



## Condensed Interim Financial Statements

For the three and six month periods ended June 30, 2016 and 2015

*Unaudited*

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**June 30, 2016**

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## Interim Statements of Financial Position

(Unaudited)

<i>(Cdn\$)</i>	June 30, 2016	December 31, 2015
<b>Assets</b>		
Cash	\$ 673,787	\$ 2,981,709
Accounts receivable <i>(Note 11)</i>	741,087	1,059,276
Prepaid expenses and deposits	592,420	464,989
Total current assets	2,007,294	4,505,974
Due from shareholder <i>(Note 13)</i>	251,831	250,000
Property, plant and equipment <i>(Note 5)</i>	35,657,809	35,617,460
<b>Total assets</b>	<b>37,916,934</b>	<b>40,373,434</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,677,315	1,483,935
Risk management contracts <i>(Note 4)</i>	393,879	-
Bank debt <i>(Note 6)</i>	-	-
Total current liabilities	2,071,194	1,483,935
Risk management contracts <i>(Note 4)</i>	57,245	-
Asset retirement obligations <i>(Note 8)</i>	6,874,332	6,798,773
Deferred tax liability	1,392,811	2,275,074
Total non-current liabilities	8,324,388	9,073,847
<b>Total liabilities</b>	<b>10,395,582</b>	<b>10,557,782</b>
<b>Equity</b>		
Share capital <i>(Note 9a)</i>	31,228,855	31,228,855
Contributed surplus <i>(Note 9d)</i>	2,648,419	1,732,881
Retained earnings/(deficit)	(6,355,922)	(3,146,084)
Total equity	27,521,352	29,815,652
<b>Total liabilities and equity</b>	<b>\$ 37,916,934</b>	<b>\$ 40,373,434</b>
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,	
	2016	2015	2016	2015
Petroleum and natural gas sales	\$ 1,747,034	\$ 3,999,623	\$ 2,731,873	\$ 8,165,317
Royalties	(307,494)	(875,935)	(395,961)	(1,698,030)
<b>Revenue, net of royalties</b>	<b>1,439,540</b>	<b>3,123,688</b>	<b>2,335,912</b>	<b>6,467,287</b>
Saskatchewan resource tax	(30,000)	(75,000)	(75,000)	(304,461)
Realized gain/(loss) on risk management contracts (Note 4)	(48,133)	165,957	(48,133)	467,347
<b>Revenue, net of royalties and realized hedging gain/(loss)</b>	<b>1,361,407</b>	<b>3,214,645</b>	<b>2,212,779</b>	<b>6,630,173</b>
Operating expenses	1,033,921	1,629,975	2,271,338	3,659,742
Transportation expenses	96,665	234,748	231,012	516,134
General and administrative expenses	664,401	606,894	1,205,872	1,214,522
Share-based compensation (Note 9d)	387,195	171,541	779,009	341,197
Depletion and depreciation (Note 5)	584,569	970,914	1,274,126	2,406,745
Unrealized (gain)/loss on risk management contracts (Note 4)	451,124	1,627,007	451,124	1,225,030
<b>Total expenses</b>	<b>3,217,875</b>	<b>5,241,079</b>	<b>6,212,481</b>	<b>9,363,370</b>
<b>Loss from operating activities</b>	<b>(1,856,468)</b>	<b>(2,026,434)</b>	<b>(3,999,702)</b>	<b>(2,733,197)</b>
Finance charges (Note 7)	48,110	75,639	92,398	147,260
Loss before taxes	(1,904,578)	(2,102,073)	(4,092,100)	(2,880,457)
Current tax recovery / (expense)	-	292,450	-	396,335
Deferred income tax recovery / (expense)	397,521	142,380	882,263	209,926
Total Income tax recovery / (expense)	397,521	434,830	882,263	606,261
<b>Loss and comprehensive loss</b>	<b>\$ (1,507,057)</b>	<b>\$ (1,667,243)</b>	<b>\$ (3,209,837)</b>	<b>\$ (2,274,196)</b>
<b>Loss per share (Note 9c)</b>				
Basic & diluted	<b>(\$0.06)</b>	<b>(\$0.11)</b>	<b>(\$0.14)</b>	<b>(\$0.15)</b>

