ROOSTER ENERGY LTD.

Consolidated Financial Statements

Years Ended December 31, 2015 and 2014

Contents

Collins Barrow

Chartered Accountants & Consultants

Collins Barrow Calgary LLP
1400 First Alberta Place
777 – 8th Avenue S.W.
Calgary, Alberta, Canada
T2P 3R5

T. 403.298.1500
F. 403.298.5814
e-mail: calgary@collinsbarrow.com

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, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, 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, 2015 and December 31, 2014, and their financial performance and their cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to note 2(b) to the consolidated financial statements which describes the conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

(Signed) "Collins Barrow Calgary LLP"

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
April 27, 2016

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

	Notes	December 31, 2015	December 31, 2014
Assets			
Current assets			
Cash	19	$ 1,434,645	$ 137,670
Restricted cash	5(b), 11	3,585,011	3,804,155
Accounts receivable	5(b)	17,424,561	12,739,540
Fair value of commodity contracts	5(d)	4,628,710	6,638,736
Decommissioning contracts receivable	5(b), 11	28,519,553	30,542,962
Prepaid expenses	12	3,654,129	5,036,937
Total current assets		59,246,609	58,900,000
Fair value of commodity contracts	5(d)	3,544,455	531,234
Decommissioning contracts receivable	5(b), 11	15,688,958	40,113,972
Note receivable	7	4,234,712	4,104,712
Exploration and evaluation assets	8	242,172	207,172
Property and equipment	9	83,880,422	106,783,591
Asset retirement deposits	11	1,873,789	1,654,645
Deferred income taxes	17(b)	5,921,000	5,565,000
Total assets		$ 174,632,117	$ 217,860,326
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	5(c)	$ 16,622,618	$ 16,912,740
Deferred revenue	11	3,977,019	5,418,348
Loans payable	10	17,204,707	1,296,819
Due to related parties	21	8,219,405	6,635,761
Asset retirement obligations	11	30,768,877	36,330,069
Total current liabilities		76,792,626	66,593,737
Long-term liabilities			
Deferred revenue	11	4,587,358	7,116,254
Loans payable	10	54,431,031	56,450,061
Financing warrants	10	-	1,000
Accrued interest payable	10	5,608,506	3,313,699
Due to related parties	10(i), 21	3,601,640	3,943,111
Deferred income taxes	17(b)	-	7,448,000
Asset retirement obligations	11	27,858,624	53,114,360
Total liabilities		172,879,786	197,980,222
Shareholders' equity			
Share capital	13	122,112,182	122,112,182
Reserve from common control	6	(77,545,026)	(77,545,026)
Contributed surplus	14	3,873,880	2,816,379
Deficit		(46,688,705)	(27,503,431)
Total shareholders' equity		1,752,331	19,880,104
Total liabilities and shareholders' equity		$ 174,632,117	$ 217,860,326

Going Concern (note 2(b))
Commitments (note 20)
Contingencies (note 23)
Subsequent events (note 24)

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

Approved by the Board: ***(signed)"Munro Sutherland "*** ______ ***(signed)"Steve Weyel"*** ______

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

	Notes		Year ended December 31, 2015		2014
Revenue					
Petroleum and natural gas		$	20,194,751	$	45,582,148
Well services			20,726,089		29,963,081
Decommissioning contracts	11		17,041,325		10,128,243
Production handling			206,876		1,262,835
Revenue before the following:			58,169,040		86,936,307
Realized gain on commodity contracts	5(d)		8,287,582		270,742
Unrealized gain on commodity contracts	5(d)		1,003,195		7,169,970
Total revenue		**$**	**67,459,817**	**$**	**94,377,019**
Expenses					
Lease operating			20,732,602		30,141,053
Cost of well services			12,972,067		20,107,797
General and administrative	15		12,468,987		15,663,463
Depreciation and depletion	9		6,244,415		9,852,222
Repairs and maintenance			994,982		1,684,658
Bad debt expense	5(b), 9(i)		798,786		(2,539,473)
Stock-based compensation expense	14		1,057,501		1,305,233
Impairment, net	9		27,968,266		17,637,343
Asset retirement expense	9		3,281,784		-
Transaction costs	6		-		310,357
Total expenses			**86,519,391**		**94,162,653**
Operating income (loss)			(19,059,573)		214,366
Gain (loss) on a settlement of asset retirement obligations	11		4,815,928		(1,581,132)
Unrealized gain on financing warrants	10(vi)		1,000		1,091,000
Finance expense, net	16		(12,746,628)		(12,155,600)
Loss before income taxes			(26,989,274)		(12,431,366)
Deferred income tax recovery	17(a)		(7,804,000)		(2,692,000)
Loss and comprehensive income Loss		$	(19,185,274)	$	(9,739,366)
Loss per share	18				
Basic			($0.06)		($0.03)
Diluted			($0.06)		($0.03)

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	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance, December 31, 2013		259,028,502	$ 92,949,630	65,071	$ 29,162,552	$ (65,798,473)	$ 1,511,146	$ (17,764,065)	$ 40,060,790
Stock-based compensation	14	-	-	-	-		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
Stock-based compensation	14	-	-	-	-	-	1,057,501	-	1,057,501
Proportionate voting shares converted to common shares	13	4,082,000	1,829,410	(4,082)	(1,829,410)	-	-	-	-
Loss for the year		-	-	-	-		-	(19,185,274)	(19,185,274)
Balance, December 31, 2015		263,110,502	$ 94,779,040	60,989	$ 27,333,142	$ (77,545,026)	$ 3,873,880	$ (46,688,705)	$ 1,752,331

[1] As at December 31, 2015, the issued share capital of the Company consists of 263,110,502 common shares and 60,989, Proportionate Voting Shares (1,000 to 1 conversion rights), for issued share capital on a fully diluted basis equivalent to 324,099,502 common shares (prior to the exercise of 18,239,190 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, 2015	2014
Cash provided by (used in):			
Cash flows from operating activities			
Net Loss		$ (19,185,274)	$ (9,739,366)
Adjustments for:			
Depreciation and depletion	9	6,244,415	9,852,222
Impairment and asset retirement expense	9	31,250,050	17,637,343
Bad debt expense (recovery)		798,786	(2,848,200)
Stock-based compensation expense	14	1,057,501	1,305,233
Unrealized (gain) on commodity contracts	5(d)	(1,003,195)	(7,169,970)
Unrealized (gain) on financing warrants	10 (vi)	(1,000)	(1,091,000)
Unrealized foreign exchange (gain) on related party credit facility	16	(507,224)	(255,352)
(Gain) on debt revaluation	10	(376,780)	(1,239,121)
Accretion of loans payable discount	16	3,075,805	3,506,467
Asset retirement obligation accretion	11	1,378,670	1,600,222
(Gain) loss on settlement of asset retirement obligations	11	(4,815,928)	1,581,132
Deferred income tax (recovery)	17(a)	(7,804,000)	(2,692,000)
Income attributable to reserve from common control	6		(1,746,553)
Funds generated from operations		10,111,826	8,701,057
Cash abandonment costs	11	(23,877,719)	(9,817,401)
Changes in non-cash working capital	19	(2,377,105)	(6,378,102)
Changes in decommissioning contracts receivable	11	20,854,401	7,084,556
Changes in deferred revenue	11	(3,970,225)	4,738,024
Changes in accrued interest payable	10	2,217,072	1,107,472
Net cash flows provided by operating activities		2,958,250	5,435,606
Cash flows from investing activities			
Capital expenditures for exploration and evaluation assets	8	(35,000)	(207,172)
Capital expenditures for petroleum and natural gas properties	9	(14,765,604)	(12,329,410)
Acquisition of petroleum and natural gas properties	9	-	(3,524,548)
Capital expenditures for machinery and equipment	9	(103,229)	-
Capital expenditures for office furnishings and improvements	9	(13,749)	(25,413)
Advances on notes receivable	7	-	(4,000,000)
Changes in non-cash working capital	19	(771,843)	(9,983,380)
Net cash flows used in investing activities		(15,689,424)	(30,069,923)
Cash flows from financing activities			
Repayment of debt related to Well Services	6	-	(10,000,000)
Proceeds from loans payable	10	63,001,619	49,097,731
Repayment of loans payable	10	(48,973,471)	(24,056,183)
Advances from related parties	21	-	3,943,111
Net cash flows provided by financing activities		14,028,148	18,984,659
Net (decrease) increase in cash		1,296,975	(5,649,658)
Cash, beginning of year		137,670	5,787,328
Cash, end of year	19	$ 1,434,645	$ 137,670

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, 2015 and 2014.

