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KAISEN
Energy Corp.

Annual Financial Statements

For the period from inception on November 6, 2012 to December 31, 2013

Audited

December 31, 2013

MANAGEMENT'S REPORT

To the Shareholders of Kaisen Energy Corp.

Management's Responsibility on Financial Statements

Management is responsible for the preparation of the annual Kaisen Energy Corp. financial statements. The financial statements have been prepared in accordance with the accounting policies detailed in the notes thereto. In Management's opinion, the financial statements are in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and include certain estimates that reflect Management's best judgments.

Management is responsible for the integrity of the financial statements. Management has developed and maintains an adequate system of internal control over financial reporting which provides reasonable assurance that all transactions are recorded, that the financial statements realistically report the Company's operating and financial results, and that the Company's assets are safeguarded from loss or unauthorized use. Management believes that this system of internal controls has operated effectively for the year ended December 31, 2013. The Company has effective disclosure controls and procedures to ensure timely and accurate disclosure of material information relating to the Company which complies with the requirements of Canadian securities legislation.

The Board of Directors has approved the information contained in the financial statements. Their financial statement related responsibilities are fulfilled mainly through the Audit Committee which is composed entirely of independent directors, and includes at least one director with financial expertise. The Audit Committee meets regularly with management and the external auditors to discuss reporting issues and ensures each party is properly discharging its responsibilities. The Audit Committee also considers the independence of the external auditors and reviews their fees.

The financial statements have been audited by Ernst & Young LLP, Independent Registered Chartered Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders.

(Signed)

Cameron King
President and Chief Executive Officer

(Signed)

Jeff Holmgren
Senior Vice-President and Chief Financial Officer

March 19, 2014

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Kaisen Energy Corp.:

We have audited the accompanying financial statements of Kaisen Energy Corp. (the "Company"), which comprise the statement of financial position as at December 31, 2013, and the statement of earnings (loss) and comprehensive earnings (loss), statement of changes in shareholders' equity and cash flows for the period from inception on November 6, 2012 to December 31, 2013 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Kaisen Energy Corp. as at December 31, 2013, and its financial performance and its cash flows for the period from inception on November 6, 2012 to December 31, 2013 in accordance with International Financial Reporting Standards.

Ernst + Young LLP

Chartered Accountants

March 19, 2014

Statement of Financial Position

December 31, 2013

Assets (Note 9)	
Accounts receivable (Note 7)	1,863,659
Prepaid expenses and deposits	381,429
Crude oil inventory (Note 5)	134,646
Total current assets	2,379,734
Property, plant and equipment (Note 8)	25,178,430
Total assets	27,558,164
Liabilities	
Accounts payable and accrued liabilities (Note 7)	3,281,232
Bank debt (Note 9)	1,724,548
Total current liabilities	5,005,780
Asset retirement obligations (Note 11)	5,821,251
Deferred tax liability (Note 14)	2,224,388
Total non-current liabilities	8,045,639
Total liabilities	13,051,419
Equity	
Share capital (Note 12)	14,158,151
Contributed surplus (Note 12)	228,919
Retained earnings	119,675
Total equity	14,506,745
Total liabilities and equity	27,558,164
Commitments and contingencies (Note 16)	

See accompanying notes to the financial statements.

Statements of Earnings (Loss) and Comprehensive Earnings (loss)

	Three months ended December 31, 2013 <i>(Unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Petroleum and natural gas sales	4,806,391	8,763,154
Royalties	(1,227,605)	(2,172,402)
Revenue, net of royalties	3,578,786	6,590,752
Operating expenses	1,589,217	2,423,156
Transportation expenses	178,877	271,676
General and administrative expenses	442,127	1,242,165
Share-based compensation <i>(Note 12)</i>	161,634	228,919
Depletion and depreciation	1,037,923	1,805,615
Transaction expenses <i>(Note 4)</i>	4,598	205,814
Expenses	3,414,376	6,177,345
Earnings from operating activities	164,410	413,407
Finance charges <i>(Note 10)</i>	50,268	100,798
Earnings before taxes	114,142	312,609
Current income taxes	340,960	344,498
Deferred income tax (recovery)	(158,554)	(151,564)
Income taxes <i>(Note 14)</i>	182,406	192,934
Net earnings (loss) and comprehensive earnings (loss)	(68,264)	119,675
Net earnings (loss) per share <i>(Note 12)</i>		
Basic	\$0.00	\$0.02
Diluted	\$0.00	\$0.01

See accompanying notes to the financial statements.

Statements of Cash Flows

	Three months ended December 31, 2013 <i>(Unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	(68,264)	119,675
Add (deduct) items not affecting cash:		
Depletion and depreciation expense	1,037,923	1,805,615
Accretion of asset retirement obligations <i>(Note 11)</i>	35,391	73,759
Deferred income tax (recovery)	(162,312)	(155,320)
Share-based compensation <i>(Note 12)</i>	161,634	228,919
Share-based compensation for salaries <i>(Note 12)</i>	-	166,668
	1,004,372	2,239,316
Change in non-cash working capital <i>(Note 13)</i>	1,921,583	1,604,462
Cash flow from operating activities	2,925,955	3,843,778
Financing activities		
Increase (decrease) in bank debt	780,533	1,724,548
Proceeds from issuance of shares	-	9,260,994
Share issue costs	(27,924)	(84,923)
Cash flow from financing activities	752,609	10,900,619
Investing activities		
Development of oil and gas properties	(3,678,564)	(5,869,678)
Acquisition of oil and gas properties	-	(7,006,523)
Corporate acquisitions <i>(Note 4)</i>	-	(1,868,196)
Cash used in investing activities	(3,678,564)	(14,744,397)
Net decrease in cash during the period	-	-
Cash, beginning of the period	-	-
Cash, end of the period	-	-
Supplementary disclosure		
Cash interest paid		
Cash taxes paid		

See accompanying notes to the financial statements.

