

# **Waldron Energy Corporation**

## **Condensed Interim Financial Statements**

For the Three and Six Months Ended June 30, 2015 and 2014

## **Auditor's Involvement**

National Instrument 51-102, Part 4, Subsection 4.3(3)(a) requires that if an auditor has not performed a review of the condensed interim financial statements there must be an accompanying notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The Auditor of Waldron Energy Corporation was initially engaged to perform a review of the condensed interim financial statements as at and for the three and six months ended June 30, 2015, however, due to the circumstances noted in note 2 ó future operations, the engagement was terminated.

## Waldron Energy Corporation

### Condensed Interim Statement of Financial Position

(unaudited, thousands of Canadian dollars)

	Notes	June 30, 2015	December 31, 2014
<b>ASSETS</b>			
Current assets			
Accounts receivable		\$ 942	\$ 1,588
Deposits and prepaid expenses		943	1,052
Marketable securities		175	-
		<b>2,060</b>	2,640
Exploration and evaluation assets	3	1,192	4,872
Property and equipment	4	32,025	53,444
		<b>\$ 35,277</b>	\$ 60,956
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 5,842	\$ 5,083
Credit facilities	5	12,800	24,057
		<b>18,642</b>	29,140
Decommissioning liabilities	6	10,874	12,364
Flow-through share premium	7(b)	157	157
		<b>29,673</b>	41,661
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	95,899	95,899
Contributed surplus		9,205	9,188
Deficit		(99,500)	(85,792)
		<b>5,604</b>	19,295
		<b>\$ 35,277</b>	\$ 60,956
Future Operations	2		
Commitments	10		
Subsequent events	2, 5		

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

# Waldron Energy Corporation

## Condensed Interim Statements of Net Loss and Comprehensive Loss For the three and six months ended June 30, 2015 and 2014

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

	Notes	Three months ended June 30		Six months ended June 30	
		2015	2014	2015	2014
<b>REVENUE</b>					
Petroleum and natural gas sales		\$ 2,009	\$ 5,326	\$ 4,607	\$ 12,578
Royalties		(453)	(1,118)	(785)	(1,843)
		<b>1,556</b>	4,208	<b>3,822</b>	10,735
Realized loss on commodity price contracts		-	(437)	-	(1,014)
Unrealized gain (loss) on commodity price contracts		-	379	-	(684)
		<b>1,556</b>	4,150	<b>3,822</b>	9,037
<b>EXPENSES</b>					
Operating		<b>1,559</b>	2,118	<b>3,307</b>	4,351
Transportation		<b>156</b>	291	<b>385</b>	615
General and administrative		<b>556</b>	642	<b>1,199</b>	1,400
Transaction and other costs	8(c)	<b>504</b>	65	<b>504</b>	110
Exploration and evaluation	3	<b>3</b>	-	<b>3</b>	148
Share-based compensation		<b>5</b>	52	<b>13</b>	161
Depletion and depreciation	4	<b>783</b>	1,908	<b>2,100</b>	4,053
Impairment		-	-	<b>9,269</b>	-
Unrealized loss on marketable securities		<b>36</b>	-	<b>36</b>	-
Gain on sale of oil and gas properties		-	(1,208)	-	(1,208)
		<b>3,602</b>	3,868	<b>16,816</b>	9,630
Operating loss		<b>(2,046)</b>	282	<b>(12,994)</b>	(593)
Interest and financing charges		<b>232</b>	517	<b>714</b>	1,000
Loss before income taxes		<b>(2,278)</b>	(235)	<b>(13,708)</b>	(1,593)
Deferred income tax recovery (expense)		-	20	-	37
Net loss and comprehensive loss		\$ <b>(2,278)</b>	\$ (215)	\$ <b>(13,708)</b>	\$ (1,556)
<b>Net loss per share</b>					
Basic and diluted	7(d)	\$ <b>(0.04)</b>	\$ (0.00)	\$ <b>(0.22)</b>	\$ (0.03)

