

# **Waldron Energy Corporation**

## **Condensed Interim Financial Statements**

For the Three Months Ended March 31, 2015

## Waldron Energy Corporation

### Condensed Interim Statement of Financial Position

(unaudited, thousands of Canadian dollars)

	Notes	March 31, 2015	December 31, 2014
<b>ASSETS</b>			
Current assets			
Accounts receivable		\$ 1,209	\$ 1,588
Deposits and prepaid expenses		677	1,052
Assets held for sale	11	13,937	-
		<b>15,823</b>	2,640
Exploration and evaluation assets			
Property and equipment	3	1,139	4,872
	4	32,808	53,444
		<b>\$ 49,770</b>	\$ 60,956
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 4,788	\$ 5,083
Credit facilities	5	24,500	24,057
Liabilities held for sale	11	1,636	-
		<b>30,924</b>	29,140
Decommissioning liabilities			
Flow-through share premium	6	10,812	12,364
	7(b)	157	157
		<b>41,893</b>	41,661
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	95,899	95,899
Contributed surplus		9,200	9,188
Deficit		(97,222)	(85,792)
		<b>7,877</b>	19,295
		<b>\$ 49,770</b>	\$ 60,956
Future Operations	2		
Commitments	10		
Subsequent events	5,11		

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

## Waldron Energy Corporation

### Condensed Interim Statements of Loss and Comprehensive Loss For the Three Months Ended March 31, 2015 and 2014

(unaudited, thousands of Canadian dollars except per share amounts)

	Notes	2015	2014
<b>REVENUE</b>			
Petroleum and natural gas sales		\$ 2,598	\$ 7,252
Royalties		(332)	(725)
		<b>2,266</b>	<b>6,527</b>
Realized loss on commodity price contracts		-	(577)
Unrealized loss on commodity price contracts		-	(1,063)
		<b>2,266</b>	<b>4,887</b>
<b>EXPENSES</b>			
Operating		1,748	2,233
Transportation		229	324
General and administrative		643	758
Transaction and other costs		-	45
Exploration and evaluation		-	148
Share-based compensation		8	109
Depletion and depreciation	4	1,317	2,145
Impairment	3,4	9,269	-
		<b>13,214</b>	<b>5,762</b>
Operating loss		<b>(10,948)</b>	<b>(875)</b>
Interest and financing charges		<b>(482)</b>	<b>(483)</b>
Loss before income taxes		<b>(11,430)</b>	<b>(1,358)</b>
Deferred income tax recovery		-	17
Net loss and comprehensive loss		<b>\$ (11,430)</b>	<b>\$ (1,341)</b>
<b>Loss per share</b>			
Basic and Diluted	7(d)	<b>\$ (0.18)</b>	<b>\$ (0.02)</b>

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## Waldron Energy Corporation

### Condensed Interim Statements of Changes in Equity

For the Three Months Ended March 31, 2015 and 2014

(unaudited, thousands of Canadian dollars)

	2015	2014
<b>SHARE CAPITAL</b>		
Balance, beginning of period	\$ 95,899	\$ 93,278
Issue of common shares	-	1,000
Share issue costs, net of tax	-	(6)
Balance, end of period	\$ 95,899	\$ 94,272
<b>WARRANTS</b>		
Balance, beginning and end of period	\$ -	\$ 2,911
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	\$ 9,188	\$ 5,993
Share-based compensation expensed	8	109
Share-based compensation capitalized	4	14
Balance, end of period	\$ 9,200	6,116
<b>DEFICIT</b>		
Balance, beginning of period	\$ (85,792)	\$ (55,933)
Net loss	(11,430)	(1,341)
Balance, end of period	\$ (97,222)	\$ (57,274)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 7,877</b>	<b>\$ 46,025</b>

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

## Waldron Energy Corporation

### Condensed Interim Statements of Cash Flows For the Three Months Ended March 31, 2015 and 2014

(unaudited, thousands of Canadian dollars)