Statement of Changes in Shareholders' Equity

	Share Capital (Note 12)	Contributed Surplus	Retained Earnings	Total Equity
Balance at inception	-	-	-	-
Net earnings for the period from inception to December 31, 2013	-		119,675	119,675
Shares issued for cash	9,260,994			9,260,994
Flow through liability reclassification	(251,086)			(251,086)
Shares issued for capital equipment	33,600			33,600
Shares issued for corporate acquisition (Note 12)	5,032,898			5,032,898
Share issue costs	(84,923)			(84,923)
Share-based compensation – issued for services (Note 12)	166,668			166,668
Share-based compensation – stock options		228,919		228,919
Balance at December 31, 2013	14,158,151	228,919	119,675	14,506,745

See accompanying notes to the financial statements.

Notes to the Financial Statements

For the three month (*unaudited*) and inception to date periods ended December 31, 2013

1. Corporate information:

Kaisen Energy Corp. (the "Company" or "Kaisen") is a Calgary based energy company primarily focused on heavy oil development and production in Saskatchewan and was incorporated in Canada on November 6, 2012. The Company's principal place of business is located at 312, 522 – 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8.

2. Basis of presentation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The reporting and the measurement currency is the Canadian dollar. Management believes these financial statements present fairly the Company's financial position, financial performance and cash flows for the periods reported herein. The financial statements were approved by the board of directors for release on March 19, 2014. The Company retains the authority to amend these financial statements after the date of release.

(b) Basis of Measurement

These financial statements have been prepared under the historical cost convention except for derivative financial instruments and share-based compensation transactions which are measured at fair value. The methods used to measure fair values are discussed in Note 7 – Financial Instruments and Risk Management.

(c) Use of Judgments, Estimates and Assumptions

The timely preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that impact the carrying amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the balance sheets as well as the reported amounts of revenue, expenses and cash flows during the periods presented. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from estimated amounts.

Amounts recorded for depletion and depreciation expenses and amounts used for impairment test calculations are based on estimates of crude oil reserves and future costs required to develop those reserves. Estimates and assumptions by management are employed with respect to exploration and evaluation assets and cash-generating-units ("CGU's"). Decommissioning liabilities are based on estimates of abandonment costs, timing of abandonment, forecast inflation and risk-free interest rates. Stock-based compensation is based upon the expected volatility, estimated forfeiture rate and option life estimates. The unrealized value of commodity price risk management contracts (if applicable) are based on valuations from third party providers and verified by management. These judgments, estimates and assumptions are subject to measurement uncertainty and changes to any of these items could materially impact the financial statements of future periods. These estimates and underlying assumptions are reviewed on an ongoing basis.

(i) Depletion, Depreciation and Reserve Estimates

Depletion is based on the proved plus probable reserves as evaluated in accordance with National Instrument 51-101, Standards of Disclosure for Oil and Gas Activities ("NI 51-101") and incorporating the estimated future cost of development and production. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates are based on current production forecasts, prices and economic conditions. As circumstances change and additional data becomes available, reserve estimates also change. Estimates made are reviewed and revised, either upward or downward, as warranted by new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions.

Although every reasonable effort is made to ensure that reserve estimates are accurate, reserve estimation is not an exact science. As a result, subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to reserve estimates can arise from changes in year-end

oil and gas prices and reservoir performance. Such revisions can be either positive or negative. 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 measuring fair value less costs to sell of property, plant and equipment for impairment calculation.

(ii) Determination of Cash-Generating Units

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

(iii) Decommissioning Liabilities

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of its assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is a weighted average risk free rate. The Company re-measures the provision at the end of each reporting period to reflect the rates in effect at that time.

(iv) Impairment Indicators and Discount Rate

The recoverable amounts of CGUs and individual assets have been determined as the greater of an asset's or CGU's value-in-use and fair value less costs to sell. These calculations require the use of estimates and assumptions and are subject to changes as new information becomes available including information on future commodity prices, expected production volumes, quantity of reserves and discount rates as well as future development and operating costs. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the field and economical reserves recoverable and may require a material adjustment to the carrying value of oil and natural gas assets. The Company monitors internal and external indicators of impairment relating to its tangible assets.

(v) Stock Based Compensation

The Company measures the fair value of stock-based compensation based on grant dates using the Black-Scholes model using estimates for expected volatility, forfeiture rate, and option life. Actual stock-based compensation may differ from estimated amounts.

(vi) Income Taxes

The Company recognizes a deferred tax liability based on estimates of temporary differences between the book and tax value of its assets. An estimate is also used for both the timing and tax rate upon reversal of the temporary differences. Actual differences and the timing of reversals may differ from estimates, impacting the future income tax balance and net income.

Tax interpretations, regulations and legislation are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of each reporting period to determine the likelihood that they will be realized from future taxable earnings.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently in these financial statements.

(a) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value. Acquisition costs incurred are expensed. When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration recorded as a financial asset or liability are recognized in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* in net earnings (loss).

(b) Property, Plant and Equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses and are not depreciated until proved or probable reserves can be determined or until management determines that these costs have been impaired.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning obligation, and for qualifying assets, borrowing costs.

Expenditure on the construction, installation or completion of infrastructure facilities, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within property, plant and equipment. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. The capitalized value of a finance lease is also included within property, plant and equipment. The Company does not capitalize interest expense.