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

## Waldron Energy Corporation

### Condensed Interim Statements of Changes in Equity For the Six Months Ended June 30, 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	13	161
Share-based compensation capitalized	4	32
Balance, end of period	\$ 9,205	\$ 6,186
<b>DEFICIT</b>		
Balance, beginning of period	\$ (85,792)	\$ (55,933)
Net loss	(13,708)	(1,556)
Balance, end of period	\$ (99,500)	\$ (57,489)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>\$ 5,604</b>	<b>\$ 45,880</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 and six months ended June 30, 2015 and 2014 (unaudited, thousands of Canadian dollars)

Notes	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Cash provided by (used in):				
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (2,278)	\$ (215)	\$ (13,708)	\$ (1,556)
Add (deduct) non-cash items:				
Depletion and depreciation	783	1,908	2,100	4,053
Impairment	-	-	9,269	-
Finance expense (recovery)	(64)	84	20	167
Share-based compensation	5	52	13	161
Deferred income tax expense (recovery)	-	(20)	-	(37)
Exploration and evaluation expense	3	-	3	148
Unrealized loss (gain) on commodity contracts	-	(379)	-	684
Unrealized loss on marketable securities	36	-	36	-
Gain on sale of oil and gas properties	-	(1,208)	-	(1,208)
Changes in non-cash working capital	895	1,203	1,815	1,013
Net cash from (used in) operating activities	<b>(620)</b>	1,425	<b>(452)</b>	3,425
<b>INVESTING ACTIVITIES</b>				
Property and equipment expenditures	4	-	(1,101)	(5,703)
Exploration and evaluation expenditures	3	(56)	(51)	(169)
Proceeds from disposition of properties	4	12,301	407	12,301
Proceeds from sale of gross overriding royalty	-	-	7,000	-
Changes in non-cash working capital	(158)	(2,383)	(619)	(51)
Net cash from investing activities	<b>12,087</b>	3,872	<b>11,476</b>	1,484
<b>FINANCING ACTIVITIES</b>				
Increase (decrease) in credit facilities	(11,700)	(5,297)	(11,257)	(12,047)
Issue of common shares, net of costs	-	-	-	994
Changes in non-cash working capital	233	-	233	(216)
Net cash used in financing activities	<b>(11,467)</b>	(5,297)	<b>(11,024)</b>	(11,269)
Change in cash	-	-	-	(6,360)
Cash, beginning of period	-	-	-	6,360
Cash, end of period	\$ -	\$ -	\$ -	\$ -
Interest Paid	\$ 161	\$ 429	\$ 540	\$ 850

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 and six months ended June 30, 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. As at the date hereof, the Corporation is publicly traded on the Toronto Stock Exchange (the "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 and six months ended June 30, 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 August 13, 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 as at and for the three and six months ended June 30, 2015 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 as at June 30, 2015, adjustments to these condensed interim financial statements may be necessary.

Subsequent to June 30, 2015, On August 6, 2015, the Corporation's secured subordinated lender (the "Subordinated Lender") demanded repayment in full of all amounts owed to them under their credit facility and gave notice of their intention to enforce their security. The demand of repayment by the Subordinated Lender created a cross-default between the Corporation and its secured bank debt lender, National Bank of Canada ("NBC"). NBC subsequently demanded repayment in full of all amounts owed to them under their credit facility and also gave notice of their intention to enforce their security. Since August 6, 2015, the Corporation has held various discussions with the Subordinated Lender and NBC with regards to the merits of the Corporation undertaking a restructuring proposal proceeding under the Bankruptcy and Insolvency Act. The intent of the proceedings would be to permit the Corporation to sell assets or develop a corporate solution, such as a take-over or a merger, in order to reduce its debt to an acceptable level. The Subordinated Lender and NBC are unwilling to permit prior ranking interim financing during such proceedings to pay ongoing operating, general and administrative and restructuring costs. As such, the Corporation has consented to the appointment of a receiver and manager.