	Notes	2015	2014
Cash provided by (used in):			
<b>OPERATING ACTIVITIES</b>			
Net loss for the period		\$ (11,430)	\$ (1,341)
Adjustments for:			
Depletion and depreciation		1,317	2,145
Impairment		9,269	-
Finance expense (accretion)		84	83
Share-based compensation		8	109
Deferred income tax expense (recovery)		-	(17)
Exploration and evaluation expense		-	148
Unrealized loss on commodity price contracts		-	1,063
Changes in non-cash working capital		920	(190)
Net cash from operating activities		168	2,000
<b>INVESTING ACTIVITIES</b>			
Property and equipment expenditures	4	(96)	(4,602)
Exploration and evaluation expenditures	3	(54)	(118)
Changes in non-cash working capital		(461)	2,333
Net cash used in investing activities		(611)	(2,387)
<b>FINANCING ACTIVITIES</b>			
Increase (decrease) in credit facilities		443	(6,750)
Issue of common shares, net of costs		-	993
Change in non-cash working capital		-	(216)
Net cash from (used in) financing activities		443	(5,973)
Change in cash		-	(6,360)
Cash, beginning of period		-	6,360
Cash, end of period		\$ -	\$ -
Interest paid		\$ 379	\$ 421

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

# Waldron Energy Corporation

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(unaudited, all amounts are in \$000 unless otherwise noted)

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### 1. REPORTING ENTITY

Waldron Energy Corporation (the "Corporation") is incorporated under the laws of Alberta, domiciled in Canada. The Corporation is publicly traded on the Toronto Stock Exchange (TSX) and its shares trade under the symbol WDN. The principal business of Waldron is the acquisition of, exploration for, and development and production of petroleum and natural gas reserves in Western Canada; these financial statements reflect only the Corporation's proportionate interest in such activities. The Corporation's head office is located at 600, 510 . 5<sup>th</sup> Street SW, Calgary, Alberta, Canada T2P 3S2.

### 2. BASIS OF PRESENTATION

#### *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board as at and for the three months ended March 31, 2015 and 2014.

These condensed interim financial statements should be read in conjunction with the Corporation's annual audited financial statements for the year ended December 31, 2014.

The condensed interim financial statements were authorized for issue by the Board of Directors on May 12, 2015.

#### *Basis of measurement*

The accounting policies are described in Note 3 of the audited financial statements for the year ended December 31, 2014. There have been no changes to the Corporation's accounting policies since December 31, 2014.

#### *Future Operations*

These condensed interim financial statements have been prepared on a going concern basis which assumes that the Corporation will be able to realize its assets and discharge its liabilities in the normal course of business. If this assumption were not appropriate, adjustments to these condensed interim financial statements may be necessary. The Corporation's \$6 million secured subordinated debt facility becomes due on June 30, 2015, extended from a revised maturity date of March 31, 2015. Additionally, the Corporation's senior bank facility will undergo a borrowing base review on or before June 30, 2015 which may lead to further decreases to the facility amount. The maturity of the subordinated debt facility and the upcoming review of the senior bank debt facility give rise to material uncertainties that may cast significant doubt on the Corporation's ability to continue as a going concern if the facilities are not renewed, paid out, extended and/or refinanced. In advance of the revised maturity date of the subordinated debenture and the borrowing base review of the senior bank debt, the Corporation continues to work with its lenders to demonstrate a justifiable lending base and renegotiate lending terms. Subsequent to March 31, 2015, the Corporation's secured subordinated lender waived the Corporation's non-compliance with the lender-defined debt to trailing cash flow ratio covenant as well as the lender-defined debt to equity covenant as at March 31, 2015. While continuing open discussions with its lenders, the Corporation will also evaluate other financing alternatives, if available on favourable terms, in order to retire the debt. Additionally, the Corporation engaged a financial advisor in December 2014 to undertake a disposition process whereby certain assets or the entire Corporation may be sold. Subsequent to March 31, 2015, the Corporation closed an asset sale for proceeds of \$12.3 million and, in conjunction with the sale, the bank debt facility limit was reduced to \$7.8 million, as discussed in notes 5 and 11. The Corporation will be continuing the disposition process to address matters discussed above. Realization values may be different from

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## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(unaudited, all amounts are in \$000 unless otherwise noted)

carrying values as shown and these financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. Management believes that the going concern assumption is appropriate for these financial statements. The appropriateness of the going concern assumption is dependent upon the events and circumstances outlined above. Refer to note 8(c) for further details regarding capital management and refer to note 10 for commitment details.

### New standards and interpretations issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC and are effective for accounting periods beginning on or after January 1, 2015. Those which may be relevant to the Corporation are described below:

IFRS 9 Financial Instruments (2014) is effective January 1, 2018 and is available for early adoption. The Corporation is currently evaluating the impact that the standard will have on its results of operations and financial position and is assessing when adoption will occur.

