



## **Condensed Interim Financial Statements**

**For the three and nine month periods ended September 30, 2016 and 2015**

*Unaudited*

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**September 30, 2016**

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## Interim Statements of Financial Position

(Unaudited)

<i>(Cdn\$)</i>	September 30, 2016	December 31, 2015
<b>Assets</b>		
Cash	\$ 3,481,180	\$ 2,981,709
Accounts receivable <i>(Note 12)</i>	1,368,775	1,059,276
Prepaid expenses and deposits	856,872	464,989
Total current assets	5,706,827	4,505,974
Due from shareholder <i>(Note 14)</i>	252,736	250,000
Property, plant and equipment <i>(Note 6)</i>	53,153,329	35,617,460
Total assets	59,112,892	40,373,434
<b>Liabilities</b>		
Accounts payable and accrued liabilities	3,378,444	1,483,935
Risk management contracts <i>(Note 5)</i>	346,815	-
Bank debt <i>(Note 7)</i>	-	-
Total current liabilities	3,725,259	1,483,935
Risk management contracts <i>(Note 5)</i>	1,491,306	-
Asset retirement obligations <i>(Note 9)</i>	9,807,896	6,798,773
Deferred tax liability	-	2,275,074
Total non-current liabilities	11,299,202	9,073,847
Total liabilities	15,024,461	10,557,782
<b>Equity</b>		
Share capital <i>(Note 10a)</i>	50,694,879	31,228,855
Contributed surplus <i>(Note 10d)</i>	3,267,396	1,732,881
Retained earnings/(deficit)	(9,873,844)	(3,146,084)
Total equity	44,088,431	29,815,652
Total liabilities and equity	\$ 59,112,892	\$ 40,373,434
Commitments and contingencies <i>(Note 13)</i>		

See accompanying notes to the unaudited interim financial statements

Approved by the Board of Directors

## Interim Statement of Loss and Comprehensive loss

(Unaudited)

(\$Cdn)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Petroleum and natural gas sales	\$ 3,835,684	\$ 2,729,836	\$ 6,567,557	\$ 10,895,152
Royalties	(646,492)	(500,333)	(1,042,453)	(2,198,364)
<b>Revenue, net of royalties</b>	<b>3,189,192</b>	<b>2,229,503</b>	<b>5,525,104</b>	<b>8,696,788</b>
Saskatchewan resource tax	(10,000)	(146,233)	(85,000)	(450,695)
Realized gain/(loss) on risk management contracts (Note 5)	(23,784)	504,972	(71,916)	972,319
<b>Revenue, net of royalties and realized hedging gain/(loss)</b>	<b>3,155,408</b>	<b>2,588,242</b>	<b>5,368,188</b>	<b>9,218,412</b>
Operating expenses	2,258,950	1,899,777	4,530,289	5,559,519
Transportation expenses	210,690	220,012	441,703	736,146
General and administrative expenses	743,233	577,844	1,949,105	1,792,367
Transaction expenses (Note 4)	290,049	-	290,049	-
Share-based compensation (Note 10d)	531,227	159,110	1,310,236	500,307
Depletion and depreciation (Note 6)	1,186,516	907,901	2,460,642	3,314,646
Unrealized (gain)/loss on risk management contracts (Note 5)	1,386,997	(1,795,342)	1,838,121	(570,312)
<b>Total expenses</b>	<b>6,607,662</b>	<b>1,969,302</b>	<b>12,820,145</b>	<b>11,332,673</b>
<b>Earnings/ (loss) from operating activities</b>	<b>(3,452,254)</b>	<b>618,940</b>	<b>(7,451,957)</b>	<b>(2,114,261)</b>
Finance charges (Note 8)	65,668	77,011	158,066	224,271
Earnings/(loss) before taxes	(3,517,922)	541,929	(7,610,023)	(2,338,532)
Current tax recovery / (expense)	-	4,900	-	401,235
Deferred income tax recovery / (expense)	-	(188,833)	882,263	21,096
Total Income tax recovery / (expense)	-	(183,933)	882,263	422,331
<b>Earnings / (Loss) and comprehensive Earnings / (loss)</b>	<b>\$ (3,517,922)</b>	<b>\$ 357,996</b>	<b>\$ (6,727,760)</b>	<b>\$ (1,916,201)</b>
<b>Earnings / (Loss) per share (Note 10c)</b>				
Basic & diluted	\$ (0.09)	\$ 0.02	\$ (0.23)	\$ (0.12)