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 27, 2016.

(b) Going Concern

These consolidated financial statements have been prepared on a going concern basis that assumes the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations.

For the year ended December 31, 2015, the Company incurred a loss of $19,185,274 (2014 - $9,739,366), has a working capital deficit of $17,546,018 (2014 - $7,693,737) and an accumulated deficit of $46,688,705 (2014 - $27,503,431). These events and conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon its ability to generate future profitable operations and obtain financing and renegotiate financing to meet its obligations and repay its liabilities in the normal course of business when they become due, and to generate sufficient funds to continue its capital activities. The Company has taken steps to address the Company's liquidity situation during 2015 and subsequent to year end which are further discussed in notes 5(c) and 24. These consolidated financial statements do not include adjustments that would be necessary to the presentation and carrying amounts of assets and liabilities in the Company, were it not able to continue operations and such adjustments and reclassifications could be material.

(c) 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.

(d) 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:

Going concern

The preparation of these financial statements requires management to make judgements regarding the ability of the Company to continue as a going concern as discussed in note 2(b).

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, was 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.

Judgments are required to assess when impairment indicators or reversal indicators exist and impairment testing is required. 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 amounts recorded for 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 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 is recorded as a reserve from common control in shareholders' equity. Transaction costs associated with common control transactions are expensed when incurred.

(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) 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 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 receivable, decommissioning contracts receivable, 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 financing warrants associated with the Company's former senior secured notes included in loans payable have been designated 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 is 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) is 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 recognizes 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 and are amortized over the remaining term of the modified liability.

(h) 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.

(i) 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 method 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.

(j) 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 is 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.

(k) 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.

(l) Asset retirement obligations

Asset retirement obligations are recorded for plugging, abandonment and reclamation obligations associated with the Company's exploration and evaluation assets and property and equipment. The best estimate of the 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 gain or loss on asset retirement obligations in the statement of loss.

(m) 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.

Well services revenues related to well plugging and abandonment services are 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 costs 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 are recorded as deferred revenue and amortized to decommissioning contracts revenue when the associated work is completed.

(n) 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.

(o) 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 gains or losses on debt modifications.

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.

(p) 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.

(q) 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 and warrants plus the unamortized portion of stock-based compensation are used to purchase common shares at average market prices during the period.

(r) 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.

(s) Recent accounting pronouncements

Changes in accounting policies

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2015 that had a material effect on the Company’s consolidated financial statements.

Future accounting policies

(i) IFRS 9, “*Financial Instruments*” provides a comprehensive new standard for accounting for all aspects of financial instruments. It includes a logical model for classification and measurement, a single, forward-looking ‘expected-loss’ impairment model and a substantially reformed approach to hedge accounting. The new standard is effective for years beginning on or after January 1, 2018.

(ii) IFRS 15, "*Revenue from Contracts with Customers*" provides a comprehensive new standard for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. It specifies how and when to recognize revenue as well as requiring entities to provide more information and relevant disclosure. The new standard is effective for years beginning on or after January 1, 2018, with early adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach.

(iii) IFRS 16, "*Leases*" will replace IAS 17, "*Leases*". IFRS 16 includes a single recognition and measurement model for leases, with required recognition of assets and liabilities for most leases. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted in the entity that is also applying IFRS 15.

The Company is currently assessing the potential impact of the standards 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. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair values of assets and liabilities are examined and classified in three levels according to the inputs on the basis of which these fair values are determined. 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, 2015 and 2014, there were no transfers between Levels 1, 2 or 3.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

(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 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.

Cash is 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.

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.

(amounts in US dollars)

(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, 2015 and 2014 is as follows:

	December 31, 2015	December 31, 2014
Cash	$ 1,434,645	$ 137,670
Restricted cash	3,585,011	3,804,155
Accounts receivable	17,424,561	12,739,540
Commodity contracts	8,173,165	7,169,970
Decommissioning contracts receivable	44,208,511	70,656,934
Note Receivable	4,234,712	4,104,712
Asset retirement deposits	1,873,789	1,654,645
	$ 80,934,394	$ 100,267,626

Cash

Cash includes cash bank balances. The Company manages the credit exposure related to cash 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, 2015, the Company has $3,585,011 (2014 - $3,804,155) in restricted cash representing cash collateral for performance bonds for specific well and facility abandonments that must be completed within the next 12 months (note 11).

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, 2015 and 2014, the Company earned a substantial portion of its petroleum and natural gas sales to five (2014 – two) customers. Sales to those customers aggregated approximately $18.8 million or approximately 93% of total petroleum and natural gas revenue (2014 - $32.9 million and 72%, respectively). At December 31, 2015, amounts due from those customers included in accounts receivable totalled approximately $0.9 million (2014 - $5.3 million), all of which has been collected subsequent to December 31, 2015.

During the years ended December 31, 2015 and 2014, the Company earned a substantial portion of its well services revenue from two customers. Sales to those customers aggregated approximately $12.9 million or approximately 62% of total well service revenue (2014 - $23.4 million and 78%, respectively). At December 31, 2015, amounts due from those customers included in accounts receivable totalled approximately $2.3 million (2014 - $0.8 million), of which $0.3 million remains outstanding as of the date the consolidated financial statements were approved. All other amounts have been collected subsequent to December 31, 2015 with the remaining balance expected to be received shortly.

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.

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 recorded an allowance for doubtful accounts at December 31, 2015 and 2014 totalling $662,599 and $622,462, respectively. Bad debt expense/(recovery) for the years ended December 31, 2015 and 2014 totalled $798,786 and $(2,539,473), respectively. Bad debt expense for 2015 primarily relates to an allowance for non-payment of expenses by joint operation partners on non-producing fields. Refer to note 9(i) regarding the recovery of bad debt expense during the year ended December 31, 2014.

(amounts in US dollars)

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

	December 31, 2015	December 31, 2014
Petroleum and natural gas revenue	$ 1,745,917	$ 4,354,830
Well services revenue	4,748,458	939,004
Decommissioning contracts revenues	7,888,812	4,327,838
Joint operation receivables	3,703,933	3,740,330
	18,087,120	13,362,002
Allowance for doubtful accounts	(662,559)	(622,462)
Total accounts receivable	$ 17,424,561	$ 12,739,540

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

	December 31, 2015	December 31, 2014
Current (0 - 30 days)	$ 13,745,727	$ 8,580,290
31 to 60 days	1,799,216	4,037,845
61 to 90 days	1,347,033	19,940
Past due (greater than 90 days)	1,195,144	723,927
Allowance for doubtful accounts	(662,559)	(622,462)
Total accounts receivable	$ 17,424,561	$ 12,739,540

Commodity contracts

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

Decommissioning contracts receivable (note 11)

The Company has entered into plugging and abandonment contracts in which the Company assumed asset retirement obligations in exchange for fixed fees from counterparties which will be paid to the Company as the plugging and abandonment work is completed. As a result, the Company is exposed to credit risk by the counterparties to pay future aggregate payments. Decommissioning activities that trigger these reimbursement payments will occur over several years. Failure of the counterparties 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 counterparties are 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.