IFRS 15 Revenue from Contracts with Customers is effective for annual periods beginning on or after January 1, 2017. The Corporation intends to adopt IFRS 15 for the annual period beginning on January 1, 2017. The Corporation is currently evaluating the impact that the standard will have on its results of operations and financial position.

### 3. EXPLORATION AND EVALUATION ASSETS ("E&E")

Balance at December 31, 2013	\$	9,538
Additions		4,567
Dispositions		(249)
Transfers to property and equipment		(3,235)
Lease expiries and unsuccessful drilling costs		(2,205)
Impairment		(3,544)
Balance at December 31, 2014		4,872
Additions		54
Impairment		(3,787)
<b>Balance at March 31, 2015</b>	<b>\$</b>	<b>1,139</b>

E&E assets consist of the Corporation's exploration and development projects that are pending the determination of proved and/or probable reserves. Additions represent the Corporation's share of costs incurred on E&E assets during the period.

During the three months ended March 31, 2015, the Corporation initiated the sale of its Ricinus and Strachan CGU. Subsequent to March 31, 2015, the Corporation sold these assets for gross proceeds of \$12.3 million, as discussed in note 11. At March 31, 2015, the E&E carrying value of the Ricinus and Strachan CGU exceeded the amount paid for these assets pursuant to the Purchase and Sale Agreement. Accordingly, an impairment of \$3.8 million was recognized for the three months ended March 31, 2015 as, for the purposes of the impairment calculation, the Corporation did not apply any proceeds from the sale to E&E assets.

During the year ended December 31, 2014, an impairment of \$3.5 million was recognized as certain lands were scheduled to expire and the Corporation had no current plans to drill on those lands prior to expiry.

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## Notes to the Condensed Interim Financial Statements

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(unaudited, all amounts are in \$000 unless otherwise noted)

### 4. PROPERTY AND EQUIPMENT

	Petroleum and Natural Gas Interests	Office Equipment	Total
<b>Cost:</b>			
Balance at December 31, 2013	\$ 151,202	\$ 445	\$ 151,647
Additions	6,393	14	6,407
Transfer from exploration and evaluation assets	3,235	-	3,235
Dispositions	(5,951)	-	(5,951)
Decommissioning liabilities	2,584	-	2,584
Capitalized share based compensation	46	-	46
Balance at December 31, 2014	\$ 157,509	\$ 459	\$ 157,968
Additions	96	-	96
Capitalized share based compensation	4	-	4
Transferred to Assets held for sale (see note 11)	(53,850)	-	(53,850)
Balance at March 31, 2015	\$ 103,759	\$ 459	\$ 104,218
<b>Accumulated depletion, depreciation and impairment:</b>			
Balance at December 31, 2013	\$ 75,762	\$ 357	\$ 76,119
Depletion and depreciation for the year	8,006	60	8,066
Impairment	20,339	-	20,339
Balance at December 31, 2014	104,107	417	104,524
Depletion and depreciation for the period	1,302	15	1,317
Impairment	5,482	-	5,482
Transferred to Assets held for sale (see note 11)	(39,913)	-	(39,913)
Balance at March 31, 2015	\$ 70,978	\$ 432	\$ 71,410
<b>Net book value:</b>			
At December 31, 2014	\$ 53,402	\$ 42	\$ 53,444
<b>At March 31, 2015</b>	<b>\$ 32,781</b>	<b>\$ 27</b>	<b>\$ 32,808</b>

#### (a) Depletion, depreciation and impairment charges

For the three months ended March 31, 2015, an estimated \$48.9 million of future development costs associated with proved plus probable reserves was included in the calculation of depletion expense (December 31, 2014 - \$48.9 million).

During the three months ended March 31, 2015, the Corporation initiated the sale of its Ricinus and Strachan CGU. Subsequent to March 31, 2015, the Corporation sold these assets for gross proceeds of \$12.3 million, as discussed in note 11. The carrying amount of these assets has been transferred to assets held for sale on the Statement of Financial Position as at March 31, 2015. Additionally, an impairment loss of \$5.5 million related to the write down of the CGU to the lower of its carrying amount and its fair value less cost to sell has been recognized for the three months ended March 31, 2015, which reduced the carrying amount of property and equipment transferred to assets held for sale. The fair value measurement for the assets has been categorized as a level 3 fair value. Level 3 fair value measurements are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

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Indicators of impairment were present at December 31, 2014. Accordingly, the Corporation recognized an impairment charge of \$20.3 million to property and equipment for the year ended December 31, 2014.

