7,061,426
Accounts receivable	4,478,030	13,688,243	-		18,166,273
Decommissioning contracts receivable	-	26,608,499	-		26,608,499
Note Receivable		4,039,178			4,039,178
Prepaid expenses	1,442,271	2,940,586	1,556,856		5,939,713
Total current assets	**18,211,738**	**50,321,875**	**1,556,856**	**-**	**70,090,469**
Decomissioning contracts receivable	-	48,821,693	-		48,821,693
Note receivable	-	-	-		-
Exploration and evaluation assets	-	-	-		-
Property and equipment	96,031,443	6,739,950	13,331,312		116,102,705
Asset retirement deposits	300,000	-	-		300,000
Deferred income taxes	-				-
Total assets	**$114,543,181**	**$ 105,883,518**	**$ 14,888,168**	**$ -**	**$ 235,314,867**
Liabilities and shareholders' equity					
Current Liabilities					
Accounts payable and accrued liabilities	$ 17,279,498	$ 14,325,416	$ -	$ 1,873,577	$ 33,478,491
Deferred revenue	-	4,287,859	-	-	4,287,859
Loans payable	39,301,340	2,853,002	-	-	42,154,342
Accrued interest payable	3,291,268	-	-	-	3,291,268
Due to related parties	4,199,899	-	-	-	4,199,899
Asset retirement obligations	5,392,167	26,820,440	-	217,169	32,429,776
Total current liabilities	**69,464,172**	**48,286,717**	**-**	**2,090,746**	**119,841,635**
Long-term liabilities					
Deferred revenue	-	7,867,431	-	-	7,867,431
Financing warrants	1,379,000	-	-	-	1,379,000
Deferred income taxes	4,879,000	-	-	-	4,879,000
Asset retirement obligations	13,004,436	49,210,565	-	-	62,215,001
Total liabilities	**88,726,608**	**105,364,713**	**-**	**2,090,746**	**196,182,067**
Shareholders' equity					
Share capital	40,911,182	1,000	20,609,376	60,590,624	122,112,182
Reserve from common control	-	-	(4,183,581)	(61,091,255)	(65,274,836)
Contributed Surplus	2,329,048	-	-	-	2,329,048
Deficit	(17,423,657)	517,805	(1,537,627)	(1,590,115)	(20,033,594)
Total shareholders' equity	**25,816,573**	**518,805**	**14,888,168**	**(2,090,746)**	**39,132,800**
Total liabilities and shareholders' equity	**$114,543,181**	**$ 105,883,518**	**$ 14,888,168**	**$ -**	**$ 235,314,867**

Consolidated statements of loss and comprehensive loss Three months ended June 30, 2014	**Rooster**	**Cochon**	**Well Services**	**Effect of Common Control Transaction**	**Consolidated**
Revenue					
Petroleum and natural gas	$ 7,877,628	$ 5,928,506	$ -	$ -	$ 13,806,134
Production handling	-	434,515	-	-	434,515
Well serivces	-	-	10,368,099	(2,048,629)	8,319,470
Decommissioning contracts	-	2,032,258	-	800,250	2,832,508
Total revenue	7,877,628	8,395,279	10,368,099	(1,248,379)	25,392,627
Expenses					
Lease operating	3,315,940	3,998,315	-	-	7,314,255
Cost of well services	-	-	6,246,089	(1,205,983)	5,040,106
Depreciation and depletion	1,327,881	151,817	965,218	-	2,444,916
Repairs and maintenance	-	-	368,324	-	368,324
General and administrative	1,242,497	454,013	2,383,581	-	4,080,091
Bad debt	89,303	-	-	-	89,303
Stock-based compensation	401,805	-	-	-	401,805
Impairment, net	-	-	-	-	-
Total expenses	6,377,426	4,604,145	9,963,212	(1,205,983)	19,738,800
Operating income (loss)	1,500,202	3,791,134	404,887	(42,396)	5,653,827
Loss on asset retirement obligations	-	209,382	-	-	209,382
Unrealized gain (loss) on financing warrants	(1,038,000)	-	-	-	(1,038,000)
Finance expenses	(3,518,414)	(262,165)	-	-	(3,780,579)
Income (loss) before income taxes	(3,056,212)	3,738,351	404,887	(42,396)	1,044,630
Deferred income tax expense:	312,000	-	-		312,000
Income (loss) and comprehensive income (loss)	$ (2,744,212)	$ 3,738,351	$ 404,887	$ (42,396)	$ 1,356,630

Consolidated statements of loss and comprehensive loss Six months ended June 30, 2014	**Rooster**	**Cochon**	**Well Services**	**Effect of Common Control Transaction**	**Consolidated**
Revenue					
Petroleum and natural gas	$ 15,571,769	$ 8,606,792	$ -	-	$ 24,178,561
Production handling	$ -	980,207	$ -	-	980,207
Well serivces	$ -		15,324,681	(2,224,917)	13,099,764
Decommissioning contracts		3,055,440	-	786,124	3,841,564
Total revenue	15,571,769	12,642,439	15,324,681	(1,438,793)	42,100,096
Expenses					
Lease operating	6,126,843	9,098,320	-	-	15,225,163
Cost of well services	-	-	10,201,809	(1,313,525)	8,888,284
Depreciation and depletion	2,639,565	191,787	1,898,783	-	4,730,135
Repairs and maintenance	-	-	822,058	-	822,058
General and administrative	2,361,800	866,862	4,824,451	-	8,053,113
Bad debt	176,276	-	-	-	176,276
Stock-based compensation	817,902	-	-	-	817,902
Impairment, net	(714,050)	-	-	-	(714,050)
Total expenses	11,408,336	10,156,969	17,747,101	(1,313,525)	37,998,881
Operating income (loss)	4,163,433	2,485,470	(2,422,420)	(125,268)	4,101,215
Loss on asset retirement obligations				-	-
Unrealized gain (loss) on financing warrants	(287,000)			-	(287,000)
Finance expenses	(5,230,963)	(548,781)		-	(5,779,744)
Income (loss) before income taxes	(1,354,530)	1,936,689	(2,422,420)	(125,268)	(1,965,529)
Deferred income tax expense:	(304,000)	-	-	-	(304,000)
Income (loss) and comprehensive income (loss)	$ (1,658,530)	$ 1,936,689	$ (2,422,420)	$ (125,268)	$ (2,269,529)

Consolidated Statements of Cash Flow Three months ended June 30, 2014	Rooster	Cochon	Well Services	Effect of Common Control Transaction	Consolidated
Cash and cash equivalents provided by (used in):					
Cash flows from operating activities					
Net loss	$ (2,744,212)	$ 3,738,351	$ 404,887	$ (42,396)	$ 1,356,630
Adjustments for:					
Depreciation and depletion	1,327,881	151,817	965,218	-	2,444,916
Impairment expense	-	-	-	-	-
Bad debt expense	89,303	-	-	-	89,303
Stock-based compensation	401,805	-	-	-	401,805
Unrealized (gain) loss on financing warrants	1,038,000	-	-	-	1,038,000
Unrealized foreign exchange (gain) loss on related party credit facility	43,368	-	-	-	43,368
Accretion of loans payable discount	1,483,776	-	-	-	1,483,776
Asset retirement obligation accretion	118,547	294,576	-	-	413,123
Loss on Asset Retirement Obligation	-	(209,382)	-	-	(209,382)
Deferred income tax expense (recovery)	(312,000)	-	-	-	(312,000)
Income attributable to reserve from common control		-	(1,370,105)	-	(1,370,105)
Funds generated from operations	1,446,468	3,975,362	-	(42,396)	5,379,434
Cash abandonment costs	(430,659)	(1,773,974)	-	42,396	(2,162,237)
Changes in non-cash working capital	3,044,669	(8,437,931)	-	-	(5,393,262)
Changes in deferred revenue	-	3,259,764	-	-	3,259,764
Changes in decommissioning contracts	-	1,942,940	-	-	1,942,940
Change in accrued interest payable	861,686	(32,411)	-	-	829,275
Net cash flows provided by (used in) operating activities	**4,922,164**	**(1,066,250)**	**-**	**-**	**3,855,914**
Cash flows from investing activities					
Capital expenditures for petroleum and natural gas properties	(557,521)	(1,337,600)	-	-	(1,895,121)
Capital expenditures for office furnishings and improvements	(16,323)	-	-	-	- (16,323)
Changes in non-cash working capital	(4,125,770)	-	-	-	(4,125,770)
Net cash flows used in investing activities	**(4,699,614)**	**(1,337,600)**	**-**	**-**	**(6,037,214)**
Cash flows from financing activities					
Proceeds from loans payable	2,500,000	2,853,002	-	-	5,353,002
Advances to related parties	-	-	-	-	-
Net cash flows provided by financing activities	**2,500,000**	**2,853,002**	**-**	**-**	**5,353,002**
Net (decrease) increase in cash and cash equivalent	2,722,550	449,152	-	-	3,171,702
Cash and cash equivalents, beginning of period	2,507,461	2,596,217	-	-	5,103,678
Cash and cash equivalents, end of period	**5,230,011**	**3,045,369**	**-**	**-**	**8,275,380**

