

**Rooster Energy Ltd.**  
**Condensed Interim Consolidated Financial Statements**  
**Three and Nine Months Ended September 30, 2012 and 2011**  
*(unaudited)*

**NOTICE OF NO AUDITOR REVIEW**

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

## Contents

Condensed Interim Consolidated Balance Sheets	1
Condensed Interim Consolidated Statements of Income and Comprehensive Income	2
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity	3
Condensed Interim Consolidated Statements of Cash Flows	4
Notes to Condensed Interim Consolidated Financial Statements	5 - 36

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

	Notes	September 30, 2012	December 31, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	17	\$ 2,047,837	\$ 1,435,927
Accounts receivable	4(c)	14,922,624	4,984,698
Prepaid expenses	10	1,956,759	1,037,515
Assets held for sale	7	3,063,351	-
<b>Total current assets</b>		21,990,571	7,458,140
<b>Property and equipment</b>	6	72,838,138	32,480,719
<b>Other long-term assets</b>			
Asset retirement deposits	9	3,762,000	-
Loan origination fees	21	288,944	-
Other assets		201,979	26,463
<b>Total other long-term assets</b>		4,252,923	26,463
<b>Total assets</b>		\$ 99,081,632	\$ 39,965,322
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	4(d)	26,546,692	10,168,262
Loans payable	8	8,000,000	415,797
Liabilities associated with assets held for sale	7	213,351	-
Due to related parties	19	5,646,508	14,166,617
<b>Total current liabilities</b>		40,406,551	24,750,676
<b>Long-term liabilities</b>			
Loans payable	8	6,463,000	-
Accrued interest payable	8	168,057	-
Asset retirement obligations	9	18,783,438	13,008,253
<b>Total liabilities</b>		65,821,046	37,758,929
<b>Shareholders' equity</b>			
Share capital	11	40,909,139	12,250,000
Contributed surplus	12	289,885	-
Retained earnings (deficit)		(7,938,438)	(10,043,607)
<b>Total shareholders' equity</b>		33,260,586	2,206,393
<b>Total liabilities and equity</b>		\$ 99,081,632	\$ 39,965,322

Subsequent events (notes 2(b), 7, 8, and 21)

Commitments and guarantees (notes 18 and 20)

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

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

		Three Months Ended		Nine Months Ended	
	Notes	September 30,		September 30,	
		2012	2011	2012	2011
<b>Revenue</b>					
Oil and natural gas revenue		\$ 12,997,594	\$ 4,697,918	\$ 22,159,397	\$ 16,059,699
<b>Costs and expenses</b>					
Lease operating costs		3,381,855	2,650,707	8,412,238	6,743,834
Depreciation and depletion	6	2,579,192	686,694	5,162,590	3,400,877
Exploration and evaluation		-	28,928	(303,543)	432,223
Plug and abandonments	9	-	-	2,362,072	-
General and administrative		1,009,100	939,130	2,174,207	2,666,058
Transaction costs	5	-	-	779,306	-
Impairment expense	6, 7	343,786	-	343,786	-
Stock-based compensation	12	190,755	-	289,885	-
<b>Total costs and expenses</b>		<b>7,504,688</b>	<b>4,305,459</b>	<b>19,220,541</b>	<b>13,242,992</b>
<b>Operating income</b>		<b>5,492,906</b>	<b>392,459</b>	<b>2,938,856</b>	<b>2,816,707</b>
<b>Finance expenses</b>	14	<b>(472,027)</b>	<b>(229,446)</b>	<b>(833,687)</b>	<b>(706,821)</b>
<b>Income and comprehensive income</b>		<b>\$ 5,020,879</b>	<b>\$ 163,013</b>	<b>\$ 2,105,169</b>	<b>\$ 2,109,886</b>
<b>Income per share</b>	16				
Basic		\$ 0.05	\$ 0.00	\$ 0.02	\$ 0.02
Diluted		\$ 0.05	\$ 0.00	\$ 0.02	\$ 0.02

*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	Retained Earnings (Deficit)	Total Shareholders' Equity
Balance, December 31, 2010		1,000	\$ 12,250,000	-	\$ -	\$ -	\$ (13,568,891)	\$ (1,318,891)
Income for the period		-	-	-	-	-	2,109,886	2,109,886
Balance, September 30, 2011		1,000	12,250,000	-	-	-	(11,459,005)	790,995
Income for the period		-	-	-	-	-	1,415,398	1,415,398
Balance, December 31, 2011		1,000	12,250,000	-	-	-	(10,043,607)	2,206,393
Reverse acquisition transactions	5, 11	40,393,823	(503,413)	65,071	29,162,552	-	-	28,659,139
Stock options granted	12	-	-	-	-	289,885	-	289,885
Income for the period		-	-	-	-	-	2,105,169	2,105,169
Balance, September 30, 2012		40,394,823	\$ 11,746,587	65,071	\$ 29,162,552	\$ 289,885	\$ (7,938,438)	\$ 33,260,586

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

*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 September 30,		Nine Months Ended September 30,	
		2012	2011	2012	2011
<b>Cash and cash equivalents provided by:</b>					
<b>Cash flows from operating activities</b>					
Net income		\$ 5,020,879	\$ 163,013	\$ 2,105,169	\$ 2,109,886
Adjustments for:					
Depreciation, depletion and amortization	6	2,579,192	686,694	5,162,590	3,400,877
Asset retirement obligation accretion	9	79,041	115,308	237,122	345,924
Impairment expense	6	343,786	-	343,786	-
Stock-based compensation	12	190,755	-	289,885	-
Funds generated from operations		8,213,653	965,015	8,138,552	5,856,687
Cash abandonment costs	9	(412,789)	(1,037,261)	(2,546,695)	(1,180,195)
Changes in non-cash working capital	17	(13,715,298)	3,972,594	(7,427,466)	(423,727)
<b>Net cash (used in) provided by operating activities</b>		<b>(5,914,434)</b>	<b>3,900,348</b>	<b>(1,835,609)</b>	<b>4,252,765</b>
<b>Cash flows from investing activities</b>					
Capital expenditures for oil and gas properties	6	(676,877)	(6,265,025)	(26,729,288)	(6,444,086)
Capital expenditures for office furnishings and improvements	6	487	(18,278)	(13,107)	(19,166)
Increase in other assets and loan origination fees		(288,944)	-	(384,460)	-
Cash acquired in reverse acquisition transaction	5(a)	-	-	415,899	-
Changes in non-cash working capital	17	601,081	3,938,003	1,451,321	2,742,532
<b>Net cash used in investing activities</b>		<b>(364,253)</b>	<b>(2,345,300)</b>	<b>(25,259,635)</b>	<b>(3,720,720)</b>
<b>Cash flows from financing activities</b>					
Sale of share capital	11	-	-	20,122,951	-
Increase in notes payable	8	8,000,000	-	8,000,000	1,385,988
Repayment of notes payable	8	-	(415,797)	(415,797)	(778,782)
Changes in non-cash working capital	17	-	-	-	-
<b>Net cash provided by (used in) financing activities</b>		<b>8,000,000</b>	<b>(415,797)</b>	<b>27,707,154</b>	<b>607,206</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>1,721,313</b>	<b>1,139,251</b>	<b>611,910</b>	<b>1,139,251</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>326,524</b>	<b>-</b>	<b>1,435,927</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	17	<b>\$ 2,047,837</b>	<b>\$ 1,139,251</b>	<b>\$ 2,047,837</b>	<b>\$ 1,139,251</b>