(b) Capitalization of general and administrative and share-based compensation expense

During the three months ended March 31, 2014, approximately \$0.1 million of directly attributable general and administrative expense and an insignificant amount of directly attributable share-based compensation expense were capitalized to property and equipment (March 31, 2014 - \$0.1 million and \$0.02 million, respectively).

### 5. CREDIT FACILITIES

The Corporation's credit facilities consist of the following as at March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Bank debt	\$ 18,500	\$ 18,057
Secured subordinated debt	6,000	6,000
Total Credit facilities	\$ 24,500	\$ 24,057

(a) Bank debt

In accordance with the borrowing base review performed during the fourth quarter of 2014, the borrowing base was \$19.3 million as at March 31, 2015. Subsequent to March 31, 2015, in conjunction with the closing of the asset sale described in note 11 and in accordance with the Interlender and Subordination Agreement, the borrowing base was reduced to \$7.8 million. At March 31, 2015, the Corporation was in compliance with all bank debt covenants.

The operating demand loan facility revolves for 364 day periods, renewable at the option of the lender, and is secured by a general assignment of book debts, a general security agreement and a \$75.0 million debenture with a floating charge over all assets of the Corporation. Required repayments are interest only and interest rates are based on a grid system which range from bank prime plus 0.50% to bank prime plus 2.50% depending on the Corporation's net debt to cash flow ratio (as defined by the lender) ranging from less than or equal to 1:1 to greater than 3:1. Bankers' acceptances are also available to the Corporation for advances of funds from the credit facility bearing interest at rates based on a grid system of bankers' acceptance rates plus 1.75% to 3.75% stamping fees. The available lending limit of the Corporation's facility is based solely at the bank's interpretation of the Corporation's reserves and future commodity prices, which could result in a change in the borrowing base at the next scheduled review. The next review is expected to occur on or before June 30, 2015.

(b) Secured subordinated debt

On February 28, 2014, the Corporation closed a \$6.0 million secured subordinated debenture financing. The debenture had an original maturity date of February 28, 2015, which was extended to March 31, 2015 during the first quarter of 2015. Subsequent to March 31, 2015 and in conjunction with the closing of the asset sale described in note 11, the maturity date was further extended to June 30, 2015. The debenture carries an interest rate of 9.5% per annum, is to be repaid in full upon maturity, if no extension is agreed upon, and may be repaid without penalty at anytime. The debenture is subject to an Interlender and Subordination Agreement with the Corporation's senior lender and is secured by an \$8.0 million second floating charge over all assets of the Corporation. Subsequent to March 31, 2015, the subordinated debt lender waived

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## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

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the Corporation's non-compliance as at March 31, 2015 of the lender-defined debt to trailing cash flow ratio covenant and the lender-defined debt to equity covenant.

### 6. DECOMMISSIONING LIABILITIES

	Decommissioning Liabilities
Balance at December 31, 2013	\$ 9,473
Liabilities incurred	163
Revisions	2,420
Accretion of decommissioning liabilities	308
Balance at December 31, 2014	\$ 12,364
Accretion of decommissioning liabilities	84
Transfer to Liabilities held for sale (note 11)	(1,636)
<b>Balance at March 31, 2015</b>	<b>\$ 10,812</b>

The Corporation's decommissioning liabilities result from its ownership interest in petroleum and natural gas assets. The total decommissioning liability is estimated based on the Corporation's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future years. Including the amount reclassified to liabilities held for sale, as discussed in note 11, the Corporation has estimated the net present value of the decommissioning liabilities to be \$12.4 million as at March 31, 2015 (December 31, 2014 - \$12.4 million) based on an undiscounted total future liability of \$21.9 million (December 31, 2014 - \$21.9 million). The majority of these payments are expected to be made over the next 30 years with the majority of costs to be incurred between 2030 and 2040. At March 31, 2015, a risk-free rate of 2.33 percent (December 31, 2014 - 2.33 percent) and an inflation rate of 2 percent (December 31, 2014 - 2 percent) were used to calculate the net present value of the decommissioning liabilities.

