



## **Condensed Interim Financial Statements (unaudited)**

For the three months ended March 31, 2019

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**March 31, 2019**

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**Notice of No Auditor Review of Interim Financial Statements**

The accompanying interim financial statements of Kaisen Energy Corp. as at and for the three-month period ending March 31, 2019 have been prepared by and are the responsibility of the Company's Management.

The Company's independent auditors have not performed a review of these interim financial statements.

/s/ John Zahary  
Managing Director

June 5, 2018

## Interim Statements of Financial Position

(Unaudited, Canadian dollars)

	Note	March 31, 2019	December 31, 2018
<b>Assets</b>			
Current assets			
Cash		\$ -	\$ 328
Accounts receivable	9	1,343,536	292,251
Prepaid expenses and deposits		78,628	134,933
Risk management contracts	8	-	484,417
		1,422,164	911,929
Property, plant and equipment	3,5	32,225,020	32,600,132
		\$ 33,647,184	\$ 33,512,061
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 3,188,561	\$ 2,126,023
Risk management contracts	8	1,885,278	-
Bank loan	6	2,265,575	2,095,587
		7,339,414	4,221,610
Risk management contracts	8	984,208	702,439
Other long-term liabilities	3,12	11,885,253	11,822,343
		20,208,875	16,746,392
<b>Shareholders' equity</b>			
Share capital	13	53,189,854	53,189,854
Convertible debentures	7	5,517,100	5,317,100
Contributed surplus		7,928,160	7,766,507
Deficit		(53,196,805)	(49,507,792)
		13,438,309	16,765,669
		\$ 33,647,184	\$ 33,512,061

Going Concern (note 2)

Commitments (note 16)

See accompanying notes to the unaudited interim financial statements.

## Interim Statements of Loss and Comprehensive Loss

(Unaudited, Canadian dollars, except per share amounts)

	Note	Three months ended March 31,	
		2019	2018
<b>Revenues</b>			
Petroleum and natural gas sales		\$ 3,372,746	\$ 3,765,179
Royalties		(516,688)	(727,732)
<b>Revenue, net of royalties</b>		<b>2,856,058</b>	<b>3,037,447</b>
Saskatchewan resource tax		(40,520)	(56,074)
Realized loss on risk management contracts	8	(483,379)	(47,477)
Unrealized loss on risk management contracts	8	(2,651,464)	(1,665,710)
Other income		7,845	-
		<b>(311,460)</b>	<b>1,268,186</b>
<b>Expenses</b>			
Operating expenses		1,968,142	2,208,900
Transportation expenses		193,528	219,481
General and administrative expenses		257,603	613,432
Net finance expenses	11	91,976	92,795
Share-based compensation	13	133,052	471,737
Depletion and depreciation		733,252	1,177,555
		<b>3,377,553</b>	<b>4,783,900</b>
Deferred tax expense		-	-
<b>Net loss and comprehensive loss</b>		<b>\$ (3,689,013)</b>	<b>\$ (3,515,714)</b>
<b>Net loss per share</b>			
Basic and diluted	14	\$ (0.08)	\$ (0.08)

See accompanying notes to the unaudited interim financial statements.

## Interim Statements of Cash Flows

(Unaudited, Canadian dollars)

	Note	Three months ended March 31,	
		2019	2018
<b>Cash provided by (used in) the following activities:</b>			
<b>Operating activities</b>			
Net loss for the period		\$ (3,689,013)	\$ (3,515,714)
Add items not affecting cash:			
Depletion and depreciation expense		733,252	1,177,555
Accretion of decommissioning obligations	11	63,336	64,127
Share-based compensation	13	133,052	471,737
Unrealized loss on risk management contracts	8	2,651,464	1,665,710
Other		2	-
		<b>(107,907)</b>	<b>(136,585)</b>
Change in non-cash working capital	15	22,517	1,010,869
Cash from (used in) operating activities		<b>(85,390)</b>	874,284
<b>Financing activities</b>			
Net advances of bank loan		169,988	361,439
Finance lease payments	3,12	(22,630)	-
Issuance of convertible debentures, net of issue costs	7	200,000	-
Cash from financing activities		<b>347,358</b>	361,439
<b>Investing activities</b>			
Development of oil and gas properties		(282,953)	(1,392,866)
Change in non-cash working capital	15	20,657	(110,776)
Cash used in investing activities		<b>(262,296)</b>	<b>(1,503,642)</b>
Change in cash		<b>(328)</b>	<b>(267,919)</b>
Cash, beginning of the period		328	822,010
<b>Cash, end of the period</b>		<b>\$ -</b>	<b>\$ 554,091</b>
<b>Supplementary disclosure</b>			
Cash interest paid		\$ 27,244	\$ 28,668
Cash taxes paid		-	-