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

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

*(amounts in US dollars)*

*(unaudited)*

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#### 1. General business description

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

On April 30, 2012, the Company (formerly Probe Resources Ltd. ("Probe")) completed a series of transactions under which it acquired all of the membership interest of Rooster Energy, L.L.C., a privately held Louisiana limited liability company ("Rooster"). The acquisition of Rooster has been accounted for as a reverse acquisition of the Company by Rooster, with Rooster being the continuing entity for accounting purposes, as the acquisition resulted in the issuance of voting shares such that control of the Company passed to Rooster Resources, LLC, the sole member of Rooster. In conjunction with the transactions, the combined entity was continued under the name Rooster Energy Ltd. See also note 5(a).

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 Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), and present the Company's financial performance and financial position for the three and nine month periods ended September 30, 2012 and September 30, 2011. They have been prepared in accordance with International Accounting Standard (IAS) 34, "Interim Financial Reporting". Accordingly, certain financial information and disclosures normally included in annual financial statements prepared in accordance with IFRS have been omitted or condensed. The disclosure provided herein is incremental to the disclosure included in the annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements for the year end December 31, 2011 for Rooster Energy, LLC and Subsidiaries, as well as the annual audited consolidated financial statements of Probe for the year ended August 31, 2011.

These financial statements were authorized for issue by the Board of Directors on November 27, 2012.

##### (b) Basis of measurement

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

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. At September 30, 2012, the Company had a working capital deficiency of \$18,415,980, a decrease of approximately \$9.7 million from the prior quarter. The Company recorded a net profit of \$5,020,879 for the three months ended September 30, 2012 and \$2,105,169 for the nine month period ended September 30, 2012. The Company generated \$8,413,653 in cash flows from operating activities before changes in non-cash working capital and cash abandonment costs for the three months ended September 30, 2012 and \$8,338,552 for the nine months ended September 30, 2012.

In October 2012, the Company entered into a Note Purchase Agreement thereby obtaining \$22.5 million in financing. Additionally, in November 2012, the Company sold its interest in the Ship Shoal Block 189 lease, located within U.S. federal waters of the Gulf of Mexico, for \$2.85 million. The proceeds were used to repay the existing bridge loan facility and certain accounts payable.

The working capital deficit at September 30, 2012 has been eliminated and the Company has a working capital surplus subsequent to September 30, 2012. Accordingly management believes the Company will have sufficient funds along with future positive operating cash flow to meet its existing financial obligations. See also notes 4(d), 4(f), and 21.

(c) Functional and presentation currency

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

(d) Basis of consolidation

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

(e) Use of estimates and judgments

The preparation of 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, income 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 recorded in the period in which the estimates are revised and in any future years affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

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#### *Depletion and valuation of property and equipment*

The amounts recorded for depletion and depreciation of components of property and equipment and the valuation of property and equipment are based on estimates. These estimates include proved and probable reserves, future production rates, future petroleum and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Company's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under *National Instrument 51-101 - Standards of Disclosure for Oil and Gas Activities*. Changes in reserve estimates impact the financial results of the Company as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The discount rate used to calculate the net present value of cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate Company and industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

The determination of cash-generating units requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash-generating units are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The decision to transfer assets from exploration and evaluation to property and equipment is based on estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

#### *Valuation of exploration and evaluation assets*

The valuation of exploration and evaluation assets and fair value amounts assigned on acquisition is dependent upon the discovery of economically recoverable reserves which in turn is dependent on future petroleum and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

#### *Asset retirement obligations*

The value of asset retirement obligations depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

#### *Valuation of accounts receivable*

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

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#### *Stock options and warrants*

The expected amounts recorded relating to the fair value of stock options and warrants granted are based on estimates of the expected future volatility of the Company's share price (based on peer group volatility), market price of the Company's shares and risk-free interest rate (based on government bonds) at the grant date, expected lives of the instruments (based on historical experience and general option holder behaviour), expected forfeiture rates (based on historical experience and general option holder behaviour), expected dividends and other relevant assumptions.

#### *Income taxes*

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the Company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities.

#### *Joint arrangements*

The Company is party to various jointly controlled assets, processing, operating and other agreements in conjunction with its crude oil and natural gas processing activities. The revenues and expenses allocated between partners are governed by the terms of these agreements and are subject to interpretation and audit by the applicable parties.

#### (f) Determination of fair values

The fair values of assets and liabilities recognized in a business combination and used in impairment assessments are based on market values. The market value of property and equipment and any exploration and evaluation assets are based on the estimated amount for which property and equipment could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The market value of petroleum and natural gas interests (included in property and equipment) are estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on external and Company reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions, of approximately 10%.

The determination of fair values related to financial instruments are disclosed in note 4(b) and the determination of fair values related to stock-based compensation is disclosed in note 12.

### 3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to the periods presented in these financial statements.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

*(amounts in US dollars)*

*(unaudited)*

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(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated. Changes in the parent's ownership in subsidiaries, when control is maintained, are accounted for as equity transactions.

(b) Subsidiaries

A subsidiary is an entity controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operational policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

The financial statements of subsidiaries are included in the condensed interim consolidated financial statements from the date that control commences until the date that control ceases.

(c) Business combinations

Business combinations are accounted for using the acquisition method. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Following initial recognition, goodwill is recognized at cost less any accumulated impairment losses. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in net earnings. Associated transaction costs are expensed when incurred.

(d) Jointly controlled operations and jointly controlled assets

Many of the Company's petroleum and natural gas activities involve jointly controlled assets and are conducted under joint operating agreements. The financial statements include the Company's proportionate share of these jointly controlled assets, liabilities, revenue, and related costs.

(e) Foreign currency

Foreign currency transactions are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange prevailing at the end of the reporting period. These differences are recognized in the statement of income (loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(f) Cash and cash equivalents

For the purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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(g) Financial instruments

(i) *Classification and measurement*

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as “fair value through income (loss)”, “loans and receivables”, “available-for-sale”, “held-to-maturity”, or “financial liabilities measured at amortized cost”.