### 7. SHARE CAPITAL

#### (a) Authorized

Unlimited common voting shares, no par value

Unlimited preferred shares, issuable in series, rights and privileges to be set by the Board of Directors on issuance

#### (b) Issued and outstanding

Common Shares	Number	Amount
Balance at December 31, 2013	55,044,947	\$ 93,278
Common shares issued (i)	2,222,223	1,000
Flow-through shares issued, net of premium (ii)	5,459,545	1,644
Share issue costs	-	(23)
<b>Balance at December 31, 2014 and March 31, 2015</b>	<b>62,726,715</b>	<b>\$ 95,899</b>

(i) On January 15, 2014, the Corporation issued 2,222,223 common shares at a price of \$0.45 per common share for gross proceeds of \$1.0 million.

(ii) On July 30, 2014, the Corporation issued 5,459,545 common shares at a price of \$0.33 per common share on a flow-through basis for gross proceeds of \$1.8 million of which \$0.03 per

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### Notes to the Condensed Interim Financial Statements

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share or \$0.2 million was determined to be the premium on the flow-through shares. As at March 31, 2015, the Corporation is committed to incurring \$1.8 million on qualified exploration expenditures by December 31, 2015.

(c) Stock options

The number and weighted average exercise prices of share options are as follows:

Three months ended March 31	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Beginning balance	3,276,167	\$ 0.45	1,983,667	\$ 0.57
Granted	-	-	1,620,000	0.33
Forfeited	(216,667)	0.52	(263,833)	0.60
Outstanding at March 31	3,059,500	\$ 0.45	3,339,834	\$ 0.45
Exercisable at March 31	2,519,500	\$ 0.48	1,696,666	\$ 0.50

(d) Per share amounts

Three months ended March 31	2015		2014	
Net loss for the period	\$ 11,430		\$ 1,341	
Weighted average number of common shares				
Issued common shares at January 1	62,726,715		55,044,947	
Effects of common shares issued during the period	-		1,851,853	
Weighted average number of basic common shares	62,726,715		56,896,800	
Net loss per weighted average basic and diluted common share	\$ 0.18		\$ 0.02	

At March 31, 2015, 3,059,500 (March 31, 2014 . 3,339,834) share options outstanding to purchase common shares at a weighted average exercise price of \$0.45 per common share (March 31, 2014 . \$0.45) have not been included in the calculation of diluted loss per share as their effect is anti-dilutive.

## 8. FINANCIAL RISK MANAGEMENT

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk at period-end is as follows:

	March 31, 2015	December 31, 2014
Accounts receivable	\$ 1,209	\$ 1,588

All of the Corporation's operations are conducted in Canada. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

# Waldron Energy Corporation

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(unaudited, all amounts are in \$000 unless otherwise noted)

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Corporation's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers. The Corporation historically has not experienced any collection issues with its petroleum and natural gas marketers. Receivables from joint venture partners are typically collected within one to three months of the joint venture bill being issued. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining venturer pre-approval of significant capital expenditures. However, 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 venturers, as disagreements occasionally arise that increase the potential for non-collection. The Corporation does not typically obtain collateral from petroleum and natural gas marketers or joint venturers. However, the Corporation does have the ability to withhold production from joint venturers in the event of non-payment.

Generally, the Corporation does not anticipate any default as it transacts with creditworthy customers and management generally does not expect any losses from non-performance by these customers. Accordingly, an increase to the provision for doubtful accounts has not been recorded during the three months ended March 31, 2015.

As of March 31, 2015, the maximum exposure to credit risk for accounts receivable at the reporting date by type of customer was:

	March 31, 2015	December 31, 2014
Petroleum and natural gas marketing companies	\$ 941	\$ 1,254
Joint venture partners	192	224
Other	76	110
Total accounts receivable	\$ 1,209	\$ 1,588

As at March 31, 2015, the Corporation's Accounts receivable is aged as follows:

	March 31, 2015	December 31, 2014
Current (less than 90 days)	\$ 1,032	\$ 1,388
Past due (more than 90 days)	177	200
Total	\$ 1,209	\$ 1,588

### (b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they come due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation. The Corporation's financial liabilities consist of accounts payable and accrued liabilities and credit facilities.