A gain or loss arising on the disposal or retirement of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the Statement of Earnings (Loss) for the relevant period.

Expenditure on major turnarounds comprises the cost of replacement assets or parts of assets and inspection and overhaul costs. Where an asset or part of an asset is replaced and it is probable that future economic benefits will flow to the Company from the replacement, the expenditure is capitalized and the replaced part is derecognized. Inspection and overhaul costs relating to turnarounds and all other repairs and maintenance costs are expensed when incurred.

Well workover costs incurred to stimulate depleted wells are charged as an expense when incurred. Certain stimulation costs which increase production and reserves, extending beyond one year, are capitalized in property, plant and equipment and depleted over the economic life of the asset.

The Company assesses at each reporting date whether there is an indication that property, plant and equipment may be impaired. If any indication exists, the Company estimates the asset's recoverable amount using the methodology described below.

(c) Impairment of Assets

Property, Plant and Equipment and Exploration and Evaluation Assets

The Company tests property, plant and equipment assets for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, for example, changes in assumptions relating to future prices, future costs and reserves. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets, known as a cash-generating unit. If any such indications of impairment exist, an estimate of its recoverable amount is made. A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use.

Exploration and evaluation assets are tested for impairment using the same methodology.

A previously recognized impairment loss is reversed only if there has been a change in the estimates or assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the CGU is increased to its recoverable amount, not to exceed the carrying amount of what would have been determined, net of depreciation, had no impairment loss been recognized for the CGU in prior years. Such a reversal is recognized in net earnings (loss), following which the depreciation charge is adjusted in future periods to allocate the CGU's revised carrying amount, less any residual value, over its remaining useful life.

(d) Depletion and Depreciation

Oil and gas properties are depreciated on a unit-of-production basis over the proved and probable reserves of the CGU. The unit-of-production rate for the amortization of field development costs takes into account expenditures incurred to date, together with estimated future development expenditures.

Corporate assets are generally depreciated on a straight-line basis over their estimated useful lives.

(e) Decommissioning Liability

Decommissioning liabilities are recognized when the Company has a statutory, contractual or legal obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. A corresponding amount equivalent to the liability is recognized as part of the cost of the related property, plant and equipment.

Estimated decommissioning liabilities are carried on the Statement of Financial Position at present value, calculated using a weighted average risk free rate, accreted over time for the change in present value, with this accretion expense included in finance costs on the Statement of Earnings (Loss). Actual expenditures incurred are charged against the accumulated obligation. Any difference between the recorded decommissioning liability and the actual retirement costs incurred is recorded as a gain or loss when the field is abandoned.

The resulting increase in capitalized costs due to the inclusion of the decommissioning liability is amortized to income on a basis consistent with depletion and depreciation of the underlying assets. Subsequent changes in the estimated decommissioning liabilities are capitalized and amortized over the remaining useful life of the underlying asset.

Liabilities for environmental costs are recognized when an obligation exists and the associated costs can be reliably estimated. Generally, the timing of recognition of these liabilities coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure. These estimates are included in decommissioning liabilities.

(f) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with banks and short-term investments with a maturity of 90 days or less. Cash and cash equivalents are stated at cost, which approximates market value. When material and applicable, restricted cash is reported separately on the Balance Sheet.

(g) Accounts Receivable

Accounts receivable are recorded based on the Company's revenue recognition policy. The allowance for doubtful accounts is management's best estimate of accounts receivable balances that may not be collectible, and is reviewed at each interim period.

(h) Inventory

Inventory is valued at the lower of cost and net realizable value. Cost comprises direct purchase costs (including transportation), production costs and taxes. Net realizable value is the estimated selling price in the ordinary course of business, less applicable expected variable selling expenses.

(i) Financing Income and Charges

Finance income comprises interest earned on cash and cash equivalents and other income. Finance charges include interest and other costs that the Company incurs in connection with the borrowing of funds, as well as

accretion expense relating to the Company's decommissioning liabilities and impairment losses recognized on financial assets.

(j) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, into one of the following five categories: held-for-trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets or other financial liabilities. All financial assets and liabilities are recognized on the Statement of Financial Position when the Company becomes a party to the contractual requirements of the instrument. All financial instruments are measured at fair value on initial recognition. Transaction costs are included in the initial carrying amount of financial instruments except for held-for-trading items, in which case they are expensed as incurred.

Subsequent measurement of financial instruments is based on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income (loss) until the instrument is derecognized or impaired. The remaining categories of financial instruments are recognized at amortized cost using the effective interest rate method.

Accounts receivable and loan receivable from related parties are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and obligations under finance lease are classified as other financial liabilities, which are measured at amortized cost.

For financial instruments that are not classified as held-for-trading, the transaction costs that are directly attributable to the acquisition or issue of a financial instrument are adjusted to the fair value initially recognized for that financial instrument. These costs are expensed using the effective interest rate method and are recorded within interest expense.

The Company has not entered into any financial derivative contracts, does not enter into these contracts for speculative purposes, and has not recorded any assets or liabilities as a result of embedded derivatives.

(k) Taxes

The Company is a taxable entity under the Income Tax Act (Canada). Income tax expense is comprised of current and deferred taxes. Current tax and deferred tax are recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income, or as part of a purchase option.

Current tax is the expected tax payable or receivable, calculated on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date. Current tax assets and liabilities are offset if there is a legally enforceable right to offset and the amounts can be settled on a net basis.