See accompanying notes to the unaudited interim financial statements.

## Interim Statements of Changes in Shareholders' Equity

(Unaudited, Canadian dollars)

	Note	Share capital	Convertible debentures	Contributed surplus	Deficit	Shareholders' equity
<b>Balance as at January 1, 2018</b>		\$ 53,189,854	\$ -	\$ 6,153,693	\$ (16,808,513)	\$ 42,535,034
Net loss		-	-	-	(32,699,279)	(32,699,279)
Convertible debentures issued	7	-	5,317,100	-	-	5,317,100
Share-based compensation	13	-	-	1,612,814	-	1,612,814
<b>Balance as at December 31, 2018</b>		\$ 53,189,854	\$ 5,317,100	\$ 7,766,507	\$ (49,507,792)	\$ 16,765,669
Net loss		-	-	-	(3,689,013)	(3,689,013)
Convertible debentures issued	7	-	200,000	-	-	200,000
Share-based compensation	13	-	-	161,653	-	161,653
<b>Balance as at March 31, 2019</b>		\$ 53,189,854	\$ 5,517,100	\$ 7,928,160	\$ (53,196,805)	\$ 13,438,309

See accompanying notes to the unaudited interim financial statements.

## Notes to the Interim Financial Statements (unaudited)

As at March 31, 2019 and for the three months ended March 31, 2019 and 2018

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### 1. Reporting Entity

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 400, 522 – 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8.

### 2. Basis of Presentation, Statement of Compliance and Assumption of Going Concern

These condensed unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These financial statements were authorized for issue by the Board of Directors on June 5, 2019. These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2018. Unless otherwise stated, amounts presented in these financial statements, including tabular amounts, are stated Canadian dollars. The functional currency of the Company is the Canadian dollar.

These financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 2 "Basis of presentation" of the Company's audited consolidated financial statements for the year ended December 31, 2018. All accounting policies, methods of computation, and the use of estimates or judgements used in the preparation of these interim financial statements are consistent with those used the previous financial year, except as disclosed in Note 3 "Changes to Accounting Policies".

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of \$3,689,013 during the three months ended March 31, 2019, and as of that date, the Company's current liabilities exceeded its current assets by \$5,917,250. Sustained low commodity prices in the fourth quarter of 2018 put pressure on the Company's cash flows which adversely affected working capital balances entering the first quarter of 2019. As at March 31, 2019, the Company still had access to \$1,926,000 in available financing from unissued convertible debentures. Management believes the current level of financing may not be sufficient to pay for expected cash expenditures over the next 12 months. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to secure adequate financing in the future or that such financing will be on terms acceptable to the Company. The recoverability of the underlying value of the Company's assets is dependent on the Company's ability to obtain the necessary financing to complete the development of its assets and achieve future profitable production. As a result, there is a material uncertainty that may cast substantial doubt on the Company's ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

### 3. Changes to Accounting Policies

#### (a) Newly Adopted Accounting Policies

##### **IFRS 16 Leases ("IFRS 16")**

IFRS 16 replaced IAS 17 Leases ("IAS 17") and requires the recognition of a right-of-use ("ROU") asset and lease obligation on the statement of financial position for most leases where the entity is acting as the lessee. For lessees, IFRS 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17.

The Company adopted IFRS 16 on January 1, 2019 using the modified retrospective approach. On adoption of IFRS 16, the Company recognized lease liabilities measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets were measured at the amount equal to the lease liability on January 1, 2019 less any amount previously recognized for onerous office leases, with no impact on opening retained earnings.

