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## **Condensed Interim Financial Statements**

**For the three month periods ended March 31, 2015 and 2014**

*Unaudited*

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**March 31, 2015**

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## Interim Statements of Financial Position

(Unaudited)

(Cdn\$)	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash	\$ 125,288	\$ 94,922
Accounts receivable (Note 11)	1,420,437	2,463,853
Prepaid expenses and deposits	514,143	453,204
Total current assets	2,059,868	3,011,979
Risk Management Contracts (Note 4)	401,977	-
Property, plant and equipment (Note 5)	34,799,509	35,517,740
Total assets	37,261,354	38,529,719
<b>Liabilities</b>		
Accounts payable and accrued liabilities	2,201,287	4,116,243
Bank debt (Note 6)	3,375,000	2,277,581
Total current liabilities	5,576,287	6,393,824
Asset retirement obligations (Note 8)	6,603,779	6,567,254
Deferred tax liability	2,522,918	2,590,464
Total non-current liabilities	9,126,697	9,157,718
Total liabilities	14,702,984	15,551,542
<b>Equity</b>		
Share capital (Note 9a)	21,894,865	21,894,865
Contributed surplus (Note 9d)	1,071,405	884,260
Retained earnings/(deficit)	(407,900)	199,052
Total equity	22,558,370	22,978,177
Total liabilities and equity	\$ 37,261,354	\$ 38,529,719
Commitments and contingencies (Note 15)		

See accompanying notes to the unaudited interim financial statements

Approved by the Board of Directors

## Interim Statement of Loss and Comprehensive loss

(Unaudited)

<i>(Cdn\$)</i>	Three months ended March 31, 2015	Three months ended March 31, 2014
Petroleum and natural gas sales	\$ 4,165,694	\$ 5,782,300
Royalties	(822,095)	(1,390,525)
<b>Revenue, net of royalties</b>	<b>3,343,599</b>	<b>4,391,775</b>
Saskatchewan Resource Tax	(229,461)	-
Realized gain/(loss) on risk management contracts <i>(Note 4)</i>	301,390	(403,764)
<b>Revenue, net of royalties and realized hedging gain/(loss)</b>	<b>3,415,528</b>	<b>3,988,011</b>
Operating expenses	2,029,767	2,094,467
Transportation expenses	281,386	185,375
General and administrative expenses	607,628	951,172
Share-based compensation <i>(Note 9b)</i>	169,656	154,530
Depletion and depreciation	1,435,830	1,018,293
Unrealized (gain)/loss on risk management contracts <i>(Note 4)</i>	(401,977)	1,687,515
<b>Total expenses</b>	<b>4,122,290</b>	<b>6,091,352</b>
<b>Loss from operating activities</b>	<b>(706,762)</b>	<b>(2,103,341)</b>
Finance charges <i>(Note 7)</i>	71,620	65,706
Loss before taxes	(778,382)	(2,169,047)
Current tax recovery	103,885	-
Deferred income tax recovery	67,546	315,503
Total Income tax recovery	171,431	315,503
<b>Loss and comprehensive loss</b>	<b>\$ (606,951)</b>	<b>\$ (1,853,544)</b>
<b>Loss per share <i>(Note 9)</i></b>		
Basic	(\$0.03)	(\$0.16)
Diluted	(\$0.03)	(\$0.16)

See accompanying notes to the unaudited interim financial statements

## Interim Statements of Cash Flows

(Unaudited)