Asset retirement deposits

(amounts in US dollars)

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 due to related parties and loans payable.

The Company's accounts payable and accrued liabilities as of December 31, 2015 and 2014 are aged as follows:

	December 31, 2015	December 31, 2014
Current (0 - 30 days)	$ 15,232,530	$ 14,357,168
31 to 60 days	1,373,803	1,564,172
61 to 90 days	-	-
Greater than 90 days	16,285	991,400
Total accounts payable and accrued liabilities	$ 16,622,618	$ 16,912,740

At December 31, 2015, the Company had a working capital deficiency of $17,546,018 (2014 - $7,693,737). During 2015, management has taken a number of steps to address the Company's liquidity situation including entering into the A&R NPA on its Senior Secured Notes and intercreditor and subordination agreements to increase the borrowing amount and extend the maturity dates of its senior and subordinated loans payable (note 10). Subsequent to December 31, 2015, the Company entered into the First Amendment, which has waived the financial and performance covenants and scheduled loan amortization for the first and second fiscal quarters of 2016 (note 24).

The Company's decommissioning contracts that are expected to generate cash flows exceeding the booked decommissioning contracts receivable by approximately $8.3 million over the next twelve months.

At December 31, 2015, the Company had certain commodity derivative contracts in effect. To the extent that the Company utilizes 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 has entered into contracts to assume a significant liability for asset retirement obligations in mature oil and gas fields in the Gulf of Mexico. The Company offsets that liability in whole or in part through future payments from the seller of the properties, which are 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 agreements of counterparties 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 costs 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.

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 subordinated secured credit facility which is denominated in Canadian dollars ("CAD") (note 10(iii)), and had no forward exchange rate contracts in place as of or during the years ended December 31, 2015 and 2014.

For the year ended December 31, 2015, a 5% change to the US/CAD exchange rate would change net loss by approximately $113,000, based on the outstanding balance of the subordinated secured credit facility.

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, 2015, 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, 2015 and 2014.

For the year ended December 31, 2015, a 100 basis points change to the effective interest rate would change net loss by approximately $390,000.

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.

(amounts in US dollars)

The Company may 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, 2015:

Reference Point	Volume	Term	Price
Crude Oil Contracts:			
Louisiana Light Sweet	500 bbl/d	Jan 1 2016 - Feb 29, 2016	$77.50 / bbl
Louisiana Light Sweet	315 bbl/d	Mar 1, 2016 - Dec 31, 2016	$63.98 / bbl
Louisiana Light Sweet	260 bbl/d	Jan 1 2017 - Dec 31, 2017	$65.62 / bbl
Louisiana Light Sweet	232 bbl/d	Jan 1 2018 - Jun 30, 2018	$66.90 / bbl
Natural Gas Contracts:			
NYMEX Henry Hub	6,103 MMBtu/d	Jan 1 2016 - Feb 29, 2016	$3.81 / MMBtu
NYMEX Henry Hub	1,248 MMBtu/d	Jan 1 2016 - Feb 29, 2016	$2.86 / MMBtu
NYMEX Henry Hub	6,680 MMBtu/d	Mar 1, 2016 - Dec 31, 2016	$3.03 / MMBtu
NYMEX Henry Hub	5,817 MMBtu/d	Jan 1 2017 - Dec 31, 2017	$3.21 / MMBtu
NYMEX Henry Hub	5,300 MMBtu/d	Jan 1 2018 - Jun 30, 2018	$3.31 / MMBtu

On March 16, 2016, the Company terminated all existing derivative commodity contracts as further discussed in note 24.

As at December 31, 2015, the fair value of all derivative commodity contracts was $8,173,165 (2014 - $7,169,970).

This resulted in an unrealized gain of $1,003,195 for the year ended December 31, 2015 (2014 - $7,169,970). The Company's risk management activities had a net realized gain of $8,287,582 for the year ended December 31, 2015 (2014 - $270,742).

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 $169,000 impact on net loss for the year ended December 31, 2015. A $0.10/MMBtu change to the price of natural gas would have an approximate $377,000 impact on net loss for the year ended December 31, 2015.

(e) Capital management

The Company's capital management policy is to maintain an adequate 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 minimizes capital and operating expenses and, if prudent, completes selective asset divestitures until adequate working capital is restored.

(amounts in US dollars)

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 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).

The Company's working capital deficiency is as follows:

	December 31, 2015	December 31, 2014
Current assets	$ 59,246,609	$ 58,900,000
Current liabilities	(76,792,626)	(66,593,737)
Working capital deficiency	$ (17,546,018)	$ (7,693,737)

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.

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:*

(amounts in US dollars)

Recognition and Measurement, the value of common share consideration was recognized based on the acquisition date fair value. Accordingly, the value of common share consideration was based on the closing price of Rooster Common Shares on November 17, 2014 of CAD $0.42 per share and US$0.37 per share after considering a currency exchange rate of (US / CAD) 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 was 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 $6.6 million relating to acquired net assets. On November 17, 2014, the Company has recognized a deferred income tax liability of approximately $4.1 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.

7. Note receivable

On March 12, 2014, the Company received 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 $234,712, at December 31, 2015 ($104,712 at December 31, 2014). The maturity on this promissory note is tied to the maturity of a note payable to this shareholder. The note will mature on June 25, 2019 (see Note 10(iv)).

8. Exploration and evaluation assets

	December 31, 2015	December 31, 2014
Balance, beginning of year	$ 207,172	$ 186,152
Exploration and evaluation expenditures	35,000	207,172
Transfers to property and equipment (note 6)	-	(186,152)
Balance, end of year	$ 242,172	$ 207,172

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

(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, 2013	$ 146,914,740	$ 33,310,138	$ 732,468	$ 180,957,346
Additions	12,329,410		25,413	12,354,823
Asset 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
Additions	14,765,604	103,229	13,749	14,882,581
Grant of ORRI as part of debt refinancing (note 10(i))	(2,383,355)		-	(2,383,355)
Asset retirement obligations (note 11)	2,092,071	-	-	2,092,071
Balance at December 31, 2015	$ 179,429,615	$ 33,413,367	$ 771,630	$ 213,614,612
Depletion, depreciation and impairment				
Balance at December 31, 2013	$ 46,138,147	$ 18,080,043	$ 531,969	$ 64,750,159
Depletion and depreciation	5,916,494	3,857,587	78,141	9,852,222
Impairment and asset retirement expense (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
Depletion and depreciation	2,977,801	3,197,484	69,130	6,244,415
Impairment and asset retirement expense (note 9(ii))	31,250,050	-	-	31,250,050
Balance at December 31, 2015	$ 103,919,835	$ 25,135,114	$ 679,240	$ 129,734,189
Net book value				
December 31, 2014	$ 95,263,312	$ 11,372,508	$ 147,771	$ 106,783,591
December 31, 2015	$ 75,509,780	$ 8,278,253	$ 92,389	$ 83,880,422

The calculation of depletion and depreciation for the year ended December 31, 2015, included estimated future development costs of $41,497,900 (2014 - $44,562,900) associated with the development of the Company's proved and probable reserves.

