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## **Condensed Interim Financial Statements**

For the three and nine month periods ended September 30, 2014

*Unaudited*

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**September 30, 2014**

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

	September 30, 2014	December 31, 2013
<b>Assets</b> <i>(Note 6)</i>		
Cash	2,487,065	-
Accounts receivable	2,890,133	1,863,659
Prepaid expenses and deposits	665,560	381,429
Total current assets	6,042,758	2,245,088
Property, plant and equipment <i>(Note 5)</i>	35,194,612	25,313,076
Total assets	41,237,370	27,558,164
<b>Liabilities</b>		
Accounts payable and accrued liabilities	9,657,501	3,281,232
Fair value of financial instruments <i>(Note 4)</i>	282,497	-
Bank debt <i>(Note 6)</i>	5,000	1,724,548
Total current liabilities	9,944,998	5,005,780
Asset retirement obligations <i>(Note 8)</i>	6,451,372	5,821,251
Deferred tax liability	2,520,000	2,224,388
Total non-current liabilities	8,971,372	8,045,639
Total liabilities	18,916,370	13,051,419
<b>Equity</b>		
Share capital <i>(Note 9)</i>	21,832,367	14,158,151
Contributed surplus <i>(Note 9)</i>	692,957	228,919
Retained earnings (deficit)	(204,324)	119,675
Total equity	22,321,000	14,506,745
Total liabilities and equity	41,237,370	27,558,164
Commitments and contingencies <i>(Note 12)</i>		

See accompanying notes to the unaudited condensed interim financial statements

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

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013 <sup>(1)</sup>
Petroleum and natural gas sales	7,593,071	3,569,374	18,855,409	3,956,763
Royalties	(1,943,580)	(891,953)	(4,660,452)	(944,796)
<b>Revenue, net of royalties</b>	<b>5,649,491</b>	<b>2,677,421</b>	<b>14,194,957</b>	<b>3,011,967</b>
Realized loss on risk management contracts <i>(Note 4)</i>	(335,140)	-	(1,426,818)	-
<b>Revenue, net of royalties and realized hedging loss</b>	<b>5,314,351</b>	<b>2,677,421</b>	<b>12,768,139</b>	<b>3,011,967</b>
Operating expenses	1,978,654	547,528	6,120,354	833,938
Transportation expenses	212,314	85,172	581,756	92,799
General and administrative expenses	495,593	539,288	1,920,299	800,038
Share-based compensation <i>(Note 9)</i>	193,409	67,285	514,901	67,285
Depletion and depreciation	1,262,742	683,047	3,168,381	767,693
Unrealized (gain)/loss on risk management contracts <i>(Note 4)</i>	(1,084,697)	-	282,497	-
Transaction expenses	-	151,215	-	201,216
<b>Total expenses</b>	<b>3,058,015</b>	<b>2,073,535</b>	<b>12,588,188</b>	<b>2,762,969</b>
<b>Earnings from operating activities</b>	<b>2,256,336</b>	<b>603,886</b>	<b>179,951</b>	<b>248,998</b>
Finance charges <i>(Note 7)</i>	74,543	46,841	222,127	50,530
Earnings / (Loss) before taxes	2,181,793	557,045	(42,176)	198,468
Current tax expense	-	3,538	2,241	3,538
Deferred income tax expense	564,076	5,971	295,612	6,990
Total Income tax expense	564,076	9,509	297,853	10,528
<b>Net earnings / (loss) and comprehensive earnings / (loss)</b>	<b>1,617,717</b>	<b>547,536</b>	<b>(340,029)</b>	<b>187,940</b>
<b>Net earnings / (loss) per share <i>(Note 9)</i></b>				
Basic	\$0.13	\$0.06	(\$0.03)	\$0.03
Diluted	\$0.11	\$0.05	(\$0.03)	\$0.03

(1) For the period from inception on November 6, 2012 until September 30, 2013, see note 2