Consolidated Statements of Cash Flow Six months ended June 30, 2014	Rooster	Cochon	Well Services	Effect of Common Control Transaction	Consolidated
Cash and cash equivalents provided by (used in):					
Cash flows from operating activities					
Net loss	$ (1,658,530)	$ 1,936,689	$ (2,422,420)	$ (125,268)	$ (2,269,529)
Adjustments for:					
Depreciation and depletion	2,639,565	191,787	1,898,783	-	4,730,135
Impairment expense	(714,050)	-	-	-	(714,050)
Bad debt expense	176,276	-	-	-	176,276
Stock-based compensation	817,902	-	-	-	817,902
Unrealized (gain) loss on financing warrants	- 287,000	-	-	-	287,000
Unrealized foreign exchange (gain) loss on related party credit facility	52,945	-	-	-	52,945
Accretion of loans payable discount	2,030,943	-	-	-	2,030,943
Asset retirement obligation accretion	237,095	587,959	-	-	825,054
Loss on Asset Retirement Obligation	-	-	-	-	-
Deferred income tax expense (recovery)	304,000	-	-	-	304,000
Income attributable to reserve from common control	-	-	523,637	-	523,637
Funds generated from operations	4,173,146	2,716,435	-	(125,268)	6,764,313
Cash abandonment costs	(436,319)	(2,311,298)	-	125,268	(2,622,349)
Changes in non-cash working capital	3,250,094	(6,017,618)	-	-	(2,767,524)
Changes in deferred revenue	-	4,358,712	-	-	4,358,712
Changes in decommissioning contracts	-	2,311,298	-	-	2,311,298
Change in accrued interest payable	1,213,867	(39,178)	-	-	1,174,689
Net cash flows provided by (used in) operating activities	**8,200,788**	**1,018,351**	**-**	**-**	**9,219,139**
Cash flows from investing activities					
Capital expenditures for petroleum and natural gas properties	(2,545,424)	(1,649,272)	-	-	(4,194,696)
Capital expenditures for office furnishings and improvements	(16,913)	-	-	-	(16,913)
Changes in non-cash working capital	(7,872,480)	-	-	-	(7,872,480)
Net cash flows used in investing activities	**(10,434,817)**	**(1,649,272)**	**-**	**-**	**(12,084,089)**
Cash flows from financing activities					
Proceeds from loans payable	6,500,000	2,853,002	-	-	9,353,002
Advances to related parties	-	(4,000,000)	-	-	(4,000,000)
Net cash flows provided by financing activities	**6,500,000**	**(1,146,998)**	**-**	**-**	**5,353,002**
Net (decrease) increase in cash and cash equivalent	4,265,971	(1,777,919)	-	-	2,488,052
Cash and cash equivalents, beginning of period	964,040	4,823,288	-	-	5,787,328
Cash and cash equivalents, end of period	**5,230,011**	**3,045,369**	**-**	**-**	**8,275,380**

4. Financial instruments and risk management

(a) Fair value of financial instruments

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

The valuation of the Company's assets and liabilities measured on a recurring basis by the above fair value hierarchy at June 30, 2015 and December 31, 2014, are as follows:

	Total	Level 1	Level 2	Level 3
June 30, 2015				
Assets				
Cash and cash equivalents	$ 11,278,377	$ 11,278,377	$ -	$ -
Commodity contracts	$ 3,096,714	$ -	$ 3,096,714	$ -
Liabilities				
Commodity contracts	$ 764,398	$ -	$ 764,398	$ -
Financing warrants	$ -	$ -	$ -	$ -
December 31, 2014				
Assets				
Cash and cash equivalents	$ 137,670	$ 137,670	$ -	$ -
Commodity contracts	$ 7,169,970	$ -	$ 7,169,970	$ -
Liabilities				
Financing warrants	$ 1,000	$ -	$ 1,000	$ -

(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, 2015 and December 31, 2014 is as follows:

	June 30, 2015	December 31, 2014
Cash and cash equivalents	$ 11,278,377	$ 137,670
Restricted cash	3,804,155	3,804,155
Accounts receivable	15,663,889	12,739,540
Commodity contracts	3,096,714	7,169,970
Decommissioning contracts receivable	62,459,617	70,656,934
Note Receivable	4,169,177	4,104,712
Asset retirement deposits	1,654,645	1,654,645
	$ 102,126,574	$ 100,267,626

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, 2015 the Company had $3,804,155 (December 31, 2014: $3,804,155) in restricted cash representing cash collateral for performance bonds for specific well and facility abandonments that must be completed within the next 12 months (note 9).

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.

During the six month period ended June 30, 2015, the Company sold a substantial portion of its petroleum and natural gas to three customers. Sales to those customers aggregated approximately $4.3 million or approximately 71% of total revenue (June 30, 2014: $12.1 million and 78%). At June 30, 2015, amounts due from those customers included in accounts receivable totalled approximately $0.75 million (June 30, 2014: $2.5 million).

During the six month period ending June 30, 2015, the Company earned a substantial portion of Well Services revenue from 1 customer. Sales to this customers aggregated approximately $3.2 million or approximately 84% of total revenue (June 30, 2014: $9.1 million and 69%). At June 30, 2015, amounts due from this customer included in accounts receivable totalled approximately $0.9 million (June 30, 2014: $3.4 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.

Management has evaluated receivables for collectability and as such, has recorded an allowance for doubtful accounts totalling $639,636 (December 31, 2014: $622,462). Bad debt expense for the three month period ended June 30, 2015 totalled $nil (June 30, 2014: $89,303), and for the six month period ended June 30, 2015 totalled $17,174 (June 30, 2014: $176,276.) Bad debt expense for 2015 and 2014 primarily relates to an allowance for non-payment of operating costs and capital expenditures by a joint operations partner. The Company has reviewed its remaining past due accounts receivable balances and expects the accounts to be fully collectible.

As of June 30, 2015 and December 31, 2014, the Company's accounts receivable was comprised of the following:

	June 30, 2015	December 31, 2014
Petroleum and natural gas revenue	$ 4,537,478	$ 4,354,830
Services revenue	3,655,721	939,004
Decommissioning contracts revenues	4,069,006	4,327,838
Joint operation receivables	4,041,320	3,740,330
	16,303,525	13,362,002
Allowance for doubtful accounts	(639,636)	(622,462)
Total accounts receivable	$ 15,663,889	$ 12,739,540

As of June 30, 2015 and December 31, 2014, the Company's accounts receivables were aged as follows:

	June 30, 2015	December 31, 2014
Current (0 - 30 days)	$ 12,023,770	$ 8,580,290
31 to 60 days	1,083,161	4,037,845
61 to 90 days	254,470	19,940
Past due (greater than 90 days)	2,942,124	723,927
Allowance for doubtful accounts	(639,636)	(622,462)
Total accounts receivable	$ 15,663,889	$ 12,739,540

Commodity contracts

The Company is subject to credit risk associated with its commodity contracts should the counterparties default. The Company manages the credit risk exposure related to commodity contracts by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes.