Financial assets and financial liabilities at “fair value through income (loss)” are either classified as “held for trading” or “designated at fair value through income (loss)” and are measured at fair value with changes in fair value recognized in the income statement. The Company has designated cash and cash equivalents, and deposits and any forward commodity price contracts, swaps and collars as “held for trading” and “designated at fair value through income (loss)”; respectively.

Financial assets and financial liabilities classified as “loans and receivables”, “held-to-maturity”, or “financial liabilities measured at amortized cost” are measured at amortized cost using the effective interest method of amortization. “Loans and receivables” are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. “Held-to-maturity” financial assets are non-derivative investments that an entity has the positive intention and ability to hold to maturity. “Financial liabilities measured at amortized cost” are those financial liabilities that are not designated as “fair value through income (loss)” and that are not derivatives. The Company has designated accounts receivable as “loans and receivables” and accounts payable and accrued liabilities, loans payable, accrued interest payable and due to related parties as “financial liabilities measured at amortized cost”. The Company has no assets classified as “held-to-maturity”.

Financial assets classified as “available-for-sale” are measured at fair value, with changes in fair value recognized in other comprehensive income. “Available-for-sale” financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company currently has no assets classified as “available-for-sale”.

(ii) *Derivative financial instruments*

The Company may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The Company's policy is not to utilize derivative financial instruments for speculative purposes. Any outstanding financial derivative contracts are classified as “fair value through income (loss)”.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through the statement of income. Changes in the fair value of separable embedded derivatives are recorded immediately in the income statement. The Company has not identified any embedded derivatives.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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(iii) *Transaction costs*

Transaction costs related to financial instruments classified as fair value through profit or loss are expensed as incurred. All other transaction costs related to financial instruments are recorded as part of the instrument and are amortized using the effective interest method.

(iv) *Impairment*

The Company assesses at each balance sheet date whether there is objective evidence that financial assets, other than those designated as "fair value through the statement of income" are impaired. When impairment has occurred, the cumulative loss is recognized in the statement of income. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. When an "available-for-sale" financial asset is considered to be impaired, cumulative gains or losses previously recorded in other comprehensive income are reclassified to the statement of income in the period. Impairment losses may be reversed in subsequent periods.

(h) Exploration and evaluation expenditures and property and equipment

(i) *Exploration and evaluation assets*

Pre-license expenditures incurred before the Company has obtained legal rights to explore an area are expensed. Seismic costs and unsuccessful drilling and related land costs are also expensed and recorded in income (loss).

Exploration and evaluation costs include the costs of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies and asset retirement obligations. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting petroleum and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost, net of impairments, and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist or expensed if no reserves are found.

Farm-ins, exchanges or swaps that involve only exploration and evaluation assets are accounted for at cost.

Expired lease costs are expensed as part of exploration and evaluation expenses as they occur.

The Company did not have any exploration and evaluation assets as of September 30, 2012 or December 31, 2011.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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(ii) *Property and equipment*

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as petroleum and natural gas interests and are measured at cost less accumulated depletion and depreciation and net impairment losses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, asset retirement obligations and transfers of exploration and evaluation assets.

Costs of replacing parts of property and equipment are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recorded in income as incurred. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recorded as an expense when incurred.

Farm-ins, exchanges or swaps of property and equipment are measured at fair value unless the transaction lacks commercial substance or neither the fair value of the asset received nor the asset given up can be reliably estimated. When fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gains or losses from the divestiture of property and equipment are recorded in income (loss).

(iii) *Depletion and depreciation*

Petroleum and natural gas interests are depleted on an area-by-area basis using the unit-of-production method by reference to the ratio of production in the year to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of natural gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

Processing facilities and well equipment are depleted using the unit-of-production method along with the related reserves when the assets are designed to have a life similar to the reserves of the related wells. Where facilities and equipment, including major components, have differing useful lives, they are depreciated separately on a straight-line basis over the estimated useful life of the facilities and equipment and other related components.

(iv) *Office furnishings and improvements*

Office furnishings and improvements are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets (primarily three to ten years).

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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(i) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the recoverable amount of the asset is estimated.

For the purposes of assessing impairment, property and equipment is grouped into cash-generating units ("CGUs"), defined as the lowest levels for which there are separately identifiable independent cash inflows. Goodwill, if any, is allocated to the CGUs that are expected to benefit from the synergies of the business combination creating the goodwill.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined to be the amount for which the asset could be sold in an arm's length transaction between knowledgeable and willing parties. Fair value less costs to sell may be determined using discounted future net cash flows of proved and probable reserves using forecast prices and costs and including future development costs. These cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the cash-generating unit in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recognized in respect of a CGU is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Impairment losses are recorded in net income.

Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment or when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are tested for impairment separately. If, at any time, it is determined that the Company has no future exploration plans and commercial production cannot be achieved in relation to an area, the associated costs are written down to the estimated recoverable amount or fully derecognized, and the amount of the write-down is expensed on the statement of income (loss).

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recorded. A goodwill impairment loss is not reversed.

(j) Provisions and contingent liabilities

Provisions and contingent liabilities are recognized by the Company when it has a legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and a reliable estimate can be made of the amount of that obligation. Provisions are stated at the present value of the expenditure expected to settle the obligation. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the existence of the outflow can only be confirmed by the occurrence of a future event.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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(k) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing the contract. The Company is not currently party to any onerous contracts.

(l) Asset retirement obligations

Asset retirement obligations are recorded for plugging, abandonment and reclamation obligations associated with the Company's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the balance sheet date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or depreciated over the useful life of the asset. The initial provision is recorded as a long-term liability and accreted over time through charges to financing expenses with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognized as changes in the asset retirement obligations and related asset. Actual plugging and abandonment expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred are recorded as a gain or loss in the statement of income.

(m) Leases

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for at the commencement of the lease term as finance leases and recorded as property and equipment at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments, together with an offsetting liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

(n) Revenue recognition

The Company records oil and gas revenue from its interests in producing wells as the oil and gas is sold. Revenue from the purchase, transportation, and sale of natural gas is recorded upon completion of the sale and when transported volumes are delivered. Revenue represents the Company's share and is recorded net of royalty obligations to governments and other mineral interest owners.

The costs associated with the delivery, including operating and maintenance costs and transportation are recorded in the same period in which the related revenues are earned and recorded.

Other income, comprises pipeline usage fees, and is recognized as earned in accordance with the relevant agreements.



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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(o) Stock-based compensation

Stock options granted to directors, officers, employees and consultants under the Company's stock option plan are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model. Consultants are classified as employees when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is expensed over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of forfeitures as they occur.

