



Condensed Interim Financial Statements

For the three month period ended March 31, 2016

Unaudited

March 31, 2016

Interim Statements of Financial Position

(Unaudited)

<i>(Cdn\$)</i>	March 31, 2016	December 31, 2015
Assets		
Cash & cash equivalents	\$ 1,862,067	\$ 2,981,709
Accounts receivable	491,474	1,059,276
Prepaid expenses and deposits	563,408	464,989
Total current assets	2,916,949	4,505,974
Due from shareholder <i>(Note 13)</i>	250,916	250,000
Property, plant and equipment <i>(Note 5)</i>	35,627,825	35,617,460
Total assets	\$ 38,795,690	\$ 40,373,434
Liabilities		
Accounts payable and accrued liabilities	\$ 1,596,216	\$ 1,483,935
Total current liabilities	1,596,216	1,483,935
Asset retirement obligations <i>(Note 8)</i>	6,836,448	6,798,773
Deferred tax liability	1,790,330	2,275,074
Total non-current liabilities	8,626,778	9,073,847
Total liabilities	10,222,994	10,557,782
Equity		
Share capital <i>(Note 9)</i>	31,228,855	31,228,855
Contributed surplus <i>(Note 9)</i>	2,192,706	1,732,881
Deficit	(4,848,865)	(3,146,084)
Total equity	28,572,696	29,815,652
Total liabilities and equity	\$ 38,795,690	\$ 40,373,434

Commitments and contingencies *(Note 12)*

See accompanying notes to the unaudited interim financial statements

Interim Statement of Loss and Comprehensive loss

(Unaudited)

(Cdn\$)	Three months ended	
	March 31, (Unaudited)	
	2016	2015
Petroleum and natural gas sales	\$ 984,839	\$ 4,165,694
Royalties	(88,467)	(822,095)
Revenue, net of royalties	896,372	3,343,599
Saskatchewan resource tax	(45,000)	(229,461)
Realized gain/(loss) on risk management contracts (Note 4)	-	301,390
Revenue, net of royalties and realized hedging gain/(loss)	851,372	3,415,528
Operating expenses	1,237,417	2,029,767
Transportation expenses	134,348	281,386
General and administrative expenses	541,471	607,628
Share-based compensation (Note 9)	391,814	169,656
Depletion and depreciation	689,558	1,435,830
Unrealized (gain)/loss on risk management contracts (Note 4)	-	(401,977)
Total expenses	2,994,608	4,122,290
Earnings / (loss) from operating activities	(2,143,246)	(706,762)
Finance charges (Note 8)	44,289	71,620
Earnings / (loss) before income taxes	(2,187,525)	(778,382)
Current income tax recovery	-	103,885
Deferred income tax recovery	484,744	67,546
Total Income tax recovery	484,744	171,431
Net loss and comprehensive loss	\$ (1,702,781)	\$ (606,951)
Net loss per share (Note 9)		
Basic & diluted	(\$0.07)	(\$0.03)

See accompanying notes to the unaudited interim financial statements

Statements of Cash Flows

(Cdn\$)	Three months ended	
	March 31, (Unaudited)	
	2016	2015
Cash provided by (used in)		
Operating activities		
Net earnings / (loss) for the period	\$ (1,702,781)	\$ (606,951)
Add (deduct) items not affecting cash:		
Depletion and depreciation expense	689,558	1,435,830
Accretion of asset retirement obligations (Note 8)	37,675	36,526
Deferred income tax recovery	(484,744)	(67,546)
Share-based compensation (Note 9)	391,814	169,656
Change in fair value of financial instruments (Note 4)	-	(401,977)
	(1,068,478)	565,538
Change in non-cash working capital (Note 10)	580,748	(932,481)
Cash flow from (used in) operating activities	(487,730)	(366,943)
Financing activities		
Increase / (decrease) in bank debt	-	1,097,419
Cash flow from financing activities	-	1,097,419
Investing activities		
Development of oil and gas properties	(631,912)	(700,110)
Cash used in investing activities	(631,912)	(700,110)
Net change in cash during the period	(1,119,642)	30,366
Cash, beginning of the period	2,981,709	94,922
Cash, end of the period	\$ 1,862,067	\$ 125,288
Supplementary disclosure		
Cash interest paid	\$ 6,614	\$ 35,094
Cash taxes paid	\$ -	\$ -

See accompanying notes to the unaudited interim financial statements

Statement of Changes in Shareholders' Equity

<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 <i>(Note 9)</i>	-	459,825	-	459,825
Balance at March 31, 2016	\$ 31,228,855	\$ 2,192,706	\$ (4,848,865)	\$ 28,572,696

See accompanying notes to the unaudited interim financial statements

Notes to the Interim Financial Statements
For the three month period ended March 31, 2016 (unaudited)

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 – 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8.

2. Basis of presentation

(a) Statement of compliance

These unaudited condensed interim financial statements (the "financial statements") for the three month period ended March 31, 2016 (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 as at and 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 May 31, 2016. All three month periods presented in these financial statements are unaudited.

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 realized and unrealized losses for the three month periods ended March 31, 2016 and 2015:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Realized gain/(loss) on risk management contracts	-	\$ 301,390
Unrealized gain/(loss) on risk management contracts	-	401,977
Total gain/(loss) on risk management contracts	-	\$703,367

During the Quarter there were no risk management contracts outstanding. See note 14 – Subsequent Events, for risk management contracts entered into subsequent to the Quarter end.