See accompanying notes to the unaudited interim financial statements

## Interim Statements of Cash Flows

(Unaudited)

(\$Cdn)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Cash provided by (used in)				
Net (loss) for the period	\$ (1,507,057)	\$ (1,667,243)	\$ (3,209,837)	\$ (2,274,196)
Add (deduct) items not affecting cash:				
Depletion and depreciation expense	584,569	970,914	1,274,126	2,406,745
Accretion of asset retirement obligations (Note 8)	37,884	36,730	75,558	73,255
Deferred income tax expense / (recovery)	(397,521)	(142,380)	(882,263)	(209,926)
Share-based compensation (Note 9d)	387,195	171,541	779,009	341,197
Unrealized (gain)/loss on risk management contracts (Note 4)	451,124	1,627,007	451,124	1,225,030
	(443,806)	996,569	(1,512,283)	1,562,105
Change in non-cash working capital (Note 10)	(198,441)	177,623	382,307	(754,858)
Cash flow from (used in) operating activities	(642,247)	1,174,192	(1,129,976)	807,247
<b>Financing activities</b>				
Increase (decrease) in bank debt	-	(458,008)	-	639,411
Cash flow from (used in) financing activities	-	(458,008)	-	639,411
<b>Investing activities</b>				
Development of oil and gas properties	(546,032)	(746,735)	(1,177,946)	(1,446,844)
Cash used in investing activities	(546,032)	(746,735)	(1,177,946)	(1,446,844)
Net change in cash during the period	(1,188,279)	(30,551)	(2,307,922)	(186)
Cash, beginning of the period	1,862,066	125,287	2,981,709	94,922
<b>Cash, end of the period</b>	<b>\$ 673,787</b>	<b>\$ 94,736</b>	<b>\$ 673,787</b>	<b>\$ 94,736</b>
<b>Supplementary disclosure</b>				
Cash interest paid	\$ -	\$ 38,909	\$ -	\$ 74,005
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, 2014	\$ 21,894,865	\$ 884,260	\$ 199,052	\$ 22,978,177
Net loss for the period			(3,345,137)	(3,345,137)
Share issued for cash	10,000,000			10,000,000
Share issue costs (net of tax of \$246,332)	(666,010)			(666,010)
Share-based compensation – stock options		848,621		848,621
Balance at December 31, 2015	\$ 31,228,855	\$ 1,732,881	\$ (3,146,084)	\$ 29,815,652
Net loss for the period			(1,702,781)	(1,702,781)
Share-based compensation – stock options		459,825		459,825
Balance at March 31, 2016	\$ 31,228,855	\$ 2,192,706	\$ (4,848,865)	\$ 28,572,696
<b>Net loss for the period</b>			<b>(1,507,057)</b>	<b>(1,507,057)</b>
<b>Share-based compensation – stock options</b> <i>(Note 9d)</i>		<b>455,713</b>		<b>455,713</b>
<b>Balance at June 30, 2016</b>	<b>\$ 31,228,855</b>	<b>\$ 2,648,419</b>	<b>\$ (6,355,922)</b>	<b>\$ 27,521,352</b>

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, 2016

### 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 400, 522 – 11<sup>th</sup> 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, 2016 (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, 2015, which have been prepared in accordance with IFRS.

These financial statements were authorized for issue by the Board of Directors on August 30, 2016.

### 3. Significant Accounting Policies

#### Adopted and Future Accounting Policy Changes

- a. As of January 1, 2016 the Company was required to adopt amendments to IFRS 11 *Joint Arrangements*. The amendments to this standard requires entities acquiring an interest in a joint operation to apply the principles of IFRS 3 as it relates to business combinations. As of January 1, 2016 the new standard has been adopted and is not anticipated to have a material impact on the Company.
- b. In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces International Accounting Standard ("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. IFRS 15 will be applied by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on the financial statements.
- c. 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. IFRS 9 will be applied on a retrospective basis by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on the financial statements.
- d. In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the financial statements.