<i>(Cdn\$)</i>	Three months ended March 31, 2015	Three months ended March 31, 2014
Cash provided by (used in)		
<b>Operating activities</b>		
Net loss for the period	\$ (606,951)	\$ (1,853,544)
Add (deduct) items not affecting cash:		
Depletion and depreciation expense	1,435,830	1,018,293
Accretion of asset retirement obligations <i>(Note 8)</i>	36,526	36,384
Deferred income tax recovery	(67,546)	(315,503)
Share-based compensation <i>(Note 9d)</i>	169,656	154,530
Unrealized (gain)/loss on risk management contracts <i>(Note 4)</i>	(401,977)	1,687,515
	565,538	727,675
Change in non-cash working capital <i>(Note 10)</i>	(932,481)	(425,516)
Cash flow from (used in) operating activities	(366,943)	302,159
<b>Financing activities</b>		
Increase in bank debt	1,097,419	704,959
Cash flow from financing activities	1,097,419	704,959
<b>Investing activities</b>		
Development of oil and gas properties	(700,110)	(2,460,367)
Change in non-cash working capital <i>(Note 10)</i>	-	1,453,249
Cash used in investing activities	(700,110)	(1,007,118)
Net change in cash during the period	30,366	-
Cash, beginning of the period	94,922	-
<b>Cash, end of the period</b>	\$ 125,288	\$ -
<b>Supplementary disclosure</b>		
Cash interest paid	\$ 35,094	\$ 29,322
Cash taxes paid	\$ -	\$ -

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
<b>Balance at December 31, 2013</b>	\$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
<b>Balance at December 31, 2014</b>	<b>21,894,865</b>	<b>884,260</b>	<b>199,052</b>	<b>22,978,177</b>
Net loss	-	-	(606,951)	(606,951)
Share-based compensation – stock options <i>(Note 9d)</i>	-	187,145	-	187,145
<b>Balance at March 31, 2015</b>	<b>\$21,894,865</b>	<b>\$1,071,405</b>	<b>(\$407,900)</b>	<b>\$22,558,370</b>

See accompanying notes to the unaudited interim financial statements

## Notes to the Interim Financial Statements (unaudited)

For the three month period ended March 31, 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 – 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 month period ended March 31, 2015 (the "Quarter") 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.

The financial statements were authorized for issue by the Board of Directors on June 22, 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 March 31, 2015:

Type	Period	Volume	Price/unit <sup>(1)</sup>	Index
Fixed – sell (Swap)	February – December 2015	350 bbl/d	CAD\$76.40	WTI
Fixed – sell (Swaption) <sup>(2)</sup>	January – 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 March 31, 2015, the fair value associated with Kaisen's risk management contracts was an asset of \$401,977 (nil at December 31, 2014).

The following is summary of realized and unrealized losses for the three month periods ended March 31, 2015 and 2014:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Realized gain/(loss) on risk management contracts	\$ 301,390	\$ (403,764)
Unrealized gain/(loss) on risk management contracts	401,977	(1,687,515)
<b>Total gain/(loss) on risk management contracts</b>	<b>\$703,367</b>	<b>\$ (2,091,279)</b>

## 5. Property, plant and equipment

<b>Cost</b>	<b>Oil and Gas Assets</b>	<b>Corporate Assets</b>	<b>Total Assets</b>
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
<b>Balance, December 31, 2014</b>	<b>\$ 42,065,772</b>	<b>\$ 52,506</b>	<b>\$ 42,118,278</b>
Development expenditures	632,613	-	632,613
Capitalized general and administrative costs	67,497	-	67,497
Capitalized stock based compensation	17,489	-	17,489
<b>Balance, March 31, 2015</b>	<b>\$ 42,783,371</b>	<b>\$ 52,506</b>	<b>\$ 42,835,877</b>

### 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	-
<b>Balance, December 31, 2014</b>	<b>\$ (6,579,046)</b>	<b>\$ (21,492)</b>	<b>\$ (6,600,538)</b>
Depletion and depreciation	(1,432,701)	(3,129)	(1,435,830)
<b>Balance, March 31, 2015</b>	<b>\$ (8,011,747)</b>	<b>\$ (24,621)</b>	<b>\$ (8,036,368)</b>

### Net book value

Balance, at December 31, 2013	\$ 25,172,449	\$ 5,981	\$ 25,313,076
<b>Balance, December 31, 2014</b>	<b>\$ 35,486,726</b>	<b>\$ 31,014</b>	<b>\$ 35,517,740</b>
<b>Balance, March 31, 2015</b>	<b>\$ 34,771,624</b>	<b>\$ 27,885</b>	<b>\$ 34,799,509</b>

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 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 to July 31, 2015.