(p) Finance income and expenses

Finance income, consisting of interest income, is recorded as it accrues in the statement of income, using the effective interest method.

Finance expense comprises interest expense on borrowings, accretion of the discount on asset retirement obligations and impairment losses recorded on financial assets.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. A qualifying asset is one that takes a substantial period of time to get ready for use or sale.

Where funds are borrowed specifically to finance a project, the amount capitalized represents the actual borrowing costs incurred. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period.

All other borrowing costs are recorded in the statement of income in the period in which they are incurred using the effective interest method.

(q) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recorded in the statement of income except to the extent that it relates to items recorded directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year plus any adjustment to tax payable in respect of previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes. Deferred tax liabilities are generally recorded for all taxable temporary differences. Deferred tax assets are generally recorded for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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Deferred tax is not recorded on the initial recognition of assets or liabilities in a transaction that is not a business combination, and at the time of the transaction affects neither the accounting profit nor taxable profit or loss. In addition, deferred tax is not recorded for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets recognized are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that future profit will allow the deferred tax asset to be recovered and/or carrying value of temporary differences exceed their tax basis.

(r) Income (loss) per share

Income (loss) per share is calculated by dividing net and comprehensive income or loss by the weighted average of number of common and proportionate voting shares outstanding during the period. The Company computes the dilutive impact of common and proportionate voting shares assuming the proceeds received from the pro forma exercise of in-the-money stock options plus the unamortized portion of stock-based compensation are used to purchase common shares at average market prices during the period.

(s) Recent accounting pronouncements

*Financial instruments*

The IASB intends to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") with IFRS 9, "Financial Instruments" ("IFRS 9"). IFRS 9 will be published in several phases, of which the first phase has been published.

For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. For financial liabilities, the approach to the fair value option may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk.

IFRS 9 is currently effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact of this standard.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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#### *Fair value measurement*

In May 2011, the IASB issued IFRS 13, "Fair Value Measurement", which provides a consistent and less complex definition of fair value, establishes a single source of guidance for determining fair value and introduces consistent requirements for disclosures related to fair value measurement. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Prospective application of this standard is effective for fiscal periods beginning on or after January 1, 2013, with early adoption permitted. The Company is currently assessing the impact of this standard.

#### *Reporting entity*

In May 2011, the IASB issued IFRS 10, "Consolidated Financial Statements", IFRS 11, "Joint Arrangement", IFRS 12, "Disclosures of Interest in Other Entities" and amendments to both IAS 27, "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates".

IFRS 10 creates a single consolidation model by revising the definition of control in order to apply the same control criteria to all types of entities, including joint arrangements, associates and special purpose vehicles. IFRS 11 establishes a principle-based approach to the accounting for joint arrangement by focusing on the rights and obligations of the arrangement and limits the application of proportionate consolidation to arrangements that meet the definition of a joint operation. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. A joint venture will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 12 is a comprehensive disclosure standard for all forms of interests in other entities, including joint arrangements, associates and special purpose vehicles. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

Retrospective application of these standards with relief for certain transactions is effective for fiscal years beginning on or after January 1, 2013, with earlier adoption permitted if all of the standards are collectively adopted. The Company is currently assessing the impact of these standards.

#### *Presentation of items of other comprehensive income*

In June 2011, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements", requiring corporations to group items presented within other comprehensive income based on whether they may be subsequently reclassified to profit or loss. Retrospective application of this amendment is effective for fiscal years beginning on or after July 1, 2012, with earlier adoption permitted. No significant impact on the Company's financial statements is anticipated upon implementation of the amended standard.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

*(amounts in US dollars)*

*(unaudited)*

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#### 4. Financial instruments and risk management

##### (a) Overview

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Company employs risk management strategies and policies to ensure that any exposure to risk are in compliance with the Company's business objectives and risk tolerance levels. While the Company has the overall responsibility for the establishment and oversight of the Company's risk management framework, the Company's management has the responsibility to administer and monitor these risks.

##### (b) Fair value of financial instruments

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

The fair values of any forward contracts, collars and swaps are determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted petroleum and natural gas volumes and a risk-free interest rate (based on published government rates) adjusted for the Company's non-performance risk of the counterparty.

The significance of inputs used in making fair value measurements for financial instruments carried at fair value are examined and classified according to a fair value hierarchy. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly, and are based on valuation models and techniques where the inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

Cash and cash equivalents are measured at fair value based on a Level 1 designation. Deposits and forward price contracts, collars and swaps are measured using a Level 2 designation.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

(c) 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. Substantially all of the Company's accounts receivable are due from petroleum and natural gas marketers, joint operation partners and government agencies and are subject to normal credit risk. The maximum exposure to credit risk at September 30, 2012 and December 31, 2011, is as follows:

	September 30, 2012	December 31, 2011
Cash and cash equivalents	\$ 2,047,837	\$ 1,435,927
Accounts receivable	14,922,624	4,984,698
Abandonment deposits	3,762,000	-
Other deposits	201,979	26,463
	<u>\$ 20,934,440</u>	<u>\$ 6,447,088</u>

*Cash and cash equivalents*

Cash and cash equivalents consist of 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 all short-term deposits to ensure an adequate rate of return. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.

*Accounts receivable*

As of September 30, 2012 and December 31, 2011, the majority of accounts receivable relates to petroleum and natural gas production and joint operation partners. Management believes all receivables will be collected.

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. Significant changes in industry conditions and risks that negatively impact 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 period ended September 30, 2012, the Company sold a substantial portion of its product to three customers. Sales to those customers aggregated approximately \$11.6 million or approximately 89% of total revenue. At September 30, 2012, amounts due from those customers included in accounts receivable totalled approximately \$7.9 million.

