ROOSTER ENERGY LTD.

Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

Contents

Collins Barrow

Chartered Accountants & Consultants

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Independent Auditors' Report

To the Shareholders
Rooster Energy Ltd.

We have audited the accompanying consolidated financial statements of Rooster Energy Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of loss and comprehensive loss, statements of changes in shareholders' equity and statements of cash flows for the years ended December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rooster Energy Ltd. and its subsidiaries as at December 31, 2014 and December 31, 2013, and their financial performance and their cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

Other Matters

The consolidated financial statements of Rooster Energy Ltd. and its subsidiaries as at and for the year ended December 31, 2013 were accounted for under the predecessor values since inception method and are presented as if the Transaction (note 1) had occurred from the beginning of the earliest period presented in the consolidated financial statements.

Collins Barrow Calgary LLP

CHARTERED ACCOUNTANTS

Calgary, Canada
April 29, 2015

Rooster Energy Ltd.
Consolidated Balance Sheets
(amounts in US dollars)

	Notes		December 31, 2014		2013 (note 6)
Assets					
Current assets					
Cash and cash equivalents	19	$	137,670	$	5,787,328
Restricted cash	5(b)		3,804,155		5,620,635
Accounts receivable	5(b)		12,739,540		8,122,381
Fair value of commodity contracts	5(d)		6,638,736		-
Decommissioning contracts receivable	11		30,542,962		9,634,383
Prepaid expenses	12		5,036,937		3,905,449
Total current assets			58,900,000		33,070,176
Fair value of commodity contracts	5(d)		531,234		-
Decommissioning contracts receivable	5(b), 11		40,113,972		68,107,107
Note receivable	7		4,104,712		-
Exploration and evaluation assets	8		207,172		186,152
Property and equipment	9		106,783,591		116,207,187
Asset retirement deposits	11		1,654,645		300,000
Deferred income taxes	17(b)		5,565,000		5,565,000
Total assets		$	217,860,326	$	223,435,622
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	5(c)	$	16,912,740	$	28,779,246
Deferred revenue	11		5,418,348		966,218
Loans payable	10		1,296,819		27,469,712
Accrued interest payable	10		-		2,016,897
Due to related parties	21		6,635,761		5,843,925
Asset retirement obligations	11		36,330,069		15,180,293
Total current liabilities			66,593,737		80,256,291
Long-term liabilities					
Deferred revenue	11		7,116,254		6,830,360
Loans payable	10		56,450,061		3,223,626
Financing warrants	10		1,000		1,092,000
Accrued interest payable	10		3,313,699		84,618
Due to related parties	10(i), 21		3,943,111		-
Deferred income taxes	17(b)		7,448,000		10,140,000
Asset retirement obligations	11		53,114,360		81,747,937
Total liabilities			197,980,222		183,374,832
Shareholders' equity					
Share capital	13		122,112,182		122,112,182
Reserve from common control	6		(77,545,026)		(65,798,473)
Contributed surplus	14		2,816,379		1,511,146
Deficit			(27,503,431)		(17,764,065)
Total shareholders' equity			19,880,104		40,060,790
Total liabilities and shareholders' equity		$	217,860,326	$	223,435,622

Commitments (note 20)
Contingencies (note 23)
Subsequent event (note 24)

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

Approved by the Board: ***(signed)"Paul Crilly "*** ***(signed)"Steve Weyel"***

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

	Notes	Year Ended December 31, 2014	2013 (note 6)
Revenue			
Petroleum and natural gas		$ 45,582,148	$ 48,167,910
Well services		29,963,081	38,935,735
Decommissioning contracts		10,128,243	2,454,821
Production handling		1,262,835	2,705,086
Revenue before the following:		86,936,307	92,263,552
Realized gain on commodity contracts	5(d)	270,742	-
Unrealized gain on commodity contracts	5(d)	7,169,970	-
Total revenue		94,377,019	92,263,552
Expenses			
Lease operating		30,141,053	23,136,616
Cost of well services		20,107,797	23,287,296
General and administrative	15	15,663,463	17,261,632
Depreciation and depletion	9	9,852,222	12,558,669
Repairs and maintenance		1,684,658	1,627,897
Bad debt expense (recovery)	5(b)	(2,539,473)	2,885,059
Stock-based compensation	14	1,305,233	1,005,891
Impairment, net	9	17,637,343	4,802,756
Asset retirement expense	9	-	586,305
Exploration and evaluation	9	-	2,483,731
Transaction costs	6	310,357	-
Total expenses		94,162,653	89,635,852
Operating income		214,366	2,627,700
Loss on settlement of asset retirement obligations	11	(1,581,132)	(487,765)
Unrealized gain (loss) on financing warrants	10(ii)	1,091,000	(25,000)
Finance expenses, net	16	(12,155,600)	(6,860,724)
Loss before income taxes		(12,431,366)	(4,745,789)
Deferred income tax recovery	17(a)	(2,692,000)	(713,000)
Loss and comprehensive loss		$ (9,739,366)	$ (4,032,789)
Loss per share	18		
Basic		$ (0.03)	$ (0.01)
Diluted		$ (0.03)	$ (0.01)

Please refer to note 22 for segmented information.

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

Rooster Energy Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(amounts in US dollars)

	Notes	Number of Common Shares [1]	Common Share Capital Stated Value	Number of Proportionate Voting Shares (1)	Proportionate Voting Shares Stated Value	Reserve From Common Control (note 6)	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2012		259,026,002	$ 92,947,587	65,071	$ 29,162,552	$ (61,091,255)	$ 507,298	$ (13,731,276)	$ 47,794,906
Issued on cashless exercise of stock options	10	2,500	2,043	-	-	-	(2,043)	-	-
Stock-based compensation	10	-	-	-	-	-	1,005,891	-	1,005,891
Adjustment to reserve account		-	-	-	-	(4,707,218)	-	-	(4,707,218)
Loss for the year		-	-	-	-	-	-	(4,032,789)	(4,032,789)
Balance, December 31, 2013		259,028,502	$ 92,949,630	65,071	$ 29,162,552	$ (65,798,473)	$ 1,511,146	$ (17,764,065)	$ 40,060,790
Issued on cashless exercise of stock options	10	-	-	-	-	-	-	-	-
Stock-based compensation	10	-	-	-	-	-	1,305,233	-	1,305,233
Adjustment to reserve account		-	-	-	-	(11,746,553)	-	-	(11,746,553)
Loss for the year		-	-	-	-	-	-	(9,739,366)	(9,739,366)
Balance, December 31, 2014		259,028,502	$ 92,949,630	65,071	$ 29,162,552	$ (77,545,026)	$ 2,816,379	$ (27,503,431)	$ 19,880,104

[1] The issued share capital of the Company consists of 259,028,502 common shares and 65,071 Proportionate Voting Shares (1,000 to 1 conversion rights), for issued share capital on a fully diluted basis equivalent to 324,098,502 common shares (prior to the exercise of 9,193,404 stock options and 13,429,819 warrants).

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

Rooster Energy Ltd.

Consolidated Statements of Cash Flows

(amounts in US dollars)

	Notes	Year Ended December 31, 2014	2013
			(note 6)
Cash and cash equivalents provided by (used in):			
Cash flows from operating activities			
Net loss		$ (9,739,366)	$ (4,032,789)
Adjustments for:			
Depreciation and depletion	9	9,852,222	12,558,669
Dry hole costs included in exploration and evaluation expenses	9	-	2,483,731
Impairment and asset retirement expense	9	17,637,343	5,389,061
Bad debt recovery		(2,848,200)	-
Stock-based compensation	14	1,305,233	1,005,891
Unrealized (gain) loss on commodity contracts	5(d)	(7,169,970)	-
Unrealized (gain) loss on financing warrants	10	(1,091,000)	25,000
Unrealized foreign exchange gain on related party credit facility	16	(255,352)	(92,909)
Gain on debts modification	10	(1,239,121)	-
Accretion of loans payable discount	16	3,506,467	1,618,355
Asset retirement obligation accretion	11	1,600,222	1,371,313
Loss on settlement of asset retirement obligation	11	1,581,132	487,765
Deferred income tax recovery	17(a)	(2,692,000)	(713,000)
Income attributable to reserve from common control	6	(1,746,553)	(4,707,218)
Funds generated from operations		8,701,057	15,393,869
Cash abandonment costs	11	(9,817,401)	(8,405,367)
Changes in non-cash working capital	19	(6,378,102)	10,641,342
Changes in decommissioning contracts receivable	11	7,084,556	7,067,889
Changes in deferred revenue	11	4,738,024	6,546,578
Changes in accrued interest payable	10	1,107,472	1,313,780
Net cash flows provided by operating activities		5,435,606	32,558,091
Cash flows from investing activities			
Capital expenditures for exploration and evaluation assets	8	(207,172)	(186,152)
Capital expenditures for petroleum and natural gas properties	9	(12,329,410)	(42,426,145)
Acquisition of petroleum and natural gas properties	9	(3,524,548)	-
Capital expenditures for office furnishings and improvements	9	(25,413)	(25,228)
Exploration and evaluation expenditures related to dry holes	9	-	(2,483,731)
Advances on notes receivable	7	(4,000,000)	-
Proceeds relating to assets and liabilities held for sale		-	159,255
Changes in non-cash working capital	19	(9,983,380)	5,653,752
Net cash flows used in investing activities		(30,069,923)	(39,308,249)
Cash flows from financing activities			
Repayment of debt related to Well Services	6	(10,000,000)	-
Proceeds from loans payable	10	49,097,731	3,234,466
Repayment of loans payable	10	(24,056,183)	-
Advances from related parties	21	3,943,111	-
Net cash flows provided by financing activities		18,984,659	3,234,466
Net decrease in cash and cash equivalents		(5,649,658)	(3,515,692)
Cash and cash equivalents, beginning of year		5,787,328	9,303,020
Cash and cash equivalents, end of year	19	$ 137,670	$ 5,787,328

Supplemental cash flow information (note 19).

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

1. General business description

Rooster Energy Ltd. ("Rooster" or the "Company") is an independent company engaged in the acquisition, development and exploration of petroleum and natural gas and the delivery of well intervention services, including well plugging and abandonment. 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 November 17, 2014, Rooster closed: (i) a membership interest contribution agreement (the "Cochon Agreement") with the members of Cochon Properties, LLC ("Cochon") to acquire 100% of the membership interests in Cochon (the "Cochon Acquisition"); and (ii) a membership interest contribution agreement (the "Well Services Agreement") and, together with the Cochon Agreement, (the "Agreements") with Morrison Energy Group, LLC, ("MEG") to acquire 100% of the membership interest in Morrison Well Services, LLC ("Well Services") (the "Well Services Acquisition"). The Well Services Acquisition together with the Cochon Acquisition, are hereinafter referred to as the "Transaction". Cochon and Well Services were controlled by a related party who is a significant controlling shareholder and director of the Rooster; consequently, all three entities were under common control at the time of the Transaction.

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

2. Basis of preparation

(a) Statement of compliance and basis of presentation

These 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 position and financial performance as at and for the years ended December 31, 2014 and 2013.

The financial statements have been prepared on a historical cost basis except for stock-based compensation and certain financial assets and financial liabilities which are measured at fair value.

The Transaction has been accounted for using the predecessor values since inception method. The consolidated financial statements have been presented by combining the entity financial statements of Rooster, the entity financial statements of Cochon and carved-out financial information of Well Services at their carrying values since the closing date, November 17, 2014 along with comparative periods as if the Transaction had occurred as at the earliest period presented. The difference between the consideration paid and the net assets acquired was recognized in the reserve from common control in shareholders' equity.

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

These financial statements were authorized for issue by the Board of Directors on April 29, 2015.

