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EXPLOIT



Condensed Interim Financial Statements

For the three and six month periods ended June 30, 2015 and 2014

Unaudited

June 30, 2015

Interim Statements of Financial Position

(Unaudited)

<i>(Cdn\$)</i>	June 30, 2015	December 31, 2014
Assets		
Cash	\$ 94,737	\$ 94,922
Accounts receivable <i>(Note 11)</i>	1,555,009	2,463,853
Prepaid expenses and deposits	592,791	453,204
Total current assets	2,242,537	3,011,979
Property, plant and equipment <i>(Note 5)</i>	34,593,012	35,517,740
Total assets	36,835,549	38,529,719
Liabilities		
Accounts payable and accrued liabilities	2,592,131	4,116,243
Risk management contracts <i>(Note 4)</i>	1,225,030	-
Bank debt <i>(Note 6)</i>	2,916,992	2,277,581
Total current liabilities	6,734,153	6,393,824
Asset retirement obligations <i>(Note 8)</i>	6,640,508	6,567,254
Deferred tax liability	2,380,538	2,590,464
Total non-current liabilities	9,021,046	9,157,718
Total liabilities	15,755,199	15,551,542
Equity		
Share capital <i>(Note 9a)</i>	21,894,865	21,894,865
Contributed surplus <i>(Note 9d)</i>	1,260,628	884,260
Retained earnings/(deficit)	(2,075,143)	199,052
Total equity	21,080,350	22,978,177
Total liabilities and equity	\$ 36,835,549	\$ 38,529,719
Commitments and contingencies <i>(Note 12)</i>		

See accompanying notes to the unaudited interim financial statements

Approved by the Board of Directors

Interim Statement of Loss and Comprehensive loss

(Unaudited)

(\$Cdn)	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Petroleum and natural gas sales	\$ 3,999,623	\$ 5,480,037	\$ 8,165,317	\$ 11,262,338
Royalties	(875,935)	(1,326,347)	(1,698,030)	(2,716,872)
Revenue, net of royalties	3,123,688	4,153,690	6,467,287	8,545,466
Saskatchewan resource tax	(75,000)	-	(304,461)	-
Realized gain/(loss) on risk management contracts (Note 4)	165,957	(687,913)	467,347	(1,091,678)
Revenue, net of royalties and realized hedging gain/(loss)	3,214,645	3,465,777	6,630,173	7,453,788
Operating expenses	1,629,975	2,047,233	3,659,742	4,141,700
Transportation expenses	234,748	184,066	516,134	369,442
General and administrative expenses	606,894	473,534	1,214,522	1,424,706
Share-based compensation (Note 9d)	171,541	166,962	341,197	321,492
Depletion and depreciation	970,914	887,345	2,406,745	1,905,639
Unrealized (gain)/loss on risk management contracts (Note 4)	1,627,007	(320,321)	1,225,030	1,367,194
Total expenses	5,241,079	3,438,819	9,363,370	9,530,173
Earnings / (Loss) from operating activities	(2,026,434)	26,958	(2,733,197)	(2,076,385)
Finance charges (Note 7)	75,639	81,878	147,260	147,584
Loss before taxes	(2,102,073)	(54,920)	(2,880,457)	(2,223,969)
Current tax recovery / (expense)	292,450	(2,241)	396,335	(2,241)
Deferred income tax recovery / (expense)	142,380	(47,039)	209,926	268,465
Total income tax recovery / (expense)	434,830	(49,280)	606,261	266,224
Loss and comprehensive loss	\$ (1,667,243)	\$ (104,200)	\$ (2,274,196)	\$ (1,957,745)
Loss per share (Note 9c)				
Basic & diluted	(\$0.11)	(\$0.01)	(\$0.15)	(\$0.16)