During the period ended September 30, 2011, the Company sold a substantial portion of its product to three customers. Sales to those customers aggregated approximately \$3.4 million or approximately 72% of total revenue. At December 31, 2011, amounts due from significant customers included in accounts receivable totalled approximately \$2.5 million.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

The Company does not have an allowance for doubtful accounts as of September 30, 2012 or December 31, 2011, and did not provide for any doubtful accounts or write-off any receivables during the periods then ended. 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 September 30, 2012 and December 31, 2011, the Company's accounts receivable comprised the following:

	September 30, 2012	December 31, 2011
Petroleum and natural gas revenue	\$ 8,825,521	\$ 3,484,464
Joint operation receivables	6,097,103	1,500,234
Total accounts receivable	\$ 14,922,624	\$ 4,984,698

As of September 30, 2012 and December 31, 2011, the Company's accounts receivables are aged as follows:

	September 30, 2012	December 31, 2011
Current (0 - 30 days)	\$ 10,369,852	\$ 4,430,176
31 to 60 days	516,217	488,088
61 to 90 days	341,229	65,090
Past due (greater than 90 days)	3,695,326	1,344
Total accounts receivable	\$ 14,922,624	\$ 4,984,698

#### *Abandonment deposits*

Abandonment deposits consist of amounts deposited to secure a performance bond related to asset retirement obligations which was acquired by the Company in connection with the Probe transaction (note 5(a)). The exposure to credit risk has been assessed by management to be minimal.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

(d) 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 ongoing liquidity is impacted by various external events and conditions, including commodity price fluctuations and global economic conditions. The Company's financial liabilities consist of accounts payable, accrued liabilities and loans payable. Accounts payable consists of invoices payable to trade suppliers for professional fees, office expenses and capital expenditures and are paid within one year. Accounts payable also consist of royalties and field operating activities related to the production of the Company's petroleum and natural gas interests. By nature, the petroleum and gas industry is very capital intensive. As a result, the Company prepares annual capital expenditure budgets and utilizes authorizations for expenditures to manage capital expenditures. The Company's accounts payable and accrued liabilities as of September 30, 2012 and December 31, 2011 are aged as follows:

	September 30, 2012	December 31, 2011
Current (0 - 30 days)	\$ 8,825,155	\$ 4,089,951
31 to 60 days	1,386,541	991,404
61 to 90 days	2,334,657	3,588,358
Greater than 90 days	14,000,339	1,496,538
Total accounts payable and accrued liabilities	\$ 26,546,692	\$ 10,168,262

The Company expects to meet its short-term obligations in the normal course as further discussed in note 2(b). Refer also to note 4(f) for further disclosure on the management of capital.

The Company is also subject to future commitments and guarantees as disclosed in notes 18 and 20.

(e) 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.

*Foreign currency risk*

Prices for petroleum are determined in global markets and generally denominated in United States dollars. Natural gas prices obtained by the Company will be influenced by U.S. demand and the corresponding North American supply and, recently, by liquefied natural gas and shale gas projects prices. The Company had no forward exchange rate contracts in place nor assets or liabilities denominated in foreign currencies as of or during the period ended September 30, 2012 or year ended December 31, 2011. Shares of the Company are traded in Canadian dollars.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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#### *Interest rate risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under its outstanding long-term note payable. A one percentage change to the effective interest rate would have an impact of \$48,473 on net earnings for the nine month period ended September 30, 2012, based on the outstanding balance of the long-term note payable at September 30, 2012. The Company had no interest rate swaps or financial contracts in place as of or during the period ended September 30, 2012 or year ended December 31, 2011.

#### *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. Management continuously monitors commodity prices and may consider instruments to manage exposure to these risks when it deems appropriate. The Company currently does not have any derivative financial contracts. The Company does not utilize derivative financial instruments for speculative purposes.

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. The Company's production is usually sold using "spot" or near term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company, however, may give consideration in certain circumstances to the appropriateness of entering into long-term, fixed price marketing contracts.

The Company had no forward fixed price contracts in place as of or during the period ended September 30, 2012 or year ended December 31, 2011. Subsequent to September 30, 2012, the Company has entered into certain fixed price contracts as further described in note 20.

#### (f) 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 member. 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 officers are responsible for managing the Company's capital and do 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 its capital structure to include working capital.



# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

The Company monitors its capital based on projected cash flow from operations and anticipated capital expenditures. In order to manage its capital structure, the Company prepares annual capital expenditure and operating budgets, which are updated as necessary. The annual and updated budgets are prepared by the Company's management and approved by the Company's Board of Directors. The budget results are regularly reviewed and updated as required.

In order to maintain or adjust the capital structure, the Company may seek debt financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional debt financing is impacted by external conditions, including future commodity prices and the global economic situation. The Company continually monitors business conditions including: changes in economic conditions; the risk of its drilling programs; forecasted commodity prices; and potential corporate or asset acquisitions.

The Company's working capital deficiency is as follows:

	September 30, 2012	December 31, 2011
Current assets	\$ 21,990,571	\$ 7,458,140
Current liabilities	(40,406,551)	(24,750,676)
Total	\$ (18,415,980)	\$ (17,292,536)

The Company is not currently required to meet any financial covenants relating to its loans payable and is not subject to any other externally imposed capital requirements. There has been no change to management's approach to managing capital during the period ended September 30, 2012.

#### 5. Acquisitions

##### (a) Business combination

On April 30, 2012, the Company completed the reverse acquisition transactions with Rooster (see note 1). The purpose of the acquisition was to provide opportunity to participate in the exploration and development of Probe's assets in the shallow waters of the Gulf of Mexico.

The acquisition by Rooster resulted from and was part of an arrangement agreement between Probe and Rooster Resources, LLC, Morrison Energy Group, LLC, The K2 Principal Fund LP and Rooster Probe GOM Oil & Gas Ltd. ("Canco") to merge or amalgamate Canco with Probe and then subsequently exercise an option (the "Rooster Option") then held by Canco to acquire all of the membership interest of Rooster from Rooster Resources, LLC, and complete the reverse acquisition by Rooster. As part of the arrangement agreement and in conjunction with the amalgamation and exercise of the Rooster Option, Canco completed a private placement of 34,543,400 subscription receipts at a price of CDN \$0.60 each for net proceeds of \$20,122,951 (gross proceeds of CDN \$20,726,040), a portion of which were sold to directors and officers or their companies on the same terms as arms' length parties. The agents with respect to the offering received a commission equal to 3.2% of the gross proceeds of the offering. Each of the subscription receipts of Canco issued pursuant to the offering was then exchanged for one common share of Canco for no additional consideration.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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Probe then acquired all of the issued and outstanding common shares of Canco in exchange for, at the election of the holder, either one Probe common share (issued at a price of CDN \$0.60 per common share) or one-thousandth of one proportionate voting share (issued at a price of \$600.00 per whole proportionate voting share). The 3,546,106,667 Probe shares were consolidated on a 250 to 1 basis (resulting in there being 14,184,423 post consolidation Probe shares outstanding and Probe changed its name to "Rooster Energy Ltd." On April 30, 2012 the amalgamation with Canco was approved.

The Company exercised the Rooster Option and acquired all of the membership interests of Rooster from Rooster Resources, LLC, in exchange for 56,738 proportionate voting shares.

Following the completion of all of the steps described above, the Company has 40,394,823 common shares and 65,071 proportionate voting shares outstanding. A maximum of 8,078,964 common shares are reserved for future issuance pursuant to the Company's incentive stock option plan.

Additional transaction costs expensed totalled \$779,306 for the nine months ended September 30, 2012.