See accompanying notes to the unaudited condensed interim financial statements

## Interim Statement of Cash Flows (unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013 <sup>(1)</sup>
Cash provided by (used in)				
<b>Operating activities</b>	<b>1,617,717</b>	547,536	<b>(340,029)</b>	187,940
Net earnings / (loss) for the period				
Add (deduct) items not affecting cash:				
Depletion and depreciation expense	<b>1,262,742</b>	683,047	<b>3,168,381</b>	767,693
Accretion of asset retirement obligations (Note 8)	<b>38,183</b>	34,680	<b>110,951</b>	38,368
Deferred income tax expense/(recovery)	<b>564,076</b>	5,971	<b>295,612</b>	6,990
Share-based compensation (Note 9)	<b>112,159</b>	100,625	<b>433,651</b>	233,953
Shares issued for equipment (Note 9)	-	-	<b>33,600</b>	-
Change in fair value of financial instruments (Note 4)	<b>(1,084,697)</b>	-	<b>282,497</b>	-
	<b>2,510,180</b>	1,371,859	<b>3,984,663</b>	1,234,944
Change in non-cash working capital (Note 10)	<b>(740,095)</b>	(524,811)	<b>(339,345)</b>	(317,123)
Cash flow from (used in) operating activities	<b>1,770,085</b>	847,048	<b>3,645,318</b>	917,821
<b>Financing activities</b>				
Increase / (decrease) in bank debt	<b>(3,992,446)</b>	944,015	<b>(1,719,548)</b>	944,015
Proceeds from issuance of shares	<b>7,893,241</b>	4,946,994	<b>7,893,241</b>	9,260,994
Share issue costs	<b>(252,625)</b>	(41,000)	<b>(252,625)</b>	(57,000)
Change in non-cash working capital (Note 10)	<b>40,000</b>	-	<b>(28,480)</b>	-
Cash flow from financing activities	<b>3,688,170</b>	5,850,009	<b>5,892,588</b>	10,148,009
<b>Investing activities</b>				
Development of oil and gas properties	<b>(8,486,501)</b>	(1,411,785)	<b>(12,482,530)</b>	(2,191,111)
Acquisition of oil and gas properties	-	(7,006,523)	-	(7,006,523)
Corporate acquisitions	-	166,138	-	(1,868,196)
Reclamation costs incurred	<b>(1,800)</b>	-	<b>(1,800)</b>	-
Change in non-cash working capital (Note 10)	<b>5,517,111</b>	-	<b>5,433,489</b>	-
Cash used in investing activities	<b>(2,971,190)</b>	(8,252,170)	<b>(7,050,841)</b>	(22,065,830)
Net change in cash during the period	<b>2,487,065</b>	(1,555,113)	<b>2,487,065</b>	-
Cash, beginning of the period	-	1,555,113	-	-
<b>Cash, end of the period</b>	<b>2,487,065</b>	-	<b>2,487,065</b>	-
<b>Supplementary disclosure</b>				
Cash interest paid	<b>36,360</b>	7,460	<b>111,176</b>	7,460
Cash taxes paid	<b>2,241</b>	795	<b>2,241</b>	795

(1) For the period from inception on November 6, 2012 until September 30, 2013, see note 2

See accompanying notes to the unaudited condensed interim financial statements

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

Nine months ended September 30, 2014

	Share Capital <i>(Note 12)</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 loss	-	-	(340,029)	(340,029)
Adjustment to opening retained earnings <i>(Note 5)</i>			16,030	16,030
Share issued for cash	7,893,241	-	-	7,893,241
Shares issued for equipment	33,600	-	-	33,600
Share issue costs	(252,625)	-	-	(252,625)
Share-based compensation – stock options	-	464,038	-	464,038
<b>Balance at September 30, 2014</b>	<b>21,832,367</b>	<b>692,957</b>	<b>(204,324)</b>	<b>22,321,000</b>

See accompanying notes to the unaudited condensed interim financial statements

## Notes to the Interim Financial Statements (unaudited)

For the three and nine month periods ended September 30, 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.

All references to the comparative nine month period ended December 31, 2013 include the inactive stub period from inception on November 6, 2012 to December 31, 2012.

The financial statements were authorized for issue by the Board of Directors on December 3, 2014.

### 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 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. Risk Management Contracts

The following is a summary of all risk management contracts in place as at September 30, 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 September 30, 2014 the fair value associated with Kaisen's risk management contracts was a liability of \$282,497 (\$1,367,194 liability at June 30, 2014 and nil at December 31, 2013).