Decommissioning contracts receivable (note 9)

The Company entered into three plugging and abandonment contracts in which the Company assumed asset retirement obligations in exchange for fixed fees from the counterparty which will be paid to the Company as the plugging and abandonment work is completed. As a result, the Company is exposed to credit risk by the counterparty to pay future aggregate payments. Decommissioning activities that trigger these reimbursement payments will occur over several years. Failure of the counterparty to make any payment when due, or a material downgrade in their credit ratings, could have a material adverse effect on the Company and its financial condition. Management believes the counterparty is credit worthy and therefore there is virtual certainty that the reimbursement will occur. Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, reimbursements are recognized up to the amount of the asset retirement obligation. The contract receivable is assessed for impairment at each reporting period.

Future acquisitions in the Gulf of Mexico with significant asset retirement obligations that are assumed by the Company based on the agreement of the counterparty to reimburse or otherwise compensate the Company upon satisfaction of all or part of the assumed obligations could further concentrate the Company's credit exposure.

Asset retirement deposits

Asset retirement deposits (note 9) consist of amounts deposited to secure a performance bond related to asset retirement obligations. 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, 2015 and December 31, 2014 are aged as follows:

	June 30, 2015	December 31, 2014
Current (0 - 30 days)	$ 13,410,403	$ 14,357,168
31 to 60 days	2,987,569	1,564,172
61 to 90 days	375,535	-
Greater than 90 days	428,707	991,400
Total accounts payable and accrued liabilities	$ 17,202,214	$ 16,912,740

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

The Company is also subject to future commitments and contingencies as disclosed in note 15.

Refer also to note 4(h) on the Company's management of capital.

At June 30, 2015 and December 31, 2014, the Company had a working capital deficiency of $1,245,584 and $7,693,737, respectively, including outstanding loans payable amounts which are due within the current year.

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

(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.

(e) Foreign currency risk

Prices received by the Company for petroleum and natural gas are generally denominated in US dollars. The Company has nominal working capital and other financial instruments amounts denominated in currencies other than US dollars other than the related party subordinated secured credit facility which is denominated in Canadian dollars ("CAD") (note 8(iii)), and had no forward exchange rate contracts in place as of or during the period ended June 30, 2015 or the year ended December 31, 2014. Shares of the Company are traded in Canadian dollars.

A 5% change in the US-CAD exchange rates would change the Company's net loss for the six months ended June 30, 2015 by approximately $128,000, based on the outstanding balance of the related party subordinated secured credit facility and its related accrued interest payable at June 30, 2015.

(f) 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. At June 30, 2015, the Senior Secured Notes (note 8(i)) bear interest at a floating interest rate and therefore are subject to interest rate risk. The Company had no interest rate swaps or financial contracts in place as of or during the six months ended June 30, 2015 and 2014.

For the three and six months ended June 30, 2015, a 100 basis points change to the effective interest rate would change net loss by approximately $115,000 and $230,000, respectively.

(g) Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Commodity prices for petroleum and natural gas are impacted by global economic events that dictate the levels of supply and demand. Natural gas prices are also influenced by US demand and the corresponding North American supply and, recently, by liquefied natural gas and shale gas prices. Petroleum prices are generally determined in global markets. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate.

The Company may economically hedge some petroleum and natural gas sales through the use of various financial derivative forward sales contracts and physical sales contracts when deemed appropriate. The Company does not apply hedge accounting for these contracts.

For derivative commodity contracts, the Company records unrealized gains and losses on these contracts on the balance sheet as assets or liabilities with changes in fair value recorded in the statement of loss. Realized gains and losses are determined based on the differential between the daily settlement price and the monthly fixed price and are recognized in loss as the contracts are settled.

All derivative commodity contracts are currently fixed price contracts with BP Energy Company. The following is a summary of all derivative commodity contracts that were in place as at June 30, 2015:

Reference Point	Volume	Term	Price
Crude Oil Contracts:			
Louisiana Light Sweet	356 bbl/d	Jul 1 2015 - Feb 29, 2016	$77.50 / bbl
Louisiana Light Sweet	195 bbl/d	Jul 1 2015 - Feb 29, 2016	$63.90 / bbl
Louisiana Light Sweet	315 bbl/d	Mar 1, 2016 - Dec 31, 2016	$63.98 / bbl
Louisiana Light Sweet	260 bbl/d	Jan 1 2017 - Dec 31, 2017	$65.62 / bbl
Louisiana Light Sweet	232 bbl/d	Jan 1 2018 - Jun 30, 2018	$65.62 / bbl
Natural Gas Contracts:			
NYMEX Henry Hub	6,504 MMBtu/d	Jul 1 2015 - Feb 29, 2016	$3.81 / MMBtu
NYMEX Henry Hub	1,125 MMBtu/d	Jul 1 2015 - Feb 29, 2016	$2.86 / MMBtu
NYMEX Henry Hub	6,680 MMBtu/d	Mar 1, 2016 - Dec 31, 2016	$3.03 / MMBtu
NYMEX Henry Hub	5,815 MMBtu/d	Jan 1 2017 - Dec 31, 2017	$3.21 / MMBtu
NYMEX Henry Hub	5,299 MMBtu/d	Jan 1 2018 - Jun 30, 2018	$3.31 / MMBtu

As at June 30, 2015 the net fair value of all derivative commodity contracts was $2,332,316 (December 31, 2014: $7,169,970). This resulted in an unrealized loss of $4,139,789 for the three months ended June 30, 2015 (2014: $nil) and an unrealized loss of $4,837,654 for the six months ended June 30, 2015 (2014: $nil). The Company's risk management activities had a net realized gain of $1,751,890 for the three months ended June 30, 2015 (2014: $nil) and a net realized gain of $4,113,450 for the six months ended June 30, 2015 (2014: $nil.)

When assessing the potential impact of these commodity price changes, the Company believes a $1/bbl change to the price of oil and a $0.10/MMBtu change to the price of natural gas is a reasonable measure. Fluctuations in commodity prices could have resulted in unrealized gains (losses) impacting net loss. A $1/bbl change to the price of oil would have an approximate $320,000 impact on pre-tax loss for the six months ended June 30, 2015. A $0.10/MMBtu change to the price of natural gas would have an approximate $699,000 impact on pre-tax loss for the six months ended June 30, 2015.

(h) 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.

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

	June 30, 2015	December 31, 2014
Current assets	$ 64,067,881	$ 58,900,000
Current liabilities	(65,313,465)	(66,593,737)
Working capital deficiency	$ (1,245,584)	$ (7,693,737)

The Company is required to meet certain financial covenants relating to its loans payable as further discussed in note 8. 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, 2015.

5. Exploration and evaluation assets and expenses

	June 30, 2015	December 31, 2014
Balance, beginning of period	$ 207,172	$ 186,152
Exploration and evaluation expenditures	-	207,172
Transfers to property and equipment (note 6)	-	(186,152)
Balance, end of period	$ 207,172	$ 207,172

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.

