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Condensed Interim Financial Statements

For the three and six month periods ended June 30, 2014

Unaudited

June 30, 2014

Interim Statements of Financial Position *(unaudited)*

	June 30, 2014	December 31, 2013
Assets <i>(Note 6)</i>		
Accounts receivable	1,848,729	1,863,659
Prepaid expenses and deposits	480,658	381,429
Crude oil inventory	-	134,646
Total current assets	2,329,387	2,379,734
Property, plant and equipment <i>(Note 5)</i>	27,403,465	25,178,430
Total assets	29,732,852	27,558,164
Liabilities		
Accounts payable and accrued liabilities	3,614,177	3,281,232
Fair value of financial instruments <i>(Note 4)</i>	1,367,194	-
Bank debt <i>(Note 6)</i>	3,997,446	1,724,548
Total current liabilities	8,978,817	5,005,780
Asset retirement obligations <i>(Note 8)</i>	5,894,019	5,821,251
Deferred tax liability	1,955,924	2,224,388
Total non-current liabilities	7,849,943	8,045,639
Total liabilities	16,828,760	13,051,419
Equity		
Share capital <i>(Note 9)</i>	14,191,751	14,158,151
Contributed surplus <i>(Note 9)</i>	550,411	228,919
Retained earnings (deficit)	(1,838,070)	119,675
Total equity	12,904,092	14,506,745
Total liabilities and equity	29,732,852	27,558,164
Commitments and contingencies <i>(Note 12)</i>		

See accompanying notes to the unaudited condensed interim financial statements

Interim Statement of Loss and Comprehensive loss *(unaudited)*

	Three months ended June 30, 2014	Six months ended June 30, 2014
Petroleum and natural gas sales	5,480,037	11,262,338
Royalties	(1,326,347)	(2,716,872)
Revenue, net of royalties	4,153,690	8,545,466
Realized loss on risk management contracts <i>(Note 4)</i>	(687,913)	(1,091,678)
Revenue, net of royalties and realized hedging loss	3,465,777	7,453,788
Operating expenses	2,047,233	4,141,700
Transportation expenses	184,066	369,442
General and administrative expenses	473,534	1,424,706
Share-based compensation <i>(Note 9)</i>	166,962	321,492
Depletion and depreciation	887,345	1,905,639
Unrealized (gain)/loss on risk management contracts <i>(Note 4)</i>	(320,321)	1,367,194
Total expenses	3,438,819	9,530,173
Earnings/(loss) from operating activities	26,958	(2,076,385)
Finance charges <i>(Note 8)</i>	(81,878)	(147,584)
Loss before taxes	(54,920)	(2,223,969)
Current tax expense	(2,241)	(2,241)
Deferred income tax recovery/(expense)	(47,039)	268,465
Income tax recovery/(expense)	(49,280)	266,224
Net loss and comprehensive loss	(104,200)	(1,957,745)
Net loss per share <i>(Note 9)</i>		
Basic	\$0.01	\$0.16
Diluted	\$0.01	\$0.16

See accompanying notes to the unaudited condensed interim financial statements

Interim Statement of Cash Flows *(unaudited)*

	Three months ended June 30, 2014	Six months ended June 30, 2014
Cash provided by (used in)		
Operating activities		
Net loss for the period	104,200	1,957,745
Add (deduct) items not affecting cash:		
Depletion and depreciation expense	887,345	1,905,639
Accretion of asset retirement obligations <i>(Note 8)</i>	36,384	72,768
Deferred income tax expense/(recovery)	47,039	(268,465)
Share-based compensation <i>(Note 9)</i>	166,962	321,492
Shares issued for equipment <i>(Note 9)</i>	33,600	33,600
Change in fair value of financial instruments <i>(Note 4)</i>	(320,321)	1,367,194
	746,809	1,474,483
Change in non-cash working capital <i>(Note 10)</i>	674,162	248,646
Cash flow from (used in) operating activities	1,420,971	1,723,129
Financing activities		
Increase in bank debt	1,567,939	2,272,898
Cash flow from financing activities	1,567,939	2,272,898
Investing activities		
Development of oil and gas properties	(1,535,661)	(3,996,027)
Change in non-cash working capital <i>(Note 10)</i>	(1,453,249)	
Cash used in investing activities	(2,988,910)	(3,996,027)
Net change 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 unaudited condensed interim financial statements

Interim Statement of Changes in Shareholders' Equity *(unaudited)*

Six months ended June 30, 2014

	Share Capital <i>(Note 12)</i>	Contributed Surplus	Retained deficit	Total Equity
Balance at December 31, 2013	14,158,151	228,919	119,675	14,506,745
Net loss	-	-	(1,957,745)	(1,957,745)
Shares issued for equipment	33,600	-	-	33,600
Share-based compensation – stock options	-	321,492	-	321,492
Balance at June 30, 2014	14,191,751	550,411	(1,838,070)	12,904,092

See accompanying notes to the unaudited interim financial statements

Notes to the Interim Financial Statements *(unaudited)*

For the three and six month periods ended June 30, 2014

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 unaudited condensed interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting using accounting policies aligned with International Financial Reporting Standards ("IFRS"). The financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the audited financial statements for the period from inception on November 6, 2012 to December 31, 2013, which have been prepared in accordance with IFRS.