The acquisition of Rooster has been accounted for as a reverse acquisition of the Company with Rooster being the continuing entity for accounting purposes, as the transactions resulted in the issuance of voting shares such that control of the combined entities passed to the shareholders of Rooster. Accordingly, the consolidated equity is that of Rooster. The total common share and proportionate voting share consideration was valued at \$8,536,188, based on the estimated fair value of the Probe common shares outstanding immediately prior to the reverse acquisition. The fair market values assigned to the net assets acquired from the Company were as follows:

Cash and cash equivalents	\$	415,899
Prepaid expenses		113,078
Accounts receivable		1,671,712
Long-term deposits and other assets		3,842,000
Property and equipment		14,826,641
Accounts payable and accrued liabilities		(1,709,182)
Notes payable		(6,463,000)
Asset retirement obligations		(4,160,960)
	\$	8,536,188

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The accounting for the reverse acquisition and allocation to the net assets acquired is based on preliminary information and is subject to final closing adjustments.

The accounts of the Company include the results of Probe from April 30, 2012, the closing date of the business combination.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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(b) Property acquisition

On March 31, 2012, the Company purchased certain petroleum and natural gas interests in the Vermillion 376 field for \$850,000 (\$113,178 receivable after interim net revenue and expense adjustments), with an effective date of January 1, 2012. As part of the purchase, the Company was required to provide a performance bond to guarantee certain asset retirement obligations, in the amount of \$2,500,000. The purpose of the acquisition was to obtain the petroleum and natural gas interests surrounding the Company's areas of interest in the Gulf of Mexico. Net revenues have been recorded from the March 31, 2012 closing date onwards. The transaction has been accounted for as a business combination using the acquisition method, whereby the net assets acquired and the liabilities assumed are recorded at fair value. Acquisition related costs were recognized as an expense in the period.

The net purchase price was allocated based on management's assessment of the fair value of the net assets acquired as follows:

Petroleum and natural gas interests	\$	1,391,600
Asset retirement obligations		(1,504,778)
		<hr/>
	\$	(113,178)

The revenue, operating results and net earnings (loss) attributable to the acquisitions from the closing dates to September 30, 2012, as well as the pro forma consolidated revenue, operating results and net earnings (loss) giving effect to the acquisitions as if they had occurred on January 1, 2012, are not practicable to determine. The operations attributable to the acquisitions are not managed as separate business units or divisions and general business overhead and other costs are not allocated or identified on a specific entity basis. Any such allocation would be arbitrary and would require significant assumptions and estimates about what management's intent would have been during those periods.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

#### 6. Property and equipment

	Petroleum and natural gas interests	Office furnishings and improvements	Total
<b>Cost</b>			
Balance at January 1, 2011	\$ 48,512,925	\$ 540,946	\$ 49,053,871
Additions	10,976,411	24,946	11,001,357
Impairment	(1,047,454)	-	(1,047,454)
Asset retirement obligations	(26,225)	-	(26,225)
Balance at December 31, 2011	\$ 58,415,657	\$ 565,892	\$ 58,981,549
Balance at January 1, 2012	\$ 58,415,657	\$ 565,892	\$ 58,981,549
Additions	26,729,288	13,107	26,742,395
Additions from Probe transaction (note 5 (a))	14,826,641	-	14,826,641
Transfers to assets held for sale (note 7)	(5,975,361)	-	(5,975,361)
Impairment (note 7)	(343,786)	-	(343,786)
Asset retirement obligations	7,358,111	-	7,358,111
Balance at September 30, 2012	\$ 101,010,550	\$ 578,999	\$ 101,589,549
<b>Depletion and depreciation</b>			
Balance at January 1, 2011	\$ 22,575,253	\$ 242,401	\$ 22,817,654
Depletion and depreciation for the period	3,355,745	45,132	3,400,877
Balance at September 30, 2011	\$ 25,930,998	\$ 287,533	\$ 26,218,531
Balance at January 1, 2012	\$ 26,196,580	\$ 304,251	\$ 26,500,831
Transfers to assets held for sale (note 7)	(2,912,010)	-	(2,912,010)
Depletion and depreciation for the period	5,114,444	48,146	5,162,590
Balance at September 30, 2012	\$ 28,399,014	\$ 352,397	\$ 28,751,411
<b>Net book value</b>			
December 31, 2011	\$ 32,219,077	\$ 261,641	\$ 32,480,718
September 30, 2012	\$ 72,611,536	\$ 226,602	\$ 72,838,138

The calculation of depletion for the period ended September 30, 2012 included estimated future development costs of \$11,363,000 (September 30, 2011 - \$17,767,194) associated with the development of the Company's proved and probable reserves.

Through September 30, 2012, the Company has not capitalized any interest or general and administrative expenses.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

At September 30, 2012 and 2011, the Company tested its cash-generating units for impairment. The recoverable amount of the cash-generating unit was estimated based on the higher of the value in use and the fair value less costs to sell. The estimate of fair value less costs to sell was determined using discounted forecasted cash flows, with escalating prices and future development costs, as obtained from an independent prepared reserve report. The forecast prices used to estimate the fair value less cost to sell are those used by independent industry reserve engineers. During the period ended September 30, 2012, the Company recognized \$343,786 of impairment expense and for the period ended September 30, 2011, the Company did not recognize any impairment in its cash generating units.

The Company had no exploration and evaluation assets at September 30, 2012 or December 31, 2011.

Exploration and evaluation expenses include pre-license seismic and other pre-license evaluation costs incurred, net of any recoveries from joint venture partners.

#### 7. Assets held for sale

Assets held for sale at September 30, 2012 includes \$3,407,137 of carrying value, net of accumulated depletion and depreciation, less a provision for impairment of \$343,786, relating to petroleum and natural gas interests, facilities and equipment in the Ship Shoal 189 field which were sold in November 2012. The asset retirement obligation of \$213,351 related to these assets is included in liabilities associated with assets held for sale at September 30, 2012.

#### 8. Loans payable

Loans payable at September 30, 2012 and December 31, 2011 consist of the following:

	September 30, 2012	December 31, 2011
Related party note payable dated April 26, 2012, payable the earlier of April 26, 2014 or one year after commencement of production from South Timbalier 198 # A-7 ST1 well, with interest at Libor plus 5% (6.07% at September 30, 2012), interest due at maturity, and secured by certain oil and gas properties	\$ 6,463,000	\$ -
Related party bridge loan dated July 26, 2012 for \$15,000,000, with interest at 8% plus a 2% discount on advances, due September 26, 2012 or as extended (subject to a 2% penalty), and secured by certain oil and gas properties	8,000,000	\$ -
Insurance financing dated May 14, 2011, maturing March 14, 2012, interest at 2.87%, monthly principal and interest payments of \$138,599	-	415,797
	14,463,000	415,797
Less: short-term portion	(8,000,000)	-
Long-term portion	\$ 6,463,000	\$ 415,797

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

Subsequent to September 30, 2012, the outstanding principal and accrued interest on the bridge loan was repaid (see Note 21).