6. Property and equipment

Property and equipment consists of the following:

	Petroleum and natural gas interests	Machinery & Equipment	Office furnishings and improvements	Total
Cost				
Balance at December 31, 2013	$ 146,914,740	$ 33,310,138	$ 732,468	$ 180,957,346
Additions	12,329,410		25,413	12,354,823
Asset acquisition	6,372,748	-	-	6,372,748
Transfers from exploration and evaluation assets (note 5)	186,152	-	-	186,152
Asset retirement obligations (note 7)	(847,754)	-	-	(847,754)
Balance at December 31, 2014	$ 164,955,296	$ 33,310,138	$ 757,881	$ 199,023,315
Additions	3,665,914	99,094	28,254	3,793,262
Transfers from exploration and evaluation assets (note 5)	-	-	-	-
Grant of ORRI as part of debt refinancing	(2,383,355)		-	(2,383,355)
Asset retirement obligations (note 9)	314	-	-	314
Balance at June 30, 2015	$ 166,238,169	$ 33,409,232	$ 786,135	$ 200,433,536

	Petroleum and natural gas interests	Machinery & Equipment	Office furnishings and improvements	Total
Depletion, depreciation and impairment				
Balance at December 31, 2013	$ 46,138,147	$ 18,080,043	$ 531,969	$ 64,750,159
Depletion and depreciation	5,916,494	3,857,587	78,141	9,852,222
Impairment and asset retirement expense	17,637,343	-	-	17,637,343
Balance at December 31, 2014	$ 69,691,984	$ 21,937,630	$ 610,110	$ 92,239,724
Depletion and depreciation	1,975,113	1,714,100	36,555	3,725,768
Dispositions	-	-	-	-
Balance at June 30, 2015	$ 71,667,097	$ 23,651,730	$ 646,665	$ 95,965,492
Net book value				
December 31, 2014	$ 95,263,312	$ 11,372,508	$ 147,771	$ 106,783,591
June 30, 2015	$ 94,571,072	$ 9,757,502	$ 139,470	$ 104,468,044

The calculation of depletion and depreciation for the six month period ended June 30, 2015 included estimated future development costs of $43,217,337 (December 31, 2014: $44,562,900) 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, 2015 or the year ended December 31, 2014.

At each quarter end, the Company considers whether or not there are any indications of asset impairment or impairment recovery. If there are such indications, the Company tests its CGUs for impairment / recovery. The recoverable amount of each cash-generating unit is estimated based on fair value less costs of disposal. The estimate of fair value less costs of disposal is determined using forecasted proved plus probable 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 each year end, with the quarter ends being updated internally by management. In determining the appropriate discount rate, the Company considers 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.

At June 30, 2015 management determined that there were no indications of impairment. Therefore no impairment testing was performed. During the six month period ended June 30, 2014, the Company recognized a reversal of impairments for the Company's High Island Block 141 property totalling $714,050, as a result of a reduction in future development costs required to produce the lease.

7. Note Receivable

On March 12, 2014, the Company received a promissory note from a significant shareholder and director in the principal amount of $4 million, with interest at the rate of 3.25% per annum. Accrued interest receivable on the note totalled $169,177 at June 30, 2015 ($104,712 at December 31, 2014). The maturity on this promissory note is tied to the maturity of a note payable to this shareholder. The note will mature on June 25, 2019 (see Note 8(iv)).

8. Loans payable and warrants

Loans payable at June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015	December 31, 2014
Senior secured notes amended and restated June 25, 2015 for $60,000,000 (the "Senior Secured Notes") (i)	$ 55,756,348	$ 40,535,340
Related party notes payable dated April 26, 2012 for $6,463,000 ("Related Party Note #1") (ii)	5,256,657	6,170,965
Related party subordinated secured credit facility dated October 11, 2013 for CAD $4,000,000 ("Related Party Note #2") (iii)	2,046,660	2,962,015
Related party subordinated secured credit facility dated March 7, 2014 for $7,150,000 ("Related Party Note #3")(iv)	5,495,599	6,781,741
Promissory note dated June 26, 2014 for $2,853,002, with interest at 2.5% per annum, with monthly payments of $262,650, and matures on May 25, 2015 (v)	-	1,296,819
Promissory notes dated June 25, 2015 for $4,881,364, with interest at 3.25% per annum, with monthly payments of $456,519, and mature on May 25, 2016 (v)	4,881,364	-
	$ 73,436,628	$ 57,746,880
Less: Short-term portion	(9,881,364)	(1,296,819)
Long-term portion	$ 63,555,264	$ 56,450,061

The loans payable at June 30, 2015 are scheduled to mature as follows:

Next 12 months	$ 9,881,364	
Next 13 - 24 months	$ 20,000,000	
Next 26 - 36 months	35,000,000	
Next 37 - 48 months	16,819,800	(i)
Total	$ 81,701,164	

(i) assumes a future USD/CAD exhange rate of $0.80 for the CAD denominated credit facility

(i) Senior Secured Notes

On November 17, 2014, the Company, entered into a Note Purchase Agreement under which the Company issued Senior Secured Notes (the “Senior Secured Notes”) due on the earlier of February 14, 2016 and the date that the Senior Secured Notes shall become due and payable in full in accordance with the agreement, whether by acceleration or otherwise, in the aggregate principal amount of $45 million. The Senior Secured Notes are secured by a first priority security interest, lien and mortgage on all of the Company’s petroleum and natural gas and machinery and equipment assets and, without limitation, a pledge of equity in each of Rooster’s subsidiaries. The Senior Secured Notes include an original issue discount of 2.5%, and bear interest at a rate equal to LIBOR + 11.5% per annum with interest payments due monthly; the minimum interest rate is 13.0% per annum. The holder of the Senior Secured Notes is not related to Rooster nor is the holder a chartered bank, trust company or treasury bank.

Total transaction costs, including loan origination fees, were approximately $5,255,000 which were netted against the principal amount of the Senior Secured Notes and are being accreted over the term of the Senior Secured Notes up to the principal amount on maturity using the effective interest rate of 22.5%, with $1,663,260 recorded as accretion for the period ended June 30, 2015.

Effective June 25, 2015, the Company and the holders of the Senior Secured Notes amended and restated the Note Purchase Agreement ("A&R NPA"). This A&R NPA increased the funding to $60 million and extended the maturity to a maximum date of June 25, 2018. Principal payments on the A&R NPA are the greater of a) minimum quarterly principal payments of $5 million starting in April 2016 and a final payment of $15 million on June 25, 2018, or b) a computed principal payment based on consolidated net cash flows. The interest rate on the A&R NPA remains unchanged.

The A&R NPA was accounted for as an extinguishment of the original financial liability for accounting purposes and resulted in a gain on modification of $1,461,700. The A & R NPA was remeasured at its fair value on the date of modification with an effective interest rate of 18%. The fair value of $55,736,900 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain/loss on modification. The A & R NPA is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $19,448 recorded as accretion for the period ended June 30, 2015.

Total transaction costs, including loan origination fees and the conveying of an overriding royalty interest ("ORRI") in all oil & gas properties of the Company, were approximately $4,263,100, of which the ORRI had a fair value of $2,383,355 which approximated the net book value of the property and equipment and is considered a non-cash transaction. These transaction costs were expensed as part of the gain on modification.

Effective November 17, 2014, the Company, Chet Morrison Contractors, LLC, and the Senior Secured Note holders entered into a subordination agreement that prohibits payment by the Company of accounts payable, classified as due to related parties on the consolidated balance sheet of the Company, due and owing to Chet Morrison Contractors, LLC, in excess of the amount of $2,717,581.

In connection with the Senior Secured Notes, the Senior Secured Notes holder, the Company and each of the loans payable to related parties (see note 8 (ii), (iii) and (iv)), entered into intercreditor and subordination agreements dated November 17, 2014 that prohibit any payments on the related party indebtedness until the Senior Secured Notes are fully satisfied. Additionally, each of the loan or credit agreements between the Company and each related party was amended to extend the maturity date of each of those loans to one year after all obligations under the Senior Secured Notes are satisfied, being February 14, 2017. With the A&R NPA extending its maturity date to June 25, 2018, the maturity date on each of the subordinated loans was extended to June 25, 2019 under these subordination agreements.