(b) Basis of consolidation

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

(c) 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:

Common control transaction

As part of the Transaction, Rooster acquired only property and equipment and prepaid expenses from Well Services. The financial information from Well Services, with respect to material revenues and expenses, were created from carve-out financial statements and have been prepared from the historical accounting records of the Chet Morrison Well Services Division ("CMWS Division") of Chet Morrison Contractors, LLC ("CMC"). The creation of the carve-out financial statements required making certain judgments. All material revenues and expenses specifically identified with the CMWS Division and allocations of corporate expenses have been consolidated from carve-out statements of operations. Financial statements were not previously prepared for the CMWS Division as it had no separate legal status. Furthermore, there was no general ledger for the CMWS Division on a stand-alone basis. Cash management functions were part of CMC and were not performed within the CMWS Division. Corporate allocation of shared expenses is based on management's assumption that the CMWS Division would contribute approximately one-third of the cash flow of CMC and, therefore, an allocation of one-third of shared expenses would be a reasonable allocation methodology.

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.

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.

In most instances, removal of assets occurs many years into the future. This requires judgment regarding abandonment date, future environmental and regulatory legislation, the extent of abandonment activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows. Provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Where some or all of the expenditures required to settle the asset retirement obligation is expected to be reimbursed by another party, judgment is required as to the virtual certainty that the reimbursement will be received and the related asset and deferred revenue are recognized.

Derivative commodity contracts

The fair value of derivative commodity contracts are based on published forward commodity prices as at the balance sheet date and may differ from what will eventually be realized. Changes in the fair value of the derivative commodity contracts are recognized in profit or loss. The actual gains and losses realized on eventual cash settlement can vary due to subsequent fluctuations in commodity prices.

Valuation of accounts receivable

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

Financial liability modification

When financial liabilities are modified, they are accounted for as a de-recognition of the carrying value of the pre-modified loan and the recognition of a new loan at the then fair value. In the determination of fair value, the Company uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. In the case of its subordinated loans, where available, the Company seeks comparable interest rates. If unavailable, it uses those considered appropriate for the risk profile of a corporation in the industry.

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 historical and/or peer group volatility), risk-free interest rate at the grant date (based on government bonds), expected lives of the instruments (based on historical experience and general option holder or warrant behaviour), expected forfeiture rates (based on historical experience and general option or warrant 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.

Business combinations

Determining whether an acquisition meets the definition of a business combination or represents an asset purchase requires judgment on a case by case basis.

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.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

(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 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 where the acquisitions of companies or assets meet the definition of a business under IFRS. 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 income (loss). Associated transaction costs are expensed when incurred.

(d) Common control transaction

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Business combinations involving entities under common control are outside the scope of IFRS 3 "*Business Combinations"*. IFRS provides no guidance on the accounting for these types of transactions and an entity is required to develop an accounting policy. The three most common methods utilized are the acquisition method, the predecessor values since inception method, and the predecessor values from the date of transaction method. The Company has chosen to use the predecessor values since inception method to account for common control transactions. Predecessor values method requires that the financial statements, including comparative financial information, be consolidated using the predecessor carrying values without any step up to fair value. The difference between any consideration and the aggregate carrying value of the assets acquired and liabilities assumed are recorded as a reserve from common control in shareholders' equity. Transaction costs associated with common control transactions are recognized as an expense in the period.

(e) Joint arrangements

A portion of the Company’s petroleum and natural gas activities involve joint arrangements classified as joint operations. The financial statements include the Company’s share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs. The Company has assessed the nature of its joint arrangements and determined them to be joint operations.

Joint control exists for contractual arrangements governing the Company’s assets where all partners collectively control the arrangement and share the associated risks, the Company has less than 100% working interest, all of the partners have control of the arrangement collectively and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements that are material to the Company or that are structured through joint venture arrangements.

(f) 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 each reporting period. These differences are recognized in the statement of loss. Non-monetary items measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions and are not re-translated. 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. The majority of the Company’s transactions occur in U.S. dollars and, therefore, the Company has minimal foreign exchange gains or losses.

(g) Cash and cash equivalents

The Company considers all highly liquid investment instruments purchased with a maturity of three months or less to be cash equivalents.

(h) 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 profit or 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 profit or loss” are either classified as “held for trading” or “designated at fair value through profit or 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 commodity contracts as “held for trading” and "designated at fair value through profit or 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. The Company has designated restricted cash, accounts receivables, note receivable and asset retirement deposits 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”.

(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 profit or 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 in the statement of loss.

The warrants associated with the Company’s former senior secured notes included in loans payable have been desigináted as derivative liabilities. Derivative financial liabilities are recorded upon recognition and subsequently at each balance sheet date at fair value, with changes in fair value being recognized in earnings.

(iii) *Transaction costs*

Transaction costs related to financial instruments classified as fair value through income (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.

(v) *Debt modifications and extinguishments*

An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

If a debt modification is deemed to have been accomplished with debt instruments that are substantially different, the modification is accounted for as a debt extinguishment, whereby the Company must recognize currently in income the difference between the fair value of the modified debt and the net carrying amount of the extinguished debt.

If a modification of terms is accounted for as an extinguishment of the original debt any costs or fees incurred is recognized as part of the gain or loss on the extinguishment. However, if a modification is not accounted for as an extinguishment, any costs or fees incurred are an adjustment to the carrying amount of the liability will be amortized over the remaining term of the modified liability.

(i) Equity instruments

Common shares and proportionate voting shares are classified as equity. Incremental costs directly attributable to the issue of shares are recognized as a deduction from equity, net of any tax effects.

(j) Assets and liabilities held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable and the asset is available for immediate sale in its present condition. Non-current assets classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, with impairments recognized in net income (loss) in the period determined. Non-current assets held for sale and any associated liabilities are presented as current assets and liabilities within the consolidated balance sheet. Assets held for sale are not depleted or depreciated.

(k) 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.

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.

Any gains or losses from the divesture of evaluation assets are recognized in the statement of income (loss).

(ii) *Property and equipment*

All costs directly associated with the development and production of petroleum 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. Dry hole costs are expensed when incurred and included in exploration and evaluation expenses. These costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs also 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.

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).

Machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, and subsequent expenditures to the extent that they can be measured and future economic benefit is probable.

Office furnishings and improvements are stated at cost less accumulated depreciation and accumulated impairment losses.

Costs of replacing parts of property and equipment are capitalized when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed 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 expensed when incurred.

(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 that affect the unit-of-production calculations, such as revisions to proved and probable reserves, 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.

Depreciation of machinery and equipment is computed using the straight-line over the estimated useful lives of the assets which range from 3 to 10 years. Depreciation of machinery and equipment commences when construction has completed and is considered available for use.

Depreciation of office furnishings and improvements is computed using the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years.

(k) 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 of disposal 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 of disposal 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 used 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 recorded if the carrying amount of an asset or its CGU exceeds its recoverable amount. An impairment loss recorded 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.

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, and the amount of the write-down is expensed.

Impairment losses recorded 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, if no impairment loss had been recorded. A goodwill impairment loss is not reversed.

(l) Provisions and contingent liabilities

Provisions and contingent liabilities are recorded 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.

(m) 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 future expenditure required to settle the obligation at the balance sheet date is recorded on a discounted basis using a 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 asset or property and equipment and is depleted or depreciated in accordance with the Company's applicable depletion and depreciation policies. The initial provision is recorded as a liability and accreted over time through charges to finance 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 income or expense.

(n) 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 estimated useful life of the asset to the Company. All other leases are accounted for as operating leases and the lease costs are expensed as incurred.

(o) Revenue recognition

Petroleum and natural gas revenues are recognized when production is sold to a purchaser at a determinable price, delivery has occurred, title has transferred and collectability of the revenue is probable. 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.

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

Revenues related to well plugging and abandonment services is recognized when services are provided, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the price is fixed or determinable.

Decommissioning contracts revenue relates to fixed fee contract reimbursements in excess of the cost to abandon the asset retirement obligations. Decommissioning activities trigger the reimbursement payments. Any payments that exceed the actual cost of abandonment is recorded as decommissioning contracts revenue on the statement of loss when the work is performed and the cash payment is received. Any payments received prior to the decommissioning work being performed is recorded as deferred revenue and amortized to decommissioning contracts revenue on a percentage of completion basis.

(p) Stock-based compensation

Stock options granted to directors, officers and employees 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 deemed an employee for legal or tax purposes or provides services similar to those performed by a direct employee.

The Company measures share-based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods and services cannot be measured reliably, the value of options/warrants granted are measured using the Black-Scholes option pricing model.

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.

(q) Finance income and expenses

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

Finance expenses comprise interest expense on borrowings, accretion of debt discounts, accretion of the discount on asset retirement obligations and impairment gains and 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 expensed in the period in which they are incurred using the effective interest method.

(r) Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recorded in the statement of loss 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 income will be available against which those deductible temporary differences can be utilized.

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 taxable entities, where there is the intention to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets 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.

(s) Loss per share

Loss per share is calculated by dividing net 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.

(t) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that related to transactions with any of the Company’s other segments. To be classified as a segment, discrete financial information must be available and operating results must be regularly reviewed by the Company's Executive Officers.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, exploration and evaluation assets and other intangible assets other than goodwill. Segment results that are reported to the Executive Officers include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and public company costs.

(u) Recent accounting pronouncements

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014:

(i) IAS 32 *"Financial Instruments: Presentation"* - The Company adopted, as required, amendments to IAS 32. The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. IAS 32 amendments did not impact the Company's consolidated financial statements.

(ii) IFRIC 21 *"Levies"* - The International Reporting Interpretation Committee clarified in IFRIC 21 that an entity recognizes a liability for a levy when the activity that triggers payment occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarified that no liability should be anticipated before the minimum threshold is reached. The adoption of this interpretation did not have an impact on the Company's consolidated financial statements.

(iii) IAS 36, *"Impairment of Assets"* - Amendments to IAS 36 require that the Company disclose, if appropriate, the recoverable amount of an asset or CGU, and the basis for the determination of fair value less costs of disposal or value-in-use of the asset, when an impairment loss is recognized or when an impairment loss is subsequently reversed. These amendments resulted in the Company including additional disclosures in respect of the recognition of impairments related to its petroleum and natural gas properties (note 9).

Future accounting policies

(i) On May 28, 2014, the IASB issued IFRS 15, *"Revenue from Contracts with Customers"* which is the result of the joint project with the Financial Accounting Standards Board ("FASB"). The new standard replaces the two main recognition standards IAS 18, *"Revenue"* and IAS 11, *"Construction Contracts"*. The new standard provides a five step model framework as a core principal upon which an entity recognizes revenue and becomes effective January 1, 2017. The Company is currently assessing the potential impact of the standard on the Company's consolidated financial statements.

(ii) IFRS 9, "*Financial Instruments*" addresses the classification and measurement of financial assets. IFRS 9 replaces the guidance on "classification and measurement" of financial instruments in IAS 39, "*Financial Instruments - Recognition and Measurement*". The new standard requires a consistent approach to the classification of financial assets and replaces the numerous categories of financial assets in IAS 39 with two categories, measured at either amortized cost or at fair value. For financial liabilities, the standard retains most of the IAS 39 requirements, but where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income (loss), unless this creates an accounting mismatch. It also includes a new general hedge accounting model. The mandatory effective date of IFRS 9 is January 1, 2018. IFRS 9 is being assessed to determine its impact on the Company's consolidated financial statements.

(iii) IFRS 11, "*Joint Arrangements*" was amended to add new guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. The amendments to IFRS 11 are effective for annual reporting periods beginning on or after January 1, 2016 with early adoption permitted. The Company is currently assessing the potential impact of the amendment on the Company's consolidated financial statements.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The significance of inputs used in making fair value measurements 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 inputs are derived from quoted indices. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement.

In testing for impairment of property and equipment and exploration and evaluation assets, a Level 3 valuation model is used to determine the recoverable amount of a CGU. The fair value less costs of disposal model contains inputs that are not readily observable or corroborated, such as forecasted cash flows over the estimated life of the reserves.