Deferred tax is recognized using the liability method for temporary differences at the reporting date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that they will not reverse in the foreseeable future; and
- 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 are recognized to the extent that it is probable future taxable profits will be available for their utilization.

(l) Revenue Recognition

Petroleum and natural gas sales are recognized as the Company's share of the fair value of the consideration received or receivable when the significant risks and rewards of ownership have been transferred, which is when title passes from the Company to the customer. Royalty payments to the Government and other mineral interest

owners, transportation expenses and all taxes collected from customers that are remitted to the Government are reported separately.

(m) Share-Based Payments

The Company accounts for share-based compensation using the fair-value method of accounting for stock-options and performance warrants (collectively referred to as "Rights") granted to directors, officers, employees and consultants using the Black-Scholes option-pricing model. Share-based compensation expense is recorded over the vesting period with a corresponding amount reflected in reserve for share-based compensation. Share-based compensation expense is calculated as the estimated fair value for the related Rights at the time of grant, amortized over their vesting period. When Rights are exercised, the associated amounts previously recorded as reserve for share-based compensation are reclassified to common share capital.

(n) Per Share Information

Basic net earnings (loss) per share is calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted net earnings (loss) per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted to employees, except when the effect would be anti-dilutive.

(o) Accounting Standards and Interpretations Issued but Not Yet Effective

There are ongoing IFRS standards and interpretation developments which may apply to future periods. These IFRS developments may result in future changes to our existing accounting policies and other note disclosures. Management is currently assessing the impact of adopting these standards, however the impact of these changes is not expected to be material to the Company's financial statements and therefore no further disclosure of IFRS developments have been made herein.

(p) Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. A deferred liability is recognized for the difference between the value ascribed to the flow-through shares issued and the value that would have been received for common shares at the date of announcement of the flow-through shares. The deferred liability is drawn down as the Company incurs qualifying expenditures. Any difference between the deferred liability set up for the premium on the flow-through shares and the tax effect on the renounced expenditures is recognized in profit or loss as a deferred tax expense.

4. Acquisitions

Acquisition of Plains Energy Ltd., 1021405 AB Ltd. and C-Core Holdings Ltd.

On March 20, 2013 Kaisen entered into a purchase and sale agreement (the "Arrangement") with Plains Energy Ltd., 1021405 Ab Ltd. and C-Core Holdings (the "Lone Rock Companies"), whereby Kaisen agreed to acquire all of the issued and outstanding shares of the Lone Rock Companies for a combination of Kaisen common shares and cash. Pursuant to the Arrangement, shareholders of the Lone Rock Companies received 3,470,440 common shares of Kaisen along with combined cash consideration of \$2,066,866. The Arrangement provided Kaisen with its' first core operating property in which to build production and resource value for shareholders.

On May 1, 2013, Kaisen and the Lone Rock Companies agreed to amalgamate to continue as Kaisen Energy Corp. The acquisition was accounted for in accordance with Acquisition Method Accounting from the closing date of the transaction of March 20, 2013. Total transaction costs of \$37,000 have been expensed during the period.

Fair value of net assets acquired	
Petroleum and natural gas properties	\$7,672,252
Decommissioning liability	(\$281,703)
Deferred income tax liability	(\$1,891,610)
Net working capital	\$38,367
Net assets acquired	\$5,537,306
Cash	\$2,066,866
Common shares (3,470,440 shares valued at \$1.00 per share)	\$3,470,440
Total consideration	\$5,537,306

Included in net working capital is \$88,660 of current accounts receivable, all of which was received subsequent to the acquisition.

Acquisition of 1210757 Ab Ltd.

On July 25, 2013, Kaisen entered into a purchase and sale agreement with 1210757 Ab Ltd. ("121 Ab Ltd."), whereby Kaisen agreed to acquire all of the issued and outstanding 121 Ab Ltd. shares. Pursuant to the agreement, 121 Ab Ltd. shareholders received 0.85 of a Kaisen common share for each 121 Ab Ltd. share held for a total issuance of 1,562,458 common shares of the Company valued at \$1.00 per share. On December 31, 2013, Kaisen and 121 Ab Ltd. agreed to amalgamate to continue as Kaisen Energy Corp. The acquisition was accounted for in accordance with Acquisition Method Accounting from the closing date of the transaction of July 25, 2013. Total transaction costs of \$86,786 have been expensed during the period.

Fair value of net assets acquired	
Petroleum and natural gas properties	\$1,649,759
Decommissioning liability	(\$71,997)
Deferred income tax liability	(\$238,032)
Net working capital (including cash of \$226,138)	\$282,728
Net assets acquired	\$1,622,458
Cash	\$60,000
Common shares (1,562,458 shares valued at \$1.00 per share)	\$1,562,458
Total consideration	\$1,622,458

Included in net working capital is \$72,065 of current accounts receivable, all of which was received subsequent to the acquisition. Gross revenues and operating profits before allocation of general and administrative expenses and taxes, for the period from the date of acquisition on July 25, 2013 to December 31, 2013 was \$182,238 and \$67,235 respectively. The Company concluded it was impractical to disclose gross revenues and operating profits as though the acquisition occurred at the beginning of the period, due to the overall immateriality to readers.

Acquisition of petroleum and natural gas assets

On August 29, 2013, Kaisen acquired heavy oil producing properties near Edam Saskatchewan and non-producing gas properties near Wymark Saskatchewan ("Wymark") for total cash consideration of \$7,006,523, herein referred to as the core area of Edam. The acquisition was accounted for in accordance with Acquisition Method Accounting from the closing date of the transaction of August 29, 2013. The determined fair value of the acquired net assets was equal to the consideration paid. Total transaction costs of \$82,028 have been expensed during the period.