The Corporation ensures that it has sufficient resources to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of circumstances that cannot reasonably be predicted, such as natural disasters. To achieve this objective, the Corporation prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for

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## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(unaudited, all amounts are in \$000 unless otherwise noted)

expenditures on both operated and non-operated projects to further manage capital expenditure. The Corporation also attempts to match its payment cycle with collection of petroleum and natural gas revenue on the 25th of each month. Refer to notes 2 and 8(c) for more information.

The following are the contractual maturities of financial liabilities payments, excluding Liabilities held for sale, which are discussed in notes 6 and 11, at March 31, 2015:

	Carrying amount	Contractual cash flows	Less than one year	One - two years	Two - five years	More than five years
Non-derivative financial liabilities:						
Accounts payable and accrued liabilities	\$ 4,788	\$ 4,788	\$ 4,788	\$ -	\$ -	\$ -
Credit facilities	24,500	24,500	24,500	-	-	-
	\$ 29,288	\$ 29,288	\$ 29,288	\$ -	\$ -	\$ -

### (c) Capital management

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying oil and natural gas assets. The Corporation considers its capital structure to include shareholders equity, credit facilities and working capital deficiency or excess excluding commodity price contracts and including assets and liabilities held for sale. In order to maintain or adjust the capital structure, the Corporation may issue shares and adjust its capital spending to manage current and projected debt levels.

	March 31, 2015	December 31, 2014
Shareholders equity	\$ 7,877	\$ 19,295
Credit facilities	24,500	24,057
Working capital deficiency (excess)	(9,399)	2,443
Total capital structure	\$ 22,978	\$ 45,795

The Corporation monitors capital based on the ratio of net debt to annualized cash flow. This ratio is calculated as net debt, defined as credit facilities plus or minus working capital (excluding commodity price contracts), divided by cash flow from operations before changes in non-cash working capital, decommissioning expenditures and transaction and other costs for the most recent calendar quarter and then annualized.

The Corporation's share capital is not subject to any external restrictions. The bank debt contains a financial covenant that requires the Corporation to maintain a working capital ratio (as defined by the lender) of at least 1:1, but for the purposes of the covenant, borrowings under the bank debt facility and the secured subordinated debenture are excluded and the unused portion of the bank debt credit facility may be added to current assets. Additionally, the fair value of the commodity price contracts, if any, is excluded in the calculation of working capital. At March 31, 2015, the Corporation was in compliance with this covenant.

Similarly, the Corporation's secured subordinated debenture, as disclosed in Note 5, contains certain covenants such that the Corporation cannot, without the prior written consent of the subordinated lender, incur further secured indebtedness, hedge petroleum or natural gas volumes in excess of 65% of production volumes nor can it monetize or settle a hedge. The subordinated debt also contains a financial covenant that requires the Corporation to maintain a working capital ratio (as defined by the subordinated lender) of at least 1:1, but for the purposes of the covenant, borrowings under the bank debt facility and the secured subordinated debenture are excluded

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and the unused portion of the bank debt facility and the secured subordinated debenture may be added to current assets. At March 31, 2015, the Corporation was in compliance with the adjusted working capital ratio covenant. Additionally, the subordinated debt also contains a financial covenant that requires the Corporation to maintain a debt to equity ratio (as defined by the subordinated lender) of no more than 1:1 where debt is defined as secured debt plus working capital deficit or minus working capital surplus and equity is defined as shareholder equity plus retained earnings or minus retained earnings (deficit). At March 31, 2015, the Corporation was not in compliance with this covenant and did receive a waiver of non-compliance from its subordinated lender for the current period. The Corporation is also required to maintain an Alberta Energy Regulator Licensee Liability Rating (LLR rating) of not less than 1.25:1. At March 31, 2015, the Corporation's LLR rating exceeded 1.25:1.

Under the terms of the subordinated debenture, the Corporation is required to maintain a certain level of debt to trailing cash flow ratio where debt is defined as in the debt to equity ratio calculation above and trailing cash flow is defined as the most recently completed quarter's net income plus all non-cash charges, annualized. At March 31, 2015, the Corporation was not in compliance with this covenant and did receive a waiver of non-compliance from its subordinated lender for the current period.

Subsequent to March 31, 2015, the secured subordinated debt maturity date was extended to June 30, 2015.

The Corporation's senior bank facility will undergo a borrowing base review on or before June 30, 2015, which may result in a further reduction to the facility limit.