In the determination of fair value of modified debts (note 10), the Company uses a discounted cash flow technique which includes inputs that are not based on observable market data and inputs that are derived from observable market data. The Company looks at similar subordinated debt instruments for effective interest rates and discounting.

The Company's policy is to recognize transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the years ended December 31, 2014 and 2013, there were no transfers between Levels 1, 2 or 3.

(i) Business combinations

The fair value of property and equipment recognized in a business combination is based on market values. The fair value of property and equipment and exploration and evaluation assets 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 under current market conditions. The fair value of petroleum and natural gas interests (included in property and equipment) and exploration and evaluation assets is estimated with reference to the discounted cash flows expected to be derived from petroleum and natural gas production based on external and corporate reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

(ii) Financial instruments

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

The fair value of commodity contracts, using a Level 2 valuation model, is determined by discounting the difference between the contracted prices and published forward price curves and foreign exchange rates as at the balance sheet date, using the remaining contracted notional petroleum and natural gas volumes and a risk-free interest rate (based on published government rates) adjusted for the non-performance risk of the counterparty. The fair value of the derivative financial instruments is recorded at each balance sheet date with unrealized gains or losses on those contracts recorded in the statement of loss.

Cash and cash equivalents are measured at fair value based on a Level 1 designation. Commodity contracts and financing warrants are measured at fair value using a Level 2 designation.

(amounts in US dollars)

5. 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 acquisition, exploration, development, production, well intervention, well plugging and abandonment, and financing activities including 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 polices 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) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at December 31, 2014 and 2013, is as follows:

	December 31, 2014	December 31, 2013
Cash and cash equivalents	$ 137,670	$ 5,787,328
Restricted cash	3,804,155	5,620,635
Accounts receivable	12,739,540	8,142,236
Commodity contracts	7,169,970	-
Decommissioning contracts receivable	70,656,934	77,741,490
Note receivable	4,104,712	-
Asset retirement deposits	1,654,645	300,000
	$ 100,267,626	$ 97,591,689

Cash and cash equivalents

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

Restricted cash

As of December 31, 2014, the Company has $3,804,155 (2013 - $3,462,000) in restricted cash representing cash collateral for performance bonds for specific well and facility abandonments that must be completed within the next 12 months (note 11).

In addition, restricted cash at December 31, 2013 included $2,158,635 of disputed revenue proceeds held in escrow related to Vermilion Area Block 376 #A-3 and A-4 wells, with the offsetting amount included in accounts payable and accrued liabilities. Restricted cash of $3,599,426 was released during the year ended December 31, 2014 as a result of the settlement as disclosed further in note 23(b).

All funds are held in financial institutions with high credit ratings and as such, management does not expect any credit risk losses.

Accounts receivable

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

During the years ended December 31, 2014 and 2013, the Company sold a substantial portion of its product to two customers. Sales to those customers aggregated approximately $32.9 million or approximately 72% of total petroleum and natural gas revenue (2013 - $39.7 million and 82%, respectively). At December 31, 2014, amounts due from those customers included in accounts receivable totalled approximately $5.3 million (2013 - $3.9 million), all of which has been collected subsequent to December 31, 2014.

During the years ended December 31, 2014 and 2013, the Company earned a substantial portion of its well services plug and abandonment revenue from two customers. Sales to those customers aggregated approximately $23.4 million or approximately 78% of total well service revenue (2013 - $15.2 million and 39%, respectively). At December 31, 2014, amounts due from those customers included in accounts receivable totalled approximately $0.8 million (2013 - $Nil), all of which has been collected subsequent to December 31, 2014.

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

Joint operation receivables are typically collected within one to three months of the joint operation bill being issued to the partner. The Company attempts to reduce the risk from joint operation receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and issuing cash calls to partners for capital projects before they commence. The Company does not typically obtain collateral or letters of credit from purchasers of the Company's petroleum and natural gas production or joint operation partners; however, the Company does have the ability to withhold production or imbalance production from joint operation partners in the event of non-payment. The receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risk exists with joint operation partners, as disagreements occasionally arise that increase the potential for non-collection. Amounts recorded from joint operation partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company has recorded balances due from its joint operation partners based on costs incurred and its interpretation of allowable expenditures. Any adjustment required as a result of joint operation audits are recorded in the period of settlement with joint operation partners.

(amounts in US dollars)

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

Management has evaluated receivables for collectability and as such, has recorded an allowance for doubtful accounts at December 31, 2014 and 2013 totalling $622,462 and $3,187,396, respectively. Bad debt expense/(recovery) for the years ended December 31, 2014 and 2013 totalled $(2,539,473) and $2,885,059, respectively. Bad debt expense for 2013 primarily relates to an allowance for non-payment of operating costs and capital expenditures by a joint operation partner. Please refer to note 9 regarding the recovery of bad debt expense during the year ended December 31, 2014.

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

	December 31, 2014	December 31, 2013
Petroleum and natural gas revenue	$ 4,354,830	$ 3,287,084
Services revenue	939,004	-
Decommissioning contracts revenue	4,327,838	2,695,750
Joint operation receivables	3,740,330	5,326,943
	13,362,002	11,309,777
Allowance for doubtful accounts	(622,462)	(3,187,396)
Total accounts receivable	$ 12,739,540	$ 8,122,381

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

	December 31, 2014	December 31, 2013
Current (0 - 30 days)	$ 8,580,290	$ 7,892,722
31 to 60 days	4,037,845	231,798
61 to 90 days	19,940	55,211
Past due (greater than 90 days)	723,927	3,130,046
Allowance for doubtful accounts	(622,462)	(3,187,396)
Total accounts receivable	$ 12,739,540	$ 8,122,381

Commodity contracts

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

Decommissioning contracts receivable (note 11)

The Company entered into three plugging and abandonment contracts in which the Company assumed asset retirement obligations in exchange for fixed fees from the counterparty which will be paid to the Company as the plugging and abandonment work is completed. As a result, the

(amounts in US dollars)

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

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

Asset retirement deposits

Asset retirement deposits (note 11) consist of amounts deposited to secure performance bonds related to asset retirement obligations. The exposure to credit risk has been assessed by management to be minimal.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become 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 short-term financial liabilities consist of accounts payable and accrued liabilities, and current portions of accrued interest payable, due to related parties and loans payable.

The Company's accounts payable and accrued liabilities as of December 31, 2014 and 2013 are aged as follows:

	December 31, 2014	December 31, 2013
Current (0 - 30 days)	$ 14,357,168	$ 16,098,124
31 to 60 days	1,564,172	3,800,100
61 to 90 days	-	6,913,096
Greater than 90 days	991,400	3,841,503
Total accounts payable and accrued liabilities	$ 16,912,740	$ 30,652,823

At December 31, 2014, the Company had a working capital deficiency of $7,693,737 (2013 - $47,186,115). During 2014, management has taken a number of steps to address the Company's liquidity situation including issuing Senior Secured Notes (note 10), entering into the Transaction (note 6), and entering into intercreditor and subordination agreements (note 10).

Management believes that these transactions, combined with the Company's ongoing positive cash flows from operating activities and the continued support of its major shareholders, will be sufficient to fund its ongoing operations and fund its capital expenditures program over the upcoming year. See also note 2(a).

To the extent that the Company enters derivatives to manage commodity price risk, it may be subject to liquidity risk as commodity contracts become due. Commodity contracts are not entered for speculative purposes and management closely monitors commodity risk exposure in comparison to forecasted sales volumes. Liquidity risk is partially mitigated as losses realized due to high commodity prices are generally matched by increased cash flows from sales in the high commodity price environment.

The Company may enter into contracts to assume a significant liability for asset retirement obligations in mature oil and gas fields in the Gulf of Mexico. The Company may offset that liability in whole or in part through future payments from the seller of the properties, which may be fixed in amount. As a result, the risk that such payments may not exceed the actual costs of decommissioning will be assumed by the Company. In the decommissioning contracts receivable (note 11), the Company assumed significant asset retirement obligations together with an agreement of the counterparty to pay aggregate payments as the obligations are decommissioned by the Company. There is no assurance that these future counterparty payments will exceed the actual cost to decommission such assets.

The repayment terms relating to the Company's due to related parties are disclosed in note 21.

The repayment terms relating to the Company's loans payable are disclosed in note 10.

The Company is also subject to future commitments and contingencies as disclosed in notes 5(d), 20 and 23.

Refer to note 5(e) for the Company's management of capital.

(d) Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's net loss 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 received by the Company for petroleum and natural gas sales are generally denominated in US dollars. The Company had nominal working capital amounts denominated in currencies other than US dollars other than the related party subordinated secured credit facility which is denominated in Canadian dollars ("CDN") (note 10), and had no forward exchange rate contracts in place as of or during the years ended December 31, 2014 and 2013. Shares of the Company are traded in Canadian dollars.

For the year ended December 31, 2014, a 5% change to the US/CDN exchange rate would change net loss by approximately $172,000, based on the outstanding balance of the related party subordinated secured credit facility.

(amounts in US dollars)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates impact floating rate borrowings. At December 31, 2014, the Senior Secured Notes (note 10(i)) bear interest at a floating interest rate and therefore are subject to interest rate risk. The Company had no interest rate swaps or financial contracts in place as of or during the years ended December 31, 2014 and 2013.

For the year ended December 31, 2014, a 100 basis points change to the effective interest rate would change net loss by approximately $292,500.

Commodity price risk

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

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

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

The following is a summary of all derivative commodity contracts that were in place as at December 31, 2014:

Counterparty	Commodity	Average Notional Volume	Type of Contract	Amount	Term
BP Energy Company	Natural Gas	6,962 MMBtu/day	Fixed Price	$3.81/MMBtu NYMEX	Jan 1, 2015 - Feb. 29, 2016
BP Energy Company	Oil (LLS)	642 bbls/day	Fixed Price	$77.50/bbl LLS	Jan 1, 2015 - Feb. 29, 2016

As at December 31, 2014, the fair value of all derivative commodity contracts was $7,169,970 (2013 - $nil). This resulted in an unrealized gain of $7,169,970 for the year ended December 31, 2014 (2013 - $nil). The Company's risk management activities had a net realized gain of $270,742 for the year ended December 31, 2014 (2013 - $nil).

When assessing the potential impact of these commodity price changes, the Company believes a \$1/bbl change to the price of oil and a \$0.10/MMBtu change to the price of natural gas is a reasonable measure. Fluctuations in commodity prices could have resulted in unrealized gains (losses) impacting net loss. A \$1/bbl change to the price of oil would have an approximate \$220,000 impact on net loss for the year ended December 31, 2014. A \$0.10/MMBtu change to the price of natural gas would have an approximate \$250,000 impact on net loss for the year ended December 31, 2014.

The Company entered into certain fixed price contracts during the year ended December 31, 2013 for the purpose of physical delivery of a non-financial item; therefore, the physical delivery contracts were not fair valued. Settlements on these contracts were included in petroleum and natural gas revenue as they occurred.

(e) Capital management

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

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 forecasting future cash flows, the Company includes economic conditions; investment opportunities; past and forecasted capital investment efficiencies; and current and forecasted petroleum and natural gas prices.

In order to maintain or adjust the capital structure, the Company may also seek additional debt or equity financing and adjust its capital spending to manage its current and projected capital structure. The Company's ability to raise additional 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. See also liquidity risk disclosures in note 5(c).

(amounts in US dollars)

The Company's working capital deficiency is as follows:

	December 31, 2014	December 31, 2013
Current assets	$ 58,900,000	$ 33,070,176
Current liabilities	(66,593,737)	(80,256,291)
Working capital deficiency	$ (7,693,737)	$ (47,186,115)

The Company is required to meet certain financial covenants relating to its loans payable as further discussed in note 10. The Company is not subject to any other externally imposed capital requirements. There has been no change to management's approach to managing capital during the year ended December 31, 2014.