Property and equipment at December 31, 2014, includes $759,363 machinery and equipment not yet in use; accordingly, no depreciation related to these assets was recorded in 2014. In July 2015, this machinery and equipment was placed in service.

The Company has not capitalized any interest or general and administrative expenses during the years ended December 31, 2015 and 2014.

(i) *Acquisition*

On July 16, 2014, the Company completed the acquisition of additional working interest from its joint operation partner in Vermillion 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 $85,000 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, 2015 and 2014, 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% (2014 – 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, 2015 and 2014, the Company recognized impairment and asset retirement expense, net of reversals, for the following cash generating units:

	December 31			
	Impairment Expense 2015	Recoverable Amount 2015	Impairment Expense 2014	Recoverable Amount 2014
Eugene Island Block 18	$ 602,709	$ -	$ 2,636,880	$ -
Eugene Island Block 28	-	-	9,955,066	6,929,300
Grand Isle Block 70	573,051	1,737,000	3,056,332	1,034,900
High Island Block 115	382,991	-	-	-
High Island Block 141	521,235	-	210,365	922,900
High Island Block 201	106,369	-	420,328	-
High Island Block A494	3,389,655	47,745,700	-	-
South Timbalier Block 99/112	558,648	-	-	-
South Timbalier Block 198	2,075,195	-	-	-
Vermillion Block 376	23,260,292	-	-	-
West Delta Block 44/45	-	-	1,183,909	-
West Cameron Block 215	-	-	179,941	-
Other	(220,095)	-	(5,478)	-
Total impairment and asset retirement expense, net	31,250,050		17,637,343	
Less: asset retirement expense	(3,281,784)		-	
Total impairment, net	$ 27,968,266		$ 17,637,343	

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 18, High Island Blocks 115/141/201, South Timbalier Blocks 99/112/198 and Vermillion Block 376 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 impairments of Grand Isle 70 and High Island A494 were mainly due to lower estimated future revenues driven by the decrease in forecasted commodity prices.

(amounts in US dollars)

A 1% change in the assumed discount rate over the life of the reserves independently would impact impairment expense by $2,018,000 for the year ended December 31, 2015.

The following table outlines the prices used in the December 31, 2015 impairment calculations:

	Oil $US/BBL	**NGL $US/BBL**	**Natural Gas $US/MCF**
2016	35.00	14.65	2.26
2017	39.51	17.63	2.57
2018	42.81	18.98	2.70
2019	45.41	20.09	2.83
2020	47.09	20.79	2.98
2021	48.11	21.10	3.11
2022	48.88	21.60	3.26
2023	49.27	20.56	3.41
2024	49.61	20.45	3.55
2025	49.61	22.41	3.55
Thereafter	Escalation rate of approximately 2.0% per year		

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		

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, 2015 and 2014 consist of the following:

	December 31, 2015	December 31, 2014
Senior secured notes amended and restated June 25, 2015 for $60,000,000 (the "Senior Secured Notes") (i)	$ 56,512,783	$ 40,535,340
Subordinated notes payable dated April 26, 2012 for $6,463,000 ("Related Party Note #1") (ii)	5,355,969	6,170,965
Subordinated secured credit facility dated October 11, 2013 for CAD $4,000,000 ("Related Party Note #2") (iii)	1,930,499	2,962,015
Subordinated secured credit facility dated March 7, 2014 for $7,150,000 ("Related Party Note #3")(iv)	5,631,781	6,781,741
Promissory note dated June 26, 2014 for $2,853,002, matured on May 25, 2015 (v)	-	1,296,819
Promissory notes dated June 25, 2015 for $4,881,364, mature on May 25, 2016 (v)	2,204,707	-
	$ 71,635,738	$ 57,746,880
Less: Amounts due within one year	(17,204,707)	(1,296,819)
Long-term portion	$ 54,431,031	$ 56,450,061

The loans payable at December 31, 2015 are scheduled to mature as follows:

Next 12 months	$ 17,204,707	
Next 13 - 24 months	$ 20,000,000	
Next 26 - 36 months	25,000,000	
Next 37 - 48 months	16,503,000	(i)
Total	$ 78,707,707	

(i) assumes a future USD/CAD exhange rate of $0.7225 for the CAD denominated credit facility

(i) Senior Secured Notes

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

Total transaction costs, including loan origination fees, were approximately $5,255,000 which were netted against the principal amount of the Senior Secured Notes and are being accreted over the term of the Senior Secured Notes up to the principal amount on maturity using the effective interest rate of 22.5%, with $1,663,260 (2014 - $790,610) recorded as accretion for the year ended December 31, 2015.

Effective June 25, 2015, the Company and the holders of the Senior Secured Notes amended and restated the NPA (the “A&R NPA”). This A&R NPA increased the funding to $60 million and extended the maturity to the earlier of June 25, 2018 and the date that all Senior Secured Notes become due and payable in full under the A&R NPA, whether by acceleration or otherwise. Principal payments on the A&R NPA are the greater of a) minimum quarterly principal payments of $5 million starting April 2016, with a final payment of $15 million due on June 25, 2018, or b) a computed principal payment based on consolidated net cash flows, as defined in the A&R NPA for the most recent quarter ended. The interest rate on the A&R NPA remains unchanged.

The A&R NPA was accounted for as an extinguishment of the original financial liability for accounting purposes and resulted in a gain on modification of $1,461,700, net of transaction costs. The A&R NPA was remeasured at its fair value on the date of modification with an effective interest rate of 17%. The fair value of $55,736,900 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain/loss on modification. The A&R NPA is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $774,600 recorded as accretion for the period ended December 31, 2015.

Total transaction costs, including loan origination fees and the conveyance of an overriding royalty interest (“ORRI”) in all oil and gas properties of the Company, were approximately $4,263,100, of which the ORRI had a fair value of $2,383,355 which approximated the net book value of the property and equipment disposed of and is a non-cash transaction.

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 due to related parties (primarily Chet Morrison Contractors, LLC), in excess of $2,717,581. Combined with expenses incurred subsequent to November 17, 2014, the current portion of accounts payables due to related parties summed to $8,219,405 as of December 31, 2015.

In connection with the Senior Secured Notes, the Senior Secured Notes holder, the Company and each of the subordinated note holders (see note 10 (ii), (iii) and (iv)), entered into intercreditor and subordination agreements dated November 17, 2014 that prohibit any payments on the subordinated indebtedness until the Senior Secured Notes are fully satisfied. Additionally, each of the loan or credit agreements between the Company and each of the subordinated note holders was amended to extend the maturity date of each of those loans to one year after all obligations under the Senior Secured Notes are satisfied, being February 14, 2017. With the A&R NPA extending its maturity date to June 25, 2018, the maturity date on each of the subordinated loans was extended to June 25, 2019 under these intercreditor and subordination agreements.

The Company is required to meet certain reporting and financial covenants under the A&R NPA as follows:

- a minimum Consolidated Adjusted EBITDAX, for the period of four quarters then most recently ended to be not less than an amount as specified in the A&R NPA. EBITDAX is defined as 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.