### 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments, other than credit facilities, approximate their fair value due to their short maturity. The fair value of the bank debt approximates its carrying value as it bears interest at a floating rate and the margins charged by its lender are indicative of current credit spreads. The secured subordinated debenture's fair value approximates its carrying value as it bears a market rate of interest. The fair value of the Company's financial instruments, excluding working capital and secured subordinated debt, is attributable to the following fair value hierarchy levels:

#### March 31, 2015

	Carrying value	Fair value	Level 1	Level 2	Level 3
Credit facilities	\$ 24,500	\$ 24,500	\$ -	\$ 24,500	\$ -

#### December 31, 2014

	Carrying value	Fair value	Level 1	Level 2	Level 3
Credit facilities	\$ 24,057	\$ 24,057	\$ -	\$ 24,057	\$ -

# Waldron Energy Corporation

## Notes to the Condensed Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(unaudited, all amounts are in \$000 unless otherwise noted)

### 10. COMMITMENTS

In accordance with the June 2014 sale of a 3% Gross Overriding Royalty on its then existing lands (GORR), the Corporation was to drill a qualifying well by April 18, 2015. Under the terms of the GORR, failure to drill the qualifying well by the agreed upon date results in the return of \$0.75 million from the original sales proceeds of \$7 million. The Corporation is currently negotiating with the royalty holder regarding an extension with regards to this qualifying well. There can be no certainty that an extension will be successfully negotiated.

On July 30, 2014, the Corporation issued 5.5 million common shares at a price of \$0.33 per common share on a flow-through basis for gross proceeds of \$1.8 million and the Corporation is committed to incurring \$1.8 million on qualified exploration expenditures by December 31, 2015. As at March 31, 2015, the Corporation has a remaining commitment of \$1.8 million.

In accordance with a farm-in agreement, the Corporation is to drill a qualifying well by September 23, 2015. Failure to drill a qualifying well will result in a payment of \$0.25 million.

The Corporation has lease commitments for head office space and two field vehicles. Future remaining minimum payments under the leases are as follows:

	2015	2016	2017	2018	Thereafter
Lease obligation . Office	\$ 71	\$ -	\$ -	\$ -	\$ -
Lease obligation . Field vehicles	11	-	-	-	-
	\$ 82	\$ -	\$ -	\$ -	\$ -

### 11. ASSETS AND LIABILITIES HELD FOR SALE

During the three months ended March 31, 2015, the Corporation initiated the sale of its Ricinus and Strachan CGU. Subsequent to March 31, 2015, the Corporation closed the disposition of these assets for gross proceeds of \$12.3 million, before closing adjustments. The net carrying value of \$12.3 million of this CGU is recorded in assets and liabilities held for sale on the Statement of Financial Position as at March 31, 2015, represented by a property and equipment carrying value of \$13.9 million less decommissioning liabilities carrying value of \$1.6 million. In conjunction with the closing of the asset sale and the application of the proceeds to its bank debt facility, the Corporation's bank debt facility limit was reduced by \$11.5 million, from \$19.3 million to \$7.8 million, as discussed in note 5(a).

## Corporate Information

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### Board of Directors

Don Archibald . Chairman <sup>(1)(2)(3)</sup>  
President  
Cypress Energy Corp.

John Zahary <sup>(1)(2)(3)</sup>  
Independent Businessman

David Lefebvre <sup>(1)(2)(3)</sup>  
Partner  
Gowling Lafleur Henderson LLP

Ernie Sapieha <sup>(2)</sup>  
President & CEO  
Waldron Energy Corporation

- (1) Audit Committee Member  
(2) Reserves Committee Member  
(3) Compensation and Corporate Governance Committee

### Officers

Ernie Sapieha, CA  
President & CEO

Jeff Kearn, CA  
VP Finance & CFO

Murray Stodalka, P. Eng  
Chief Operating Officer

### Auditors

KPMG LLP  
Calgary, Alberta

### Bankers

National Bank of Canada  
Calgary, Alberta

### Evaluation Engineers

GLJ Petroleum Consultants  
Calgary, Alberta

### Legal Counsel

Gowling Lafleur Henderson LLP  
Calgary, Alberta

### Registrar and Transfer Agent

Valiant Trust Company  
Calgary, Alberta

### Stock Trading

Toronto Stock Exchange  
Trading Symbol: **WDN**

### Head Office

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