The Company identified ROU lease assets and liabilities related to head office space and office equipment. The impact on the consolidated statement of financial position as at January 1, 2019 was as follows:

	<b>January 1, 2019</b>
ROU asset (included in property plant and equipment)	\$ 46,586
<b>Increase in total assets</b>	<b>\$ 46,586</b>
Short-term portion of lease liability (included in accounts payable and accrued liabilities)	\$ 95,038
Onerous leases	(61,911)
Long-term portion of lease liabilities (included in other long-term liabilities)	13,459
<b>Increase in total liabilities and shareholder's equity</b>	<b>\$ 46,586</b>

The following tables provides a reconciliation of the contractual obligations and commitments as at December 31, 2018 to the Company's lease liabilities as at January 1, 2019:

	<b>January 1, 2019</b>
<b>Commitments as at December 31, 2018</b>	<b>\$ 190,166</b>
Less:	
Non-lease components	(77,610)
Impact of discounting	(4,059)
<b>Lease liabilities as at January 1, 2019</b>	<b>\$ 108,497</b>

Cash flows associated with lease repayments were allocated to financing and operating activities on the consolidated statement of cash flows based on their principal and interest repayments, respectively.

#### **Update to Significant Accounting Policies**

The Company applied IFRS 16 using the modified retrospective approach; therefore, the comparative information provided continues to be in accordance with the Company's previous accounting policy found in the audited financial statements for the year ended December 31, 2018. The accounting policy set forth below is applicable from January 1, 2019.

#### **Lease Arrangements**

The Company assesses whether an arrangement is a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. When the Company is a lessee, it recognizes a right-of-use asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of penalties for terminating the lease, less any lease incentives receivable. Future lease payments are discounted using the interest rate implicit in the lease or, when that rate cannot be readily determined, the Company's incremental borrowing rate. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between interest expense and reductions to the lease liability. Interest expense related to the leases is charged to the consolidated statements of comprehensive income (loss) within net finance expenses over the lease term.

Associated ROU assets are initially measured at cost, which comprises the initial amount of the lease liability, any direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease payments made at or before the commencement date. ROU assets are depreciated on a straight-line basis over the shorter of the estimated useful life of the asset or the lease term. ROU assets may be adjusted for certain remeasurements of the lease liability and impairment losses.

Lease payments for leases with terms of less than twelve months and leases on which the underlying asset is of low value are recognized as an expense in the consolidated statement of comprehensive income (loss) on a straight-line basis over the lease term.

#### **(b) Future Accounting Policies**

There are no other standards or interpretations issued, but not yet effective, that the Company anticipates may have a material effect on the financial statements once adopted.

#### 4. Use of Estimates, Judgements and Assumptions

Estimates, judgements and assumptions used in these interim financial statements are the same as those disclosed in the financial statements as at December 31, 2018 except for the following:

##### Leases

Management applies judgement in reviewing each of its contractual arrangements to determine whether the arrangements contain a lease within the scope of IFRS 16. Leases that are recognized are subject to further Management judgement and estimation in various areas specific to the contractual arrangements. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option or not to exercise a termination option.

Lease obligations are estimated using a discount rate equal to the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company's incremental borrowing rate represents the rate that the Company would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