See accompanying notes to the unaudited interim financial statements

Interim Statements of Cash Flows

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(\$Cdn)	2015	2014	2015	2014
Cash provided by (used in)				
Operating activities				
Net (loss) for the period	\$ (1,667,243)	\$ (104,200)	\$ (2,274,196)	\$ (1,957,745)
Add (deduct) items not affecting cash:				
Depletion and depreciation expense	970,914	887,345	2,406,745	1,905,639
Accretion of asset retirement obligations (Note 8)	36,730	36,384	73,255	72,768
Deferred income tax expense / (recovery)	(142,380)	47,039	(209,926)	(268,465)
Share-based compensation (Note 9d)	171,541	166,962	341,197	321,492
Shares issued for equipment (Note 9a)	-	33,600	-	33,600
Unrealized (gain)/loss on risk management contracts (Note 4)	1,627,007	(320,321)	1,225,030	1,367,194
	996,569	746,809	1,562,105	1,474,483
Change in non-cash working capital (Note 10)	177,623	674,162	(754,858)	248,646
Cash flow from (used in) operating activities	1,174,192	1,420,971	807,247	1,723,129
Financing activities				
Increase in bank debt	(458,008)	1,567,939	639,411	2,272,898
Cash flow from financing activities	(458,008)	1,567,939	639,411	2,272,898
Investing activities				
Development of oil and gas properties	(746,735)	(1,535,661)	(1,446,844)	(3,996,027)
Change in non-cash working capital (Note 10)	-	(1,453,249)	-	-
Cash used in investing activities		(2,988,910)		(3,996,027)
Net change in cash during the period	(30,551)	-	(186)	-
Cash, beginning of the period	125,287	-	94,922	-
Cash, end of the period	\$ 94,736	\$ -	\$ 94,736	\$ -
Supplementary disclosure				
Cash interest paid	\$ 38,909	\$ 45,494	\$ 74,005	\$ 74,816
Cash taxes paid	-	-	\$63,396	-

See accompanying notes to the unaudited interim financial statements

Interim Statement of Changes in Shareholders' Equity

(Unaudited)

<i>(Cdn\$)</i>	Share Capital <i>(Note 11)</i>	Contributed Surplus	Retained Earnings / (deficit)	Total Equity
Balance at December 31, 2013	\$14,158,151	\$228,919	\$119,675	\$14,506,745
Net earnings	-	-	63,347	63,347
Adjustment to opening retained earnings <i>(Note 6)</i>			16,030	16,030
Share issued for cash	7,893,242	-	-	7,893,242
Shares issued for equipment	33,600	-	-	33,600
Share issue costs (net of tax of \$67,498)	(190,128)	-	-	(190,128)
Share-based compensation – stock options	-	655,341	-	655,341
Balance at December 31, 2014	21,894,865	884,260	199,052	22,978,177
Net loss	-	-	(606,951)	(606,951)
Share-based compensation – stock options <i>(Note 9d)</i>	-	187,145	-	187,145
Balance at March 31, 2015	\$21,894,865	\$1,071,405	(\$407,900)	\$22,558,370
Net loss	-	-	(1,667,243)	(1,667,243)
Share-based compensation – stock options <i>(Note 9d)</i>	-	189,223	-	189,223
Balance at June 30, 2015	\$21,894,865	\$1,260,628	(\$2,075,143)	\$21,080,350

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, 2015

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. The Company 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

Statement of compliance

These unaudited condensed interim financial statements (the "financial statements") for the three and six month periods ended June 30, 2015 (the "Quarter" and "Year to Date" respectively) 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 year ended December 31, 2014, which have been prepared in accordance with IFRS.

These financial statements were authorized for issue by the Board of Directors on September 15, 2015.

3. Significant Accounting Policies

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers", which replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on Kaisen's financial statements. In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on its financial statements.

4. Risk Management Contracts

The following is a summary of risk management contracts in place as at June 30, 2015:

Type	Period	Volume	Price/unit ⁽¹⁾	Index
Fixed – sell (Swap)	February 2015 – December 2015	350 bbl/d	CAD\$76.40	WTI
Fixed – sell (Swaption) ⁽²⁾	January 2016 – December 2016	700 bbl/d	CAD\$80.00	WTI

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

(2) Counterparty holds an option to exercise the contract by the expiry deadline of 4pm (MST) on December 31, 2015

As at June 30, 2015, the fair value associated with Kaisen's risk management contracts was a liability of \$1,225,030 (nil at December 31, 2014).