### 4. Risk Management Contracts

The following is a summary of risk management contracts in place as at June 30, 2016 (refer to note 14 'Subsequent Events', for contracts entered into after June 30, 2016):

Type	Period	Volume	Price/unit <sup>(1)</sup>	Index
Fixed – sell (Swap)	April 1, 2016 – December 31, 2016	100 bbl/d	CAD\$56.00	WTI-NYMEX
Fixed – sell (Swap)	April 1, 2016 – December 31, 2016	100 bbl/d	CAD\$56.25	WTI-NYMEX
Fixed – sell (Swap)	July 1, 2016 – December 31, 2016	100 bbl/d	CAD\$65.00	WTI-NYMEX
Fixed – sell (Swap)	January 1, 2017 – March 31, 2017	100 bbl/d	CAD\$60.00	WTI-NYMEX
Fixed – sell (Swap)	January 1, 2017 – December 31, 2017	100 bbl/d	CAD\$65.00	WTI-NYMEX

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

As at June 30, 2016, the fair value associated with Kaisen's risk management contracts was a liability of \$451,124 (nil at December 31, 2015), of which \$393,879 has been classified as short-term liability due to settlement dates that occur within the next 12 months.

The following is a summary of realized and unrealized losses from risk management contracts for the three and six month periods ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Realized gain/(loss) on risk management contracts	(48,133)	165,957	(48,133)	467,347
Unrealized loss on risk management contracts	(451,124)	(1,627,007)	(451,124)	(1,225,030)
<b>Total loss on risk management contracts</b>	<b>(499,257)</b>	<b>(1,461,050)</b>	<b>(499,257)</b>	<b>(757,683)</b>

## 5. Property, plant and equipment

Cost	Oil and Gas		Corporate		Total	
	Assets		Assets		Assets	
Balance, December 31, 2014	\$	42,065,772	\$	52,506	\$	42,118,278
Development expenditures		3,774,478		11,949		3,786,427
Change in asset retirement obligation		83,743		-		83,743
Capitalized general and administrative costs		269,989		-		269,989
Capitalized stock based compensation		87,988		-		87,988
Balance, December 31, 2015	\$	46,281,970	\$	64,455	\$	46,346,425
Development expenditures		498,345		47,351		545,696
Capitalized general and administrative costs		86,217		-		86,217
Capitalized stock based compensation		68,011		-		68,011
Balance, March 31, 2016	\$	46,934,543	\$	111,806	\$	47,046,349
Development expenditures		389,187		46,911		436,098
Capitalized general and administrative costs		109,937		-		109,937
Capitalized stock based compensation		68,518		-		68,518
<b>Balance, June 30, 2016</b>	<b>\$</b>	<b>47,502,185</b>	<b>\$</b>	<b>158,717</b>	<b>\$</b>	<b>47,660,902</b>
<b>Accumulated depletion and depreciation</b>						
Balance, December 31, 2015		(10,694,648)		(34,318)		(10,728,966)
Depletion and depreciation		(684,254)		(5,304)		(689,558)
Balance, March 31, 2016	\$	(11,378,902)	\$	(39,622)	\$	(11,418,524)
Depletion and depreciation		(575,459)		(9,110)		(584,569)
<b>Balance, June 30, 2016</b>	<b>\$</b>	<b>(11,954,361)</b>	<b>\$</b>	<b>(48,732)</b>	<b>\$</b>	<b>(12,003,093)</b>
<b>Net book value</b>						
Balance, December 31, 2015	\$	35,587,322	\$	30,137	\$	35,617,460
Balance, March 31, 2016	\$	35,555,641	\$	72,184	\$	35,627,825
<b>Balance, June 30, 2016</b>	<b>\$</b>	<b>35,547,821</b>	<b>\$</b>	<b>109,985</b>	<b>\$</b>	<b>35,657,809</b>