The loans payable at September 30, 2012 are scheduled to mature as follows:

2012	\$ 8,000,000
2013	-
2014	<u>6,463,000</u>
Total	<u>\$ 14,463,000</u>

The long-term note payable totalling \$6,463,000 at September 30, 2012 is due to a related party who is a significant shareholder. The bridge loan totalling \$8,000,000 at September 30, 2012 is due to related parties who are significant shareholders and/or directors of the Company.

In connection with the bridge loan, the Company paid a 2% loan origination fee totalling \$180,000, included in finance expenses at September 30, 2012 (note 14).

Accrued interest payable on the bridge loan totalling \$115,726 is included in accounts payable and accrued liabilities on the balance sheet as of September 30, 2012. Accrued interest payable on the long-term loan payable totalling \$168,057 is due at maturity, and is therefore included in long-term liabilities on the balance sheet as of September 30, 2012.

#### 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 period ended September 30, 2012 and the year ended December 31, 2011:

	September 30, 2012	December 31, 2011
Asset retirement obligations, beginning of period	\$ 13,008,253	\$ 13,753,440
Liabilities incurred	1,374,919	5,596
Liabilities acquired (Note 5)	5,665,738	-
Transfers to liabilities associated with assets held for sale (note 7)	(213,351)	-
Liabilities settled	(2,546,695)	(1,180,195)
Revisions to estimates	1,257,452	(31,820)
Accretion (unwinding of discount)	237,122	461,232
Asset retirement obligations, end of period	<u>\$ 18,783,438</u>	<u>\$ 13,008,253</u>

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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The Company's asset retirement obligations result from its ownership interest in petroleum and natural gas assets, including well sites and gathering systems. The total asset retirement obligations is 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 \$19.6 million. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 14 years into the future and will be funded from general corporate resources at the time of abandonment.

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

During the three months ended March 31, 2012 and nine months ended September 30, 2012, the Company incurred and expensed costs in excess of the previously recorded asset retirement obligation in the amount of \$2,362,072 for the plugging operations of two wells at East Cameron 129, which is included in the statement of income as plug and abandonment expense. The costs were due to unexpected downhole issues which required additional equipment and services.

#### 10. Prepaid Expenses

Prepaid expenses consist of the following:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Prepaid insurance	\$ 871,659	\$ 556,995
Prepaid royalties	1,085,100	480,520
<b>Total prepaid expenses</b>	<b>\$ 1,956,759</b>	<b>\$ 1,037,515</b>

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

#### 11. Share capital

##### (a) Authorized

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

##### (b) Issued

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

	Number of Shares	Stated Value
<b>Common shares</b>		
Outstanding, December 31, 2011	1,000	\$ 12,250,000
Probe common shares outstanding at December 31 2011 <sup>(1)</sup>	14,184,423	-
Elimination of Rooster voting shares	(1,000)	-
Subscription receipts issued	-	20,122,951
Issued on reverse acquisition transactions (note 5(a))	26,210,400	8,536,188
Allocation of stated value to proportionate voting shares	-	(29,162,552)
Outstanding, September 30, 2012	40,394,823	\$ 11,746,587
<b>Proportionate voting shares</b>		
Outstanding, December 31, 2011	-	-
Issued on reverse takeover transaction (note 5(a))	65,071	29,162,552
Outstanding, September 30, 2012	65,071	29,162,552
Total share capital stated value, September 30, 2012		\$ 40,909,139

(1) Represents the number of common shares of Probe after 250:1 consolidation.

- (c) In conjunction with the Probe transactions (note 5(a)), the Company received net capital of \$20,122,951 through a subscription receipts offering and repaid \$10 million of the amounts due to related parties. As a result, the Company was released from its obligation as a guarantor on the line of credit and term loan for its then parent and affiliates as referenced in note 20. The remaining balance of \$10,122,951 is available for general corporate and working capital purposes.
- (d) 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 Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

#### 12. Stock-based compensation

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

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

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

	Nine months ended September 30,			
	2012		2011	
	Number	Exercise Price(CDN\$)	Number	Exercise Price(CDN\$)
Outstanding, beginning of period	-	-	-	-
Granted	4,820,645	0.50	-	-
Outstanding, end of period	4,820,645	0.50	-	-
Exercisable, end of period	-	-	-	-

The fair value of the stock options at the grant date of \$0.31 per option, were measured using the Black-Scholes option pricing model assuming a 50% volatility, 2% interest rate, 0% forfeiture rate, expected life of 10 years, and no dividends paid, with the resulting fair value recognized in income over the vesting period.

A forfeiture rate of nil% has been used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period. This estimate is adjusted to the actual forfeiture rate.

During the three and nine months ended September 30, 2012, \$190,755 and \$289,885, respectively, was recorded as stock-based compensation relating to stock options granted in June 2012 with a corresponding increase in contributed surplus (2011 - \$Nil).

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

#### 13. Personnel expenses

The total remuneration for employees, officers and directors were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Salaries and benefits	\$ 698,558	\$ 506,072	\$ 1,792,358	\$ 1,470,280
Stock-based compensation	190,755	-	289,885	-
Total employee remuneration	\$ 889,313	\$ 506,072	\$ 2,082,243	\$ 1,470,280

Key management personnel include executive officers and directors. Executive officers are paid a salary. The executive officers include the Chief Executive Officer, President, Chief Financial Officer/Controller, Vice President, Operations and Vice President, Land and Legal. Key management personnel remuneration comprised the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Salaries and benefits	\$ 401,971	\$ 248,750	\$ 899,471	\$ 705,192
Stock-based compensation	182,010	-	242,680	-
Directors fees	95,500	-	95,500	-
Total key management remuneration	\$ 679,481	\$ 248,750	\$ 1,237,651	\$ 705,192

#### 14. Finance expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest expense on loans payable to related parties (note 8)	\$ 212,986	\$ 114,138	\$ 416,565	\$ 360,897
Loan origination fees on bridge loan (note 8)	180,000	-	180,000	-
Accretion of asset retirement obligations (note 9)	79,041	115,308	237,122	345,924
Total finance expenses	\$ 472,027	\$ 229,446	\$ 833,687	\$ 706,821

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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#### 15. Income taxes

At September 30, 2012, the Company has losses and other undeducted tax pools available to be carried forward in excess of the respective carrying values. Due to the uncertainty of realization, the resulting deferred tax asset has been reduced by a valuation allowance and has not been recognized in the financial statements.