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 March 31, 2015, the Company had total debt of \$3,375,000 (\$2,277,581 at December 31, 2014) and total net debt (including net working capital) of \$3,516,419 (\$3,381,845 at December 31, 2014). The Company was compliant with its financial covenant at March 31, 2015.

## 7. Finance Charges

	Three months ended March 31, 2015	Three months ended March 31, 2014
Interest and financing charges on bank debt	\$ 35,094	\$ 29,322
Accretion of asset retirement obligations	\$ 36,526	\$ 36,384
<b>Finance charges</b>	<b>\$ 71,620</b>	<b>\$ 65,706</b>

## 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 March 31, 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. During 2014, 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:

	Three months ended March 31, 2015	Year ended December 31, 2014
Balance, beginning of period	\$ 6,567,254	\$ 6,451,372
Liabilities incurred	-	160,156
Liabilities acquired/divested	-	(60,407)
Asset retirement liabilities settled	-	-
Change in estimates	-	(25,035)
Accretion	36,526	41,168
<b>Balance, end of period</b>	<b>\$ 6,603,779</b>	<b>\$ 6,567,254</b>

## 9. Share Capital

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

	Three months ended March 31, 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 (I)	-	-	3,508,107	7,893,242
Issued for acquisition of equipment (II)	-	-	16,800	33,600
Share issue costs (net of tax of \$67,498)	-	-	-	(190,128)
<b>Balance, end of period</b>	<b>15,420,029</b>	<b>\$ 21,894,865</b>	<b>15,420,029</b>	<b>\$ 21,894,865</b>

- I. 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.
- II. 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 Quarter;

	Three months ended March 31, 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	3.6	\$1.00	297,667	\$1.00
\$2.00	85,000	3.7	\$2.00	28,333	\$2.00
\$2.25	470,000	4.7	\$2.25	-	-
	1,448,000	3.7	\$1.46	326,000	\$1.09

**b) Performance Warrants**

The following table summarizes Kaisen's performance warrants plan and activity during the Quarter;

	Three months ended March 31, 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
Granted	-	-	-	-
Balance, end of period	1,780,999	\$2.00	1,780,999	\$2.00

Exercise price (\$/share)	Outstanding performance warrants			Exercisable performance warrants	
	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	3.4	\$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 March 31,	
	2015	2014
Basic	15,420,029	11,895,122
Diluted	15,420,029	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, 2015 and 2014.

(c) **Contributed Surplus**

	Three months ended March 31,	
	2015	2014
Balance, beginning of period	884,260	228,919
Share based compensation	187,145	154,530
Balance, end of period	1,071,405	383,449

Share based compensation recorded to contributed surplus differs from Share based compensation expense due to the inclusion of capitalized share based compensation of \$17,877 for the Quarter (nil for the same period in 2014).

**10. Change in Non-Cash Working Capital**

The net change in working capital is comprised of:

	Three months ended March 31,	
	2015	2014
<b>Non-cash working capital</b>		
Accounts receivable	\$1,043,416	(\$518,886)
Prepaid expenses and deposits	(\$60,941)	\$20,599
Accounts payable and accrued liabilities	(\$1,914,956)	\$1,526,020
Change in non-cash working capital	(\$932,481)	\$1,027,733
Related to operating activities	(\$932,481)	(\$425,516)
Related to financing activities	-	-
Related to investing activities	-	\$1,453,249

**11. Major Customers**

The majority of the credit exposure on accounts receivable at March 31, 2015 pertains to accrued revenue for March 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. Approximately 92% of outstanding accounts receivable at March 31, 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 March 31, 2015. As at March 31, 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 March 31, 2015:

(\$ thousands)	Total	2015	2016	2017	2018	2019
Office lease	\$ 156	\$ 108	\$ 48	\$ -	\$ -	\$ -
Sub lease agreement	(29)	(20)	(9)	-	-	-
	\$ 127	\$ 88	\$ 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

Burnet, Duckworth and Palmer LLP

### Corporate Office

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