During the Quarter, the Company capitalized general and administrative expenses and share based compensation expenses, relating to development activities, of \$109,937 and \$68,518, respectively (\$67,497 and \$17,489, respectively, in the same quarter of 2015). Future development costs associated with proved and probable undeveloped reserves of \$58,051,600 (\$84,546,000 in the same quarter of 2015) are included in the depletion calculation, net of salvage values of \$1,644,000 for the Quarter (\$1,624,000 in the same quarter of 2015). No other costs have been included or excluded from property plant and equipment in the determination of depletion and depreciation expense. As at June 30, 2016, there were no indicators of impairment of the Company's property, plant and equipment.

## 6. Bank Debt

On June 1, 2016, the Company completed its annual facility redetermination with its lender resulting in a reduction to the Company's revolving operating facility to \$2,000,000. Subsequent to the Quarter end, and in connection with the closing of Kaisen's acquisition of Hawk Exploration Ltd. on July 14, 2016 (refer to note 14 – 'Subsequent Events'), the Company's lender increased the revolving operating facility to \$5,500,000, with no changes to lending rates. The mid-year borrowing base review is scheduled for November 2016

The revolving 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 loan facility 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.

At June 30, 2016, the Company had a net working capital surplus of \$329,979 with no amounts drawn on the operating facility.

The operating facility is subject to two financial covenants wherein 1) the working capital ratio at no time shall fall below 1.00:1.00 where working capital is defined under the lending agreement to include current assets plus any undrawn availability under the operating facility, less current liabilities less any amount currently drawn under the facility (if applicable), and 2) the net debt to trailing cashflow ratio shall not exceed 2.00:1.00 where net debt is defined as current liabilities and long-term debt less current assets (excluding unrealized financial contracts), and trailing cashflow is defined as cashflow from the most recently completed financial quarter, annualized. As at June 30, 2016, the working capital ratio was 2.4:1 and the Company had nil net debt, as such, the Company was compliant with both financial covenants. A demand debenture on all the assets of the Company has been provided as collateral for the facility.

## 7. Finance Charges

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest and financing charges on bank debt	\$10,226	\$38,909	\$16,840	\$74,005
Accretion of asset retirement obligations	37,884	36,730	75,558	73,255
<b>Finance charges</b>	<b>\$48,110</b>	<b>\$75,639</b>	<b>\$92,398</b>	<b>\$147,260</b>

During the Quarter and Year to Date, the Company had nil bank debt and incurred bank fees related to standby charges on the unused operating facility and facility renewal fees.

## 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 \$8,523,852 which will be incurred over the next 10-15 years with the majority of costs incurred between 2018 and 2024. A rate of 2.0% has been used to inflate the estimated future costs to abandon the wells. A reconciliation of the changes to the asset retirement obligations during the periods were as follows:

	Six months ended June 30, 2016	Year ended December 31, 2015
Balance, beginning of period	\$ 6,798,773	\$ 6,567,254
Liabilities incurred	-	83,742
Accretion	75,558	147,777
<b>Balance, end of period</b>	<b>\$ 6,874,332</b>	<b>\$ 6,798,773</b>

## 9. Share Capital

### (a) Common shares, issued and outstanding

	Six months ended June 30, 2016		Year ended December 31, 2015	
	Shares	Amount	Shares	Amount
Balance, beginning of period	23,420,029	\$ 31,228,855	15,420,029	\$ 21,894,865
Issued for cash <sup>(1)</sup>	-	-	8,000,000	\$ 10,000,000
Share issue costs (net of tax of \$67,498)	-	-	-	\$ (666,010)
<b>Balance, end of period</b>	<b>23,420,029</b>	<b>\$ 31,228,855</b>	<b>23,420,029</b>	<b>\$ 31,228,855</b>

1. On November 12, 2015, the Company closed a private placement equity offering to Azimuth Capital Management for an aggregate of 8,000,000 Common Shares, 8,000,000 put and call obligations ("Put and Call Obligations") and 8,000,000 special voting shares ("Special Voting Shares"), for total gross proceeds of \$10,000,000 (\$9,087,659 net of share issuance costs.)