The Company is required to meet certain reporting and financial covenants under the Note Purchase Agreement as follows:

- a minimum Consolidated Adjusted EBITDAX (consolidated net income plus consolidated interest expense, provision for income taxes, total depreciation and amortization expense, exploration expense, other non-cash items reducing consolidated net income, less the following: other non-cash items increasing consolidated net income, interest income, extraordinary or non-recurring gains and other extraordinary and non-recurring income) for the period of four consecutive fiscal quarters most recently ended, for each fiscal quarter beginning July 1, 2015;
- a proved developed producing ("PDP")) Asset Coverage Ratio (ratio as of the last day of any fiscal quarter of (a) the present value, discounted at 10%, of the Company's proved developed producing reserves to (b) the Consolidated Total Debt) for each fiscal quarter beginning October 1, 2015. Consolidated Total Debt is defined as the total of all consolidated indebtedness of the Company, less permitted subordinated debt (including all subordinated related party debt); and
- a Leverage Ratio (ratio as of the last day of any fiscal quarter of (a) the Consolidated Total Debt of the Company (defined above) to (b) the Consolidated Adjusted EBITDAX of the Company for the period of four consecutive fiscal quarters most recently ended, for each fiscal quarter beginning July 1, 2015.

At June 30, 2015, the Company was in compliance with all such covenants.

(ii) Related Party Note #1

The related party subordinated note payable ("Related Party Note #1") totalling $6,463,000 is due to a significant shareholder of the Company. As of June 30, 2015, this shareholder ceased to be a related party. Pursuant to an intercreditor subordination agreement with the Note holders, the principal amount of the note plus accrued interest was subordinated to the Senior Secured Notes (note 8(i)).

As a result of the intercreditor and subordination agreement with the Senior Secured Notes, as described in Note 8(i), the related party note payable maturity date was extended to February 14, 2017 and the interest rate increased from 14.5% to 15.5% per annum. The restructured related party note payable is being accreted over the term up to the principal amount on maturity, using the effective interest rate method with $63,500 recorded as accretion for the period ended June 30, 2015.

As a result of the A&R NPA as described in Note 8(i), the Related Party Note #1 maturity date was extended to June 25, 2019 and the interest rate remained at 15.5% per annum. The modified Related Party Note #1 was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $980,882. The Related Party Note #1 was re-measured at its fair value on the date of modification with an effective interest rate of 23%. The fair value of $5,253,583 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured Related Party Note #1 is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $3,074 recorded as accretion for the period ended June

30, 2015.

Refer to note 16 for the accrued interest payable balances at June 30, 2015 and December 31, 2014. Refer to note 12 for the interest and accretion expenses for the three and six months ended June 30, 2015 and 2014.

(iii) Related Party Note #2

On October 11, 2013, the Company entered into a subordinated secured credit facility ("Related Party Note #2") with two related parties who are significant shareholders and/or directors of the Company that provides for borrowing up to CAD $8.0 million to be used for general corporate purposes. As of June 30, 2015, one of the noteholders ceased to be a related party. The initial advance was CAD $4.0 million (less a 2% original issue discount and administrative fees of $10,000) resulting in net proceeds of $3,234,466. In addition, the Company also paid a consent fee of $450,000. The credit facility is fully subordinated to the Senior Secured Notes (note 8(i)). Amounts drawn on the credit facility bear interest at 9% on all advances, and were repayable 181 days after the full satisfaction of the notes (note 8(vi)). The credit facility 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 credit facility as at or subsequent to June 30, 2015.

As a result of the intercreditor and subordination agreement as described in Note 8(i), the credit facility maturity date was extended to February 14, 2017 and the interest rate remained at 9% per annum. The restructured credit facility is being accreted over the term up to the principal amount on maturity, using the effective interest rate method with $119,643 recorded as accretion for the period ended June 30, 2015.

As a result of the A&R NPA as described in Note 8(i), the Related Party Note #2 maturity date was extended to June 25, 2019 and the interest rate remained at 9% per annum. The modified Related Party Note #2 was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $787,137. The Related Party Note #2 was re-measured at its fair value on the date of modification with an effective interest rate of 23%. The fair value of $2,041,003 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured Related Party Note #2 is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $5,657 recorded as accretion for the period ended June 30, 2015.

Refer to note 16 for the accrued interest payable balances at June 30, 2015 and December 31, 2014. Refer to note 12 for the interest and accretion expenses for the three and six months ended June 30, 2015 and 2014.

(iv) Related Party Note #3

Effective March 7, 2014, the Company entered into an additional second lien credit facility ("Related Party Note #3") 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, before an original issue discount of 10%, for a funded amount equal to $4 million. During the year ended December 31, 2014, the Company drew an additional $2.75 million on the second lien credit facility, before an original issue discount of 10%, for a funded amount of $2.5 million. In addition, the Company paid a consent fee of $214,500. The second lien credit facility is fully subordinated to the Senior Secured Notes (note 8(i)). Amounts drawn on the credit facility bear interest at 14% per annum, and were repayable 181 days after the full satisfaction of the Notes. The credit facility is secured by the Company's petroleum and natural gas properties and assets.

As a result of the intercreditor and subordination agreement as described in Note 8(i), the second lien credit facility maturity date was extended to February 14, 2017 and the interest rate remained at 14%. The restructured second lien credit facility is being accreted over the term up to the principal amount on maturity, using the effective interest rate method with $119,803 recorded as accretion for the period ended June 30, 2015.

As a result of the A&R NPA as described in Note 8(i), the Related Party Note #3 maturity date was extended to June 25, 2019 and the interest rate remained at 9% per annum. The modified Related Party Note #3 was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $1,410,161. The Related Party Note #3 was re-measured at its fair value on the date of modification with an effective interest rate of 23%. The fair value of $5,491,383 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured Related Party Note #3 is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $4,216 recorded as accretion for the period ended June 30, 2015.

Refer to note 16 for the accrued interest payable balances at June 30, 2015 and December 31, 2014. Refer to note 12 for the interest and accretion expenses for the three and six months ended June 30, 2015 and 2014.

(v) Promissory note(s)

On June 26, 2014, the Company executed a promissory note with a bank to finance insurance premiums in the amount of $2,853,002. The promissory note bears interest at 2.5% per annum, requires monthly payments of $262,650 and matures on May 25, 2015. The promissory note is secured by certain petroleum and natural gas properties. This note was repaid in full on May 25, 2015.

In June 2015, the Company executed three (3) promissory notes with a bank to finance a portion of its insurance premiums in the aggregate amount of $4,881,364. All three promissory notes bear interest at 3.25% per annum, require monthly payments totalling $456,519 and mature in May 2016. The promissory notes are secured by the unearned premiums of the insurance policies being financed.

Refer to note 12 for the interest expenses for the three and six months ended June 30, 2015 and 2014.

(vi) Warrants:

On October 22, 2012 the Company issued warrants to holders of certain senior secured notes of the same date. These warrants were exercisable for up to 9 million common shares of the Company at an exercise price of US$1.00 per share until October 22, 2017. Effective November 17, 2014, when the related senior secured notes were paid in full, the warrant holders received an additional 4,429,813 warrants for a total of 13,429,813 warrants outstanding. The exercise price was adjusted for all warrants to US$0.67 per warrant. No warrants have been exercised as at June 30, 2015.