Prior to the reverse acquisition (note 5(a)), taxable income or loss of Rooster and its subsidiaries was included in the tax return of its member. The member files a US federal income tax return and state income tax returns in various jurisdictions. Returns filed in these jurisdictions for tax years ended on or after December 31, 2008 are subject to examination by the relevant taxing authorities. The Company is not currently under examination by any taxing authority.

#### 16. 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 September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Basic	105,465,823	91,281,400	99,201,899	91,281,400
Diluted	107,029,275	91,281,400	100,595,034	91,281,400

Basic income (loss) per share figures for the three and nine month periods ended September 30, 2012 have been calculated using the weighted average number of common shares (post-consolidation) outstanding plus the weighted average number of proportionate voting shares outstanding at the conversion ratio of 1,000 common shares for each outstanding proportionate voting share. The total weighted average number of shares outstanding for the three and nine month periods ended September 30, 2012 and 2011 have been adjusted to reflect the equivalent number of Probe shares issued to Rooster shareholders upon the reverse acquisition transactions. The calculations of diluted income per share for the three and nine months ended September 30, 2012 include the potential dilutive impact of the Company's outstanding stock options.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

#### 17. Supplemental cash flow information

Changes in non-cash working capital, excluding non-cash changes for working capital balances acquired in the Probe acquisition are comprised of the following:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Source/use of cash:				
Accounts receivable	\$ (4,715,085)	\$ (835,128)	\$ (8,266,213)	\$ 1,034,636
Prepaid expenses	(573,513)	720,928	(806,166)	124,535
Accounts payable and accrued liabilities	(8,088,476)	3,938,003	15,777,303	2,742,532
Additions from Probe transaction (note 5 (a))	-	-	(4,160,960)	-
Due to related parties	262,857	4,086,794	(8,520,109)	(1,582,898)
Changes in non-cash working capital	\$ (13,114,217)	\$ 7,910,597	\$ (5,976,145)	\$ 2,318,805
Related to operating activities	\$ (13,715,298)	\$ 3,972,594	\$ (7,427,466)	\$ (423,727)
Related to investing activities	601,081	3,938,003	1,451,321	2,742,532
Related to financing activities	-	-	-	-
	\$ (13,114,217)	\$ 7,910,597	\$ (5,976,145)	\$ 2,318,805

Cash and cash equivalents comprised the following:

	September 30,	December 31,
	2012	2011
Bank balances	\$ 2,047,837	\$ 1,435,927
Cash equivalents	\$ -	\$ -

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

(amounts in US dollars)

(unaudited)

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#### 18. Commitments

##### Operating leases

The Company leases its corporate headquarters in Houston, Texas, under a non-cancellable operating lease expiring in June 2017. The Company is obligated for the following rental payments under this lease at September 30, 2012:

2012	\$	49,248
2013		198,816
2014		202,464
2015		206,112
2016		209,760
2017		<u>105,792</u>
Total	\$	<u>972,192</u>

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

#### 19. Other related party transactions

Prior to May 1, 2012, the Company had transactions with affiliates, including the advancement of funds, field services, rental of equipment, the reimbursement of operating expenses, and the payment of certain administrative services at terms determined by management.

From its inception through April 30, 2012, the Company benefited from its then parent's banking relationships. The parent was the primary and direct borrower from the banks, and provided working capital and growth capital to the Company. Prior to August 2011, the Company's bank accounts were tied to a cash concentration account owned by the parent resulting in zero cash on the Company's balance sheet. The cumulative net capital advances, and other transactions described below, have resulted in the amounts due to the parent. Although the balance is included in current liabilities, the Company does not expect the parent to demand payment until the Company is in a position to do so.

At September 30, 2012, amounts due to related parties general accounts payable totalled \$5,646,508. Purchases from related parties totalled \$262,857 for the period ended September 30, 2012.

At September 30, 2012, fees due to directors included in accounts payable totalled \$95,500.

At December 31, 2011, amounts due to related parties totalled \$14,166,617.

#### 20. Guarantees

At December 31, 2011, the Company was a joint guarantor on a line of credit and a term loan for its then parent and affiliates. As of December 31, 2011, the balance due on the term loan was \$47,833,333 and the line of credit balance was \$Nil. On April 30, 2012, the Company was released from all obligations as guarantor of any indebtedness owed by its then parent and subsidiaries.

# Rooster Energy Ltd.

## Notes to Condensed Interim Consolidated Financial Statements

### Three and Nine Months Ended September 30, 2012 and 2011

*(amounts in US dollars)*

*(unaudited)*

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#### 21. Subsequent events

On October 22, 2012, the Company entered into a Note Purchase Agreement and have issued Senior Secured Notes in the amount of \$22.5 million due on October 22, 2014. The proceeds of the Notes have been used to repay existing secured indebtedness of the Company, certain accounts payable and for other general corporate purposes.

The Notes are secured by a first priority security interest, lien and mortgage on all assets, including oil and gas leases and proceeds therefrom. The Notes bear interest at a rate equal to 12% per annum with interest payments due quarterly. The Notes are due and payable on October 22, 2014. No holder of the Notes is a related party to Rooster nor is any holder a chartered bank, trust company or treasury bank.

In conjunction with the Notes issuance, the Company incurred \$288,944 in loan origination costs during the three and nine months ended September 30, 2012 that will be amortized over the term of the loan.

The Company also entered into a Warrant Purchase Agreement with the holders of the Notes pursuant to which it has agreed to sell warrants exercisable for up to 9 million common shares of the Company at an exercise price of US\$1.00 per common share until October 22, 2017. The warrants are subject to mandatory exercise or conversion, as applicable, in the event that certain conditions are satisfied, including that the trading price of the common shares is equal to or greater than 150% of the Warrant exercise price for a period of thirty (30) consecutive trading days.

Effective November 1, 2012, the Company has entered into certain fixed price contracts. For the period November 1, 2012 through October 31, 2013 the Company is obligated to sell 4,000 mmbtu per day of natural gas at a fixed price of \$3.855 per mmbtu. For the period November 1, 2012 through December 31, 2012 the Company is obligated to sell 350 bbls per day of oil at a fixed price of approximately \$105.82 per bbl and for the period January 1, 2013 through June 30, 2013, the Company is obligated to sell 350 bbls per day at a fixed price of approximately \$102.03 per bbl.

In November 2012, the Company sold all of its mineral interests, facilities and equipment in the Ship Shoal 189 lease for \$2,850,000. The sale will have an effective date of August 1, 2012. The carrying value of these assets of \$3,407,137, net of accumulated depletion and depreciation, less a provision for impairment of \$343,786, and the associated asset retirement obligation of \$213,351 have been recorded as assets and liabilities held for sale at September 30, 2012.