The financial statements were authorized for issue by the Board of Directors on September 8, 2014.

(b) Comparative period results

These financial statements do not include comparative results for the three and six month periods ended June 30, 2013 (the "Comparative Periods") due to the insignificant level of activity. For the three and six month Comparative Periods, the Company incurred a net loss of \$270,380 and \$359,886 respectively.

3. Significant accounting policies

(a) Risk Management Contracts

From time to time, Kaisen may enter into risk management contracts in order to manage its exposure to market risks from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. Kaisen has not designated its risk management contracts as effective hedges, and thus has not applied hedge accounting, even though it considers most of these contracts to be economic hedges. As a result, all risk management contracts are classified as fair value through profit or loss and are recorded at fair value on the statement of financial position with changes in fair value recorded in the statement of income (loss) and comprehensive income (loss). The fair values of these derivative instruments are generally based on an estimate of the amounts that would be paid or received to settle these instruments at the balance sheet date.

As of January 1, 2014 the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

- IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units ("CGU's") is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Kaisen's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
- IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Kaisen's financial statements.
- IFRIC 21 "Levies," was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by government under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with

the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any significant impact on Kaisen's financial statements.

4. Risk Management Contracts

The following is a summary of all risk management contracts in place as at June 30, 2014:

Type	Period	Volume	Price/unit	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 ⁽¹⁾

(1) Based on the weighted average price/unit for the remainder of the contract Western Canadian Select index pricing differential to West Texas Intermediate Canadian pricing.

As at June 30, 2014 the fair value associated with Kaisen's risk management contracts was a liability of \$1,367,194 (\$1,687,515 liability at March 31, 2014).

5. Property, plant and equipment

	Six months ended June 30, 2014		
	Oil and Gas Assets	Corporate Assets	Total Assets
Cost or deemed cost			
Balance, at December 31, 2013	26,935,933	48,112	26,984,045
Development expenditures	2,392,870	-	2,392,870
Capitalized general and administrative costs	67,497	-	67,497
Balance, March 31, 2014	29,396,300	48,112	29,444,412
Development expenditures	1,622,915	2,393	1,625,308
Capitalized general and administrative costs	44,998	-	44,998
Balance, June 30, 2014	31,064,213	50,505	31,114,718
Accumulated depletion and depreciation			
Balance, at December 31, 2013	(1,763,484)	(42,131)	(1,805,615)
Depletion and depreciation	(1,000,955)	(17,338)	(1,018,293)
Reclassification	(42,875)	42,875	-
Balance, March 31, 2014	(2,807,314)	(16,594)	(2,823,908)
Depletion and depreciation	(869,858)	(17,487)	(887,345)
Balance, June 30, 2014	(3,677,172)	(34,081)	(3,711,253)
Net book value			
Balance, at December 31, 2013	25,172,449	5,981	25,178,430
Balance, March 31, 2014	26,588,986	31,518	26,620,504
Balance, June 30, 2014	27,387,042	16,423	27,403,465

During the three and six month periods ended June 30, 2014, the Company capitalized general and administrative expenses in the amount of \$67,497 and \$112,496 respectively relating to development activities. Future development costs associated with proved and probable undeveloped reserves of \$47.4 million are included in the depletion calculation net of salvage values of \$1,422,000 for the Quarter. No costs have been excluded from property plant and equipment in the determination of depletion and depreciation expense.

No impairment indicators were identified on the property, plant and equipment as at June 30, 2014.

6. Bank Debt

During the prior quarter, the Company amended its banking facility arrangements with Alberta Treasury Branches ("ATB") by combining the previous \$3,000,000 revolving operating facility and the \$3,000,000 bridge facility into a single \$6,000,000 revolving operating facility. 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 June 30, 2014, \$3,997,446 was drawn on the facility (\$1,724,548 at December 31, 2013).

The facility is 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 this financial covenant at June 30, 2014.

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

Subsequent to the Quarter end on July 4, 2014, ATB increased the facility from \$6,000,000 to \$11,500,000 comprised of a \$9,500,000 revolving operating facility and a \$2,000,000 bridge facility. The bridge facility is due and payable in full on May 31, 2015 concurrent with the next borrowing base review which is scheduled for May 31, 2015.

