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**KAISEN**  
Energy Corp.

## **Interim Financial Statements**

**For the three month period ended March 31, 2014**

*Unaudited*

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**March 31, 2014**

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## Interim Statements of Financial Position *(unaudited)*

	March 31, 2014	December 31, 2013
<b>Assets</b> <i>(Note 7)</i>		
Accounts receivable <i>(Note 12)</i>	2,382,545	1,863,659
Prepaid expenses and deposits	360,830	381,429
Crude oil inventory <i>(Note 4)</i>	134,646	134,646
Total current assets	2,878,021	2,379,734
Property, plant and equipment <i>(Note 6)</i>	26,620,504	25,178,430
Total assets	29,498,525	27,558,164
<b>Liabilities</b>		
Accounts payable and accrued liabilities	4,807,252	3,281,232
Fair value of financial instruments <i>(Note 5)</i>	1,687,515	-
Bank debt <i>(Note 7)</i>	2,429,507	1,724,548
Total current liabilities	8,924,274	5,005,780
Asset retirement obligations <i>(Note 9)</i>	5,857,635	5,821,251
Deferred tax liability	1,908,885	2,224,388
Total non-current liabilities	7,766,520	8,045,639
Total liabilities	16,690,794	13,051,419
<b>Equity</b>		
Share capital <i>(Note 10)</i>	14,158,151	14,158,151
Contributed surplus <i>(Note 10)</i>	383,449	228,919
Retained earnings (deficit)	(1,733,869)	119,675
Total equity	12,807,731	14,506,745
Total liabilities and equity	29,498,525	27,558,164
Commitments and contingencies <i>(Note 13)</i>		

See accompanying notes to the unaudited interim financial statements

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

	<b>Three months ended March 31, 2014</b>
Petroleum and natural gas sales	5,782,300
Royalties	(1,390,525)
<b>Revenue, net of royalties</b>	<b>4,391,775</b>
Loss on risk management contracts <i>(Note 5)</i>	2,091,279
Operating expenses	2,094,467
Transportation expenses	185,375
General and administrative expenses	951,172
Share-based compensation <i>(Note 10)</i>	154,530
Depletion and depreciation	1,018,293
<b>Expenses</b>	<b>6,495,116</b>
<b>Loss from operating activities</b>	<b>2,103,341</b>
Finance charges <i>(Note 8)</i>	65,706
Loss before taxes	2,169,047
Deferred income tax recovery	(315,503)
Income taxes	
<b>Net loss and comprehensive loss</b>	<b>1,853,544</b>
<b>Net loss per share <i>(Note 10)</i></b>	
Basic	\$0.16
Diluted	\$0.16

*See accompanying notes to the unaudited interim financial statements*

## Interim Statement of Cash Flows *(unaudited)*

Three months ended  
March 31, 2014

Cash provided by (used in)	
<b>Operating activities</b>	
Net loss for the period	(1,853,544)
Add (deduct) items not affecting cash:	
Depletion and depreciation expense	1,018,293
Accretion of asset retirement obligations <i>(Note 9)</i>	36,384
Deferred income tax recovery	(315,503)
Share-based compensation <i>(Note 10)</i>	154,530
Fair value of financial instruments <i>(Note 5)</i>	1,687,515
	727,675
Change in non-cash working capital <i>(Note 11)</i>	(425,516)
Cash flow from operating activities	302,159
<b>Financing activities</b>	
Increase (decrease) in bank debt	704,959
Proceeds from issuance of shares	-
Share issue costs	-
Cash flow from financing activities	704,959
<b>Investing activities</b>	
Development of oil and gas properties	(2,460,367)
Change in non-cash working capital <i>(Note 11)</i>	1,453,249
Cash used in investing activities	(1,007,118)
Net decrease in cash during the period	-
Cash, beginning of the period	-
<b>Cash, end of the period</b>	-
<b>Supplementary disclosure</b>	
Cash interest paid	29,322
Cash taxes paid	-

See accompanying notes to the unaudited interim financial statements

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

Three months ended March 31, 2014

	Share Capital <i>(Note 12)</i>	Contributed Surplus	Retained Earnings	Total Equity
<b>Balance at December 31, 2013</b>	14,158,151	228,919	119,675	14,506,745
Net loss	-	-	(1,853,544)	(1,853,544)
Share-based compensation – stock options	-	154,530	-	154,530
<b>Balance at March 31, 2014</b>	14,158,151	383,449	(1,733,869)	12,807,731

*See accompanying notes to the unaudited interim financial statements*

## Notes to the Interim Financial Statements *(unaudited)*

For the three month period ended March 31, 2014

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### 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 – 11<sup>th</sup> 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 June 4, 2014.