Fair value of net assets acquired	
Petroleum and natural gas properties	\$11,333,914
Decommissioning liability	(\$5,030,357)
Oil inventory	\$134,646
Net working capital	\$568,320
Net assets acquired	\$7,006,523
Total cash consideration	\$7,006,523

Included in net working capital is a \$65,000 GST refund relating to the GST paid for the properties in addition to \$503,318 of prepaid expenses relating to surface and mineral rentals for the balance of 2013 and into 2014. Gross revenues and operating profits before allocation of general and administrative expenses and taxes, for the period from the date of acquisition on August 31, 2013 to December 31, 2013 was \$2,570,085 and \$821,629 respectively. The Company concluded it was impractical to disclose gross revenues and operating profits as though the acquisition occurred at the beginning of the period due to the significant increase in production and reductions in operating costs realized in the months subsequent to the acquisition, thereby making any such disclosure meaningless.

5. Crude oil Inventory

The Company holds crude oil inventory in the production tanks located at each single-well battery. The Company estimates the total volume of emulsion in each tank and applies an approximate water factor to these volumes in order to estimate total sale volumes which are valued at the period end market price net of adjustments for quality and transportation costs at the sales point. Water factors and to a lesser extent quality adjustments vary from month to month and are significant assumptions in the valuation of period ending crude oil inventory values.

6. Capital Management

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders.

The Company periodically reviews certain quantitative measures of its capital structure in order to understand its position relative to industry peers. The Company does not set certain limits or ranges with respect to these quantitative measures. The Company is not subject to any external restrictions on its capital structure with exception to covenants in place with the Company's lender (refer to note 9). There have been no material changes in the Company's approach to capital management during the nine months ended December 31, 2013.

On August 29, Kaisen secured a revolving operating credit facility in the amount of \$3,000,000 and a non-revolving bridge facility also in the amount of \$3,000,000 for a combined lending capacity of \$6,000,000. Management closely monitors debt leverage against internally imposed borrowing limits that ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and/or opportunities as they arise.

As at December 31, 2013, the Company had a net working capital deficit (current assets net of current liabilities and excluding short term bank debt) of \$901,498 (excluding amounts available under the credit facilities of \$4.3 million), which was due to expenditures incurred in the Company's \$3.7 million fourth quarter drilling program.

Kaisen has the ability to adjust its capital structure through the issuance of new equity or debt and by making adjustments to its capital expenditure program to the extent the capital expenditures are not committed.

7. Financial Instruments and Risk Management

(a) Fair Values of Financial Instruments

The Company's financial instruments at December 31, 2013 include cash, accounts receivable, accounts payable and bank debt. As at each reporting period the Company will assess whether a financial asset, other than those classified as held-for-trading, is impaired. Any impairment loss will be included in earnings for the period.

(b) Risks Associated with Financial Assets and Liabilities

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of accounts receivable represents the maximum credit exposure to the Company but arises principally from the Company's receivables from oil sales.

All of the Company's crude oil and natural gas production is sold, as determined by market based prices adjusted for quality differentials, to midstream companies and intermediate producers. Receivables from customers are normally collected approximately 25 days following the month of production. As at December 31, 2013, approximately 97% of the Company's accounts receivables were with two crude oil marketing counterparts to whom the Company sells its production. The Company has not experienced any collection issues with its crude oil sales and therefore has not recorded an allowance for doubtful accounts as at December 31, 2013.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Kaisen's financial liabilities on the balance sheet consist of accounts payable and accrued liabilities and bank debt. The Company believes it has adequate cash flows and working capital to discharge its current financial obligations and to service its bank debt.

Market risk

Market risk is the risk that fluctuations in commodity prices, interest rates and foreign currency rates will affect the Company's net earnings (loss) and comprehensive income (loss) or the value of its financial assets and liabilities.

(a) Commodity price risk

The price Kaisen receives for its oil production fluctuates continuously and, for the most part, is beyond the Company's control. The Company does not currently hedge any of its oil production. It is estimated that annual net income would change approximately by \$115,000 for each \$1 change in the Western Canada Select ("WCS") oil price.

(b) Interest rate risk

The only liability on the Company's balance sheet exposed to fluctuations in interest rates is the bank debt. A fluctuation of one percent in interest rates would result in a change in net income of approximately \$17,000.

(c) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency fluctuations as crude oil prices are denominated in US dollars. The Company had no foreign exchange forward rate contracts in place as at or during the period ended December 31, 2013.

8. Property, plant and equipment

Cost or deemed cost	Oil and Gas Assets	Corporate Assets	Total Assets
Balance, at inception	-	-	-
Development	5,751,710	48,112	5,799,822
Acquisitions	15,353,402	-	15,353,402
Change in asset retirement obligation	5,747,492	-	5,747,492
Capitalized general and administrative costs	83,329		83,329
Balance, December 31, 2013	26,935,933	48,112	26,984,045
Accumulated depletion and depreciation			
Depletion and depreciation	(1,763,484)	(42,131)	(1,805,615)
Balance, December 31, 2013	(1,763,484)	(42,131)	(1,805,615)
Net book value			
Balance, December 31, 2013	25,172,449	5,981	25,178,430

During the period ended December 31, 2013, the Company capitalized general and administrative expenses in the amount of \$83,329 relating to development activities. Future development costs associated with proved and probable undeveloped reserves of \$47.4 million are included in the depletion calculation for the period ended December 31, 2013. No costs have been excluded from property plant and equipment in the determination of depletion and depreciation expense.