- i. each Put and Call Obligation sets forth the rights of the Company to cause the holder ("Azimuth") thereof to subscribe for, or the right of the holder thereof to cause the Company to issue and sell, one Common Share at an issue price of \$1.25 per share pursuant to the terms of the put and call obligation agreement on or prior to the expiry time set forth therein;
- ii. each Special Voting Share entitles Azimuth to notice of and to attend and vote at all meetings of shareholders of the Company but not providing any rights in respect of liquidation, dissolution or winding up or any entitlement to dividends; and
- iii. For every Common Share of the Company issued in accordance with the terms of the Put and Call Obligations, an equal number of Special Voting Shares will be cancelled.

### (b) Share Based Compensation

#### i. Stock Option Plan

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

		Six months ended June 30, 2016			
		Number of Options	Weighted Average Exercise Price		
Balance, beginning and end of period		1,448,000	\$1.46		
Exercise price (\$/share)	Number of options outstanding	Outstanding stock options		Exercisable stock options	
		Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of options exercisable	Weighted average exercise price (\$/share)
\$1.00	893,000	2.1	\$1.00	595,333	\$1.00
\$2.00	85,000	2.2	\$2.00	56,667	\$2.00
\$2.25	470,000	3.2	\$2.25	156,667	\$2.25
	1,448,000	2.9	\$1.46	808,667	\$1.31

ii. **Performance Warrants**

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

	Six months ended June 30, 2016	
	Number of warrants	Weighted Average Exercise Price
Balance, beginning and end of period	5,780,999	\$1.91

On November 12, 2015, the Company granted 4,000,000 performance warrants to employees, directors and contractors serving in the capacity of employees of the Company. These performance warrants vest upon a qualifying liquidity event, expire in 5 years and have exercise prices as follows:

Performance warrants granted	#	Exercise price
Series 1	1,000,000	\$1.50
Series 2	1,000,000	\$1.75
Series 3	1,000,000	\$2.00
Series 4	1,000,000	\$2.25
Total	4,000,000	\$1.88

Also on November 12, 2015, the Company approved the cancellation of the existing outstanding 1,780,999 performance warrants and re-issued the same number of performance warrants under the new performance warrants plan, retaining the same exercise price (\$2.00) with revised vesting and expiry terms consistent with the terms of the new performance warrants granted. The cancellation of these warrants and the re-granting of the same number of performance warrants under revised terms, has been accounted for as a modification of incentive units in accordance with IFRS 2. The incremental expense attributed to the modified performance warrants is being amortized to share based compensation expense over the expiry period of the new performance warrants granted.

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)
\$1.50	1,000,000	4.4	\$1.50	-	-
\$1.75	1,000,000	4.4	\$1.75	-	-
\$2.00	2,780,999	4.4	\$2.00	-	-
\$2.25	1,000,000	4.4	\$2.25	-	-
	5,780,999	4.4	\$1.91	-	-

(c) **Weighted Average Common Shares**

The following table summarizes the weighted average common shares used in calculating net earnings (or loss) per share:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Basic	23,420,029	15,420,029	23,420,029	15,420,029
Diluted	23,420,029	15,420,029	23,420,029	15,420,029

For the purpose of calculation net loss per diluted share, none of the outstanding options and performance warrants have been 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,	
	2016	2015	2016	2015
Balance, beginning of period	2,192,706	1,071,405	1,732,881	884,260
Share based compensation	455,713	189,223	915,538	376,368
Balance, end of period	2,648,419	1,260,628	2,648,419	1,260,628

Share based compensation recorded to contributed surplus differs from Share based compensation expense due to the inclusion of capitalized share based compensation of \$68,518 and \$136,529 for the Quarter and Year to Date respectively (\$17,682 and \$35,171 in the same periods in 2015).