- a proved developed producing ("PDP") Asset Coverage Ratio of not less than 1.35:1.00 (ratio as of the last day of any fiscal quarter of (a) the present value, discounted at 10%, of the Company's proved developed producing reserves to (b) the Consolidated Total Debt) each quarter, the first of which will have an effective date of December 31, 2015. Consolidated Total Debt is defined as the total of all consolidated indebtedness of the Company, less permitted subordinated debt (including all subordinated related party debt); and

- a Leverage Ratio of 2.70: 1.00 for the quarter ended December 31, 2015 and reducing each quarter thereafter to 0.70:1.00 for the fiscal quarter ending June 30, 2017 and each fiscal quarter ending thereafter. Leverage ratio is the ratio as of the last day of any fiscal quarter of (a) the Consolidated Total Debt of the Company (defined above) to (b) the Consolidated Adjusted EBITDAX of the Company for the period of four fiscal quarters then most recently ended.

At December 31, 2015, the Company was not in compliance with the PDP Asset Coverage Ratio covenant under the A&R NPA but obtained a waiver as further discussed in note 24. The Senior Secured Noteholders agreed prior to December 31, 2015, to waive the PDP Asset Coverage Ratio covenant violation. As such, the current portion of the Senior Secured Notes only includes the principal amounts due in the next 12 months in accordance with the A&R NPA.

(ii) Subordinated Note #1

The subordinated note payable ("Subordinated Note #1") totalling $6,463,000 is due to a significant shareholder of the Company. As at September 1, 2015, this shareholder ceased to be a significant shareholder of the Company. Pursuant to an intercreditor subordination agreement as described in note 10(i), the principal amount of the note plus accrued interest was subordinated to the Senior Secured Notes.

As a result of the intercreditor and subordination agreement with the Senior Secured Notes, the subordinated 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 subordinated note payable was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $309,375. The original subordinated 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 subordinated note payable is being accreted over the term up to the principal amount on maturity, using the effective interest rate method with $63,500 (2014 - $17,340) recorded as accretion for the year ended December 31, 2015.

As a result of the A&R NPA as described in note 10(i), the Subordinated Note #1 maturity date was extended to June 25, 2019, and the interest rate remained at 15.5% per annum. The modified Subordinated Note #1 was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $980,882. The Subordinated Note #1 was re-measured at its fair value on the date of modification with an effective interest rate of 23%. The fair value of

$5,253,583 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification.

The restructured Subordinated Note #1 is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $137,452 recorded as accretion for the year ended December 31, 2015.

Refer to note 21 for the accrued interest payable balances at December 31, 2014. At December 31, 2015, accrued interest payable on the Subordinated Note #1 was $3,301,131. Refer to note 16 for the interest and accretion expenses for the years ended December 31, 2015 and 2014.

(iii) Subordinated Note #2

On October 11, 2013, the Company entered into a subordinated secured credit facility ("Subordinated Note #2") with significant shareholders and/or directors of the Company that provides for borrowing up to CAD $8.0 million to be used for general corporate purposes. As at September 1, 2015, one of the noteholders, who funded 60% of the credit facility, creased to be a significant shareholder of the Company. The initial advance was CAD $4.0 million (less a 2% original issue discount and administrative fees of $10,000) resulting in net proceeds of $3,234,466. In addition, the Company also paid a consent fee of $450,000. The credit facility is fully subordinated to the Senior Secured Notes. Amounts drawn on the credit facility bear interest at 9% on all advances, and were repayable 181 days after the full satisfaction of the Notes (note 10(vi)). The credit facility is secured only by the oil and gas properties and proceeds therefrom owned by Rooster Oil and Gas, LLC. No further amounts have been drawn on the credit facility as at or subsequent to December 31, 2015.

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 with $119,643 (2014- $511,286) recorded as accretion for the year ended December 31, 2015.

As a result of the A&R NPA as described in note 10(i), the Subordinated Note #2 maturity date was extended to June 25, 2019, and the interest rate remained at 9% per annum. The modified Subordinated Note #2 was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $787,137. The Subordinated Note #2 was re-measured at its fair value on the date of modification with an effective interest rate of 23%. The fair value of $2,041,003 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured Subordinated Note #2 is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $58,872 recorded as accretion for the year ended December 31, 2015.

Refer to note 21 for the accrued interest payable balances at December 31, 2015 and 2014. Refer to note 16 for the interest and accretion expenses for the years ended December 31, 2015 and 2014.

(iv) Subordinated Note #3

Effective March 7, 2014, the Company entered into an additional second lien credit facility ("Subordinated Note #3") with a related party who is a significant shareholder and director of the Company, for borrowing of up to $10 million. The initial advance was $4.4 million, before an original issue discount of 10%, for a funded amount equal to $4 million. During the year ended December 31, 2014, the Company drew an additional $2.75 million on the second lien credit facility, before an original issue discount of 10%, for a funded amount of $2.5 million. In addition, the Company paid a consent fee of $214,500. The second lien credit facility is fully subordinated to the Senior Secured Notes. Amounts drawn on the credit facility bear interest at 14% per annum, and were repayable 181 days after the full satisfaction of the Notes (note 10(vi)). The credit facility is secured only by the oil and gas properties and proceeds therefrom owned by Rooster Oil and Gas, LLC.

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 with $119,803 (2014 - $692,708) recorded as accretion for the year ended December 31, 2015.

As a result of the A&R NPA as described in note 10(i), the Subordinated Note #3 maturity date was extended to June 25, 2019, and the interest rate remained at 14% per annum. The modified Subordinated Note #3 was accounted for as an extinguishment for accounting purposes and resulted in a gain on modification of $1,410,161. The Subordinated Note #3 was re-measured at its fair value on the date of modification with an effective interest rate of 23%. The fair value of $5,491,383 was estimated using discounted cash flows, and the difference between the fair value and the carrying amount, prior to the modification, was allocated as a gain on modification. The restructured Subordinated Note #3 is being accreted over the term up to the principal amount on maturity, using the effective interest rate method, with $140,398 recorded as accretion for the year ended December 31, 2015.

Refer to note 21 for the accrued interest payable balances at December 31, 2015 and 2014. Refer to note 16 for the interest and accretion expenses for the years ended December 31, 2015 and 2014.

(v) Promissory Note(s)

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

In June 2015, the Company executed three promissory notes with a bank to finance a portion of its insurance premiums in the aggregate amount of $4,881,364. All three promissory notes bear interest at 3.25% per annum, require monthly payments totalling $456,519 and mature on May 25, 2016. The promissory notes are secured by the unearned premiums of the insurance policies being financed.

Refer to note 16 for the interest expenses for the years ended December 31, 2015 and 2014.

(vi) Settled Senior Secured Notes and Warrants

On October 22, 2012, the Company entered into a NPA 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 18% 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 to or subsequent to December 31, 2015.

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.

As part of the Warrant Purchase Agreement and issuance of common shares in the Transaction (note 6), the warrant holders were issued an additional 4,429,813 warrants for a total of 13,429,813 warrants outstanding at December 31, 2015. The exercise price was adjusted to US$0.67 per warrant.

Due to the warrants’ conversion terms, the warrants meet the definition of a derivative instrument and are classified as a liability for accounting purposes. The warrants are measured at fair value at each balance sheet date using a Level 2 fair value hierarchy.

The fair value of the warrants on the grant date was determined using the Black-Scholes model with the following assumptions:

(amounts in US dollars)

	December 31, 2015	December 31, 2014
Risk-free interest rate	1.08%	1.78%
Expected life (years)	1.81	2.81
Expected volatility	50.0%	50.0%
Expected annual dividend yield	0.00%	0.00%
Stock price	US $0.02	US $0.07
Exercise price	US $0.67	US $0.67
Fair value per warrant	$0.00	$0.00

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 accretion for the year ended December 31, 2014.