6. Common control transaction

On November 17, 2014, Rooster closed the Transaction consisting of the acquisitions of Cochon and Well Services pursuant to the Agreements dated March 7, 2014 for an aggregate value at the time the Agreements were entered into of $125 million, with $30 million and $95 million relating to the acquisitions of Cochon and Well Services, respectively, subject to working capital adjustments as outlined in the Agreements (the "Purchase Price").

Upon closing of the Transaction, a total of 218,631,179 Rooster Common Shares were issued to satisfy the Rooster Common Shares portion of the Purchase Price. Under *IAS 39, Financial Instruments: Recognition and Measurement*, the value of common share consideration must be recognized based on the acquisition date fair value. Accordingly, the value of common share consideration is based on the closing price of Rooster Common Shares on November 17, 2014 of CDN$0.42 per share and US$0.37 per share after considering a currency exchange rate of (US$/CDN$) of $0.8843. In addition, $10 million in cash was paid in satisfaction of the Purchase Price which was used to settle a note payable of Well Services on November 17, 2014 and has been presented as part of cash flows from financing activities. A cash adjustment will be made to the Purchase Price for adjusted working capital items, as provided in the Agreements in the amount of $1,873,577. The estimated provision has been accrued and recorded as part of the current portion of due to related parties.

Prior to November 17, 2014, Cochon and Well Services were treated as partnerships for income tax purposes and under this election, taxable income or loss of Cochon and Well Services were included in the tax returns of its members and, as such, its members were taxed separately on its share of Cochon's and Well Services' income whether or not that income was actually distributed. Under the terms of the Transaction, the Company acquired tax pools in the amount of $11.1 million relating to acquired net assets. On November 17, 2014, the Company has recognized a deferred income tax liability of approximately $2.5 million related to the excess of the carrying value of the net assets transferred relative to the tax basis of the net assets as a result of the change in tax status.

(amounts in US dollars)

The effects on the consolidated financial statements for the year ended December 31, 2013 for the common control transaction are as follows:

Consolidated Balance Sheets

	Rooster	Cochon	Well Services	Effect of Common Control Transaction	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 964,040	$ 4,823,288	$ -	$ -	$ 5,787,328
Restricted cash	5,620,635	-	-	-	5,620,635
Accounts receivable	4,071,505	4,070,729	-	(19,853)	8,122,381
Decommissioning contracts receivable	-	9,634,383	-	-	9,634,383
Prepaid expenses and deposits	1,173,832	1,174,761	1,556,856	-	3,905,449
Total current assets	11,830,012	19,703,161	1,556,856	(19,853)	33,070,176
Decommissioning contracts receivable	-	68,107,107	-	-	68,107,107
Exploration and evaluation assets	186,152	-	-	-	186,152
Property and equipment	95,208,469	5,768,623	15,230,095	-	116,207,187
Asset retirement deposits	300,000	-	-	-	300,000
Deferred income taxes	5,565,000	-	-	-	5,565,000
Total assets	$ 113,089,633	$ 93,578,891	$16,786,951	$ (19,853)	$ 223,435,622
Liabilities and shareholders' equity					
Current liabilities					
Accounts payable and accrued liabilities	$ 19,839,404	$ 8,959,695	$ -	$ (19,853)	$ 28,779,246
Deferred revenue	-	966,218	-	-	966,218
Loans payable	27,469,712	-	-	-	27,469,712
Accrued interest payable	2,016,897	-	-	-	2,016,897
Due to related parties	3,970,348	-	-	1,873,577	5,843,925
Asset retirement obligations	5,392,167	9,696,225	-	91,901	15,180,293
Total current liabilities	58,688,528	19,622,138	-	1,945,625	80,256,291
Long-term liabilities					
Deferred revenue	-	6,830,360	-	-	6,830,360
Loans payable	3,223,626	-	-	-	3,223,626
Financing warrants	1,092,000	-	-	-	1,092,000
Accrued interest payable	84,618	-	-	-	84,618
Deferred income taxes	10,140,000	-	-	-	10,140,000
Asset retirement obligations	13,203,660	68,544,277	-	-	81,747,937
Total liabilities	86,432,432	94,996,775	-	1,945,625	183,374,832
Shareholders' equity					
Share capital	40,911,182	1,000	20,609,376	60,590,624	122,112,182
Reserve from common control	-	-	(4,707,218)	(61,091,255)	(65,798,473)
Contributed surplus	1,511,146	-	-	-	1,511,146
Deficit	(15,765,127)	(1,418,884)	884,793	(1,464,847)	(17,764,065)
Total shareholders' equity	26,657,201	(1,417,884)	16,786,951	(1,965,478)	40,060,790
Total liabilities and shareholders' equity	$ 113,089,633	$ 93,578,891	$16,786,951	$ (19,853)	$ 223,435,622

(amounts in US dollars)

Consolidated Statements of Loss and Comprehensive Loss

	Rooster	Cochon	Well Services	Effect of Common Control Transaction	Consolidated
Revenue					
Petroleum and natural gas	$ 41,048,401	$ 7,119,509	$ -	$ -	$ 48,167,910
Well services	-	-	42,095,487	(3,159,752)	38,935,735
Decommissioning contracts	-	1,323,833	-	1,130,988	2,454,821
Production handling	-	2,705,086	-	-	2,705,086
Total revenue	41,048,401	11,148,428	42,095,487	(2,028,764)	92,263,552
Expenses					
Lease operating	12,349,985	10,786,631	-	-	23,136,616
Cost of well services	-	-	25,224,159	(1,936,863)	23,287,296
General and administrative	4,987,092	1,738,327	10,536,213	-	17,261,632
Depreciation and depletion	8,708,209	28,035	3,822,425	-	12,558,669
Repairs and maintenance	-	-	1,627,897	-	1,627,897
Bad debt expense	2,885,059	-	-	-	2,885,059
Stock-based compensation	1,005,891	-	-	-	1,005,891
Impairment, net	4,802,756	-	-	-	4,802,756
Asset retirement expense	586,305	-	-	-	586,305
Exploration and evaluation	2,483,731	-	-	-	2,483,731
Total expenses	37,809,028	12,552,993	41,210,694	(1,936,863)	89,635,852
Operating income (loss)	3,239,373	(1,404,565)	884,793	(91,901)	2,627,700
Loss on settlement of asset retirement obligations	-	(487,765)	-	-	(487,765)
Unrealized gain (loss) on financing warrants	(25,000)	-	-	-	(25,000)
Finance expenses, net	(5,961,224)	(899,500)	-	-	(6,860,724)
Loss before income taxes	(2,746,851)	(2,791,830)	884,793	(91,901)	(4,745,789)
Deferred income tax recovery	713,000	-	-	-	713,000
Loss and comprehensive loss	$ (2,033,851)	$ (2,791,830)	$ 884,793	$ (91,901)	$ (4,032,789)

(amounts in US dollars)

Consolidated Statements of Cash Flows

	Rooster	Cochon	Well Services	Effect of Common Control Transaction	Consolidated
Cash and cash equivalents provided by (used in):					
Cash flows from operating activities					
Net loss	$ (2,033,851)	$ (2,791,830)	$ 884,793	$ (91,901)	$ (4,032,789)
Adjustments for:					
Depreciation and depletion	8,708,209	28,035	3,822,425	-	12,558,669
Dry hole costs included in exploration and evaluation expenses	2,483,731	-	-	-	2,483,731
Impairment and asset retirement expense	5,389,061	-	-	-	5,389,061
Stock-based compensation	1,005,891	-	-	-	1,005,891
Unrealized (gain) loss on financing warrants	25,000	-	-	-	25,000
Unrealized foreign exchange gain on related party credit facility	(92,909)	-	-	-	(92,909)
Accretion of loans payable discount	1,618,355	-	-	-	1,618,355
Asset retirement obligation accretion	471,813	899,500	-	-	1,371,313
Loss on settlement of asset retirement obligation	-	487,765	-	-	487,765
Deferred income tax recovery	(713,000)	-	-	-	(713,000)
Income attributable to reserve from common control	-	-	(4,707,218)	-	(4,707,218)
Funds generated from operations	16,862,300	(1,376,530)	-	(91,901)	15,393,869
Cash abandonment costs	(941,614)	(7,555,654)	-	91,901	(8,405,367)
Changes in non-cash working capital	7,245,243	3,396,099	-	-	10,641,342
Changes in decommissioning contracts receivable	-	7,067,889	-	-	7,067,889
Changes in deferred revenue	-	6,546,578	-	-	6,546,578
Change in accrued interest payable	1,313,780	-	-	-	1,313,780
Net cash flows provided by (used in) operating activities	24,479,709	8,078,382	-	-	32,558,091
Cash flows from investing activities					
Capital expenditures for exploration and evaluation assets	(186,152)	-	-	-	(186,152)
Capital expenditures for petroleum and natural gas properties	(36,150,178)	(6,275,967)	-	-	(42,426,145)
Capital expenditures for office furnishings					-
and improvements	(25,228)	-	-	-	(25,228)
Exploration and evaluation expenditures related to dry holes	(2,483,731)	-	-	-	(2,483,731)
Proceeds relating to assets and liabilities held for sale	159,255.00	-	-	-	159,255
Changes in non-cash working capital	4,568,051	1,085,701	-	-	5,653,752
Net cash flows used in investing activities	(34,117,983)	(5,190,266)	-	-	(39,308,249)
Cash flows from financing activities					
Proceeds from loans payable	3,234,466	-	-	-	3,234,466
Net cash flows provided by financing activities	3,234,466	-	-	-	3,234,466
Net decrease in cash and cash equivalents	(6,403,808)	2,888,116	-	-	(3,515,692)
Cash and cash equivalents, beginning of year	7,367,848	1,935,172	-	-	9,303,020
Cash and cash equivalents, end of year	$ 964,040	$ 4,823,288	$ -	$ -	$ 5,787,328

(amounts in US dollars)

7. Note receivable

On March 12, 2014, the Company issued a promissory note to a significant shareholder and director in the principal amount of $4,000,000, with interest at the rate of 3.25% per annum. Accrued interest receivable on the note totalled $104,712, at December 31, 2014. The note will mature on February 14, 2017.

8. Exploration and evaluation assets

	December 31,			
		2014		**2013**
Balance, beginning of year	$	186,152	$	-
Exploration and evaluation expenditures		207,172		186,152
Transfers to property and equipment (note 9)		(186,152)		-
Balance, end of year	$	207,172	$	186,152

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

(amounts in US dollars)

9. Property and equipment

	Petroleum and natural gas interests	Machinery & Equipment	Office furnishings and improvements	Total
Cost				
Balance at December 31, 2012	$ 104,033,514	$ 33,310,138	$ 707,240	$ 138,050,892
Additions	44,909,877	-	25,228	44,935,105
Dispositions	-	-	-	-
Transfers to exploration and evaluation expenses related to dry holes	(2,483,731)	-	-	(2,483,731)
Asset retirement obligations (note 11)	455,080	-	-	455,080
Balance at December 31, 2013	$ 146,914,740	$ 33,310,138	$ 732,468	$ 180,957,346
Additions	12,329,410	-	25,413	12,354,823
Acquisition (note 9(i))	6,372,748	-	-	6,372,748
Transfers from exploration and evaluation assets (note 8)	186,152	-	-	186,152
Asset retirement obligations (note 11)	(847,754)	-	-	(847,754)
Balance at December 31, 2014	$ 164,955,296	$ 33,310,138	$ 757,881	$ 199,023,315
Depletion, depreciation and impairment				
Balance at December 31, 2012	$ 32,075,024	$ 14,257,618	$ 469,787	$ 46,802,429
Depletion and depreciation for the year	8,674,062	3,822,425	62,182	12,558,669
Impairment and asset retirement expense (note 9(ii))	5,389,061	-	-	5,389,061
Balance at December 31, 2013	$ 46,138,147	$ 18,080,043	$ 531,969	$ 64,750,159
Depletion and depreciation for the year	5,916,494	3,857,587	78,141	9,852,222
Impairment and asset retirement expense (note 9(ii))	17,637,343	-	-	17,637,343
Balance at December 31, 2014	$ 69,691,984	$ 21,937,630	$ 610,110	$ 92,239,724
Net book value				
December 31, 2013	$ 100,776,593	$ 15,230,095	$ 200,499	$ 116,207,187
December 31, 2014	$ 95,263,312	$ 11,372,508	$ 147,771	$ 106,783,591

The calculation of depletion and depreciation for the year ended December 31, 2014 included estimated future development costs of $44,562,900 (2013 - $55,340,000) associated with the development of the Company's proved and probable reserves.