## 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,	
	2016	2015	2016	2015
Accounts receivable and due from shareholder	(250,528)	(134,572)	316,358	908,843
Prepaid expenses and deposits	(29,012)	(78,648)	(127,431)	(139,589)
Accounts payable and accrued liabilities	81,099	390,844	193,380	(1,524,113)
Change in non-cash working capital	(198,441)	177,624	382,307	754,859
Related to operating activities	(198,441)	177,624	382,307	754,859

## 11. Major Customers

The majority of the credit exposure on accounts receivable at the Quarter end pertains to accrued revenue for June 2016 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. The majority of outstanding accounts receivable at June 30, 2016 are from one of these marketing companies, all of which was received subsequent to the Quarter end. Kaisen did not have any other customers from which it had outstanding accounts receivable greater than 10 per of the total outstanding balance at June 30, 2016. 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, 2016:

(\$ thousands)	Total	2016	2017	2018	2019	2020
Office lease	\$ 577	\$ 71	\$142	\$160	\$172	\$32

## 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"). No legal expenses were invoiced from BDP during the Quarter.

On December 23, 2015, the Company provided a loan in the amount of \$250,000 to a shareholder on competitive commercial interest bearing terms with a maturity period of 5 years. Accrued interest is payable on the maturity date. The loan has been recorded as a long term receivable on the statement of financial position.

## 14. Subsequent events

### Asset Acquisition

On July 14, 2016, Kaisen closed the acquisition of Hawk Exploration Ltd. ("Hawk") wherein Kaisen acquired all of the issued and outstanding Class A shares of Hawk at a cash price of \$0.08 per share for aggregate consideration of approximately \$16.1 million, which included the assumption of Hawk's debt and transaction costs. Current Hawk field estimated production is 500-550 boe per day with a 96% oil weighting, comprised mainly of heavy oil properties in geographic proximity to Kaisen's existing operations in the Lloydminster region of Saskatchewan. The Hawk acquisition has added significant land acreage and drilling inventory within the heavy oil fairway of Saskatchewan, as well as further expansion into new highly prospective areas of west central Saskatchewan. Kaisen funded the acquisition with the concurrent closing of a private placement issuance of 20,000,000 common shares for aggregate gross proceeds of \$20,000,000 to the Company's private equity partner, Azimuth Capital Management. The financial results of Hawk will be consolidated into Kaisen's financial reports for the three and nine month periods ended September 30, 2016.

### Risk Management Contracts

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

Type	Period	Volume	Price/unit <sup>(1)</sup>	Index
Fixed WTI Swap	January 1, 2016 – December 31, 2016	100 bbl/d	CAD\$54.55 <sup>(2)</sup>	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD\$52.40 <sup>(2)</sup>	WTI-NYMEX
Fixed WTI Swap	October 1, 2016 – March 31, 2017	100 bbl/d	CAD\$64.05	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD\$65.80	WTI-NYMEX
Fixed WCS Basis Swap	January 1, 2017 – December 31, 2017	100 bbl/d	USD -\$15.50	WCS-Net Energy

1. Based on the weighted average price/bbl for the duration of the contract

2. Contract acquired with acquisition of Hawk Exploration Ltd. on July 14, 2016, per above note on Asset Acquisition

# Corporate Information

## Directors

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

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

Ed Chwyl  
Victoria, British Columbia

Chris Hooper, CFA  
Calgary, Alberta

Lowell E. Jackson, P.Eng.  
Calgary, Alberta

Dave Pearce, P.Eng.  
Calgary, Alberta

Richard Ramsay, P.Eng.  
Calgary, Alberta

## Auditors

Ernst & Young LLP

## Evaluation Engineers

Sproule Petroleum Consultants

## Bankers

ATB Financial

## Legal Counsel

Burnet, Duckworth and Palmer LLP

## 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

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