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

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

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.

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. In order to allow for the Transaction, the Limited Consent provided that, the holders of the Notes forbear from exercising certain rights and remedies under the NPA 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 occurred. 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 NPA 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.

(amounts in US dollars)

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.

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, 2015 and 2014:

	December 31, 2015	December 31, 2014
Asset retirement obligations, beginning of year	$ 89,444,429	$ 96,928,230
Liabilities incurred	-	84,654
Liabilities settled	(23,877,719)	(9,817,401)
Revisions to estimates	(3,501,951)	(932,408)
(Gain) Loss on asset retirement obligations	(4,815,928)	1,581,132
Accretion (unwinding of discount)	1,378,670	1,600,222
Asset retirement obligations, end of year	$ 58,627,501	$ 89,444,429
Less: Short-term portion	(30,768,877)	(36,330,069)
Long-term portion	$ 27,858,624	$ 53,114,360

The Company has the ability to utilize its own well services business unit to abandon a portion of its asset retirement obligations. The estimated inflated undiscounted cash flows required to settle the provisions are approximately $62.5 million (2014 - $100.4 million), which has been discounted using risk-free rates ranging from 1.50% to 2.55% (2014 - 1.50% to 2.55%). These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 27 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.

The downward revisions of $3.5 million to the asset retirement obligations for the year ended December 31, 2015, reflect current market pricing for abandonment services in the Gulf of Mexico. Of that amount, $2,092,071 has been recorded as an increase in property and equipment (note 9) and $5,594,022 as a decrease to the decommissioning contracts receivable.

At December 31, 2015, the Company had $5,458,800 (2014 - $5,458,800) cash deposits held as security by the surety of the supplemental bonds that are required by the Bureau of Ocean Energy Management (BOEM) on asset retirement obligations of properties owned by Rooster Petroleum, LLC and Probe Resources US Ltd. 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, $3,585,011 (2014 - $3,804,155) of the deposits have been classified as short-term and included in restricted cash as at December 31, 2015 (note 5(b)).

(amounts in US dollars)

Decommissioning contracts receivable

The Company has entered into plugging and abandonment contracts (the "decommissioning contracts") in which the Company assumed asset retirement obligations in exchange for fixed fees from counterparties aggregating approximately $128.4 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, 2015, the estimated inflated undiscounted cash flows required to settle the decommissioning contracts are approximately $48.7 million (2014 - $75.9 million), which has been discounted using a risk-free rate ranging from 1.50% to 2.55% (2014 - 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, during the year ended December 31, 2015, the counterparties made payments totaling $nil (2014 - $6,996,950) to the Company which were not based on decommissioning activities being performed. These amounts have been recorded as deferred revenue and are being amortized as decommissioning revenue as abandonment work is performed on a percentage of completion. Of the total deferred revenue received by the Company at December 31, 2015, $8,564,377 remained to be amortized.

Of the total fixed fees of the decommissioning contracts of $126.4 million, approximately $61.1 million has been paid to the Company by the counterparties and an additional $6.3 million has been invoiced to the counterparty through December 31, 2015. The remaining amount to be collected of $59.0 million, less the estimated future abandonment costs to be incurred of $42.3 million, is approximately $16.7 million, which, when combined with the recognition of deferred revenues, represents the approximate future decommissioning contracts revenue to be earned from the decommissioning contracts subsequent to December 31, 2015. The Company expects to receive $36.3 million of the $59.0 million in the next twelve months.

Decommissioning contracts and contribution agreements receivable also includes $2.0 million associated with contribution agreements that will be paid by prior owners following the decommissioning of two fields. The Company expects to receive $0.5 million of the $2.0 million in the next twelve months.

12. Prepaid expenses

Prepaid expenses consist of the following:

	December 31, 2015	December 31, 2014
Prepaid insurance	$ 2,763,727	$ 3,882,063
Prepaid bonds	303,347	298,164
Prepaid inventory	394,262	415,823
Prepaid inspections		-
Prepaid other	192,793	440,887
Total prepaid expenses	$ 3,654,129	$ 5,036,937

(amounts in US dollars)

13. Share capital

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

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

	December 31, 2015		December 31, 2014	
Shares issued and outstanding	**Number of Shares**	**Stated Value**	**Number of Shares**	**Stated Value**
Common shares	263,110,502	$ 94,779,040	259,028,502	$ 92,949,630
Proportionate voting shares	60,989	$ 27,333,142	65,071	$ 29,162,552
Total Share capital stated value		$ 122,112,182		$ 122,112,182

The common shares may at any time, at the option of the holder, be converted into proportionate voting shares of the Company on the basis of 1,000 common shares for one proportionate voting share for no consideration. Each issued and outstanding proportionate voting share may at any time, at the option of the holder, be converted into 1,000 common shares of the Company for no consideration. The common shares and proportionate voting shares have the same rights and are equal in all respects as if they were shares of one class only. For purposes of voting and dividend rights, the proportionate voting shares are multiplied by 1,000, equal to the conversion ratio. 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 with Probe Resources Ltd. in 2012. During the year 2015, 4,082 proportionate voting shares were converted to 4,082,000 common shares and a corresponding value of $1,829,410 was transferred from the proportionate voting shares to common shares stated value.

(amounts in US dollars)

14. Stock-based compensation

The Company has a stock option plan under which options may be granted to employees, officers, directors and consultants. Fully dilutive shares means the computed common shares assuming all proportionate voting shares were converted to common shares. On October 28, 2015, the shareholders of the Company passed a special resolution approving, ratifying and confirming amendment of the stock option plan providing that the maximum number of common shares under the option plan cannot exceed twenty percent (20%) of the common shares on a fully diluted basis or 64,819,900. At December 31, 2015 there remained available for future issuance 46,580,710 stock options. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The vesting term of options under the plan is determined by the Company's Board of Directors. The maximum exercise period of options granted under the plan is ten years following the grant date.

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

For the year ended	**December 31, 2015**		**December 31, 2014**	
	Number of options	Weighted Avg Exercise Price	Number of options	Weighted Avg Exercise Price
Balance, beginning of year	9,193,404	CAD $0.66	9,293,404	CAD $0.66
Options granted	10,545,963	CAD $0.14	300,000	CAD $0.61
Options forfeited	(1,500,177)	CAD $0.54	(400,000)	CAD $0.52
Balance, end of year	18,239,190	CAD $0.37	9,193,404	CAD $0.66

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, 2015:

Grant Date	Number Outstanding	Remaining Contractual Life	Exercise Price	Expiry Date	Number Exercisable
Jun. 05, 2012	3,785,468	6.50 years	CAD $0.50	Jun. 05, 2022	3,785,468
Sep. 11, 2013	3,907,759	7.75 years	CAD $0.82	Sep. 11, 2023	2,621,839
May 16, 2014	300,000	8.50 years	CAD $0.61	May 16, 2024	100,000
May 06, 2015	10,245,963	9.25 years	CAD $0.14	May 06, 2025	10,245,963
	18,239,190				16,753,270

(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 assumptions and resulting fair values:

Option awards	**May 6, 2015**	**March 2, 2015**	**May 16, 2014**
Assumptions:			
Share price, date of grant	CAD $0.14	CAD $0.07	CAD $0.61
Exercise price	CAD $0.14	CAD $0.07	CAD $0.61
Risk free interest rate (%)	2%	2%	2%
Expected life (years)	10	10	10
Expected volatility (%)	50%	50%	50%
Estimated forfeiture rate (%)	5%	5%	5%
Expected dividend yield	-	-	-
Fair value of options granted	**CAD $0.09**	**CAD $0.04**	**CAD $0.37**