#### 5. Property, plant and equipment

Cost	Nine months ended September 30, 2014		
	Oil and Gas Assets	Corporate Assets	Total Assets
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
Balance, March 31, 2014	29,396,300	48,112	29,444,412
Development expenditures	1,622,915	2,393	1,625,308
Capitalized general and administrative costs	44,998	-	44,998
Balance, June 30, 2014	31,064,213	50,505	31,114,718
Development expenditures	8,939,975	-	8,939,975
Capitalized general and administrative costs	67,497	-	67,497
Capitalized stock based compensation	46,417	-	46,417
<b>Balance, September 30, 2014</b>	<b>40,118,102</b>	<b>50,505</b>	<b>40,168,607</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	-
Balance, March 31, 2014	(2,807,314)	(16,594)	(2,823,908)
Depletion and depreciation	(869,858)	(17,487)	(887,345)
Balance, June 30, 2014	(3,677,172)	(34,081)	(3,711,253)
Depletion and depreciation	(1,278,609)	15,867	(1,262,742)
<b>Balance, September 30, 2014</b>	<b>(4,955,781)</b>	<b>(18,214)</b>	<b>(4,973,995)</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
Balance, June 30, 2014	27,387,042	16,423	27,403,465
<b>Balance, September 30, 2014</b>	<b>35,162,322</b>	<b>32,291</b>	<b>35,194,612</b>

Nine months ended September 30, 2013			
Cost	Oil and Gas Assets	Corporate Assets	Total Assets
Balance, at inception	-	-	-
Additions	17,225,643	43,056	17,268,699
Change in asset retirement obligation	5,545,030	-	5,545,030
Capitalized general and administrative costs	53,331		53,331
<b>Balance, September 30, 2013</b>	<b>22,824,004</b>	<b>43,056</b>	<b>22,867,060</b>
<b>Accumulated depletion and depreciation</b>			
Depletion and depreciation	(752,291)	(15,402)	(767,693)
<b>Balance, September 30, 2013</b>	<b>(752,291)</b>	<b>(15,402)</b>	<b>(767,693)</b>
Net book value			
<b>Balance, September 30, 2013</b>	<b>22,071,713</b>	<b>27,654</b>	<b>22,099,367</b>

During the three and nine month periods ended September 30, 2014, the Company capitalized general and administrative expenses in the amount of \$67,497 and \$202,491 respectively (\$53,331 year to date in the prior year) and capitalized share based compensation expense in the amount of \$46,417 respectively (nil in the prior year), relating to development activities. \$16,030 of the capitalized stock based compensation for the current year pertains to the prior year and has been recorded as an adjustment to opening retained earnings of the current year. Future development costs associated with proved and probable undeveloped reserves of \$41,226,000 (\$10,000,000 in the prior year) are included in the depletion calculation net of salvage values of \$1,582,000 (\$1,422,000 in the prior year) for the Quarter. No other costs have been included or excluded from property plant and equipment in the determination of depletion and depreciation expense.

In the prior year on August 29, 2013, Kaisen acquired heavy oil producing properties near Edam Saskatchewan and non-producing gas properties near Wymark Saskatchewan ("Wymark") for total cash consideration of \$7,006,523, herein referred to as the core area of Edam. Acquisition accounting was applied in accordance with accounting treatment for acquisitions defined as a business. The determined fair value of the acquired net assets was equal to the consideration paid.

No impairment indicators were identified on the property, plant and equipment as at September 30, 2014.

## 6. Bank Debt

On July 4, 2014, the Company's lending bank increased its' banking facility from \$6,000,000 to \$11,500,000 comprised of a \$9,500,000 revolving operating facility and a \$2,000,000 bridge facility. The bridge facility is due and payable in full on May 31, 2015 concurrent with the next borrowing base review which is scheduled for May 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. At September 30, 2014, \$5,000 was drawn on the facility (\$1,724,548 at December 31, 2013).

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 this financial covenant at September 30, 2014.

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

Subsequent to the Quarter, the Company divested of certain non-core properties which resulted in a reduction to the revolving operating facility from \$9,500,000 to \$9,100,000. See note 14 – Subsequent events.

## 7. Finance Charges

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Interest and financing charges on bank debt	36,360	12,161	111,176	12,162
Accretion of asset retirement obligations	38,183	34,680	110,951	38,368
<b>Finance charges</b>	<b>74,543</b>	<b>46,841</b>	<b>222,127</b>	<b>50,530</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 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 September 30, 2014 was \$7,448,100 which will be incurred over the next 10 years with the majority of costs incurred between 2016 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 period were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	5,894,019	446,365	5,821,251	-
Liabilities incurred	520,970	-	520,970	160,974
Liabilities acquired	-	5,102,354	-	5,384,057
Reclamation costs incurred	(1,800)	-	(1,800)	-
Accretion	38,183	34,680	110,951	38,368
<b>Balance, end of period</b>	<b>6,451,372</b>	<b>5,583,399</b>	<b>6,451,372</b>	<b>5,583,399</b>

## 9. Share Capital

### (a) Authorized

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

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

	Nine months ended September 30, 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)	3,508,107	7,893,242	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)	16,800	33,600	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	-	(252,626)	-	(84,923)
<b>Balance, end of period</b>	<b>15,420,029</b>	<b>\$ 21,832,367</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.