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## Notes to the Condensed Interim Financial Statements

For the three and six months ended June 30, 2015 and 2014

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The Corporation engaged a financial advisor in December 2014 to undertake a disposition process whereby certain assets or the entire Corporation may be sold. During the three months ended June 30, 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 ability to realize additional sales proceeds from the disposition process gives rise to material uncertainties that may cast significant doubt on the Corporation's ability to continue as a going concern. Realization values from any additional sales as part of the disposition process may be significantly different from carrying values as shown in these financial statements.

The financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the statements of financial position classifications that would be necessary if the going concern assumption were not appropriate as at June 30, 2015. Such adjustments could be material. 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 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		110
Lease expiries		(3)
Impairment		(3,787)
<b>Balance at June 30, 2015</b>	<b>\$</b>	<b>1,192</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 six months ended June 30, 2015, the Corporation sold its Ricinus and Strachan CGU for gross proceeds of \$12.3 million, as discussed in note 11. The E&E carrying value of the Ricinus and Strachan CGU exceeded the amount paid for these assets pursuant to the Purchase and Sale

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

Agreement. Accordingly, an impairment of \$3.8 million was recognized for the six months ended June 30, 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.

### 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 June 30, 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	2,079	21	2,100
Impairment	5,482	-	5,482
Transferred to Assets held for sale (see note 11)	(39,913)	-	(39,913)
Balance at June 30, 2015	\$ 71,755	\$ 438	\$ 72,193
<b>Net book value:</b>			
At December 31, 2014	\$ 53,402	\$ 42	\$ 53,444
<b>At June 30, 2015</b>	<b>\$ 32,004</b>	<b>\$ 21</b>	<b>\$ 32,025</b>

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

For the six months ended June 30, 2015, an estimated \$30.9 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 six months ended June 30, 2015, the Corporation sold its Ricinus and Strachan CGU for gross proceeds of \$12.3 million, as discussed in note 11. The carrying amount of these assets had been transferred to assets held for sale on the Statement of Financial Position as at

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

March 31, 2015 as a result of the sale having been initiated as at March 31, 2015. 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 had 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 had 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.

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 six months ended June 30, 2015, 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 (June 30, 2014 - \$0.2 million and \$0.03 million, respectively).

### 5. CREDIT FACILITIES

The Corporation's credit facilities consist of the following as at June 30, 2015 and December 31, 2014:

	June 30, 2015	December 31, 2014
Bank debt	\$ 6,800	\$ 18,057
Secured subordinated debt	6,000	6,000
Total Credit facilities	\$ 12,800	\$ 24,057

(a) Bank debt

In accordance with the borrowing base review performed during the second quarter of 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 \$7.8 million as at June 30, 2015. The Corporation was not in compliance as at June 30, 2015 with the lender-defined working capital ratio covenant.

Subsequent to June 30, 2015, on August 6, 2015, the Corporation became in default of its bank debt credit facility as a result of the Corporation's secured subordinated lender demanding repayment of the debenture by August 17, 2015. Refer to Future Operations in note 2.

(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. During the second quarter of 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 and then July 15, 2015. As at June 30, 2015, the Corporation was not in compliance of the lender-defined working capital ratio covenant, debt to trailing cash flow ratio covenant and the lender-defined debt to equity covenant.

Subsequent to June 30, 2015, on August 6, 2015, the Corporation's secured subordinated lender demanded repayment of the debenture by August 17, 2015. Refer to Future Operations in note 2.