The following is a summary of realized and unrealized losses for the three and six month periods ended June 30, 2015 and 2014:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Realized gain/(loss) on risk management contracts	165,957	(687,913)	467,347	(1,091,678)
Unrealized gain/(loss) on risk management contracts	(1,627,007)	320,321	(1,225,030)	(1,367,194)
Total gain/(loss) on risk management contracts	(1,461,050)	(367,592)	(757,683)	(2,245,872)

5. Property, plant and equipment

Cost	Oil and Gas Assets	Corporate Assets	Total Assets
Balance, at December 31, 2013	\$ 26,935,933	\$ 48,112	\$ 26,984,045
Development expenditures	15,666,202	4,394	15,670,596
Net asset acquisitions/(divestitures)	(1,438,708)	-	(1,438,708)
Change in asset retirement obligation	584,092	-	584,092
Capitalized general and administrative costs	269,989	-	269,989
Capitalized stock based compensation	48,264	-	48,264
Balance, December 31, 2014	\$ 42,065,772	\$ 52,506	\$ 42,118,278
Development expenditures	632,613	-	632,613
Capitalized general and administrative costs	67,497	-	67,497
Capitalized stock based compensation	17,489	-	17,489
Balance, March 31, 2015	\$ 42,783,371	\$ 52,506	\$ 42,835,877
Development expenditures	677,064	2,174	679,238
Capitalized general and administrative costs	67,497	-	67,497
Capitalized stock based compensation	17,682	-	17,682
Balance, June 30, 2015	\$ 43,545,614	\$ 54,680	\$ 43,600,294
Accumulated depletion and depreciation			
Balance, at December 31, 2013	\$ (1,763,484)	\$ (42,131)	\$ (1,805,615)
Depletion and depreciation	(4,941,235)	(22,236)	(4,963,471)
Asset divestiture	168,548	-	168,548
Reclassification	(42,875)	42,875	-
Balance, December 31, 2014	\$ (6,579,046)	\$ (21,492)	\$ (6,600,538)
Depletion and depreciation	(1,432,701)	(3,129)	(1,435,830)
Balance, March 31, 2015	\$ (8,011,747)	\$ (24,621)	\$ (8,036,368)
Depletion and depreciation	(968,072)	(2,842)	(970,914)
Balance, June 30, 2015	\$ (8,979,819)	\$ (27,463)	\$ (9,007,282)
Net book value			
Balance, at December 31, 2013	\$ 25,172,449	\$ 5,981	\$ 25,313,076
Balance, December 31, 2014	\$ 35,486,726	\$ 31,014	\$ 35,517,740
Balance, March 31, 2015	\$ 34,771,624	\$ 27,885	\$ 34,799,509
Balance, June 30, 2015	\$ 34,565,795	\$ 27,217	\$ 34,593,012

During the Quarter, the Company capitalized general and administrative expenses in the amount of \$67,497 (\$67,497 for the same period in 2014) and capitalized share based compensation expense in the amount of \$17,489 (nil for the same period in the prior year), relating to development activities. Future development costs associated with proved and probable undeveloped reserves of \$84,546,000 (\$84,546,000 at December 31, 2014) are included in the depletion calculation net of salvage values of \$1,624,000 (\$1,624,000 at December 31, 2014) for the Quarter. No other costs have been included or excluded from property plant and equipment in the determination of depletion and depreciation expense.

6. Bank Debt

The Company has a banking facility of \$11,100,000 comprised of a \$9,100,000 revolving operating facility and a \$2,000,000 bridge facility. The bridge facility, which was previously due and payable in full on May 31, 2015 concurrent with the next borrowing base review, has been extended concurrent with an extension of the borrowing base review which is currently underway.

Both the operating facility and bridge facility are 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 facilities have 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.

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

At June 30, 2015, the Company had total bank debt of \$2,916,992 (\$2,277,581 at December 31, 2014) and total net debt (including net working capital) of \$3,266,586 (\$3,381,845 at December 31, 2014). The Company was compliant with its financial covenant as at June 30, 2015.

7. Finance Charges

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Interest and financing charges on bank debt	38,909	45,494	74,005	74,816
Accretion of asset retirement obligations	36,730	36,384	73,255	72,768
Finance charges	75,639	81,878	147,260	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 well sites and 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, 2015 was \$8,414,973 which will be incurred over the next 10-15 years with the majority of costs incurred between 2018 and 2024. In the prior year, the Company reduced the assumed risk free interest rate from 2.50% to 2.22%, reflecting the lower Canadian interest rates at year end. Reserve life assumptions were also modified to reflect the estimated reserves life of the Company's wells. An inflation rate of 2.0% to inflate the estimated future costs to abandon the wells remained unchanged. A reconciliation of the changes to the asset retirement obligations during the periods were as follows:

	Six months ended	Year ended
	June 30, 2015	December 31, 2014
Balance, beginning of period	\$ 6,567,254	\$ 6,451,372
Liabilities incurred	-	160,156
Liabilities acquired/divested	-	(60,407)
Change in estimates	-	(25,035)
Accretion	73,255	41,168
Balance, end of period	\$ 6,640,509	\$ 6,567,254