Due to the warrants' conversion terms, the warrants meet the definition of a derivative instrument and are classified as a liability for accounting purposes. The warrants are measured at fair value at each balance sheet date using a Level 2 fair value hierarchy. The fair value of the warrants on the grant date was determined using the Black-Scholes model with the following assumptions:

	30-Jun-15	December 31, 2014
Risk-free interest rate	1.78%	1.78%
Expected life (years)	2.31	2.81
Expected volatility	50.0%	50.0%
Expected annual dividend yield	0.00%	0.00%
Stock price	$0.04	$0.06
Exercise price	$0.67	$0.67
Fair value per warrant	$0.00	$0.00

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

Financing warrants	Quantity		Amount
Balance, December 31, 2013	9,000,000	$	1,092,000
Additional warrants issued	4,429,813		-
Unrealized (gain) loss on revaluation	-		(1,091,000)
Balance December 31, 2014	13,429,813		1,000
Unrealized (gain) loss on revaluation	-		(1,000)
Balance June 30, 2015	13,429,813	$	-

9. Asset retirement obligations and deposits

Asset retirement obligations 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.

The following table summarizes changes in the asset retirement obligations for the six month period ended June 30, 2015 and the year ended December 31, 2014:

	June 30, 2015	December 31, 2014
Asset retirement obligations, beginning of period	$ 89,444,429	$ 96,928,230
Liabilities incurred	-	84,654
Liabilities settled	(7,254,250)	(9,817,401)
Revisions to estimates and changes in discount rate	314	(932,408)
Loss on asset retirement obligations	(3,359,099)	1,581,132
Accretion (unwinding of discount)	649,516	1,600,222
Asset retirement obligations, end of period	$ 79,480,910	$ 89,444,429
Less: Short-term portion	(26,377,670)	(36,330,069)
Long-term portion	$ 53,103,240	$ 53,114,360

The Company has the ability to utilize its own well services business unit to abandon a portion of its asset retirement obligations. The estimated inflated undiscounted cash flows required to settle the provisions at June 30, 2015 are approximately $91.0 million (December 31, 2014: $100.4 million), which has been discounted using risk-free rates ranging from 1.5% to 2.55% (2014: 1.50% to 2.55%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 23 years into the future and will be funded from general corporate resources as well as from the decommissioning contracts receivable (see below) at the time of abandonment.

At June 30, 2015 and December 31, 2014, the Company had a $5,458,800 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 Rooster Petroleum, LLC and Probe Resources US Ltd. prior to April 30, 2012. These funds are restricted for use in meeting Probe Resources US Ltd.'s asset retirement obligations 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. The Company is required to abandon certain fields covered by this bond within the next 12 months. As a result, $3,804,155 of the deposit has been classified as short-term and included in restricted cash as at June 30, 2015 and December 31, 2014 (note 4(b)).

Decommissioning contracts receivable

The Company entered into three plugging and abandonment contracts (the "decommissioning contracts") in which the Company assumed asset retirement obligations in exchange for fixed fees from the counterparty aggregating approximately $126.4 million which will be paid to the Company as the plugging and abandonment work is completed. Of the total asset retirement obligations of the Company at June 30, 2015, the estimated inflated undiscounted cash flows required to settle the decommissioning contracts are approximately $64.7 million (December 31, 2014: $75.9 million), which has been discounted using a risk-free rate of 1.50% (2014: 1.50%), with a corresponding reimbursement recorded as decommissioning contracts receivable at the time the contracts were entered into. Under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, reimbursements are recognized up to the amount of the asset retirement obligations. Decommissioning activities that trigger the reimbursement payments will occur over several years and will be funded from the decommissioning contracts receivable. Any payments that exceed actual costs of abandonment are recorded as decommissioning contracts revenue on the statement of loss.

As part of the terms of the decommissioning contracts, the counterparty made payments totaling $nil (2014: $6,996,950) to the Company which were not based on decommissioning activities being performed. These amounts have been recorded as deferred revenue and are being amortized as decommissioning revenue as abandonment work is performed on a percentage of completion.

Of the total fixed fees of the decommissioning contracts of $126.4 million, approximately $45.0 million has been paid to the Company by the counterparty to June 30, 2015. The remaining amount to be collected of $81.4 million, less the estimated future abandonment costs to be incurred of $65.0 million, is approximately $16.4 million, which represents the approximate future decommissioning contracts revenue to be earned from the decommissioning contracts subsequent to June 30, 2015. The Company expects to receive $27.0 million of the $81.4 million remaining in fiscal 2015.

10. Prepaid expenses

Prepaid expenses consist of the following:

	June 30, 2015	December 31, 2014
Prepaid insurance	$ 6,191,540	$ 3,882,063
Prepaid bonds	154,411	298,164
Prepaid inventory	373,884	415,823
Prepaid inspections	450,828	-
Prepaid other	708,438	440,887
Total prepaid expenses	$ 7,879,101	$ 5,036,937

11. Share capital

Authorized

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

Common and proportionate voting shares issued

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

Shares issued and outstanding	No. of Shares	Stated Value
Common shares		
Outstanding, December 31, 2014 and June 30, 2015	259,028,502	$ 92,949,630
Proportionate voting shares		
Outstanding, December 31, 2014 and June 30, 2015	65,071	$ 29,162,552
Total share capital stated value		
December 31, 2014 and June 30, 2015		$ 122,112,182

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.

Stock Options

The Company has a stock option plan in compliance with the TSX's policy for granting stock options. Under the Plan, the number of shares reserved for issuance of options may not exceed 21,396,510 shares. Fully dilutive shares means the computed common shares assuming all Proportionate voting shares were converted to common shares. At June 30, 2015 there remained available for future issuance 2,107,320 stock options. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The vesting term of options under the Plan is determined by the Company's Board of Directors. The maximum exercise period of options granted under the Plan is ten years following the grant date. The changes in stock options were as follows:

	June 30, 2015		December 31, 2014	
	Number of options	Weighted avg exercise price	Number of options	Weighted avg exercise price
Balance, beginning of period	9,193,404	CAD $0.66	9,293,404	CAD $0.66
Options granted	10,545,963	CAD $0.14	300,000	CAD $0.61
Options forfeited	(700,177)	CAD $0.66	(400,000)	CAD $0.52
Balance, end of period	19,039,190	CAD $0.37	9,193,404	CAD $0.66

The following table summarizes the outstanding and exercisable options as at June 30, 2015:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jun. 05, 2012	4,035,468	7.00 years	CAD $0.50	Jun. 05, 2022	4,035,468
Sep. 11, 2013	4,157,759	8.25 years	CAD $0.82	Sep. 11, 2023	1,419,253
May 16, 2014	300,000	9.00 years	CAD $0.61	May 16, 2024	100,000
Mar. 02, 2015	300,000	9.75 years	CAD $0.07	Mar. 02, 2025	-
May 06, 2015	10,245,963	9.75 years	CAD $0.14	May 06, 2025	10,245,963
	19,039,190				15,800,684

The fair value of each option granted is estimated at the time of the grant using the Black-Scholes option pricing model. The following weighted average assumptions were used for options granted during this period:

During the six month periods ended June 30, 2015, $1,121,029, was recorded as stock-based compensation (2014: $416,097), with a corresponding increase in contributed surplus.