Property and equipment at December 31, 2014 includes $759,363 (2013 - $6,656,339) machinery and equipment not yet in use. Accordingly, no depreciation has been recorded relating to these assets.

The Company has not capitalized any interest or general and administrative expenses during the years ended December 31, 2014 and 2013.

(i) *Acquisition*

On July 16, 2014, the Company completed the acquisition of additional working interest from its joint operation partner in the Vermillion Area Block 376 #A-3 and A-4 wells for cash consideration of $3.5 million plus a recovery of year ended December 31, 2013 bad debt expense of $2.8 million, owed by the joint operation partner to the Company (note 5(b)). This property acquisition was recognized as a business combination, as the assets acquired met the definition of a business. The acquisition has been accounted for using the acquisition method and the recognized amounts of identifiable assets acquired and liabilities assumed at fair value are as follows: $6.4 million of petroleum and natural gas interests and $85 thousand of asset retirement obligations. Revenue and net loss since the closing date and pro forma consolidated revenue and net loss giving effect to the acquisition of assets as if the acquisition had occurred on January 1, 2014, are not practicable to determine. The operations attributable to the acquisition are not managed as a separate business unit or division.

(amounts in US dollars)

(ii) *Impairment*

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

During the years ended December 31, 2014 and 2013, the Company recognized impairment and asset retirement expense, net of reversals, for the following cash generating units:

	Impairment Expense 2014	December 31 Recoverable Amount 2014	Impairment Expense 2013
East Cameron Block 129	$ -	$ -	$ 89,258
Eugene Island Block 18	2,636,880	-	-
Eugene Island Block 28	9,955,066	6,929,300	-
Grand Isle Block 70	3,056,332	1,034,900	3,851,175
High Island Block 141	210,365	922,900	714,050
High Island Block 201	420,328	-	237,531
Vermillion Block 175	-	-	431,214
West Delta Block 44/45	1,183,909	-	-
West Cameron Block 215	179,941	-	-
Other	(5,478)	-	65,833
Total impairment and asset retirement expense, net	17,637,343		5,389,061
Less: asset retirement expense	-		(586,305)
Total impairment, net	$ 17,637,343		$ 4,802,756

Impairments and asset retirement expense were recorded in the consolidated statements of loss in the respective periods. The impairments were required due to a combination of lower forecasted commodity prices, downward revision of estimated reserves and/or changes in estimates, which resulted in the fair value less costs of disposal of the applicable CGUs being less than their carrying amounts. Asset retirement expense comprise impairments, net of impairment reversals, related to revisions to asset retirement obligations for which CGUs were fully impaired in prior years.

The impairments of Eugene Island Block 18, High Island Block 201, West Cameron Block 215 and West Delta Block 44/45 were due to no reserves being assigned to these CGUs as they were deemed to no longer be economically viable due to the decrease in forecasted commodity prices. The recoverable amounts of all of these CGUs is $Nil at December 31, 2014.

The impairments of Eugene Island Block 28, Grand Isle Block 70 and High Island Block 141 were mainly due to decrease revenues expected due to the decrease in forecasted commodity prices. These blocks were still deemed to be economically viable and the recoverable amount for these blocks is $6,929,300, $1,034,900 and $922,900 respectively at December 31, 2014.

(amounts in US dollars)

A 1% change in the assumed discount rate over the life of the reserves independently would impact impairment expense by $367,000 for the year ended December 31, 2014.

The following table outlines the prices used in the December 31, 2014 impairment calculations:

	Oil $US/BBL	NGL $US/BBL	Natural Gas $US/MCF
2015	54.13	29.18	2.58
2016	60.73	33.13	3.03
2017	64.64	35.41	3.33
2018	66.60	35.71	3.52
2019	67.84	35.54	3.68
2020	68.68	35.91	3.82
2021	75.99	39.45	3.93
2022	75.70	39.30	4.06
2023	69.71	36.29	4.17
2024	69.71	36.44	4.17
Thereafter	Escalation rate of approximately 2.0% per year		

The following table outlines the prices used in the December 31, 2013 impairment calculations:

	Oil $US/BBL	NGL $US/BBL	Natural Gas $US/MCF
2014	107.38	73.78	3.92
2015	102.50	68.34	3.84
2016	96.96	64.49	3.84
2017	92.74	55.38	3.85
2018	87.55	44.73	3.91
2019	83.77	44.75	4.01
2020	83.70	41.68	4.06
2021	83.39	44.60	4.03
2022	83.08	42.07	4.01
2023	82.87	41.15	3.99
Thereafter	Escalation rate of approximately 2.0% per year		

For the purposes of the impairment calculations, adjustments were made to the benchmark prices contained in the independent reserve report to reflect varied delivery points and quality differentials in the products delivered.

(amounts in US dollars)

10. Loans payable and financing warrants

Loans payable at December 31, 2014 and 2013 consist of the following:

	December 31, 2014	December 31, 2013
Senior secured notes dated November 17, 2014 for $45,000,000 with interest at LIBOR + 11.5% per annum, payable quarterly, with a minimum interest of 13.0% per annum, a maturity date of February 14, 2016, and secured by first priority security interest on all assets (the "Senior Secured Notes") (i)	$ 40,535,340	$ -
Notes dated October 22, 2012 for $22,500,000 with interest at 18% per annum, payable quarterly, with an initial maturity date of October 22, 2014, and secured by first priority security interest on all assets (the "Notes") (ii)	-	21,006,712
Related party subordinated note payable dated April 26, 2012 for $6,463,000, with modified maturity date of February 14, 2017, subordinated to the Senior Secured Notes, with interest at 15.5% (2013 - 14.5%) per annum, payable at maturity, and secured by certain petroleum and natural gas properties (iii)	6,170,965	6,463,000
Related parties subordinated secured credit facility dated October 11, 2013 for CDN $4,000,000, with modified maturity date of February 14, 2017, subordinated to the Senior Secured Notes, with interest at 9% per annum, payable at maturity, and secured by certain petroleum and natural gas properties (iv)	2,962,015	3,223,626
Related party subordinated secured credit facility dated March 7, 2014 for $7,150,000, with modified maturity date of February 14, 2017, subordinated to the Senior Secured Notes, with interest at 14% per annum, payable at maturity, and secured by certain petroleum and natural gas properties (v)	6,781,741	-
Promissory note dated June 26, 2014 for $2,853,002, with interest at 2.5% per annum, with monthly payments of $262,650, and a maturity date of on May 25, 2015 (vi)	1,296,819	-
	$ 57,746,880	$ 30,693,338
Less: Amounts due within one year	(1,296,819)	(27,469,712)
Long-term portion	$ 56,450,061	$ 3,223,626

(amounts in US dollars)

The loans payable at December 31, 2014 are scheduled to mature as follows:

2015	$	1,296,819	
2016		45,000,000	
2017		16,813,000	(i)
Total	$	63,109,819	

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

(i) On November 17, 2014, the Company, entered into a Note Purchase Agreement under which the Company issued Senior Secured Notes (the "Senior Secured Notes") due on the earlier of February 14, 2016 and the date that the Senior Secured Notes shall become due and payable in full in accordance with the agreement, whether by acceleration or otherwise, in the aggregate principal amount of $45 million. The proceeds of the Senior Secured Notes were used to: 1) repay existing Notes and accrued interest payable (note 10(ii)); 2) fund the cash portion of the purchase price for Well Services of $10,000,000 (note 6); and 3) payment of trade accounts payable over 60 days and to provide for other general corporate purposes.

Net proceeds to the Company totalled $8,510,126, after deducting the original issue discount, the outstanding principal, fees, and interest paid to the holder of the Notes, the $10 million portion of the purchase price for Well Services and certain transaction fees and expenses.

The Senior Secured Notes are secured by a first priority security interest, lien and mortgage on all of the Company's petroleum and natural gas and machinery and equipment assets and, without limitation, a pledge of equity in each of Rooster's subsidiaries. The Senior Secured Notes include an original issue discount of 2.5%, and bear interest at a rate equal to LIBOR + 11.5% per annum with interest payments due monthly; the minimum interest rate is 13.0% per annum. The holder of the Senior Secured Notes is not related to Rooster nor is the holder a chartered bank, trust company or treasury bank. The Company is required to meet certain financial covenant and reporting requirements in relation to the Senior Secured Notes.

Total transaction costs, including loan origination fees, were approximately $5,255,000 which were netted against the principal amount of the Senior Secured notes and are being accreted over the term of the Senior Secured Notes up to the principal amount on maturity using the effective interest rate of 22.5%, with $790,610 recorded as accretion for the year ended December 31, 2014.

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

In connection with the Senior Secured Notes, the Senior Secured Notes holder, the Company and each of the loans payable to related parties (see notes 10 (iii), (iv) and (v)), entered into intercreditor and subordination agreements dated November 17, 2014 that prohibit any payments on the related party indebtedness until the Senior Secured Notes are fully satisfied. Additionally, each of the loan or credit agreements between the Company and each related party was amended to extend the maturity date of each of those loans to one year after all obligations under the Senior Secured Notes are satisfied, being February 14, 2017.

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

- a minimum Consolidated Adjusted EBITDAX (consolidated net income plus consolidated interest expense, provision for income taxes, total depreciation and amortization expense, exploration expense, other non-cash items reducing consolidated net income, less the following: other non-cash items increasing consolidated net income, interest income, extraordinary or non-recurring gains and other extraordinary and non-recurring income) for each fiscal quarter beginning December 31, 2014;

- a proved developed producing ("PDP")) Asset Coverage Ratio (ratio as of the last day of any fiscal quarter of (a) the present value, discounted at 10%, of the Company's proved developed producing reserves as of the date that is three months following such date to (b) the Consolidated Total Debt as of such date) for each fiscal quarter beginning December 31, 2014. Consolidated Total Debt is defined as the total of all consolidated indebtedness of the Company; and

- a Leverage Ratio (ratio as of the last day of any fiscal quarter of (a) the Consolidated Total Debt of the Company minus the outstanding amount of any subordinated debt to (b) the Consolidated Adjusted EBITDAX of the Company for the period of four consecutive fiscal quarters most recently ended) for each fiscal quarter beginning December 31, 2014.

At December 31, 2014, the Company was in compliance with all such covenants.

(ii) On October 22, 2012, the Company entered into a Note Purchase Agreement and issued Senior Secured Notes (the "Notes") in the amount of $22,500,000 due on October 22, 2014.

The Notes were secured by a first priority security interest, lien and mortgage on all assets, including petroleum and natural gas leases and proceeds therefrom. The Notes bore interest at 12% per annum with interest payments due quarterly. The Notes were due and payable on October 22, 2014. No holder of the Notes was a related party to Rooster nor was any holder a chartered bank, trust company or treasury bank. The obligation was required to be repaid in cash and was not convertible into common shares of the Company. The Company incurred $900,590 in loan origination fees.