See accompanying notes to the unaudited interim financial statements

## Interim Statements of Cash Flows

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(\$Cdn)	2016	2015	2016	2015
Cash provided by (used in)				
Earnings / (loss) for the period	\$ (3,517,922)	\$ 357,996	\$ (6,727,760)	\$ (1,916,201)
Add (deduct) items not affecting cash:				
Depletion and depreciation expense	1,186,516	907,901	2,460,642	3,314,646
Accretion of asset retirement obligations (Note 9)	51,933	37,087	127,491	110,342
Deferred income tax expense / (recovery)	-	188,833	(882,263)	(21,096)
Share-based compensation (Note 10d)	531,227	159,110	1,310,236	500,307
Unrealized (gain)/loss on risk management contracts (Note 5)	1,386,997	(1,795,342)	1,838,121	(570,312)
	(361,249)	(144,415)	(1,873,533)	1,417,686
Change in non-cash working capital (Note 11)	345,282	366,115	727,589	(388,742)
Cash flow from (used in) operating activities	\$ (15,967)	\$ 221,700	\$ (1,145,944)	\$ 1,028,944
<b>Financing activities</b>				
Increase (decrease) in bank debt	-	1,296,948	-	1,936,359
Proceeds from issuance of shares (note 10a)	20,000,000	-	20,000,000	-
Share issue costs	(731,474)	-	(731,474)	-
Cash flow from (used in) financing activities	\$ 19,268,526	\$ 1,296,948	\$ 19,268,526	\$ 1,936,359
<b>Investing activities</b>				
Development of oil and gas properties	(865,393)	(1,518,725)	(2,043,337)	(2,965,566)
Corporate acquisition (Note 4)	(15,579,774)	-	(15,579,774)	-
Cash used in investing activities	\$ (16,445,167)	(1,518,725)	\$ (17,623,111)	\$ (2,965,566)
Net change in cash during the period	2,807,392	(77)	499,471	(263)
Cash, beginning of the period	673,788	94,736	2,981,709	94,922
<b>Cash, end of the period</b>	<b>\$ 3,481,180</b>	<b>\$ 94,659</b>	<b>\$ 3,481,180</b>	<b>\$ 94,659</b>
<b>Supplementary disclosure</b>				
Cash interest paid	\$ 13,735	\$ 39,924	\$ 30,575	\$ 113,929
Cash taxes paid	-	-	-	\$63,396

See accompanying notes to the unaudited interim financial statements

## Interim Statement of Changes in Shareholders' Equity

(Unaudited)

<i>(Cdn\$)</i>	Share Capital <i>(Note 10)</i>	Contributed Surplus	Retained Earnings/(deficit)	Total Equity
Balance at December 31, 2014	\$ 21,894,865	\$ 884,260	\$ 199,052	\$ 22,978,177
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	\$ 1,732,88	\$ (3,146,084)	\$ 29,815,652
Loss for the period			(1,702,781)	(1,702,781)
Share-based compensation – stock options		459,825		459,825
Balance at March 31, 2016	\$ 31,228,855	\$ 2,192,70	\$ (4,848,865)	\$ 28,572,696
Loss for the period			(1,507,057)	(1,507,057)
Share-based compensation – stock options <i>(Note 10d)</i>		455,713		455,713
Balance at June 30, 2016	\$ 31,228,855	\$ 2,648,41	\$ (6,355,922)	\$ 27,521,352
<b>Loss for the period</b>			<b>(3,517,922)</b>	<b>(3,517,922)</b>
<b>Common share offering (net of share issue costs and related tax)</b>	<b>19,466,024</b>			<b>19,466,024</b>
<b>Share-based compensation – stock options <i>(Note 10d)</i></b>		<b>618,977</b>		<b>618,977</b>
<b>Balance at September 30, 2016</b>	<b>\$ 50,694,879</b>	<b>\$ 3,267,39</b>	<b>\$ (9,873,844)</b>	<b>\$ 44,088,431</b>

See accompanying notes to the unaudited interim financial statements

## Notes to the Interim Financial Statements (unaudited)

For the three and nine month periods ended September 30, 2016

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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. The Company was incorporated in Canada on November 6, 2012. The Company's principal place of business is located at 400, 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 and nine month periods ended September 30, 2016 (the "Quarter" and "Year to Date" respectively) 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, 2015, which have been prepared in accordance with IFRS.