Option awards (in CAD$)	May 6, 2015	March 2, 2015	May 16, 2014
Assumptions:			
Share price, date of grant	CAD $0.14	CAD $0.07	CAD $0.61
Exercise price	CAD $0.14	CAD $0.07	CAD $0.61
Risk free interest rate (%)	2%	2%	2%
Expected life (years)	10	10	10
Expected volatility (%)	50%	50%	50%
Estimated forfeiture rate (%)	5%	5%	5%
Expected dividend yield	-	-	-
Fair value of options granted	$0.07	$0.04	$0.37

12. Finance expenses

Finance expenses consist of the following:

	Notes	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Interest expense on Senior Secured Notes	8(i)	**$ 1,525,281**	$ -	**$ 3,004,031**	$ -
Interest expense on former settled senior secured notes		**-**	1,361,250	**-**	2,036,250
Interest expense on related party note #1	8(ii)	**249,755**	236,888	**496,766**	471,172
Interest expense on related party note #2	8(iii)	**74,449**	106,929	**145,414**	188,493
Interest expense on related party note #3	8(iv)	**249,564**	193,515	**496,386**	244,848
Interest expense on promissory note	8(v)	**10,474**	-	**20,333**	-
Accretion of discount on Senior Secured Notes	8(i)	**841,984**	-	**1,682,708**	-
Accretion of discount on former settled senior secured notes		**-**	1,053,540	**-**	1,493,288
Accretion of discount on related party note #1	8(ii)	**35,429**	-	**66,574**	-
Accretion of discount on related party note #2	8(iii)	**73,707**	293,433	**125,300**	375,665
Accretion of discount on related party note #3	8(iv)	**64,984**	136,803	**124,019**	161,990
Unrealized foreign exchange		**-**	-		
loss (gain) on related party note #2	8(iii)	**43,000**	43,368	**(253,518)**	52,945
Gain on modification of debts	8	**(376,780)**	-	**(376,780)**	-
Other		**32,099**	(24,015)	**32,099**	(30,783)
Accretion of asset retirement obligations	9	**321,975**	413,123	**649,516**	825,054
Total finance expenses		**3,145,921**	3,814,834	**6,212,848**	5,818,922
Interest income		**(31,852)**	(34,255)	**(64,466)**	(39,178)
Total finance expenses, net		**$ 3,114,069**	$ 3,780,579	**$ 6,148,382**	$ 5,779,744

13. Loss per share

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Weighted average common shares outstanding, diluted	324,099,502	324,099,502	324,099,502	324,099,502
Effect of stock options and warrants	-	-	-	-
Weighted average common shares outstanding, diluted	324,099,502	324,099,502	324,099,502	324,099,502

Basic loss per share figures for the three and six month periods ended June 30, 2015 and 2014 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. The total weighted average number of shares outstanding for the three and six months ended June 30, 2014 have been adjusted to reflect he equivalent number of shares issued in the Transaction (notes 1 and 3). All outstanding options and warrants were excluded from the calculation of diluted loss per share for the three and six month periods ended June 30, 2015 and 2014, as they were anti-dilutive.

14. Supplemental cash flow information

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,	
	2015	2014	**2015**	2014
Sources (uses) of cash:				
Restricted cash	**$ -**	$ (635,075)	**$ -**	$ 540,791
Accounts receivable	**(3,957,998)**	(10,803,199)	**(2,941,523)**	7,089,643
Prepaid expenses and deposits	**(3,854,650)**	(2,224,115)	**(2,842,164)**	2,034,264
Asset retirement deposits	**-**	500,768	**-**	(17,249,483)
Accounts payable and accrued liabilities	**1,015,724**	3,574,598	**289,474**	(2,825,668)
Current portion of due to related parties	**514,331**	67,991	**1,488,708**	(229,551)
Changes in non-cash working capital	**$ (6,282,593)**	$ (9,519,032)	**$ (4,005,505)**	$ (10,640,004)
Related to operating activities	**$ (5,657,143)**	$ (5,393,262)	**$ (3,830,080)**	$ (2,767,524)
Related to investing activities	**(625,450)**	(4,125,770)	**(175,425)**	(7,872,480)
	$ (6,282,593)	$ (9,519,032)	**$ (4,005,505)**	$ (10,640,004)

At June 30, 2015 and December 31, 2014, all of the Company's cash and cash equivalents were comprised of cash on deposit.

(a) Interest and income taxes paid

Interest payments during the three and six month periods ended June 30, 2015 totalled $1,567,854 (2014: $1,361,250) and $3,056,463 (2014: $2,036,250), respectively.

The Company has not paid any income taxes during the six months ended June 30, 2015 or the year ended December 31, 2014.

15. Commitments and contingencies

There were no changes to the commitments during the three months ended June 30, 2015 as compared to those disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2014.

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, 2015 condensed interim consolidated financial statements relating to these actions.

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, are participating as to a 7.5% working interest in the drilling of a well in the US Gulf of Mexico.

Balances due to (from) related parties	Notes	June 30, 2015	December 31, 2014
Due to related parties [(1)]		$ 11,795,822	$ 10,578,872
Related party note payable #1	8(ii)	5,256,657	6,170,965
Accrued interest payable on related party note #1	8(ii)	2,789,117	2,224,781
Related party note payable #2	8(iii)	2,046,660	2,962,015
Accrued interest payable on related party note #2	8(iii)	499,170	355,412
Related party note payable #3	8(iv)	5,495,599	6,781,741
Accrued interest payable on related party note #3	8(iv)	1,221,452	734,739
Note receivable due from related party	7	(4,169,177)	(4,104,712)

(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 8(i)). The amounts are unsecured, non-interest bearing,

Purchases from related parties during the three and six month periods ended June 30, 2015, totalling $828,731 (2014: $67,998) and $2,477,165 (2014: $229,551) respectively, 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.

Related party interest expense and income are detailed in note 12. Additional related party transactions relating to the Company's related party loans payable are outlined in note 8.

17. Segment information

The Company is a petroleum and natural gas and exploration company with an integrated down-hole and subsea plugging and abandonment service business. As at June 30, 2015 and 2014, the Company has two reportable segments: petroleum and natural gas, and well services. The Company's operations are located in the shallow waters off the southern coast of Louisiana and Texas. Management monitors the operating results of each segment separately for the purpose of making decisions about resource allocation and performance assessment. The Corporate segment does not represent an operating segment and is included for informational purposes only. Corporate segment expenses consist of public company costs as well as salaries, stock-based compensation and office and administrative costs relating to corporate employees.

Segmented income (loss) and capital expenditures for the six months ended June 30, 2015

Six months ended June 30, 2015	Petroleum and natural gas	Well Services	Corporate allocations	Intercompany eliminations	Consolidated
Revenue					
Petroleum and natural gas	$ 12,560,303	$ -	$ -	$ -	$ 12,560,303
Production handling	87,811	-	-	-	87,811
Well services	-	12,378,955	-	(5,067,138)	7,311,817
Decommissioning contracts	-	4,336,636	-	1,526,989	5,863,625
Revenue before the following	12,648,114	16,715,591	-	(3,540,149)	25,823,556
Realized gain (loss) on commodity contracts	4,113,450	-	-	-	4,113,450
Unrealized gain (loss) on commodity contracts	(4,837,654)	-	-	-	(4,837,654)
Total revenue	11,923,910	16,715,591	-	(3,540,149)	25,099,352
Expenses					
Lease operating	11,595,654	-	-		11,595,654
Cost of well services	-	8,318,605	-	(3,076,736)	5,241,869
Depreciation and depletion	1,975,113	1,714,100	36,555	-	3,725,768
Repairs and maintenance	-	528,029	-	-	528,029
General and administrative	2,352,608	2,621,508	1,344,385	-	6,318,501
Bad debt	17,174	-	-	-	17,174
Stock-based compensation	279,531	-	841,498	-	1,121,029
Impairment	-	-	-	-	-
Asset retirement expense	-	-	-	-	-
Total expenses	16,220,080	13,182,242	2,222,438	(3,076,736)	28,548,024
Operating income (loss)	(4,296,170)	3,533,349	(2,222,438)	(463,413)	(3,448,672)
Gain (loss) on asset retirement obligation	3,359,099	-	-	-	3,359,099
Unrealized gain (loss) on financing warrants	1,000	-	-	-	1,000
Finance expenses	(6,148,382)	-	-	-	(6,148,382)
Income (loss) before income taxes	$ (7,084,453)	$ 3,533,349	$ (2,222,438)	$ (463,413)	$ (6,236,955)
Capital Expenditures	$ 3,665,914	$ 99,094	$ 28,254	$ -	$ 3,793,262

Segmented income (loss) and capital expenditures for the three months ended June 30, 2015