#### 5. Property, Plant and Equipment

	Oil and gas assets	Corporate assets	Total assets
<b>Cost:</b>			
<b>Balance, January 1, 2018</b>	<b>\$ 77,669,337</b>	<b>\$ 195,854</b>	<b>\$ 77,865,191</b>
Development additions	3,062,518	1,926	3,064,444
Additions to decommissioning obligations	52,562	-	52,562
Capitalized general and administrative costs	376,664	-	376,664
Capitalized share-based compensation	265,905	-	265,905
<b>Balance, December 31, 2018</b>	<b>\$ 81,426,986</b>	<b>\$ 197,780</b>	<b>\$ 81,624,766</b>
Development additions	190,454	-	190,454
Additions to decommissioning obligations	-	-	-
Right-of-use assets (note 3)	-	46,586	46,586
Capitalized general and administrative costs	92,499	-	92,499
Capitalized share-based compensation	28,601	-	28,601
<b>Balance, March 31, 2019</b>	<b>\$ 81,738,540</b>	<b>\$ 244,366</b>	<b>\$ 81,982,906</b>
<b>Accumulated depletion and depreciation:</b>			
<b>Balance, January 1, 2018</b>	<b>\$ 20,038,676</b>	<b>\$ 106,044</b>	<b>\$ 20,144,720</b>
Depletion and depreciation	4,050,416	26,498	4,076,914
Impairment	24,803,000	-	24,803,000
<b>Balance, December 31, 2018</b>	<b>\$ 48,892,092</b>	<b>\$ 132,542</b>	<b>\$ 49,024,634</b>
Depletion and depreciation	718,339	14,913	733,252
<b>Balance, March 31, 2019</b>	<b>\$ 49,610,431</b>	<b>\$ 147,455</b>	<b>\$ 49,757,886</b>
<b>Net book value:</b>			
<b>Balance, December 31, 2018</b>	<b>32,534,894</b>	<b>65,238</b>	<b>32,600,132</b>
<b>Balance, March 31, 2019</b>	<b>32,128,109</b>	<b>96,911</b>	<b>32,225,020</b>

During the three months ended March 31, 2019, the Company capitalized general and administrative expenses in the amount of \$92,499 (2018 - \$97,500) and capitalized share-based compensation expense in the amount of \$28,601 (2018 - \$87,956), relating to development activities.

Future development costs associated with proved plus probable undeveloped reserves of \$93,062,000 (December 31, 2018 - \$93,253,000) are included in the depletion calculation net of salvage values of \$2,590,000 as at March 31, 2019 (December 31, 2018 - \$2,590,000). No other costs have been included or excluded from property plant and equipment in the determination of depletion and depreciation expense. At March 31, 2019, the Company evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified, and no impairment or related reversal was recorded.

#### 6. Bank Loan

The Company's revolving operating facility limit of \$2.5 million (December 31, 2018 - \$2.5 million) 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 Bank loan is presented as a current liability on the Interim Statements of Financial Position. Prime-based loans are available through the revolving operating facility at the Canadian prime rate plus 1.25% per annum. A demand debenture on all the assets of the Company has been provided as collateral for the facility. As at the date of these financial statements Management is currently undergoing the Company's borrowing base review with its lender.

The Bank loan is subject to a financial covenant wherein the working capital ratio shall not 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). As at March 31, 2019, the Company was in breach of this covenant. Management plans to address any future working capital deficiencies by accessing the remaining \$1,926,000 in funding available through undrawn Obligation Debentures (refer to note 7(b)) and by using future cash flows in excess of capital spending to improve its working capital position.

## **7. Convertible Debentures, Promissory Note and Obligation Debentures**

On May 28, 2018, the Company provided all shareholders and its Managing Director the opportunity to subscribe for an aggregate of \$7,503,000 in convertible debentures and executed an agreement for 5,426 committed convertible debentures ("Obligation Debentures"), as described in further detail in note 7(b).

On January 15, 2019, the Company entered into a \$200,000 senior unsecured promissory note ("Promissory Note") with Azimuth Capital Management for the purpose of funding current working capital requirements. The Promissory Note bore interest of 8.0% per annum and was repaid on its maturity date (February 28, 2019) through the issuance of an additional 200 convertible debentures for total proceeds of \$200,000. Since being introduced, the Company has issued a total of 5,577 convertible debentures representing \$5,517,100 in financing net of transaction costs (December 31, 2018 – \$5,317,100).