An impairment test was carried out at December 31, 2013, no impairment charges were recorded during the period. The test was based on fair value less costs to sell calculations, using an appropriate discount rate and the following forward commodity price estimates as at December 31, 2013:

Year	WTI Cushing Ok (US\$/bbl)	Western Canadian Select (Cad\$/bbl)	AECO Gas (Cad\$/mmbtu)	Canadian\$/US\$ Exchange rates
2014	94.65	77.81	4.00	0.94
2015	88.37	75.02	3.99	0.94
2016	84.25	75.29	4.00	0.94
2017	95.52	85.36	4.93	0.94
2018	96.96	86.64	5.01	0.94
2019	98.41	87.94	5.09	0.94
2020	99.89	89.26	5.18	0.94
2021	101.38	90.60	5.26	0.94
2022	102.91	91.96	5.35	0.94
2023	104.45	93.34	5.43	0.94
2024	106.02	94.74	5.52	0.94
<i>Thereafter</i>		<i>Escalation rate of 1.5%</i>		0.94

A sensitivity analysis for impairment has not been calculated due to the absence of any reasonable changes in assumptions that could be material to the outcome.

9. Bank Debt

At December 31, 2013 the Company had borrowing capacity through an arrangement of credit facilities totaling \$6,000,000 with a Canadian financial institution. The facilities are comprised of a \$3,000,000 revolving operating facility and a \$3,000,000 revolving bridge facility.

- a) The operating facility is a revolving facility with the next anticipated borrowing base review to occur on or before May 31, 2014. The operating facility is payable in full on demand by the lender, and the lender may terminate the availability thereof (including any undrawn portion) at any time without notice, therefore the facility has been classified by the Company as a current liability on the statement of financial position. Prime-based loans are available through the operating facility at prime plus 1.25% per annum. At December 31, 2013, \$900,000 was drawn on the operating facility.
- b) The bridge facility of \$3,000,000 is due and payable on the earlier of: a) a demand or b) March 31, 2014 and has therefore been reported as a current liability. Prime-based loans are available through the bridge facility at prime plus 1.75% per annum. Amounts owing under the bridge facility are to be repaid in an amount equal to the Company's issuance of any equity raised after September 15, 2013; and/or any increase to the operating facility beyond \$3,000,000. At December 31, 2013, no amount was drawn on the bridge facility.

Both facilities are subject to a financial covenant wherein the working capital ratio at no time shall fall below 1.00:1. Working capital is defined under the lending agreement to include current assets plus any undrawn availability under the operating and bridge facilities, less Current Liabilities less any amount currently drawn under the Facilities (if applicable). The Company was compliant with all covenants at December 31, 2013.

A demand debenture on all the assets of the Company has been provided as collateral for these facilities.

10. Finance Charges

	From inception on November 6, 2012 until December 31, 2013
Interest and financing charges on bank debt	27,039
Accretion of asset retirement obligations	73,759
Finance charges	100,798

11. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the expected cost to abandon and restore its net ownership interest in the well sites and the facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated that the total undiscounted amount of cash flows required to settle its asset retirement obligations at December 31, 2013 was \$6.8 million which will be incurred over the next 10 years with the majority of costs incurred between 2015 and 2024. The Company used a risk free rate of 2.5% to calculate the present value of the asset retirement obligations and an inflation rate of 2.0% was used to inflate the estimated costs. Changes to the asset retirement obligations during the periods were as follows:

	December 31, 2013
Balance, at inception	-
Liabilities incurred	363,435
Liabilities acquired	5,384,057
Accretion	73,759
Balance, end of period	5,821,251

12. Share Capital

(a) Authorized

The Company is authorized to issue an unlimited number of voting common shares

(b) Common shares, issued and outstanding

	From inception on November 6, 2012 until December 31, 2013	
	Number of Common Shares	\$ Amount
Balance, beginning of period	2	-
Issued for cash (a)	6,661,954	\$ 9,260,994
Flow through liability reclassification (a)	-	(\$251,086)
Issued for salary compensation (b)	166,668	166,668
Issued for acquisition of equipment (c)	33,600	33,600
Issued for shares of Plains Energy Ltd. (d)	2,288,166	2,288,166
Issued for shares of 1021405 Ab Ltd. (d)	640,851	640,851
Issued for shares of C-Core Holdings Ltd. (d)	541,423	541,423
Issued for shares of 1210757 Ab Ltd. (e)	1,562,458	1,562,458
Share issue costs	-	(84,923)
Balance, December 31, 2013	11,895,122	\$ 14,158,151

- a) On March 19, 2013, the Company issued 4,314,000 common shares valued at \$1.00 per share for total proceeds of \$4,314,000. Share issue costs totaled \$17,756. On August 27, 2013, the Company issued 1,511,000 common shares valued at \$2.00 per share and 836,954 flow through common shares valued at \$2.30 for combined total proceeds of \$4,946,994. Share issue costs totaled \$67,167. The Company fully renounced the expenditures on December 31, 2013. An amount of \$251,086 relating to the value of the premium (\$0.30 per flow through share) associated with the sale of flow through shares, was initially recorded as a liability and has subsequently been recorded to deferred income tax expense in accordance with the renounced expenditure.
- b) For the period from March to July 2013, two executives of the Company received common shares totaling 166,668 (valued at \$1.00 per share) in lieu of cash compensation. Both executives commenced with cash compensation in August 2013.
- c) 33,600 common shares of the Company valued at \$1.00 per share were issued to a key equipment supplier representing the difference between the wholesale and retail price of equipment required for the Company's first 4 well drilling program in June and July 2013, wherein the Company paid cash for the wholesale value of subject equipment.
- d) On March 19, 2013, the Company issued 3,470,440 common shares at a price of \$1.00 per common share for gross proceeds of \$3,470,440 as partial consideration to acquire all of the issued and outstanding shares of Plains Energy Ltd., 1021405 Ab Ltd. and C-Core Holdings Ltd. The balance of consideration of \$2,034,334 was paid in cash.
- e) On July 25, 2013, the Company issued 1,562,458 common shares at a price of \$1.00 per common share for gross proceeds of \$1,562,458 as full consideration to acquire all of the issued and outstanding shares of 1210757 Ab Ltd.