In connection with this financing, the Company also entered into a Warrant Purchase Agreement with the holders of the Notes pursuant to which it agreed to issue warrants exercisable for up to 9,000,000 common shares of the Company at an exercise price of US$1.00 per common share until October 22, 2017. The warrants are subject to mandatory exercise or conversion, as applicable, in the event that certain conditions are satisfied, including that the trading price of the Company's common shares is equal to or greater than 150% of the warrant exercise price for a period of thirty (30) consecutive trading days and that the Company has its common shares listed on a U.S. Exchange. The warrants are also eligible to be exercised on a "cashless" basis in which case no payment of the exercise price is required. Instead the holder receives shares that reflect the intrinsic value of the warrants, which are priced using the average closing price over the five preceding trading days. Therefore, the warrants meet the definition of a derivative instrument and are classified as a liability for accounting purposes. No warrants have been exercised as at or subsequent to December 31, 2014.

This financing arrangement contained a debt security and a warrant feature. Therefore, on issuance, the financing arrangement was bifurcated between the financial liability and the warrant feature. As at October 22, 2012, the $21,599,410 Notes issuance proceeds, net of origination fees, were recorded, with $19,215,410 allocated as loans payable and the remaining $2,384,000 relating to the warrants classified as derivative liabilities. This allocation resulted in an effective interest rate of 21.34% for the loans payable component. This interest rate was comparable with debt yields for mid-sized petroleum and natural gas entities with similar operations.

(amounts in US dollars)

As part of the Warrant Purchase Agreement and issuance of common shares in the Transaction, the warrant holders were issued an additional 4,429,813 warrants for a total of 13,429,813 warrants outstanding at December 31, 2014. The exercise price was adjusted to $0.67 per warrant.

The warrants are measured at fair value on initial recognition and at each subsequent balance sheet date using a Level 2 fair value hierarchy. The fair value of the warrants on the grant date was determined using the Black-Scholes model with the following assumptions:

	December 31, 2014	December 31, 2013
Risk-free interest rate	1.78%	1.75%
Expected life (years)	2.81	3.81
Expected volatility	50.0%	50.0%
Expected annual dividend yield	0.00%	0.00%
Stock price	$0.06	$0.55
Exercise price	$0.67	$1.00
Fair value per warrant	$0.00	$0.12

The loans payable component was being accreted over two years to the principal value on maturity, with a corresponding non-cash charge to income resulting in $1,493,288 (2013 - $1,536,286) accretion for the year ended December 31, 2014. See also note 16.

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

	Loans payable	Financing warrants	Total
Balance, December 31, 2012	$ 19,470,426	$ 1,067,000	$ 20,537,426
Accretion	1,536,286	-	1,536,286
Unrealized loss on revaluation	-	25,000	25,000
Balance, December 31, 2013	21,006,712	1,092,000	22,098,712
Accretion	1,493,288	-	1,493,288
Repayment	(22,500,000)	-	(22,500,000)
Unrealized loss (gain) on revaluation	-	(1,091,000)	(1,091,000)
Balance, December 31, 2014	$ -	$ 1,000	$ 1,000

The Company was required to meet certain covenants including a quarterly collateral coverage covenant under the terms of the Note Payable Agreement. The collateral coverage ratio, which was a non-IFRS measure, was defined as the ratio between the value of proved developed producing reserves, as defined in the Note Purchase Agreement, plus cash and cash equivalents, to the outstanding unpaid principal and unpaid accrued interest of the Notes plus any outstanding accounts payable.

During the year ended December 31, 2013, the Company negotiated an amendment to the Note Purchase Agreement. Pursuant to same, the Company and the Note holders agreed to covenant revisions related to altering the approved plan of drilling by the Company. The Company also received approval to enter into a subordinated secured credit facility for borrowings up to CDN $8.0 million, as more specifically described below (note 10(iii)). The Company paid a consent fee of $450,000 to the Note holders and legal fees incurred by the Note holders which are included in the discount on the related party subordinated credit facility (note 10(iii)).

As at December 31, 2013, the Company was not in compliance with all covenants, obligations and conditions under the Note Payable Agreement. As a result of the non-compliance, the stated interest rate increased to 18% from 12%, per annum. At December 31, 2013 unpaid interest of $690,000 was included in accrued interest payable.

In order to enter into the Transaction (note 6), the Company obtained the consent of the holders of the Notes pursuant to a Limited Consent and Forbearance Agreement dated March 7, 2014 (the "Limited Consent"). Therein, the holders of the Senior Secured Notes and the Company acknowledged that the Company was in existing and continuing default of the collateral coverage ratio covenant of the Notes as at December 31, 2013. In order to allow for the Transaction, the Limited Consent provides that, the holders of the Notes will forbear from exercising certain rights and remedies under the Note Purchase Agreement and certain related documents in respect of the default until July 7, 2014, or such earlier date if certain events of insolvency or other customary events of default occur. On July 7, 2014, the Limited Consent was extended in respect of default by the Company to August 31, 2014, and the Company agreed to a premium repayment amount of 5% to 7% based on the actual repayment date between August 1 and August 31, 2014. On August 29, 2014, the Company entered into a fifth amendment to the Note Purchase Agreement and a second amendment to the Limited Consent extending the termination date therein to September 30, 2014 and agreed to a premium repayment amount of up to 7.5% to 9% based on the actual repayment date.

On November 17, 2014, the Company repaid the Notes in full, including interest and premium repayment totalling $25,000,000 from a portion of the proceeds of the Senior Secured Notes.

(iii) The related party subordinated note payable totalling $6,463,000 is due to a significant shareholder of the Company. Accrued interest payable totalling $2,224,781 at December 31, 2014 (2013 - $1,326,897) is due at maturity. The initial maturity date was April 26, 2014 subject to terms of the agreement. However, pursuant to an intercreditor subordination agreement with the Note holders, the principal amount of the note plus accrued interest was subordinated to the Note Purchase Agreement (note 10(i)) and therefore, payment is not required prior to repayment of amounts due under the Note Purchase Agreement.

As a result of the intercreditor and subordination agreement with the Senior Secured Notes, as described in Note 10(i), the related party note payable maturity date was extended to February 14, 2017 and the interest rate increased from 14.5% to 15.5% per annum. The restructured related party note payable was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $309,375. The original related party note payable was re-measured at its fair value on the date of modification with an effective interest rate of 18%. The fair value of $6,153,625 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured related party note payable is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $17,340 recorded as accretion for the year ended December 31, 2014.

(iv) On October 11, 2013, the Company entered into a subordinated secured credit facility with two related parties who are significant shareholders and/or directors of the Company that provides for borrowing up to CDN $8.0 million to be used for general corporate purposes. The initial advance was CDN $4.0 million (less a 2% original issue discount and administrative fees of $10,000) resulting in net proceeds of $3,234,466. In addition, the Company also paid a consent fee of $450,000 to the Note holders and legal fees incurred by the Note holders (note 10(ii)). The discount, consent and legal fees are being accreted over the term of the credit facility up to the principal amount on maturity using an effective interest rate of approximately 25%. The credit facility is fully subordinated to the Senior Secured Notes (note 10(i)). Amounts drawn on the credit facility bear interest at 9% on all advances, and were repayable 181 days after the full satisfaction of the Notes. The credit facility is secured only by certain oil and gas properties and proceeds therefrom owned by Probe Resources US Ltd. No further amounts have been drawn on the credit facility as at or subsequent to December 31, 2014.

As a result of the intercreditor and subordination agreement as described in Note 10(i), the credit facility maturity date was extended to February 14, 2017 and the interest rate remained at 9% per annum. The restructured credit facility was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $517,543. The original credit facility was re-measured at its fair value on the date of modification with an effective interest rate of 18%. The fair value of $2,941,836 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured credit facility is being accreted over the term up to the principal amount on maturity, using the effective interest rate method.

Unpaid interest of $355,412 has been included in accrued interest payable at December 31, 2014 (2013 - 84,618). Total accretion for the year ended December 31, 2014 was $511,286 (2013 - $82,069).

(v) Effective March 7, 2014, the Company entered into an additional second lien credit facility with a related party who is a significant shareholder and director of the Company, for borrowing of up to $10 million. The initial advance was $4.4 million, before an original issue discount of 10%, for a funded amount equal to $4 million. During the year ended December 31, 2014, the Company drew an additional $2.75 million on the second lien credit facility, before an original issue discount of 10%, for a funded amount of $2.5 million. In addition, the Company paid to the holders of the Notes, a consent fee of $214,500 (note 10(ii)). The discount and consent fees are being accreted over the term of the second lien credit facility up to the principal amount on maturity using an effective interest rate of approximately 30%. The second lien credit facility is fully subordinated to the Senior Secured Notes (note 10(i)). Amounts drawn on the credit facility bear interest at 14% per annum, and were repayable 181 days after the full satisfaction of the Notes. The credit facility is secured by the Company's petroleum and natural gas properties and assets.

As a result of the intercreditor and subordination agreement as described in Note 10(i), the second lien credit facility maturity date was extended to February 14, 2017 and the interest rate remained at 14%. The restructured second lien credit facility was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $412,202. The original second lien credit facility was re-measured at its fair value on the date of modification with an effective interest rate of 18%. The fair value of $6,746,357 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured second lien credit facility is being accreted over the term up to the principal amount on maturity, using the effective interest rate method.

Unpaid interest of $734,739 has been included in accrued interest payable at December 31, 2014. Total accretion for the year ended December 31, 2014 was $692,708.

(amounts in US dollars)

(vi) Promissory note

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

11. Asset retirement obligations and deposits

Asset retirement obligations were determined by management based on the Company's net ownership interests in petroleum and natural gas assets, 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 years ended December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
Asset retirement obligations, beginning of year	$ 96,928,230	$ 55,516,404
Liabilities incurred	84,654	282,193
Liabilities acquired through decommissioning contract	-	47,503,035
Liabilities settled	(9,817,401)	(8,405,367)
Revisions to estimates and changes in discount rate	(932,408)	172,887
Loss on settlement of asset retirement obligations	1,581,132	487,765
Accretion (unwinding of discount)	1,600,222	1,371,313
Asset retirement obligations, end of year	$ 89,444,429	$ 96,928,230
Less: Short-term portion	(36,330,069)	(15,180,293)
Long-term portion	$ 53,114,360	$ 81,747,937

The Company has the ability to utilize its own well services business unit to abandon a portion of its asset retirement obligations. The estimated inflated undiscounted cash flows required to settle the provisions are approximately $100.4 million (2013 - $103.0 million), which has been discounted using risk-free rates ranging from 1.5% to 2.55% (2013 - 1.50% to 2.55%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 23 years into the future and will be funded from general corporate resources as well as from the decommissioning contract receivable (see below) at the time of abandonment.

At December 31, 2014, the Company had $5,458,800 (2013 - $3,762,000) cash deposits held as security by the surety of the supplemental bonds that are required by the Bureau of Ocean Energy Management (BOEM) on certain asset retirement obligations on properties owned. These funds are restricted for use in meeting asset retirement obligations specific to those properties. These funds are restricted for use in meeting asset retirement obligations specific to those properties and will be released upon satisfactory completion of plugging and abandonment operations for specific wells and/or structures as the work is completed. The Company is required to abandon certain fields covered by this bond within the next 12 months. As a result, $3,804,155 (2013 - $3,462,000) of the deposits have been classified as short-term and included in restricted cash as at December 31, 2014 (note 5(b)).

(amounts in US dollars)

Decommissioning contracts receivable

The Company entered into three plugging and abandonment contracts (the "decommissioning contracts") in which the Company assumed asset retirement obligations in exchange for fixed fees from the counterparty aggregating approximately $126.4 million which will be paid to the Company as the plugging and abandonment work is completed. Of the total asset retirement obligations of the Company at December 31, 2014, the estimated inflated undiscounted cash flows required to settle the decommissioning contracts are approximately $75.9 million (2013 - $82.1 million), which has been discounted using a risk-free rate of 1.50% (2013 - 1.50%), with a corresponding reimbursement recorded as decommissioning contracts receivable. Under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, reimbursements are recognized up to the amount of the asset retirement obligations. Decommissioning activities that trigger the reimbursement payments will occur over several years and will be funded from the decommissioning contracts receivable. Any payments that exceed actual costs of abandonment are recorded as decommissioning contracts revenue on the statement of loss.