### **(a) Convertible Debentures**

The key terms of the convertible debentures are as follows:

- issuable only in denominations of \$1,000 or multiples thereof
- mature on the occurrence of a liquidity event, with a qualifying liquidity event including, but not limited to:
  - (i) an amalgamation, arrangement, merger, or other similar transaction wherein all issued and outstanding common shares are sold for cash and/or securities, or which results in all of the Company's common shares being listed on a stock exchange
  - (ii) a sale of all or substantially all of the property and assets of the Company for consideration consisting of cash and/or securities and the subsequent distribution of all of such consideration to all common shareholders, on a pro rata basis;
  - (iii) the liquidation, dissolution or winding up of the Company;
  - (iv) a public offering; and
  - (v) any combination of the events or circumstances described in subsections (i), (ii), (iii) or (iv) above.
- the debentures bear interest at a fixed rate of 8.00% per annum compounded quarterly and payable in arrears on the occurrence of a liquidity event,
- upon the occurrence of a liquidity event, the Company shall:
  - (i) satisfy its obligation to pay all accrued and unpaid interest through a cash payment; and
  - (ii) at the election of the holder of each convertible debenture, repay all or any portion of the face value of the convertible debenture by cash payment and/or by issuing and delivering common shares at a deemed price of \$0.05 per common share;

The convertible debentures represent the Company's obligation to deliver a variable number of its own equity instruments upon a liquidity event. Management has determined that the liquidity event is a contingent settlement provision that the Company has control over. As such, the convertible debentures have been classified as equity net of issue costs. If a liquidity event occurred on March 31, 2019 and the convertible debentures were converted to common shares, 111,540,000 additional shares of the Company would have been issued. Furthermore, had the Company issued the entire subscription of convertible debentures (\$7,503,000 in aggregate since inception) in the current quarter and converted them to common shares, a total of 150,060,000 additional shares of the Company would have been issued and Kaisen would have received an additional \$1,926,000 of cash. As at March 31, 2019, the total face value of the convertible debentures plus accrued undeclared interest was \$5,852,000.

### **(b) Obligation Debentures**

Concurrent with the initial convertible debenture issuance, on May 28, 2018 the Company entered into an agreement with the subscriber for 5,426 committed, but as yet uncalled, Obligation Debentures, which require the subscriber to subscribe for and purchase, and for the Company to issue and sell, the remaining \$5,426,000 in convertible debentures two years from the date of issuance or at the Company's discretion. In the first quarter of 2019, the Company called on the subscriber to purchase an additional 200 Obligation Debentures resulting in the issuance of \$200,000 in convertible debentures by the Company (refer to note 7(a) above). At March 31, 2019, a total of 1,926 Obligation Debentures remain, which represent an additional \$1,926,000 in funding available to the Company.

## 8. Risk Management Contracts

	Three months ended March 31,	
	2019	2018
Realized loss	\$ (483,379)	\$ (47,477)
Unrealized loss	(2,651,464)	(1,665,710)
<b>Total loss on risk management contracts</b>	<b>\$ (3,134,843)</b>	<b>\$ (1,713,187)</b>

For the three months ended March 31, 2019, the Company recorded realized losses of \$483,379 (2018 - \$47,477) on contracts entered to manage commodity price risk. The change in the fair value during the three months ended March 31, 2019 produced an unrealized loss of \$2,651,464 (2018 - \$1,665,710).

The Company had the following risk management contracts in place as at March 31, 2019:

Type	Period	Volume	Price/unit <sup>(1)</sup>
WCS - WTI differential basis swap	January 1, 2019 – December 31, 2019	300 bbl/d	US\$20.80
WCS - WTI differential basis swap	February 1, 2019 – December 31, 2019	200 bbl/d	US\$17.55
WTI - Fixed swap	January 1, 2019 – December 31, 2019	300 bbl/d	C\$71.00
WTI - Call option <sup>(2)</sup>	January 1, 2020 – December 31, 2020	500 bbl/d	US\$60.00

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

(2) The Call Option contract provides ATB with an option (at only their election) to exercise the contract terms (on a month to month basis) throughout the term of the contract.

As at March 31, 2019, the fair value associated with these risk management contracts was a net liability of \$2,869,486 (December 31, 2018 – net liability of \$218,022), of which \$1,885,278 is reported as a current liability reflecting contracts which will settle by March 31, 2020, and \$984,208 reported as a long-term liability for contracts that will settle after March 31, 2020.

## 9. Financial Assets and Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. All the Company's crude oil and natural gas production is sold, as determined by market-based prices adjusted for quality differentials to midstream companies and intermediate producers. Typically, the Company's maximum credit exposure is petroleum sales for one month.