5. Property, plant and equipment

Cost	Oil and Gas Assets	Corporate Assets	Total 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
Accumulated depletion and depreciation			
Balance, 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	(4,115,602)	(12,826)	(4,128,428)
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)
Net book value			
Balance, December 31, 2015	35,587,322	30,137	35,617,460
Balance, March 31, 2016	\$ 35,555,641	\$ 72,184	\$ 35,627,825

During the Quarter, the Company capitalized general and administrative expenses and share based compensation expenses, relating to development activities, of \$86,217 and \$68,011, 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 March 31, 2016, there were no indicators of impairment of the Company's property, plant and equipment.

6. Bank Debt

The Company has a revolving bank operating credit facility of \$5,500,000. The next borrowing base review was scheduled for January 31, 2016, however this review has been subsequently extended into June 2016.

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 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 March 31, 2016, there were no amounts drawn on the facility and the Company had a net working capital surplus of \$1,320,733 (total net debt (including net working capital) of \$3,516,419 at March 31, 2015).

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 facility, less current liabilities less any amount currently drawn under the facility (if applicable). As at March 31, 2016, the working capital ratio was 5.3:1 as such, the Company was compliant with this financial covenant. A demand debenture on all the assets of the Company has been provided as collateral for the facility.

7. Finance Charges

	Three months ended March 31,	
	2016	2015
Interest and financing charges on bank debt	\$ 6,614	\$ 35,094
Accretion of asset retirement obligations	37,675	36,526
Finance charges	\$ 44,289	\$ 71,620

8. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the expected cost to abandon and restore its net ownership interest in the well sites and the facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated that the total undiscounted amount of cash flows required to settle its asset retirement obligations at March 31, 2016 was \$8,523,851 (\$8,523,851 at December 31, 2015) 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:

	Three months ended March 31,	Three months ended December 31,
	2016	2015
Balance, beginning of period	\$ 6,798,773	\$ 6,567,254
Liabilities incurred	-	83,742
Accretion	37,675	147,777
Balance, end of period	\$ 6,836,448	\$ 6,798,773

9. Share Capital

(a) Authorized

The Company is authorized to issue an unlimited number of voting common shares, and;
The Company is authorized to issue an unlimited number of special voting shares

(b) Common shares, issued and outstanding

	Three months ended March 31, 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 (a)	-	-	8,000,000	\$ 10,000,000
Share issue costs (net of tax of \$246,332)	-	-	-	\$ (666,010)
Balance, end of period	23,420,029	\$ 31,228,855	23,420,029	\$ 31,228,855

a) 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.

Share Based Compensation

(a) Stock Option Plan

The following tables summarize Kaisen's stock option plan and activity during the Quarter.

	Three months ended March 31,	
	Number of Options	Weighted Average Exercise Price
Balance, beginning and end of period	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	2.6	\$1.00	595,333	\$1.00
\$2.00	85,000	2.7	\$2.00	56,667	\$2.00
\$2.25	470,000	3.7	\$2.25	156,667	\$2.25
	1,448,000	2.9	\$1.46	808,667	\$1.31

(b) Performance Warrants

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

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Number of warrants	Weighted Average Exercise Price	Number of warrants	Weighted Average Exercise Price
Balance, beginning and end of period	5,780,999	\$1.91	1,448,000	\$1.46

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 will be 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	4.6	\$1.50	-	-
\$1.75	1,000,000	4.6	\$1.75	-	-
\$2.00	2,780,999	4.6	\$2.00	-	-
\$2.25	1,000,000	4.6	\$2.25	-	-
	5,780,999	4.6	\$1.91	-	-

Per share information

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

	Three months ended March 31,	
	2016	2015
Basic and diluted	23,420,029	15,420,029

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, 2016 and 2015.

Contributed Surplus

	Three months ended March 31, 2016	Year ended December 31, 2015
Balance, beginning of period	\$ 1,732,881	\$ 884,260
Share based compensation	\$ 459,825	848,621
Balance, end of period	\$ 2,192,706	\$ 1,732,881

Share based compensation recorded to contributed surplus differs from Share based compensation expense due to the inclusion of capitalized share based compensation of \$68,011 for the Quarter (\$17,877 in the same quarter of 2015).

10. Change in Non-Cash Working Capital

The net change in working capital is comprised of:

	Three months end March 31,	
	2016	2015
Non-cash working capital		
Accounts receivable	\$ 566,886	\$ 1,043,416
Prepaid expenses and deposits	(98,419)	(\$60,941)
Accounts payable and accrued liabilities	112,281	(\$1,914,956)
Change in non-cash working capital	\$ 580,748	\$ (\$932,481)
Related to operating activities	\$ 580,748	\$ (\$932,481)

11. Major Customers

The majority of the credit exposure on accounts receivable at the Quarter end pertains to accrued revenue for March 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 March 31, 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 March 31, 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 March 31, 2016:

(\$ thousands)	Total	2016	2017	2018	2019	2020
Office lease	\$ 613	\$ 107	\$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

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 ⁽¹⁾	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 Canadian dollar equivalent of US denominated West Texas Intermediate - NYMEX

Asset Acquisition

On June 1, 2016, Kaisen entered into an agreement with Hawk Exploration Ltd. ("Hawk") pursuant to which Kaisen has agreed to purchase 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 includes the assumption of Hawk's debt and transaction costs. Current Hawk production is approximately 500 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 will add 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 plans to fund the acquisition through 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. Kaisen anticipates closing the acquisition on or about July 15, 2016.

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

Sroule 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
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