As part of the terms of the decommissioning contracts, the counterparty made payments totaling $6,996,950 (2013 - $7,336,050) to the Company which were not based on decommissioning activities being performed. These amounts have been recorded as deferred revenue and are being amortized as decommissioning revenue as abandonment work is performed on a percentage of completion.

Of the total fixed fees of the decommissioning contracts of $126.4 million, approximately $35.3 million has been paid to the Company by the counterparty to December 31, 2014. The remaining amount to be collected of $91.1 million, less the estimated future abandonment costs to be incurred of $75.9 million, is approximately $15.2 million, which represents the approximate future decommissioning contracts revenue to be earned from the decommissioning contracts subsequent to December 31, 2014. The Company expects to receive $37.1 million of the $91.1 million remaining in fiscal 2015.

12. Prepaid expenses

Prepaid expenses consist of the following:

	December 31, 2014		December 31, 2013	
Prepaid insurance	$	3,882,063	$	3,409,141
Prepaid bonds		298,164		83,916
Prepaid inventory		415,823		319,912
Prepaid other		440,887		92,480
Total prepaid expenses	$	5,036,937	$	3,905,449

13. Share capital

(a) Authorized

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

(amounts in US dollars)

(b) Issued

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

	Number of Shares	Stated Value
Common shares		
Outstanding, December 31, 2012	259,026,002	$ 92,947,587
Issued on cashless exercise of stock options (note 14)	2,500	2,043
Outstanding, December 31, 2013 and 2014	259,028,502	$ 92,949,630
Proportionate voting shares		
Outstanding, December 31, 2013 and 2014	65,071	$ 29,162,552
Total share capital stated value		
December 31, 2013 and 2014		$ 122,112,182

(c) Upon closing of the Transaction, a total of 218,631,179 Common Shares were issued to satisfy the Purchase Price at a fair value of $81,201,000. This non-cash transaction has been excluded from the consolidated statement of cash flows. Subsequent to the Transaction, the Company has issued and outstanding 259,028,502 of common shares and 65,071 proportionate voting shares (each convertible to 1,000 common shares) or 374,099,502 common shares after conversion of the proportionate voting shares to common shares. These have been restated in the comparative period to reflect the common control transaction.

(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. The values assigned to the common shares and the proportionate voting shares at acquisition were based on the proportion of new shares issued in the reverse acquisition.

14. Stock-based compensation

The Company has a stock option plan under which options may be granted to employees, officers directors and consultants. As at December 31, 2014, the Company had 21,093,164 common shares authorized for issuance under the stock option plan.

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 1st, 2nd and 3rd anniversary dates from the date of grant.

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

(amounts in US dollars)

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

	Year ended December 31,			
	2014		2013	
	Number	Exercise Price(CDN$)	Number	Exercise Price(CDN$)
Outstanding, beginning of year	9,293,404	$ 0.66	4,820,645	$ 0.50
Granted	300,000	0.61	4,532,759	0.82
Exercised (1)	-	-	(6,666)	0.50
Forfeited	(400,000)	0.50	(53,334)	0.50
Outstanding, end of year	9,193,404	$ 0.66	9,293,404	$ 0.66
Exercisable, end of year	4,426,350	$ 0.60	1,586,882	$ 0.50

(1) The difference from the number of common shares issued upon exercise of stock options (note 13) is due to the cashless exercise. The price of the Company's common shares at the date the stock options were exercised was CDN $0.80

The following table outlines the exercise price and years to expiry of all outstanding options, as well as the number of options exercisable as of December 31, 2014:

Options Outstanding			Options Exercisable	
Exercise Price (CDN$)	Number Outstanding	Remaining Life (Years)	Number Exercisable	Exercise Price (CDN$)
$0.50	4,385,645	7.4	2,923,764	$ 0.50
$0.61	300,000	9.4	-	-
$0.82	4,507,759	8.7	1,502,586	$ 0.82
Total	**9,193,404**	**8.1**	**4,426,350**	**$ 0.61**

(amounts in US dollars)

The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting fair values:

For the year ended	December 31, 2014		December 31, 2013	
Assumptions:				
Stock price (CDN$)	$	0.61	$	0.82
Exercise price (CDN$)	$	0.61	$	0.82
Risk free interest rate (%)		2%		2%
Expected life (years)		10		10
Expected volatility (%)		50%		50%
Estimated forfeiture rate (%)		5%		5%
Expected dividend yield		-		-
Fair value of options granted (CDN$)	**$**	**0.37**	**$**	**0.50**

During the years ended December 31, 2014 and 2013, $1,305,233 and $1,005,891, respectively, was recorded as stock-based compensation relating to stock options granted with a corresponding increase in contributed surplus.

15. Personnel expenses

The total remuneration for employees, officers and directors included in general and administrative expenses is as follows:

	Year Ended December 31,			
	2014		2013	
Salaries and fees	$	8,475,103	$	8,522,236
Stock-based compensation		1,305,233		1,005,891
Total key employee remuneration	$	9,780,336	$	9,528,127

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

	Year Ended December 31,			
	2014		2013	
Salaries and fees	$	1,471,750	$	1,694,225
Stock-based compensation		796,323		848,589
Total key management remuneration	$	2,268,073	$	2,542,814

(amounts in US dollars)

16. Finance expenses, net

The following table summarizes significant components of the Company's finance expenses:

	Year Ended December 31, 2014	2013
Interest on Senior Secured Notes (note 10(i))	$ 698,750	$ -
Interest and other fees on Notes (note 10(ii))	5,647,500	2,737,500
Interest on related party subordinated note payable (note 10(iii))	897,884	1,064,161
Interest on related parties subordinated secured credit facility (note 10(iv))	270,794	84,618
Interest on related party subordinated secured credit facility (note 10(v))	734,739	-
Interest on promissory note (note 10(vi))	19,803	-
Accretion of discount on Senior Secured Notes (note 10(i))	790,610	-
Accretion of discount on Notes (note 10(ii))	1,493,288	1,536,286
Accretion of discount on related party note payable (note 10(iii))	17,340	-
Accretion of discount on related parties subordinated secured credit facility (note 10(iv))	511,286	82,069
Accretion of discount on related party subordinated secured credit facility (note 10(v))	692,708	-
Foreign exchange gain on related parties subordinated secured credit facility (note 10(iv))	(255,074)	(92,909)
Gain on modification of debts (note 10)	(1,239,120)	-
Accretion of asset retirement obligations (note 11)	1,600,222	1,371,313
Other	380,056	77,686
Total finance expenses	$ 12,260,786	$ 6,860,724
Interest income	(105,186)	-
Total finance expenses, net	$ 12,155,600	$ 6,860,724

(amounts in US dollars)

17. Income taxes

(a) Deferred income tax recovery

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

	Year Ended December 31, 2014	2013
Loss before income taxes	$ (12,431,366)	$ (4,745,789)
Statutory tax rate: (1)	35.0 %	35.0 %
Expected income tax recovery	(4,351,000)	(1,661,000)
Difference resulting from:		
Taxable (income) loss attributable to former members of Cochon and Well Services prior to the Transaction	(1,349,000)	700,000
Temporary differences recognized as a result of change in tax status on date of Transaction	2,464,000	-
Stock-based compensation	484,000	324,000
Unrealized (gain) loss on financing warrants	(382,000)	9,000
Accretion of loans payable discounts	391,000	367,000
Changes in permanent differences and other	181,000	(340,000)
Change in deferred tax assets not recognized	(130,000)	(112,000)
Total income tax recovery	$ (2,692,000)	$ (713,000)

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

(amounts in US dollars)

(b) Deferred income tax assets and liabilities:

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

	December 31, 2013	Recognized in Loss	December 31, 2014
Property and equipment and exploration and evaluation assets	$ 32,752,000	$ (5,574,000)	27,178,000
Commodity contracts	-	2,510,000	2,510,000
Decomissioning contracts receivable and deferred revenue	27,997,000	(2,404,000)	25,593,000
Loans payable	-	172,000	172,000
Asset retirement obligations	(35,507,000)	2,715,000	(32,792,000)
Temporary differences related to members prior to the Transaction (note 6)	(2,464,000)	2,464,000	-
US net operating losses	(18,208,000)	(2,556,000)	(20,764,000)
Canadian non-capital losses	(1,400,000)	(27,000)	(1,427,000)
Share and debt issuance costs and other temporary differences	(294,000)	138,000	(156,000)
Deferred income tax assets not recognized	1,699,000	(130,000)	1,569,000
	$ 4,575,000	$ (2,692,000)	$ 1,883,000
Deferred income tax asset (1)	$ (5,565,000)	$ -	$ (5,565,000)
Deferred income tax liability	10,140,000	(2,692,000)	7,448,000
	$ 4,575,000	$ (2,692,000)	$ 1,883,000

(1) Probe Resources US, Ltd. restricted net operating losses

	December 31, 2012	Recognized in Loss	December 31, 2013
Property and equipment and exploration and evaluation assets	$ 15,649,000	$ 17,103,000	$ 32,752,000
Decomissioning contract receivable and deferred revenue	14,997,000	13,000,000	27,997,000
Asset retirement obligations	(21,378,000)	(14,129,000)	(35,507,000)
Temporary differences related to members prior to the Transaction (note 6)	(2,733,000)	269,000	(2,464,000)
US net operating losses	(2,151,000)	(16,057,000)	(18,208,000)
Canadian non-capital losses	(1,158,000)	(242,000)	(1,400,000)
Share and debt issuance costs and other temporary differences	251,000	(545,000)	(294,000)
Deferred income tax assets not recognized	1,811,000	(112,000)	1,699,000
	$ 5,288,000	$ (713,000)	$ 4,575,000
Deferred income tax asset (1)	$ (5,565,000)	$ -	$ (5,565,000)
Deferred income tax liability	10,853,000	(713,000)	10,140,000
	$ 5,288,000	$ (713,000)	$ 4,575,000

(1) Probe Resources US, Ltd. restricted net operating losses

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

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

(amounts in US dollars)

18. Loss per share

Basic and diluted loss per share for the years ended December 31, 2014 and 2013 of 324,099,502 (2013 - 324,098,146) has been calculated using the weighted average number of common shares outstanding plus the weighted average number of proportionate voting shares outstanding at the conversion ratio of 1,000 common shares for each outstanding proportionate voting share. The total weighted average number of shares outstanding for the years ended December 31, 2014 and 2013 was adjusted to reflect the equivalent number of shares issued in the Transaction. All outstanding options and warrants were excluded from the calculation of diluted loss per share for the years ended at December 31, 2014 and 2013, as they were anti-dilutive.

19. Supplemental cash flow information

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

	Year Ended December 31, 2014	Year Ended December 31, 2013
Source (uses) of cash:		
Restricted cash	$ 1,816,480	$ (5,270,635)
Non-cash changes in restricted cash (note 4(e))	-	3,112,000
Accounts receivable	(4,617,159)	1,237,662
Prepaid expenses and deposits	(1,131,488)	(1,234,419)
Asset retirement deposits	(1,354,645)	-
Accounts payable and accrued liabilities	(11,866,506)	19,216,610
Current portion of due to related parties	791,836	(766,124)
Changes in non-cash working capital	$ (16,361,482)	$ 16,295,094
Related to operating activities	$ (6,378,102)	$ 10,641,342
Related to investing activities	(9,983,380)	5,653,752
	$ (16,361,482)	$ 16,295,094

(b) Cash and cash equivalents is comprised of bank balances as of December 31, 2014 and 2013

(c) Interest and income taxes paid

The Company paid interest of $6,337,500 and $2,572,500 during the years ended December 31, 2014 and 2013, respectively.

The Company has not paid any income taxes during the years ended December 31, 2014 or 2013.