Three months ended June 30, 2015	Petroleum and natural gas	Well Services	Corporate allocations	Intercompany eliminations	Consolidated
Revenue					
Petroleum and natural gas	$ 6,650,150	$ -	$ -	$ -	$ 6,650,150
Production handling	45,755	-	-	-	45,755
Well services	-	6,909,597	-	(3,269,007)	3,640,590
Decommissioning contracts		1,627,089		1,050,147	2,677,236
Revenue before the following	6,695,905	8,536,686	-	(2,218,860)	13,013,731
Realized gain (loss) on commodity contracts	1,751,890	-	-	-	1,751,890
Unrealized gain (loss) on commodity contracts	(4,139,789)	-	-	-	(4,139,789)
Total revenue	4,308,006	8,536,686	-	(2,218,860)	10,625,832
Expenses					
Lease operating	5,384,030	-	-	-	5,384,030
Cost of well services	-	4,186,989	-	(1,891,959)	2,295,030
Depreciation and depletion	1,231,592	710,109	16,380	-	1,958,081
Repairs and maintenance	-	352,813	-	-	352,813
General and administrative	1,496,674	1,167,309	599,577	-	3,263,560
Bad debt	-	-	-	-	-
Stock-based compensation	252,487	-	682,479	-	934,966
Impairment expense (recovery), net	-	-	-	-	-
Asset retirement expense	555,641	-	-	-	555,641
Total expenses	8,920,424	6,417,220	1,298,436	(1,891,959)	14,744,121
Operating income (loss)	(4,612,418)	2,119,466	(1,298,436)	(326,901)	(4,118,289)
Gain (loss) on asset retirement obligation		2,308,657	-	-	2,308,657
Unrealized gain (loss) on financing warrants	-	-	-	-	-
Finance expenses	(3,114,069)	-	-	-	(3,114,069)
Income (loss) before income taxes	$ (7,726,487)	$ 4,428,123	$ (1,298,436)	$ (326,901)	$ (4,923,701)
Capital Expenditures	$ 2,039,783	$ 99,094	$ 10,221	$ -	$ 2,149,098

Segmented assets and liabilities as at June 30, 2015

As at June30, 2015	Petroleum and natural gas	Well Services	Corporate allocations	Intercompany eliminations	Consolidated
Current assets	$ 58,820,956	$ 11,738,842	$ -	$ (6,491,917)	$ 64,067,881
Decommissioning contracts receivable	40,113,972	-	-	-	40,113,972
Exploration and evaluation assets	207,172	-	-	-	207,172
Property and equipment	94,666,377	9,662,197	139,470	-	104,468,044
Note receivable	-	-	4,169,177	-	4,169,177
Asset retirement deposits	1,654,645	-	-	-	1,654,645
Total assets	201,028,122	21,401,039	4,308,647	(6,491,917)	220,245,891
Current liabilities	66,769,137	8,526,575	-	(9,982,247)	65,313,465
Total liabilities	205,146,385	8,526,575	-	(9,982,247)	203,690,713

Segmented income (loss) and capital expenditures for the six months ended June 30, 2014

Six months ended June 30, 2014	Petroleum and natural gas	Well Services	Corporate allocations	Intercompany eliminations	Consolidated
Revenue					
Petroleum and natural gas	$ 24,178,561				$ 24,178,561
Production handling	980,207				980,207
Well services		15,324,681		(2,224,917)	13,099,764
Decommissioning contracts		3,055,440		786,124	3,841,564
Revenue before the following	25,158,768	18,380,121	-	(1,438,793)	42,100,096
Realized gain (loss) on commodity contracts	-	-	-	-	-
Unrealized gain (loss) on commodity contracts	-	-	-	-	-
Total revenue	25,158,768	18,380,121	-	(1,438,793)	42,100,096
Expenses					
Lease operating	15,225,163	-	-	-	15,225,163
Cost of well services	-	10,201,809	-	(1,313,525)	8,888,284
Depreciation and depletion	2,793,518	1,898,783	37,834	-	4,730,135
Repairs and maintenance	-	822,058	-	-	822,058
General and administrative	2,399,271	3,276,143	2,377,699	-	8,053,113
Bad debt	176,276	-	-	-	176,276
Stock-based compensation	318,982	-	498,920	-	817,902
Impairment expense (recovery), net	(714,050)	-	-	-	(714,050)
Total expenses	20,199,160	16,198,793	2,914,453	(1,313,525)	37,998,881
Operating income (loss)	4,959,608	2,181,328	(2,914,453)	(125,268)	4,101,215
Loss on asset retirement obligation	-	-	-	-	-
Unrealized gain (loss) on financial derivative	(287,000)	-	-	-	(287,000)
Finance expenses	(5,779,744)	-	-	-	(5,779,744)
Income (loss) before income taxes	$ (1,107,136)	$ 2,181,328	$ (2,914,453)	$ (125,268)	$ (1,965,529)
Capital Expenditures	$ 4,194,696	$ -	$ 16,913	$ -	$ 4,211,609

Segmented income (loss) and capital expenditures for the three months ended June 30, 2014

Three months ended June 30, 2014	Petroleum and natural gas	Well Services	Corporate allocations	Intercompany eliminations	Consolidated
Revenue					
Petroleum and natural gas	$ 13,806,134	$ -	$ -	$ -	$ 13,806,134
Production handling	434,515	-	-	-	434,515
Well services	-	10,368,099	-	(2,048,629)	8,319,470
Decommissioning contracts		2,032,258		800,250	2,832,508
Revenue before the following	14,240,649	12,400,357	-	(1,248,379)	25,392,627
Realized gain (loss) on commodity contracts	-	-	-	-	-
Unrealized gain (loss) on commodity contracts	-	-	-	-	-
Total revenue	14,240,649	12,400,357	-	(1,248,379)	25,392,627
Expenses					
Lease operating	7,314,255	-	-	-	7,314,255
Cost of well services		6,246,089		(1,205,983)	5,040,106
Depreciation and depletion	1,458,835	965,218	20,863		2,444,916
Repairs and maintenance		368,324			368,324
General and administrative	1,281,814	1,609,427	1,188,850		4,080,091
Bad debt	89,303				89,303
Stock-based compensation	156,704		245,101		401,805
Impairment expense (recovery), net					-
Total expenses	10,300,911	9,189,058	1,454,814	(1,205,983)	19,738,800
Operating income (loss)	3,939,738	3,211,299	(1,454,814)	(42,396)	5,653,827
Loss on asset retirement obligation		209,382	-	-	209,382
Unrealized gain (loss) on financial derivative	(1,038,000)	-	-	-	(1,038,000)
Finance expenses	(3,780,579)	-	-	-	(3,780,579)
Income (loss) before income taxes	$ (878,841)	$ 3,420,681	$ (1,454,814)	$ (42,396)	$ 1,044,630
Capital Expenditures	$ 1,895,121	$ -	$ 16,323	$ -	$ 1,911,444

Segmented assets and liabilities as at June 30, 2014

As at June 30, 2014	Petroleum and natural gas	Well Services	Corporate allocations	Intercompany eliminations	Consolidated
Current assets	$ 64,494,435	$ 1,556,856	$ 4,039,178	$ -	$ 70,090,469
Fair value of commodity contracts	-	-	-	-	-
Decommissioning contract receivable	-	48,821,693	-	-	48,821,693
Exploration and evaluation assets	-	-	-	-	-
Property and equipment	102,591,815	13,331,312	179,578	-	116,102,705
Note receivable	-	-	4,039,178	-	4,039,178
Asset retirement deposits	300,000	-	-	-	300,000
Total assets	216,207,943	14,888,168	4,218,756	-	235,314,867
Current liabilities	117,750,889	-	-	2,090,746	119,841,635
Total liabilities	194,091,321	-	-	2,090,746	196,182,067