During the years ended December 31, 2015 and 2014, $1,057,501 and $1,305,233, 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, 2015	**2014**
Salaries and fees	$ 6,480,951	$ 8,475,103
Stock-based compensation	1,057,501	1,305,233
Total key employee remuneration	$ 7,538,452	$ 9,780,336

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

	Year Ended December 31, 2015	**2014**
Salaries and fees	$ 1,445,583	$ 1,471,750
Stock-based compensation	733,530	796,323
Total key management remuneration	$ 2,179,114	$ 2,268,073

(amounts in US dollars)

16. Finance expense, net

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

	Year Ended December 31, 2015	2014
Interest on Senior Secured Notes (note 10(i))	$ 6,868,333	$ 698,750
Interest and Other Fees on Settled Senior Secured Notes (10(vi))		5,647,500
Interest on Subordinated Note #1 (note 10(ii))	973,712	897,884
Interest on Subordinated Note #2 (note 10(iii))	317,812	270,794
Interest on Subordinated Note #3 (note 10(iv))	1,001,000	734,739
Interest on Promissory Notes (note 10(v))	78,634	19,803
Accretion of Discount on Senior Secured Notes (note(i))	2,437,860	790,610
Accretion of Discount on Settled Senior Secured Notes (note 10(vi))		1,493,288
Accretion of Discount on Subordinated Note #1 (note 10(ii))	200,952	17,340
Accretion of Discount on Subordinated Note #2 (note 10(iii))	178,515	511,286
Accretion of Discount on Subordinated Note #3 (note 10(iv))	260,201	692,708
Foreign Exchange Loss (Gain) on Subordinated Note #2 (note 10(iii))	(507,224)	(255,074)
(Gain) Loss on Modification of Debts (Note 10)	(376,780)	(1,239,120)
Accretion of Asset Retirement Obligations (note 11)	1,378,670	1,600,222
Other	64,942	380,056
Total finance expense	12,876,628	12,260,786
Interest income	(130,000)	(105,186)
Total finance expense, net	$ 12,746,628	$ 12,155,600

(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	
	2015	**2014**
Loss before income taxes	$ (26,989,274)	$ (12,431,366)
Statutory Tax Rate (1)	35%	35%
Expected income tax expense (recovery)	(9,446,000)	(4,351,000)
Difference resulting from:		
Taxable (income) loss attritable to former members of Cochon and Well Services prior to the Transaction		(1,349,000)
Temporary differences recognized as a result of change in tax status on date of Transaction		2,464,000
Stock-based compensation	370,000	484,000
Unrealized (gain) loss on financing warrants	-	(382,000)
True-up of provision to tax returns and other	1,471,000	572,000
Change in deferred tax assets not recognized	(199,000)	(130,000)
Total income tax recovery	$ (7,804,000)	$ (2,692,000)

(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, 2014	Recognized in Loss		December 31, 2015
Property and equipment and exploration and evaluation assets	$	27,178,000	$(3,291,000)		23,887,000
Commodity contracts		2,510,000.0	351,000		2,861,000
Decomissioning contracts receivable and deferred revenue		25,593,000	(6,058,000)		19,535,000
Loans payable		172,000	1,794,000		1,966,000
Asset retirement obligations		(32,792,000)	11,780,000		(21,012,000)
US net operating losses		(20,764,000)	(12,381,000)		(33,145,000)
Canadian non-capital losses		(1,427,000)	121,000		(1,306,000)
Share issuance costs and other temporary differences		(156,000)	79,000		(77,000)
Deferred income tax assets not recognized		1,569,000	(199,000)		1,370,000
	$	1,883,000	$(7,804,000)	$	(5,921,000)
Deferred income tax asset (1)	$	(5,565,000)	$ (356,000)	$	(5,921,000)
Deferred income tax liability		7,448,000	(7,448,000)		-
	$	1,883,000	$(7,804,000)	$	(5,921,000)

(1) Includes $5,565,000 Probe Resources US, Ltd. restricted net operating losses

		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 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

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 2035.

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 27%, due to the uncertainty of realization. The Canadian non-capital losses expire between 2030 and 2035.

(amounts in US dollars)

18. Loss per share

Basic and diluted loss per share for the years ended December 31, 2015 and 2014 of $0.06 and $0.03, respectively, 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, totalling 324,099,502 (2014 – 324,099,052). The total weighted average number of shares outstanding for the year ended December 31, 2014 has been adjusted to reflect the equivalent number of shares issued in the Transaction (note 6). All outstanding options and warrants were excluded from the calculation of diluted loss per share for the years ended at December 31, 2015 and 2014, as they were anti-dilutive.

19. Supplemental cash flow information

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

	Year Ended December 31	
	2015	**2014**
Sources (uses) of cash:		
Restricted cash	$ 219,144	$ 1,816,480
Accounts receivable	(5,483,807)	(4,617,159)
Prepaid expenses	1,382,808	(1,131,488)
Asset retirement deposits	(219,144)	(1,354,645)
Accounts payable and accrued liabilities	(290,122)	(11,866,506)
Current portion of due to related parties	1,242,174	791,836
Changes in non-cash working capital	$ (3,148,948)	$ (16,361,482)
Related to operating activities	$ (2,377,105)	$ (6,378,102)
Related to investing activities	(771,843)	(9,983,380)
	$ (3,148,948)	$ (16,361,482)

(b) Cash is comprised of bank balances as of December 31, 2015 and 2014.

(c) Interest and income taxes paid

The Company paid interest of $6,946,968 and $6,337,500 during the years ended December 31, 2015 and 2014, respectively.

The Company has not paid any income taxes during the years ended December 31, 2015 or 2014.

(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, 2015:

2016	$	235,887
2017		117,944
Total	$	353,831

The Company also leases a field office facility in Abbeville, Louisiana under a non-cancellable operating lease that renews annually. The monthly rent is $2,400.

(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, one officer of the Company is participating with a 1.25% working interest in the drilling of a well operated by the Company.

(amounts in US dollars)

Balances due to (from) related parties at December 31, 2015 and 2014 are as follows:

Balances due to (from) related parties	**December 31, 2015**	**2014**
Due to related parties [1]	$ 11,821,046	$ 10,578,872
Subordinated note payable #1 (note 10(ii)) [2]	-	6,170,965
Accrued interest payable on Subordinated note #1 (note 10(ii)) [2]	-	2,224,781
Subordinated note payable #2 (note 10(iii)) [3]	772,200	2,962,015
Accrued interest payable on Subordinated note #2 (note 10(iii) [3]	232,524	355,412
Subordinated note payable #3 (note 10(iv))	5,631,781	6,781,741
Accrued interest payable on Subordinated note #3 (note 10(iv))	1,726,066	734,739
Note and accrued interest receivable (note 7)	(4,234,712)	(4,104,712)

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

(2) The subordinated note #1 was due to a significant shareholder of the Company. As at September 1, 2015, this shareholder ceased to be a significant shareholder of the Company.

(3) Sixty percent of the subordinated note #2 was due to a significant shareholder of the Company. As at September 1, 2015, this shareholder ceased to be a significant shareholder of the Company. At December 31, 2015, accrued interest payable on this former significant shareholder was $348,785. The remaining forty percent of the subordinated #2 is held by another significant shareholder of the Company, for which accrued interest payable at December 31, 2015 was $232,524.