The Company's carrying values of accounts receivable represent the Company's maximum credit exposure. The aging of account receivable as at March 31, 2019 and December 31, 2018 were as follows:

	March 31, 2019	December 31, 2018
Not past due	\$ 1,331,196	\$ 188,597
Past due greater than 90 days	12,340	103,654
<b>Accounts receivable</b>	<b>\$ 1,343,536</b>	<b>\$ 292,251</b>

Receivables from customers are normally collected approximately 25 days following the month of production and the Company has historically not experienced any collection issues with its oil and natural gas sales and therefore has not recorded an allowance for doubtful accounts as at March 31, 2019.

## 10. Capital Management

The Company's policy is to maintain a strong capital base to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders. The Company periodically reviews certain quantitative measures of its capital structure to understand its position relative to industry peers but does not set certain limits or ranges with respect to these quantitative measures. The Company is not subject to any external restrictions on its capital structure, with the exception of the single covenant in place with the Company's lender. As discussed in note 6, the Company was in breach of its lenders working capital covenant at March 31, 2019. Management closely monitors debt leverage to ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and opportunities as they arise.

## 11. Net Finance Expenses

The following table summarizes net finance expenses recorded during the three months ended March 31, 2019 and 2018:

	Three months ended March 31,	
	2019	2018
Interest expense on bank loan	\$ 27,244	\$ 28,668
Accretion of decommissioning obligations	63,336	64,127
Capital lease interest expense	1,396	-
<b>Net finance expenses</b>	<b>\$ 91,976</b>	<b>\$ 92,795</b>

## 12. Other Long-Term Liabilities

	March 31, 2019	December 31, 2018
Decommissioning obligations	\$ 11,880,934	\$ 11,817,595
Onerous lease	-	4,748
Lease liabilities	4,319	-
<b>Total other long-term liabilities</b>	<b>\$ 11,885,253</b>	<b>\$ 11,822,343</b>

### (a) Decommissioning Obligations

The total future asset retirement obligations were estimated by Management based on the expected cost to reclaim and abandon its net ownership interest in well sites and facilities and the estimated timing of the costs to be incurred in future periods. Decommissioning obligations acquired as part of an acquisition are initially measured at fair value using a credit-adjusted risk-free rate. The Company has estimated that the total undiscounted amount of cash flows required to settle its decommissioning obligations at March 31, 2019 is \$13.8 million which will be incurred over the next 10-15 years with the majority of costs incurred between 2020 and 2025. The Bank of Canada's long-term risk-free rate of 2.2% (December 31, 2018 – 2.2%) and an inflation rate of 2.0% (December 31, 2018 – 2.0%) were used to calculate the present value of the decommissioning obligation at March 31, 2019.

A reconciliation of the changes to the decommissioning obligations during the periods is as follows:

	March 31, 2019	December 31, 2018
<b>Balance, beginning of period</b>	<b>\$ 11,817,595</b>	<b>\$ 11,506,151</b>
Liabilities incurred	-	40,409
Accretion	63,336	258,882
Change in estimate	3	12,153
Decommissioning expenditures incurred	-	-
<b>Balance, end of period</b>	<b>\$ 11,880,934</b>	<b>\$ 11,817,595</b>

### (b) Lease Liabilities

The following table details the movements of the Company's lease liabilities for the period ended March 31, 2019:

	Total
<b>Balance, January 1, 2019</b> (note 3)	<b>\$ 108,497</b>
Interest expense	1,396
Payments	(24,026)
<b>Balance, end of period</b>	<b>\$ 85,867</b>
Current (included in accounts payable and accrued liabilities)	81,548
Non-current (included in other long-term liabilities)	4,319
<b>Total</b>	<b>\$ 85,867</b>

The Company has lease liabilities for head office space and office equipment. The lease contracts are effective from one to two years. Discount rates used in calculating the present value of lease payments during the three months ended March 31, 2019 were between 5 and 10 percent. Leases are negotiated on an individual basis and contain varying terms and conditions. The following table details the undiscounted cash flows which include both principal and interest components of the Company's lease liabilities as at March 31, 2019.