#### **(b) Comparative period results**

These financial statements do not include comparative results for the three months ended March 31, 2013 (the "Comparative Period") due to the insignificant level of activity. For the Comparative Period, the Company incurred a net loss of \$89,506 on account of general and administrative costs.

### 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. 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. The Company aims to maintain consistent inventory levels and hence, a consistent valuation of inventory, at each month end by ensuring sales oil volumes are shipped to market prior to the month end.

#### 5. Risk Management Contracts

The following is a summary of all risk management contracts in place as at March 31, 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 <sup>(1)</sup>

(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 March 31, 2014 the fair value associated with Kaisen's risk management contracts was a liability of \$1,687,515. The following is summary of realized and unrealized losses for the three months ended March 31, 2014:

	Three months ended March 31, 2014
Realized loss on risk management contracts	403,764
Unrealized loss on risk management contracts	1,687,515
<b>Total loss on risk management contracts</b>	<b>2,091,279</b>

## 6. Property, plant and equipment

	Oil and Gas Assets	Corporate Assets	Total Assets
<b>Cost or deemed cost</b>			
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
<b>Balance, March 31, 2014</b>	<b>29,396,300</b>	<b>48,112</b>	<b>29,444,412</b>
<b>Accumulated depletion and depreciation</b>			
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	-
<b>Balance, March 31, 2014</b>	<b>(2,807,314)</b>	<b>(16,594)</b>	<b>(2,823,908)</b>
<b>Net book value</b>			
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

During the Quarter, the Company capitalized general and administrative expenses in the amount of \$67,497 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 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 March 31, 2014.

## 7. Bank Debt

During the Quarter on March 31, 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 revolving bridge facility into a single \$6,000,000 revolving operating facility. The operating facility is a revolving facility with the next borrowing base review scheduled for 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 March 31, 2014, \$2,429,507 was drawn on the facility.

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 all covenants at March 31, 2014.

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

## 8. Finance Charges

	Three months ended March 31, 2014
Interest and financing charges on bank debt	29,322
Accretion of asset retirement obligations	36,384
<b>Finance charges</b>	<b>65,706</b>

## 9. 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 March 31, 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 periods were as follows:

	Three months ended March 31, 2014	From inception on November 6, 2012 until December 31, 2013
Balance, beginning of period	5,821,251	-
Liabilities incurred	-	363,435
Liabilities acquired	-	5,384,057
Accretion	36,384	73,759
<b>Balance, end of period</b>	<b>5,857,635</b>	<b>5,821,251</b>

## 10. Share Capital

### (a) Authorized

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

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

	Three months ended March 31, 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)	-	-	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)
<b>Balance, end of period</b>	<b>11,895,122</b>	<b>\$ 14,158,151</b>	<b>11,895,122</b>	<b>\$ 14,158,151</b>

- 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) Stock Option Plan

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

	Three months ended March 31, 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 March 31, 2014 and December 31, 2013.

	Three months ended March 31, 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 March 31, 2014
Basic	11,895,122
Diluted	11,895,122

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 March 31, 2014.

#### Contributed Surplus

	Three months ended March 31, 2014	From inception on November 6, 2012 until December 31, 2013
Balance, beginning of period	228,919	-
Stock based compensation	154,530	228,919
Balance, end of period	383,449	228,919

#### 11. Change in Non-Cash Working Capital

The net change in working capital is comprised of:

	Three months ended March 31, 2014
<b>Non-cash working capital</b>	
Accounts receivable	(518,886)
Prepaid expenses and deposits	20,599
Accounts payable and accrued liabilities	1,526,020
Change in non-cash working capital	1,027,733
Related to operating activities	(425,516)
Related to investing activities	1,453,249

#### 12. Major Customers

The majority of the credit exposure on accounts receivable at March 31, 2014 pertains to accrued revenue for March 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 61 per cent of outstanding accounts receivable at March 31, 2014 derived from one company, and 24 per cent from a second company. 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 March 31, 2014.

### 13. Commitments and Contingencies

Following is a summary of Kaisen's contractual obligations and commitments as at March 31, 2014:

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

### 14. 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.

## Corporate Information

### Directors

Lowell E. Jackson, P.Eng.  
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

Sroule Petroleum Consultants

### Bankers

ATB Financial

### Legal Counsel

Burnet, Duckworth and Palmer LLP

### Corporate Office

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