Share Based Compensation

(a) Issued and outstanding options

The Company has an equity settled stock option plan which provides for the granting of options to directors, employees and contractors to a maximum of 10% of the total issued and outstanding voting common shares of the Company. The maximum number of common shares granted to any one optionee during a twelve month period shall not exceed 5% of the outstanding common shares of the Company at the time of granting. These options have a term of five years to expiry and have a three year vesting period on the first, second and third anniversary from

the date of grant. The exercise price of each option is determined by market value on the date the option is granted. Market value for purposes of granting options will be determined by the board of directors with consideration to the following factors including the price of the most recent equity issuance, net asset value utilizing reserves value as determined by independent reserves engineers with internally generated revisions reflecting subsequent activity and events and other relevant industry valuation metrics with relative comparisons to industry peers of same or similar size as deemed appropriate and relevant by the board of directors.

	Number of Options	Weighted Average Exercise Prices
Balance, at inception	-	-
Granted	1,043,000	\$1.08
Balance, December 31, 2013	1,043,000	\$1.08

Exercise price (\$/share)	Outstanding		Exercisable		
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of options exercisable	Weighted average exercise price (\$/share)
\$1.00	958,000	4.6	\$1.00	-	-
\$2.00	85,000	4.7	\$2.00	-	-
	1,043,000	4.6	\$1.08	-	-

The fair value of options granted on July 30, 2013 and September 5, 2013 was estimated on the date of grant using the Black- Scholes option-pricing model with assumptions for grants as follows:

	July 30, 2013	September 5, 2013
Volatility %	75%	75%
Weighted average risk-free interest rate %	1.57	1.95
Dividend yield %	-	-
Weighted average expected life of options (years)	3	3
Forfeiture rate	0	0

The Company determined the volatility rate based on reference to a selected peer group of similar sized Canadian heavy oil producers. A forfeiture rate of zero has been assumed based on the small founding group of staff, consultants and directors that have been recipients of the first two option grants. These assumption may be subject to revision in future option grants.

(b) Issued and outstanding performance warrants

	Number Of Performance Warrants	Weighted Average Exercise Prices
Balance, at inception	-	-
Granted	1,780,999	\$2.00
Balance, December 31, 2013	1,780,999	\$2.00

The fair value of the performance warrants granted on September 5, 2013 was estimated on the date of grant using a binomial model with assumptions for grants as follows:

	September 5, 2013
Volatility %	75%
Weighted average risk-free interest rate %	1.95
Dividend yield %	-
Weighted average expected life of performance warrants (years)	3
Forfeiture rate	0

The Company determined the volatility rate based on reference to a selected peer group of similar sized Canadian heavy oil producers. A forfeiture rate of zero has been assumed based on the small founding group of staff, consultants and directors that have been recipients of the first two option grants. These assumption may be subject to revision in future performance warrant grants.

The performance warrants granted vest upon achieving predetermined market value thresholds within predetermined time periods as follows:

In the period commencing:	Series 1	Series 2	Series 3
September 5, 2013 to September 4, 2014 (Year 1)	\$2.30	\$2.50	\$2.70
September 5, 2014 to September 4, 2015 (Year 2)	\$2.65	\$3.13	\$3.65
September 5, 2015 to September 4, 2016 (Year 3)	\$3.04	\$3.91	\$4.92
September 5, 2016 to September 4, 2017 (Year 4)	\$3.50	\$4.88	\$6.64
September 5, 2017 to September 4, 2018 (Year 5)	\$4.02	\$6.10	\$8.97

The following summarizes information about performance warrants outstanding as at December 31, 2013:

Outstanding performance warrants				Exercisable performance warrants	
Exercise price (\$/share)	Number of perf. warrants outstanding	Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of perf. warrants exercisable	Weighted average exercise price (\$/share)
\$2.00	1,780,999	4.7	\$2.00	-	-

Per share information

The following table summarizes the weighted average shares used in calculating net earnings per share:

	From inception on November 6, 2012 until December 31, 2013
Basic	6,658,493
Diluted	9,003,492

None of the outstanding options and performance warrants are anti-dilutive as at December 31, 2013.

Contributed Surplus

	From inception on November 6, 2012 until December 31, 2013
Balance, beginning of period	-
Stock based compensation	228,919
Balance, end of period	228,919

13. Change in Non-Cash Working Capital

The net change in working capital is comprised of:

	From inception on November 6, 2012 until December 31, 2013	Acquired working capital adjustment	Net from inception on November 6, 2012 until December 31, 2013
Non-cash working capital			
Accounts receivable	(1,863,659)	65,000	(1,798,659)
Prepaid expenses and deposits	(381,429)	503,318	121,889
Accounts payable and accrued liabilities	3,281,232	-	3,281,232
Change in non-cash working capital	1,036,144	568,318	1,604,462
Related to operating activities	1,036,144	568,318	1,604,462
Related to investing activities	-	-	-

14. Taxes

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to earnings before tax expense as follows:

	December 31, 2013
Earnings before income taxes	\$ 312,609
Canadian statutory tax rate (1)	26.2%
Expected income tax recovery at statutory rates	81,904
Effect on income tax of:	
Stock based compensation	59,977
Flow through share liability	(251,086)
Flow through share renouncement	262,000
Other non-deductible items	46,180
Capitalized G&A	(21,832)
Other	15,791
Total current and deferred income tax expense	192,934

(1) The statutory rate consists of the combined federal and provincial statutory tax rate for Kaisen.