7. Finance Charges

	Three months ended June 30, 2014	Six months ended June 30, 2014
Interest and financing charges on bank debt	45,494	74,816
Accretion of asset retirement obligations	36,384	72,768
Finance charges	81,878	147,584

8. 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 June 30, 2014 was \$6,782,530 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 period were as follows:

	Six months ended June 30, 2014
Balance, beginning of period	5,821,251
Liabilities incurred	-
Liabilities acquired	-
Accretion	72,768
Balance, end of period	5,894,019

9. Share Capital

(a) Authorized

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

(b) Common shares, issued and outstanding

	Six months ended June 30, 2014		From inception on November 6, 2012 until December 31, 2013	
	Shares	Amount	Shares	Amount
Balance, beginning of period	11,895,122	\$ 14,158,151	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)	16,800	33,600	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, end of period	11,911,922	\$ 14,191,751	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) In the prior year, 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. During the Quarter, an addition 33,600 common shares of the Company valued at \$2.00 per share were issued to the same key equipment supplier in connection with the October 2013 drilling program.
- 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) Stock Option Plan

The following table summarizes Kaisen's stock option plan and activity during the periods ended June 30, 2014 and December 31, 2013.

	Six months ended June 30, 2014		From inception on November 6, 2012 until December 31, 2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	1,043,000	\$1.08	-	-
Granted	-	-	1,043,000	\$1.08
Balance, end of period	1,043,000	\$1.08	1,043,000	\$1.08

	Outstanding stock options			Exercisable stock options	
Exercise price (\$/share)	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	4.3	\$1.00	-	-
\$2.00	85,000	4.4	\$2.00	-	-
	1,043,000	4.3	\$1.08	-	-

(b) Performance Warrants

The following table summarizes Kaisen's performance warrants plan and activity during the periods ended June 30, 2014 and December 31, 2013.

	Six months ended June 30, 2014		From inception on November 6, 2012 until December 31, 2013	
	Number of warrants	Weighted Average Exercise Price	Number of warrants	Weighted Average Exercise Price
Balance, beginning of period	1,780,999	\$2.00	-	-
Granted	-	-	1,780,999	\$2.00
Balance, end of period	1,780,999	\$2.00	1,780,999	\$2.00

	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	4.5	\$2.00	-	-

Per share information

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

	Three months ended June 30, 2014	Six months ended JUNE 30, 2014
Basic	11,911,922	11,911,922
Diluted	11,911,922	11,911,922

For the purpose of calculation net loss per diluted share, none of the outstanding options and performance warrants are included as these instruments were anti-dilutive as at June 30, 2014.

Contributed Surplus

	Three months ended June 30, 2014	Six months ended June 30, 2014
Balance, beginning of period	383,449	228,919
Stock based compensation	166,962	321,492
Balance, end of period	550,411	550,411

10. Change in Non-Cash Working Capital

The net change in working capital is comprised of:

	Three months ended June 30, 2014	Six months ended June 30, 2014
Non-cash working capital		
Accounts receivable	533,816	14,930
Prepaid expenses and deposits	(119,828)	(99,229)
Accounts payable and accrued liabilities	(1,193,075)	332,945
Change in non-cash working capital	(779,087)	248,646
Related to operating activities	674,162	248,646
Related to investing activities	(1,453,249)	-

11. Major Customers

The majority of the credit exposure on accounts receivable at June 30, 2014 pertains to accrued revenue for June 2014 production volumes. Kaisen transacts with a number of oil and natural gas marketing companies. Marketing companies typically remit amounts to Kaisen by the 25th day of the month following production. A significant portion of Kaisen's accounts receivable is carried by two marketing companies, with 79 per cent of outstanding accounts receivable at June 30, 2014 derived from one company, and 21 per cent from a second company, all of which was received subsequent to June 30. Kaisen did not have any other customers from which it had outstanding accounts receivable greater than 10 per cent of the total outstanding balance at June 30, 2014. As at June 30, 2014, the Company has not recorded an allowance for doubtful accounts.

12. Commitments and Contingencies

Following is a summary of Kaisen's contractual obligations and commitments as at June 30, 2014:

(\$ thousands)	Total	2014	2015	2016	2017	2018
Office lease	\$ 300	\$ 108	\$ 144	\$ 48	\$ -	\$ -
Sub lease agreement	(55)	(20)	(26)	(9)	-	-
	\$ 245	\$ 88	\$ 118	\$ 39	\$ -	\$ -

13. 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 Quarter, no amounts were invoiced from BDP.

14. Subsequent events

On July 4, 2014, ATB increased the Company's banking facility from \$6,000,000 to \$11,500,000 comprised of a \$9,500,000 revolving operating facility and a \$2,000,000 bridge facility. The bridge facility is due and payable in full on May 31, 2015 concurrent with the next borrowing base review which is scheduled for May 31, 2015.

On September 5, 2014, the Company closed a non-brokered private placement of approximately 3,477,000 common shares at a price of \$2.25 per share for total gross proceeds of approximately \$7,823,000. Proceeds from the offering will be used towards the Company's capital expenditure program for the second half of 2014.

Corporate Information

Directors

Lowell E. Jackson, P.Eng.
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

Sproule Petroleum Consultants

Bankers

ATB Financial

Legal Counsel

Burnet, Duckworth and Palmer LLP

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