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 \$252,626.

- 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) In the prior year, 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. During the first quarter, an additional 16,800 common shares of the Company valued at \$2.00 per share were issued to the same key equipment supplier in connection with the October 2013 drilling program.
- 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 September 30, 2014 and December 31, 2013.

	Nine months ended September 30, 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	470,000	\$2.25	1,043,000	\$1.08
Exercised	(65,000)	\$1.00	-	-
Balance, end of period	1,448,000	\$1.46	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	893,000	3.8	\$1.00	297,667	\$1.00
\$2.00	85,000	3.9	\$2.00	28,333	\$2.00
\$2.25	470,000	4.9	\$2.25	-	-
	1,448,000	4.2	\$1.46	326,000	\$1.09

On September 5, 2014, 65,000 options with an exercise price of \$1.00 were net-settled in cash to the option holder based on a then current market value of \$2.25 per share. Accordingly, \$19,364 was reclassified from contributed surplus to a cash settled liability on the statement of financial position along with a further \$61,886 of share based compensation expense which combined comprised the total amount of the cash settlement of \$81,250. The full amount of the liability was settled with the option holder on September 5, 2014. The cash settlement of stock options is not available at the election of the option holder and in this instance was viewed as a one-time offering by the Company. As such there has been no contemplation for a change in the accounting policy for the equity treatment of the Company's stock option plan.

**(b) Performance Warrants**

The following table summarizes Kaisen's performance warrants plan and activity during the periods ended September 30, 2014 and December 31, 2013.

	Nine months ended September 30, 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	3.9	\$2.00	-	-

**Per share information**

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

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2014	2013	2014	2013
Basic	12,865,212	9,871,778	12,233,177	6,235,225
Diluted	15,390,767	10,350,778	12,233,177	6,714,225

For the purpose of calculating net loss per diluted share for the nine month period, none of the outstanding options and performance warrants are included as these instruments were anti-dilutive as at September 30, 2014.

**Contributed Surplus**

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Balance, beginning of period	550,411	-	228,919	-
Stock based compensation	161,910	67,285	483,402	67,285
Exercise of stock options	(19,364)	-	(19,364)	-
Balance, end of period	692,957	67,285	692,957	67,285

## 10. Change in Non-Cash Working Capital

The net change in working capital is comprised of:

	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	2014	2013	2014	2013
<b>Non-cash working capital</b>				
Accounts receivable	(1,041,405)	(1,855,838)	(1,026,475)	(1,956,515)
Prepaid expenses and deposits	(184,902)	607,927	(284,131)	60,447
Accounts payable and accrued liabilities	6,043,323	723,100	6,376,270	1,578,945
Change in non-cash working capital	4,817,016	(524,811)	5,065,664	(317,123)
Related to operating activities	(740,095)	(524,811)	(339,345)	(317,123)
Related to financing activities	40,000	-	(28,480)	-
Related to investing activities	5,517,111	-	5,433,489	-

## 11. Major Customers

The majority of the credit exposure on accounts receivable at September 30, 2014 pertains to accrued revenue for September 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 95 per cent of outstanding accounts receivable at September 30, 2014 derived from one company, and 3 per cent from a second company, all of which was received subsequent to September 30. 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 September 30, 2014. As at September 30, 2014, 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 September 30, 2014:

<i>(\$ thousands)</i>	Total	2014	2015	2016	2017	2018
Office lease	\$ 228	\$ 36	\$ 144	\$ 48	\$ -	\$ -
Sub lease agreement	(42)	(7)	(26)	(9)	-	-
	\$ 186	\$ 29	\$ 118	\$ 39	\$ -	\$ -

## 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"). For the Quarter, no amounts were invoiced from BDP.

## 14. Subsequent events

On October 23, 2014, the Company closed a sale of its' non-core assets in the Pembina area of Alberta for total proceeds (before closing costs of \$65,625) of \$950,000. These properties contributed approximately 25 boe per day of dry gas weighted production. In conjunction with the sale, the Company's operating facility with the bank was reduced from \$9,500,000 to \$9,100,000.

## 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

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

Sproule Petroleum Consultants

### Bankers

ATB Financial

### Legal Counsel

Burnet, Duckworth and Palmer LLP

### Corporate Office

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