	December 31, 2013
Deferred tax assets:	
Decommissioning liability	\$ 1,525,168
Other	26,849
Deferred tax liabilities:	
Capital assets in excess of tax value	(3,776,405)
Future tax liability	(2,224,388)

As at December 31, 2013, the Company's estimated tax pools are as follows:

	December 31, 2013
Canadian oil and natural gas property expense	\$ 3,987,029
Canadian development expense	2,108,262
Capital cost allowance	4,905,336
Other	102,482
	11,103,109

On August 27, 2013, the Company issued 836,954 flow through common shares valued at \$2.30 for gross proceeds of \$1,924,994. In accordance with Canadian tax legislation relating to the issuance of flow through shares, the Company renounced the full amount of \$1,924,994 of qualifying development related expenditures on December 31, 2013.

At December 31, 2013, \$318,416 was included in accounts payable representing current taxes payable for the period end.

15. Related Party Transactions

The corporate secretary (and small shareholder) of the Company is a partner of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). For the period ended December 31, 2013, included in general and administrative expenses, transaction costs and share issue expenses are amounts of \$27,325, \$155,598 and \$59,903, respectively, charged to the Company by BDP. At December 31, 2013, the full amount of these expenses was included in accounts payable and was paid in full subsequent to the year end. Refer to *Note 12 – Share Capital*, for details on corporate acquisitions involving related parties during the period from inception to December 31, 2013.

On March 20, 2013, acquired all of the issued and outstanding shares of Plains Energy Ltd., 1021405 Ab Ltd. and C-Core Holdings (the "Lone Rock Companies") comprising a 100 percent working interest in properties now defining the Company's first core operating area of Lone Rock, Saskatchewan (south east of Lloydminster, SK). Consideration for the transaction was comprised of 3,470,440 Kaisen common shares (valued at \$1.00 per share) and \$2,066,866 of cash for a total transaction value of \$5,537,306. Prior to the transaction, Cameron King (President and CEO of Kaisen) was the beneficial owner of C-Core Holdings and Bart King (director of Kaisen) was the beneficial owner of Plains Energy Ltd. Both Cameron King and Bart King are related along with the beneficial owner of 1021405 Ab Ltd., hence the transaction was among related parties but has been accounted for at fair value.

On July 25, 2013, Kaisen entered into a purchase and sale agreement with 1210757 Ab Ltd. ("121 Ab Ltd."), whereby Kaisen agreed to acquire all of the issued and outstanding shares of 121 Ab Ltd. Pursuant to the agreement, 121 Ab Ltd. shareholders received 0.85 of a Kaisen common share for each 121 Ab Ltd. share held for a total issuance of 1,562,458 common shares of the Company valued at \$1.00 per share. Lowell Jackson (Executive chairman of Kaisen) and Ed Chwyl (director of Kaisen) were significant shareholders of 1210757 Ab Ltd. The transaction was accounted for at fair value.

16. Commitments and Contingencies

The Company has a commitment for an office lease for \$12,000 per month until April 30, 2016. In July 2013, the Company entered into a 3 year sublease agreement for \$2,200 per month to sublet a portion of the Company's leased offices. Subsequent to the year end, the Company entered into a non-operated seismic acquisition program with a large oil and gas producer scheduled to commence in January 2014 for a total net cost of \$1.3 million.

<i>(\$ thousands)</i>	Total	2014	2015	2016	2017	2018
Office lease	\$ 336	\$ 144	\$ 144	\$ 48	\$ -	\$ -
Sub lease agreement	(61)	(26)	(26)	(9)	-	-
Seismic	1,300	1,300	-	-	-	-
	\$ 1,575	\$ 1,418	\$ 118	\$ 39	\$ -	\$ -

17. Subsequent events

Subsequent to year end the Company entered into financial derivative contracts to fix the price of a portion of the Company's heavy oil production as follows;

Type	Period	Volume	Price/unit ⁽¹⁾	Index
Fixed – sell	February – December 2014	300 bbl/d	CAD\$97.00	WTI
Fixed – sell	February – December 2014	300 bbl/d	CAD\$103.00	WTI
Fixed – sell	February – December 2014	300 bbl/d	CAD-\$22.50	WCS ⁽²⁾

(1) Based on the weighted average price/unit for the remainder of the contract

(2) Western Canadian Select index pricing differential to West Texas Intermediate Canadian pricing.

Corporate Information

Directors

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Executive Chairman

Ed Chwyl
Victoria, British Columbia

Bart King
Lloydminster, Alberta

Colin Campbell
Calgary, Alberta

Cameron King, P.I.Eng., MBA
President & CEO

Advisor to the directors

Evan Hazell, P.Eng., MBA
Calgary, Alberta

Officers

Cameron King, P.I.Eng., MBA
President & CEO

Jeff W. Holmgren, CA
Senior Vice President & CFO

Chris McGinnis, P.Eng., MBA
Vice President, Engineering

Andy Kramchynski, P.Geol
Vice President, Geology

James Kidd, LL.B
Corporate Secretary

Auditors

Ernst & Young LLP

Evaluation Engineers

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Bankers

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