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## Notes to the Condensed Interim Financial Statements

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

### 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		146
Transferred to Assets held for sale (note 11)		(1,636)
<b>Balance at June 30, 2015</b>	<b>\$</b>	<b>10,874</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. The Corporation has estimated the net present value of the decommissioning liabilities to be \$10.9 million as at June 30, 2015 (December 31, 2014 - \$12.4 million) based on an undiscounted total future liability of \$19.2 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 June 30, 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

<b>Common Shares</b>	<b>Number</b>	<b>Amount</b>
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 June 30, 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 share or \$0.2 million was determined to be the premium on the flow-through shares. As at June 30, 2015, the Corporation is committed to incurring \$1.8 million on qualified exploration expenditures by December 31, 2015.

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## Notes to the Condensed Interim Financial Statements

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

### (c) Stock options

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

Six months ended June 30	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	-	-	1,720,000	0.33
Forfeited	(250,000)	0.49	(294,167)	0.60
Outstanding at June 30	3,026,167	\$ 0.45	3,409,500	\$ 0.45
Exercisable at June 30	2,552,833	\$ 0.48	1,734,832	\$ 0.49

### (d) Per share amounts

Six months ended June 30	2015	2014
Net loss for the period	\$ 13,708	\$ 1,556
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	-	2,038,061
Weighted average number of basic common shares	62,726,715	57,083,008
Net loss per weighted average basic and diluted common share	\$ 0.22	\$ 0.03

At June 30, 2015, 3,026,167 (June 30, 2014 . 3,409,500) share options outstanding to purchase common shares at a weighted average exercise price of \$0.45 per common share (June 30, 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:

	June 30, 2015	December 31, 2014
Accounts receivable	\$ 942	\$ 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.

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

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## Notes to the Condensed Interim Financial Statements

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

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 certain 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 six months ended June 30, 2015. The Corporation did recognize a bad debt recovery and a gain on bad debt recovery for a total of \$0.1 million related to the collection of an aged accounts receivable balance, as recorded in finance expense on the condensed interim statement of net loss and comprehensive loss for the three and six months ended June 30, 2015.

As of June 30, 2015, the maximum exposure to credit risk for accounts receivable at the reporting date by type of customer was:

	June 30, 2015	December 31, 2014
Petroleum and natural gas marketing companies	\$ 730	\$ 1,254
Joint venture partners	212	224
Other	-	110
Total accounts receivable	\$ 942	\$ 1,588

As at June 30, 2015, the Corporation's Accounts receivable is aged as follows:

	June 30, 2015	December 31, 2014
Current (less than 90 days)	\$ 854	\$ 1,388
Past due (more than 90 days)	88	200
Total	\$ 942	\$ 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, as far as possible, 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 and operational expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Corporation utilizes authorizations for expenditures on both operated and non-operated projects

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to further manage capital expenditures. 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 at June 30, 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	\$ 5,842	\$ 5,842	\$ 5,842	\$ -	\$ -	\$ -
Credit facilities	12,800	12,800	12,800	-	-	-
	\$ 18,642	\$ 18,642	\$ 18,642	\$ -	\$ -	\$ -

### (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. 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.

	June 30, 2015	December 31, 2014
Shareholders equity	\$ 5,604	\$ 19,295
Credit facilities	12,800	24,057
Working capital deficiency	3,782	2,443
Total capital structure	\$ 22,186	\$ 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.

For the three and six months ended June 30, 2015, the Corporation incurred \$0.5 million in transaction and other costs. These costs included professional service fees, such as legal and financial advisors, related to the sale of its Ricinus Strachan CGU, as discussed in Note 11. Also included in transaction and other costs are amounts payable to the Corporation subordinated lender in relation to certain extensions to the maturity date of the Corporation's secured subordinated debenture, as discussed in Note 5.

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 June 30, 2015, the Corporation was not in compliance with this covenant.