9. Share Capital

(a) Common shares, issued and outstanding

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Shares	Amount	Shares	Amount
Balance, beginning of period	15,420,029	\$ 21,894,865	11,895,122	\$ 14,158,151
Issued for cash ⁽¹⁾	-	-	3,508,107	7,893,242
Issued for acquisition of equipment ⁽²⁾	-	-	16,800	33,600
Share issue costs (net of tax of \$67,498)	-	-	-	(190,128)
Balance, end of period	15,420,029	\$ 21,894,865	15,420,029	\$ 21,894,865

- On September 5, 2014, the Company issued 3,508,107 common shares valued at \$2.25 per share for total proceeds of \$7,893,242. Share issue costs totaled \$257,626.
- In 2014, 16,800 common shares of the Company valued at \$2.00 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 October 2014 drilling program, wherein the Company paid cash for the wholesale value of the equipment.

(b) Share Based Compensation

a) Stock Option Plan

The following table summarizes Kaisen's stock option plan and activity during the year to date;

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of period	1,448,000	\$1.46	1,043,000	\$1.08
Granted	-	-	470,000	\$2.25
Exercised	-	-	(65,000)	\$1.00
Balance, end of period	1,448,000	\$1.46	1,448,000	\$1.46

Exercise price (\$/share)	Outstanding stock options			Exercisable stock options	
	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	893,000	3.1	\$1.00	297,667	\$1.00
\$2.00	85,000	3.2	\$2.00	28,333	\$2.00
\$2.25	470,000	4.2	\$2.25	-	-
	1,448,000	3.4	\$1.46	326,000	\$1.09

b) Performance Warrants

The following table summarizes Kaisen's performance warrants plan and activity during the year to date;

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number of warrants	Weighted Average Exercise Price	Number of warrants	Weighted Average Exercise Price
Balance, beginning of period	1,780,999	\$2.00	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	3.2	\$2.00	-	-

c) Weighted Average Common Shares

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Basic	15,420,029	11,911,922	15,420,029	11,911,922
Diluted	15,420,029	11,911,922	15,420,029	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, 2015 and 2014.

d) Contributed Surplus

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	1,071,405	383,449	884,260	228,919
Share based compensation	189,223	166,962	376,368	321,492
Balance, end of period	1,260,628	550,411	1,071,405	550,411

Share based compensation recorded to contributed surplus differs from share based compensation expense due to the inclusion of capitalized share based compensation of \$17,682 and \$35,171 for the Quarter and year to date respectively (nil for the same periods in 2014).

10. Change in Non-Cash Working Capital

The net change in working capital is comprised of:

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Non-cash working capital				
Accounts receivable	(134,572)	533,816	908,843	14,930
Prepaid expenses and deposits	(78,648)	(119,828)	(139,589)	(99,229)
Accounts payable and accrued liabilities	390,844	(1,193,075)	(1,524,113)	332,945
Change in non-cash working capital	177,624	(779,087)	754,859	248,646
Related to operating activities	177,624	674,162	754,859	248,646
Related to financing activities	-	(1,453,249)	-	-

11. Major Customers

The majority of the credit exposure on accounts receivable at June 30, 2015 pertains to accrued revenue for June 2015 production volumes. Kaisen typically sells its' heavy oil production to two separate oil and natural gas marketing companies. These marketing companies remit amounts to Kaisen typically on or about the 25th day of the month following the production month. 100% of outstanding accounts receivable at June 30, 2015 are from one of these marketing companies of which the full balance was received subsequent to the Quarter end. Kaisen did not have any other customers from which it had outstanding accounts receivable greater than 10% of the total outstanding balance at June 30, 2015. As at June 30, 2015, the Company is confident in the collectability of its' receivables and therefore 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, 2015:

<i>(\$ thousands)</i>	Total	2015	2016	2017	2018	2019
Office lease	\$ 120	\$ 72	\$ 48	\$ -	\$ -	\$ -
Sub lease agreement	(22)	(13)	(9)	-	-	-
	\$ 98	\$ 59	\$ 39	\$ -	\$ -	\$ -

Corporate Information

Directors

Lowell E. Jackson, P.Eng.
Chairman

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

Ed Chwyl
Victoria, British Columbia

Bart King
Lloydminster, Alberta

Colin Campbell
Calgary, Alberta

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

Officers

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

Jeffrey 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

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