	March 31, 2019
Less than one year	\$ 84,029
1 to 2 years	4,501
<b>Undiscounted cash flows related to lease liabilities</b>	<b>\$ 88,530</b>

### 13. Share Capital

#### (a) Issued and Outstanding Common Shares

The Company is authorized to issue an unlimited number of voting common shares and an unlimited amount of special voting shares. The following table is a continuity schedule of the Company's common shares outstanding and share capital:

	Number of Shares	Amount
<b>December 31, 2018 and March 31, 2019</b>	45,420,029	\$ 53,189,854

#### (b) Share Based Compensation

The Company's stock option plan allows for the granting of options to directors, officers, employees and contractors serving in capacity of employees of the Company. The exercise price of each option shall be fixed by the Board of Directors when such option is granted, provided that from and after the date that the common shares are listed on a stock exchange (an "Exchange"), such price shall not be less than the price permitted by such Exchange. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous service to the Company, and the share options typically expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10% of the issued and outstanding common shares.

The follow table summarizes the Company's outstanding equity compensation units:

	March 31, 2019			December 31, 2018		
	Number of units outstanding	Weighted average exercise price (\$ per share)	Weighted average remaining life (years)	Number of units outstanding	Weighted average exercise price (\$ per share)	Weighted average remaining life (years)
<b>Issued</b>						
Incentive options	4,500,000	0.05	2.3	4,500,000	0.05	2.5
Share options	10,931,000	0.11	4.2	10,931,000	0.11	4.5
Performance warrants	33,480,999	0.50	3.8	33,480,999	0.50	4.1
Units outstanding	48,911,999	0.37	3.8	48,911,999	0.37	4.0
<b>Exercisable</b>						
Incentive options	3,375,000	0.05	2.3	2,250,000	0.05	2.6
Share options	281,000	2.25	0.4	281,000	2.25	0.7
Performance warrants	-	-	-	-	-	-
Units outstanding	3,656,000	0.22	2.2	2,531,000	0.29	2.3

Incentive Options expire three years from the anniversary of the grant and each Incentive Option entitles the holder to receive one common share of the Company without the payment of an exercise price. The Share options vest evenly over a three-year period and expire five years from the anniversary of the grant. Performance warrants vest upon a qualifying liquidity event and expire in 5 years from the grant date.

During the three months ended March 31, 2019, the Company recorded share-based compensation expenses of \$133,052 (2018 - \$471,737).

### 14. Net Loss per Common Share

	Three months ended March 31,	
	2019	2018
Net loss	\$ (3,689,013)	\$ (3,515,714)
Weighted number of average common shares outstanding:		
Basic and diluted	45,420,029	45,420,029
<b>Basic and diluted loss per share</b>	<b>\$ (0.08)</b>	<b>\$ (0.08)</b>

For the purpose of calculating net loss per diluted share for three months ended March 31, 2019 and the prior year comparative quarter, none of the outstanding options, performance warrants, incentive options or convertible debentures are included as these instruments are anti-dilutive.

## 15. Supplemental Cash Flow Information

The net change in non-cash working capital is comprised of:

	Three months ended March 31,	
	2019	2018
Accounts receivable	\$ (1,051,285)	\$ 544,669
Prepaid expenses and deposits	56,305	57,658
Accounts payable and accrued liabilities, and other	1,038,154	297,766
Change in non-cash working capital	43,174	900,093
Related to operating activities	22,517	1,010,869
Related to investing activities	\$ 20,657	\$ (110,776)

## 16. Related Party Transactions

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. In the second quarter of 2018, a portion of the individual's severance was applied against the loan and the Company impaired \$154,692, the remaining balance owing at that time, to restructuring expenses. The individual is still personally liable to Kaisen for the remaining balance and the Company will continue to seek repayment in full.

The corporate secretary of the Company is a partner of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). As at March 31, 2019, \$189,223 in related party amounts were included in accounts payable and accrued liabilities (December 31, 2018 – \$180,300). The Managing Director of Kaisen is the President and Chief Executive Officer of a transloading company that the Company engages for emulsion treating of a portion of its production volumes. As at March 31, 2019, \$nil in related party amounts owing in respect of emulsion treating were included in accounts payable and accrued liabilities (December 31, 2018 - \$nil).