# Waldron Energy Corporation

## Notes to the Condensed Interim Financial Statements

For the three and six months ended June 30, 2015 and 2014

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

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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 and the unused portion of the bank debt facility and the secured subordinated debenture may be added to current assets. At June 30, 2015, the Corporation was not in compliance with this 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 June 30, 2015, the Corporation was not in compliance with this covenant. The Corporation is also required to maintain an Alberta Energy Regulator Licensee Liability Rating (LLR rating) of not less than 1.25:1. At June 30, 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 June 30, 2015, the Corporation was not in compliance with this covenant.

Subsequent to June 30, 2015, On August 6, 2015, the Corporation's secured subordinated lender (Subordinated Lender) demanded repayment in full of all amounts owed to them under their credit facility and gave notice of their intention to enforce their security. The demand of repayment by the Subordinated Lender created a cross-default between the Corporation and its secured bank debt lender, National Bank of Canada (NBC). NBC subsequently demanded repayment in full of all amounts owed to them under their credit facility and also gave notice of their intention to enforce their security. Since August 6, 2015, the Corporation has held various discussions with the Subordinated Lender and NBC with regards to the merits of the Corporation undertaking a restructuring proposal proceeding under the Bankruptcy and Insolvency Act. The intent of the proceedings would be to permit the Corporation to sell assets or develop a corporate solution, such as a take-over or a merger, in order to reduce its debt to an acceptable level. The Subordinated Lender and NBC are unwilling to permit prior ranking interim financing during such proceedings to pay ongoing operating, general and administrative and restructuring costs. As such, the Corporation has consented to the appointment of a receiver and manager.

Reference is made to note 2 in respect of the uncertainty associated with the future operations of the Corporation

### 9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying values of the Corporation's financial instruments, other than marketable securities and credit facilities, approximate their fair value due to their short maturity. The fair value of the marketable securities is determined by observing quoted market prices for the securities as they are listed on a public stock exchange. 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 debt'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

# Waldron Energy Corporation

## Notes to the Condensed Interim Financial Statements

For the three and six months ended June 30, 2015 and 2014

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

working capital and secured subordinated debt, is attributable to the following fair value hierarchy levels:

### June 30, 2015

	Carrying value	Fair value	Level 1	Level 2	Level 3
Marketable securities	\$ 175	\$ 175	\$ 175	\$ -	\$ -
Bank debt	\$ 6,800	\$ 6,800	\$ -	\$ 6,800	\$ -

### December 31, 2014

	Carrying value	Fair value	Level 1	Level 2	Level 3
Bank debt	\$ 18,057	\$ 18,057	\$ -	\$ 18,057	\$ -

## 10. COMMITMENTS

Reference is made to note 2 in respect of the uncertainty associated with the future operations of the Corporation.

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. During the second quarter of 2015, the Corporation negotiated an extension to October 1, 2015 with regards to this qualifying well.

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 June 30, 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	\$ 36	\$ -	\$ -	\$ -	\$ -
Lease obligation . Field vehicles	5	-	-	-	-
	\$ 41	\$ -	\$ -	\$ -	\$ -

# Waldron Energy Corporation

## Notes to the Condensed Interim Financial Statements

For the three and six months ended June 30, 2015 and 2014

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

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### 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, resulting in the net carrying value of \$12.3 million of this CGU being recorded in assets and liabilities held for sale on the Statement of Financial Position as at March 31, 2015. This was represented by a property and equipment carrying value of \$13.9 million less decommissioning liabilities carrying value of \$1.6 million. During the second quarter of 2015, the Corporation closed the disposition of these assets for proceeds of \$12.3 million and these amounts were removed from the Statement of Financial Position as at June 30, 2015.

## 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

Ernie Sapiha <sup>(1)(2)</sup>  
President & CEO  
Waldron Energy Corporation

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

### Officers

Ernie Sapiha, CA  
President & CEO

Jeff Kearl, 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

600, 510 . 5th Street S.W.  
Calgary, Alberta T2P 3S2  
Phone: (403) 532-6700  
Fax: (403) 532-3993  
[www.waldronenergy.ca](http://www.waldronenergy.ca)