(amounts in US dollars)

20. Commitments

(a) Operating leases

The Company leases its corporate headquarters in Houston, Texas, under a non-cancellable operating lease expiring in June 2017. The Company is obligated for the following rental payments under this lease at December 31, 2014:

2015	$	206,112
2016		209,760
2017		105,792
Total	$	521,664

The Company also leases a field office facility in Abbeville, Louisiana under a non-cancellable operating lease that renews annually. The monthly rent is $2,350.

(b) Production imbalances

Cash received by the Company for volumes of petroleum and natural gas sold may differ from the volumes to which the Company is entitled based on its interests in the properties. These differences create imbalances that are recognized as a liability only when the estimated remaining reserves will not be sufficient to enable the under-produced owner to recoup its entitled share through production, or in certain other circumstances (see restricted cash note 5(b)). No receivables are recorded for those volumes where the Company has received less than its share of production. If an imbalance exists at the time the wells reserves are fully depleted, settlements are made among the joint interest owners under a variety of arrangements. The Company is obligated to discharge imbalance positions from future production.

21. Other related party transactions

The Company has transactions with affiliates, including field services, rental of equipment, the reimbursement of operating expenses, and the payment of certain administrative services at terms determined by management. In addition, two directors and officers of the Company are participating as to a 7.5% working interest in the drilling of a Company well in the US Gulf of Mexico.

(amounts in US dollars)

Balances due to (from) related parties at December 31, 2014 and 2013 are as follows:

	December 31, 2014	December 31, 2013
Due to related parties (1)	$ 10,578,872	$ 3,970,348
Subordinated payable due to related party (note 10(iii))	6,170,965	6,463,000
Accrued interest payable on note payable to related party (note 10(iii))	2,224,781	1,326,897
Subordinated credit facility due to related parties (note 10(iv))	2,962,015	3,223,626
Accrued interest payable on subordinated credit facility due to related parties (note 10(iv))	355,412	84,618
Subordinated credit facility due to related party (note 10(v))	6,781,741	-
Accrued interest payable on subordinated credit facility due to related party (note 10(v))	734,739	-
Note and accrued interest receivable (note 7)	4,104,712	-
Accounts receivable due from related parties participating in drilling of well	-	126,528

(1) Represents amounts payable to related parties in the ordinary course of business for operating expenses and capital expenditures. Payments are made as cash flows allow within the constraints of the Note Purchase Agreement (note 10(i)). The amounts are unsecured, non-interest bearing, and have no fixed terms of repayment.

Related party transactions during the year are as follows:

	Year Ended December 31, 2014	Year Ended December 31, 2013
Purchases from related parties (1)	$ 7,434,376	$ 6,609,012
Interest expense on subordinated note payable to related party (note 10(iii))	897,884	1,064,161
Interest expense on subordinated credit facility to related parties (note10(iv))	270,794	84,618
Interest expense on subordinated credit facility to related party (note 10(v))	734,739	-
Interest income on note receivable from related party (note 7)	104,712	-

(1) Purchases from related parties during the years ended December 31, 2014 and 2013 were considered by management to be in the normal course of business and transacted on terms equivalent to those that would have prevailed in an arm's length transaction

(amounts in US dollars)

Effective November 17, 2014, the Company, Chet Morrison Contractors, LLC, and the Senior Secured Note holders (note 10(i)) entered into a subordination agreement that prohibits payment by the Company of accounts payable, classified as due to related parties on the consolidated balance sheet of the Company, due and owing to Chet Morrison Contractors, LLC, in excess of the amount of $2,717,581.

Additional related party transactions relating to the Company's related party loans payable are outlined in note 10.

22. Segmented information

The Company is a petroleum and natural gas and exploration company with an integrated down-hole and subsea plugging and abandonment service business. As at December 31, 2014 and 2013, the Company has two reportable segments: petroleum and natural gas, and well services. The Company's operations are located in the shallow waters off the southern coast of Louisiana and Texas. Management monitors the operating results of each segment separately for the purpose of making decisions about resource allocation and performance assessment. The Corporate segment does not represent an operating segment and is included for informational purposes only. Corporate segment expenses consist of public company costs as well as salaries, stock-based compensation and office and administrative costs relating to corporate employees.

	2014				
Operating Segments	**Petroleum and natural gas**	**Well services**	**Corporate allocations**	**Intercompany eliminations**	**Consolidated**
Revenue					
Petroleum and natural gas	$ 45,582,148	$ -	$ -	$ -	$ 45,582,148
Well services	-	36,594,828	-	(6,631,747)	29,963,081
Decommissioning contracts	-	8,210,857	-	1,917,386	10,128,243
Production handling	1,262,835	-	-	-	1,262,835
Revenue before the following	46,844,983	44,805,685	-	(4,714,361)	86,936,307
Realized gain on commodity contracts	270,742	-	-	-	270,742
Unrealized gain on commodity contracts	7,169,970	-	-	-	7,169,970
Total revenue	54,285,695	44,805,685	-	(4,714,361)	94,377,019
Expenses					
Lease operating	30,141,053	-	-	-	30,141,053
Cost of well services	-	24,405,993	-	(4,298,196)	20,107,797
General and administrative	5,133,942	5,774,122	4,755,399	-	15,663,463
Depreciation and depletion	5,916,494	3,857,587	78,141	-	9,852,222
Repairs and maintenance	-	1,684,658	-	-	1,684,658
Bad debt recovery	(2,539,473)	-	-	-	(2,539,473)
Stock-based compensation	508,910	-	796,323	-	1,305,233
Impairment, net	17,637,343	-	-	-	17,637,343
Transaction costs	-	-	310,357	-	310,357
Total expenses	56,798,269	35,722,360	5,940,220	(4,298,196)	94,162,653
Operating income (loss)	(2,512,574)	9,083,325	(5,940,220)	(416,165)	214,366
Loss on settlement of asset retirement obligations	-	(1,581,132)	-	-	(1,581,132)
Unrealized gain on financial warrants	1,091,000	-	-	-	1,091,000
Finance expenses, net	(11,824,631)	(330,969)	-	-	(12,155,600)
Loss before income taxes	$ (13,246,205)	$ 7,171,224	$ (5,940,220)	$ (416,165)	$ (12,431,366)

(amounts in US dollars)

	2013				
Operating Segments	**Petroleum and natural gas**	**Well services**	**Corporate allocations**	**Intercompany eliminations**	**Consolidated**
Revenue					
Petroleum and natural gas	$ 48,167,910	$ -	$ -	$ -	$ 48,167,910
Well services	-	42,095,487	-	(3,159,752)	38,935,735
Decommissioning contracts	-	1,323,833	-	1,130,988	2,454,821
Production handling	2,705,086	-	-	-	2,705,086
Revenue before the following	50,872,996	43,419,320	-	(2,028,764)	92,263,552
Realized gain on commodity contracts	-	-	-	-	-
Unrealized gain on commodity contracts	-	-	-	-	-
Total revenue	50,872,996	43,419,320	-	(2,028,764)	92,263,552
Expenses					
Lease operating	23,136,616	-	-	-	23,136,616
Cost of well services	-	25,224,159	-	(1,936,863)	23,287,296
General and administrative	4,617,790	6,256,247	6,387,595	-	17,261,632
Depreciation and depletion	8,674,062	3,822,425	62,182	-	12,558,669
Repairs and maintenance	-	1,627,897	-	-	1,627,897
Bad debt expense	2,885,059	-	-	-	2,885,059
Stock-based compensation	156,202	-	849,689	-	1,005,891
Impairment, net	4,802,756	-	-	-	4,802,756
Asset retirement expense	586,305	-	-	-	586,305
Exploration and evaluation	2,483,731	-	-	-	2,483,731
Total expenses	47,342,521	36,930,728	7,299,466	(1,936,863)	89,635,852
Operating income	3,530,475	6,488,592	(7,299,466)	(91,901)	2,627,700
Loss on settlement of asset retirement obligations	-	(487,765)	-	-	(487,765)
Unrealized loss on financial warrants	(25,000)	-	-	-	(25,000)
Finance expenses, net	(6,860,724)	-	-	-	(6,860,724)
(Loss) income before income taxes	$ (3,355,249)	$ 6,000,827	$ (7,299,466)	$ (91,901)	$ (4,745,789)

	2014				
Operating Segments	**Petroleum and natural gas**	**Well services**	**Corporate allocations**	**Intercompany eliminations**	**Consolidated**
Current assets	$ 67,740,008	$ 3,291,332	$ -	$ (12,131,340)	$ 58,900,000
Fair value of commodity contracts	531,234	-	-	-	531,234
Decommissioning contracts receivable	40,113,972	-	-	-	40,113,972
Exploration and evaluation assets	207,172	-	-	-	207,172
Property and equipment	95,263,312	11,372,508	147,771	-	106,783,591
Note receivable	-	-	4,104,712	-	4,104,712
Asset retirement deposits	1,654,645	-	-	-	1,654,645
Total assets	218,445,093	14,663,840	-	(15,248,607)	217,860,326
Current liabilities	67,929,832	3,404,446	-	(4,740,541)	66,593,737
Total liabilities	189,316,317	13,404,446	-	(4,740,541)	197,980,222

	2013				
Operating Segments	**Petroleum and natural gas**	**Well services**	**Corporate allocations**	**Intercompany eliminations**	**Consolidated**
Current assets	$ 31,533,173	$ 1,556,856	$ -	$ (19,853)	$ 33,070,176
Decommissioning contracts receivable	68,107,107	-	-	-	68,107,107
Exploration and evaluation assets	186,152	-	-	-	186,152
Property and equipment	100,776,593	15,230,095	200,499	-	116,207,187
Asset retirement deposits	300,000	-	-	-	300,000
Total assets	206,668,524	16,786,951	-	(19,853)	223,435,622
Current liabilities	80,256,291	-	-	-	80,256,291
Total liabilities	183,374,832	-	-	-	183,374,832

23. Contingencies

(a) Certain claims and counterclaims have been filed against the Company which arise in the normal course of business. Management has assessed these legal actions to be without merit and/or the Company expects to be fully indemnified, and the likelihood of loss to the Company is remote. Accordingly, no amounts have been accrued to December 31, 2014 relating to these actions.

(b) In 2012, the Company assigned a 25% participation interest in the Vermilion Area Block 376 #A-3 and #A-4 wells in consideration of the assignee paying its proportionate share of the drilling, completion and lease operating costs. The assignee failed to pay certain invoiced amounts and on November 20, 2012 the Company, as operator of the wells, filed a lien in the amount of $2,264,701 against the interest in the wells. Additionally, on March 27, 2013, the Company filed an action to recover all amounts due per the lien in addition to unpaid lease operating expenses, damages, interest, attorney fees, etc. In response, the assignee of the interest and three of its affiliates filed counter-claims against the Company. The assignee et al also named certain officers and/or directors of the Company as defendants in the action and the Company has agreed to indemnify and defend those individuals as the claims asserted against each of them is based on the same facts and circumstances alleged against the Company. See also notes 5(b) and 20 (b).

On July 16, 2014, the Company entered into a Settlement Agreement that resulted in the dismissal of the litigation. Pursuant to the terms of the settlement, the assignee assigned all of its 25% participation interest in the Vermilion Area Block 376 #A-3 and #A-4 wells to the Company in consideration of the sum of $3,500,574 (note 9(i)). The related amounts held in trust of $3,599,426 (note 5(b)) were also released to the plaintiff in conjunction with the settlement.

24. Subsequent event

On February 14, 2015, the Senior Secured Notes were within one year of the maturity date per the terms of the Note Purchase Agreement. Absent an extension of the maturity date, the Company will have to raise capital in order to pay the Senior Secured Notes at maturity. To address its funding requirements, the Company will have to seek financing through debt and/or equity financing, asset sales or other alternatives. There is, however, no assurance that the outcome of these matters will be successful.