(amounts in US dollars)

Related party transactions during the year are as follows:

	Year Ended December 31, 2015		Year Ended December 31, 2014
Purchases from related parties [1]	$ 3,330,333	$	7,434,376
Interest expense on subordinated note #1 (note 10(ii)) [2]	649,141		897,884
Interest expense on subordinated note #2 (note 10(iii)) [3]	254,250		270,794
Interest expense on subordinated note #3 (note 10(iv))	1,001,000		734,739
Interest income on note receivable (note 7)	130,000		104,712

(1) Purchases from related parties during the years ended December 31, 2015 and 2014 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

(2) The subordinated note #1 was due to a significant shareholder of the Company. As at September 1, 2015, this shareholder ceased to be a significant shareholder of the Company. The interest expense for the period of January 1, 2015 to the date this shareholder ceased to be a significant shareholder of the Company was $649,141

(3) Sixty percent of the subordinated note #2 was due to a significant shareholder of the Company. As at September 1, 2015, this shareholder ceased to be a significant shareholder of the Company. At December 31, 2015, the interest expense for the period of January 1, 2015 to the date this shareholder ceased to be a significant shareholder of the Company was $127,125 . The remaining forty percent of the subordinated #2 is held by another significant shareholder of the Company, for which the interest expense at December 31, 2015 was $127,125.

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 an oil & natural gas exploration & production company with an integrated down-hole and subsea plugging & abandonment services business. As at December 31, 2015 and 2014, the Company has two reportable segments: oil & 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.

(amounts in US dollars)

	2015				
Operating Segments	**Petroleum and natural gas**	**Well Services**	**Corporate allocations**	**Intercompany eliminations**	**Consolidated**
Revenue					
Petroleum and natural gas	$ 20,194,751				$ 20,194,751
Well services		27,912,796		(7,186,707)	20,726,089
Decommissioning contracts		17,041,325			17,041,325
Production handling	206,876				206,876
Revenue before the following	20,401,626	44,954,121	-	(7,186,707)	58,169,040
Realized gain on commodity contracts	8,287,582				8,287,582
Unrealized gain on commodity contracts	1,003,195				1,003,195
Total revenue	29,692,403	44,954,121	-	(7,186,707)	67,459,817
Expenses					
Lease operating	20,857,708			(125,105)	20,732,602
Cost of well services		17,869,093		(4,897,026)	12,972,067
General and administrative	2,066,294	6,378,529	4,024,164		12,468,987
Depreciation and depletion	2,977,801	3,197,484	69,130		6,244,415
Repairs and maintenance		994,982			994,982
Bad debt expense (recovery)	718,072	80,714			798,786
Stock-based compensation	323,970		733,530		1,057,501
Impairment, net	27,968,266				27,968,266
Asset retirement expense	3,281,784				3,281,784
Exploration and evaluation					-
Transaction costs					-
Total expenses	58,193,895	28,520,802	4,826,825	(5,022,131)	86,519,391
Operating income (loss)	(28,501,491)	16,433,319	(4,826,825)	(2,164,576)	(19,059,573)
Gain (loss) on asset retirement obligation		4,815,928			4,815,928
Unrealized gain (loss) on financing warrants	1,000				1,000
Finance expense, net	(12,738,428)	(8,200)			(12,746,628)
Income (loss) before income taxes	(41,238,920)	21,241,046	(4,826,825)	(2,164,576)	(26,989,274)

(amounts in US dollars)

			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 (loss) on commodity contracts	270,742	-	-	-	270,742
Unrealized gain (loss) 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 expense (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
Asset retirement expense					-
Exploration and evaluation					-
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
Gain (loss) on asset retirement obligation	-	(1,581,132)	-	-	(1,581,132)
Unrealized gain (loss) on financing warrants	1,091,000	-	-	-	1,091,000
Finance expense, net	(11,824,631)	(330,969)	-	-	(12,155,600)
Income (loss) before income taxes	(13,246,205)	7,171,224	(5,940,220)	(416,165)	(12,431,366)

			2015		
Operating Segments	**Petroleum and natural gas**	**Well Services**	**Corporate allocations**	**Intercompany eliminations**	**Consolidated**
Current assets	$ 72,444,194	$ 14,335,353		$ (27,532,939)	$ 59,246,609
Decommissioning contracts receivable	15,688,958				15,688,958
Exploration and evaluation assets	242,172				242,172
Property and equipment	75,669,179	8,278,253	92,389	(159,398)	83,880,422
Note receivable			7,351,979	(3,117,267)	4,234,712
Asset retirement deposits	1,873,789				1,873,789
Total assets	175,383,747	22,613,606	7,444,367	(30,809,604)	174,632,117
Current liabilities	82,959,170	11,970,418		(18,136,962)	76,792,626
Total liabilities	179,046,330	21,970,418		(28,136,962)	172,879,786

			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	-	-	7,221,979	(3,117,267)	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

23. Contingencies

Certain claims and counterclaims have been filed against the Company which arise in the normal course of business. Management has assessed these claims to be without merit and/or the Company expects to be fully indemnified, and the likelihood of material loss to the Company is remote. Accordingly, no amounts have been accrued to December 31, 2015 relating to these claims.

24. Subsequent events

First Amendment and Waiver to the A&R NPA

On March 14, 2016, the Company entered into the First Amendment and Waiver to the A&R NPA (the "First Amendment"), effective December 31, 2015. Pursuant to the First Amendment, all of the financial and performance covenants of the NPA and scheduled loan amortization are waived for the fiscal quarters ending March 31, 2016 and June 30, 2016. In exchange for the waiver, the Company paid a waiver fee in the amount of $493,333 on March 14, 2016. The Senior Secured Notes bear interest at a rate equal to Libor + 11.5% per annum with interest payments due monthly; the minimum interest rate will be 13.0% per annum. Additionally, from and after March 14, 2016 until June 30, 2016, an 8.0% interest shall be paid in kind ("PIK Interest"). All PIK Interest will be capitalized and compounded by increasing the outstanding principal amount of the Senior Secured Notes. Principal payments will start on the 10th business day following the end of each calendar month occurring on or after July 31, 2016. The principal payments will be based upon excess cash generated after lender-approved operating and capital expenditures.

As a condition to the First Amendment, on March 16, 2016, the Company fixed the price on derivative commodity contracts with settlement dates in April, May, and June 2016, and terminated all derivative commodity contracts with settlement dates on or after July 1, 2016. The Company then applied $4.0 million of the proceeds to reduce the principal balance of the Senior Secured Notes.

If the Company is unable to restructure the financial and performance covenants of the NPA or extend the term of the waiver on or before the end of the fiscal quarter ending June 30, 2016, then the Company will be in default of one or more of the covenants; in that event the holders of the Senior Secured Notes may exercise their remedies against the Company. No assurances can be given that the Company will be able to reach agreement with the holders of the Senior Secured Notes on the consequences of any possible default at that time, and in that event the Company may not be able to continue as a going concern.

Bonding

The Company currently has an aggregate of approximately $47 million posted in surety bonds in favor of BOEM and third parties (predecessors in lease title) to secure the performance of lease obligations including satisfaction of ARO. BOEM recently ordered the Company to post additional supplemental bonds of approximately $5 million covering certain specific leases. The Company is of the opinion that the leases at issue are sufficiently bonded. The Company has been in negotiations with BOEM in an attempt to reduce the amounts and/or waive the requirement, however we have been unsuccessful to date and there can be no assurance that we will be able to secure additional bonds. In that event, BOEM may take additional actions against the Company that could negatively impact oil and gas operations and the ability of the Company to continue as a going concern.