These financial statements were authorized for issue by the Board of Directors on November 29, 2016.

### 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. Business Combinations

On July 14, 2016, the Company closed the acquisition of Hawk Exploration Ltd. ("Hawk"), a public oil and gas company with properties in west central Saskatchewan and east central Alberta, by acquiring all of the issued and outstanding shares. Total consideration for Hawk's 45.6 million common shares outstanding was approximately \$3.6 million along with debt assumption totaling \$11.9 million for a total acquisition cost of \$15.6 million. Pursuant to the closing, Hawk's debt was repaid and terminated. The acquisition was funded through a private equity offering on July 12, 2016 of 20.0 million common shares of the Company to Azimuth Capital Management ("Azimuth") for total gross proceeds of \$20.0 million. Prior to the equity offering, Azimuth held approximately 51% of the voting shares of Kaisen, subsequent to the offering Azimuth holds approximately 70% of the voting shares of the Company.

The Hawk acquisition has been accounted for as a business combination using the acquisition method of accounting, whereby the assets acquired and the liabilities assumed are recorded at the estimated fair value on the closing date of July 14, 2016. Determination of the fair value of property, plant and equipment acquired in a business combination requires management to make assumptions and estimates about future events. The fair value of crude oil and natural gas properties is estimated with reference to the discounted cash flows expected to be derived from the crude oil and natural gas production. These assumptions and estimates generally require judgement and include estimates of reserves acquired, liabilities assumed, forecasted benchmark commodity prices, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired.

The following table summarizes the acquisition date fair value of the consideration paid and the allocation of the purchase price:

Cost of acquisition	
Cash for Hawk common shares	\$ 3,646,076
Cash for debt elimination	11,933,698
<b>Total consideration</b>	<b>\$ 15,579,774</b>
Allocated at estimated fair values	
Accounts receivable	295,691
Prepays & deposits	40,683
Accounts payable	(799,177)
Deferred income tax asset	1,195,313
Property and equipment	17,728,895
Asset retirement obligations	(2,881,631)
	<b>\$ 15,579,774</b>

As part of the acquisition Kaisen acquired tax pools that would have resulted in a deferred tax asset of which only the portion equally offsetting the Company's deferred tax liability as at September 30, 2016 has been recognized with the remaining deferred tax asset not recognized due to the uncertainty of future recoverability. These financial statements incorporate the results of operations of the acquired properties from July 14, 2016. The acquired assets generated sales of crude oil, natural gas and natural gas liquids of \$1,604,863 and net earnings of \$307,563 from July 14, 2016 to September 30, 2016. If the transaction had taken place on January 1, 2016, it is estimated that the assets acquired would have contributed incremental sales of crude oil, natural gas and natural gas liquids of \$4.4 million and a net loss of \$1.2 million.

In conjunction with the acquisition, Kaisen incurred \$290,049 of transaction costs including amounts relating to legal fees, accounting fees and other related acquisition costs. This amount has been reported as transaction costs in the Interim Condensed Statements of Loss and Comprehensive Loss.

## 5. Risk Management Contracts

The following is a summary of risk management contracts in place as at September 30, 2016:

Type	Period	Volume	Price/unit <sup>(1)</sup>	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
Fixed WTI Swap <sup>(2)</sup>	January 1, 2016 – December 31, 2016	100 bbl/d	CAD\$54.55	WTI-NYMEX
Fixed WTI Swap <sup>(2)</sup>	January 1, 2017 – December 31, 2017	100 bbl/d	CAD\$52.40	WTI-NYMEX
Fixed WTI Swap	October 1, 2016 – March 31, 2017	100 bbl/d	CAD\$64.05	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD\$65.80	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD\$75.00	WTI-NYMEX
Call option <sup>(3)</sup>	January 1, 2018 – December 31, 2018	600 bbl/d	USD\$60.00	WTI-NYMEX
Fixed WCS Basis Swap	January 1, 2017 – December 31, 2017	100 bbl/d	USD -\$15.50	WCS-Net Energy

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

(2) Contract acquired with acquisition of Hawk Exploration Ltd. on July 14, 2016.

(3) The Call Option contract provides the counterparty with an option to exercise the contract terms (on a month to month basis) throughout the term of the contract.

As at September 30, 2016, the fair value associated with Kaisen's risk management contracts was a liability of \$1,838,121 (nil at December 31, 2015), of which \$346,815 has been classified as short-term liability due to settlement dates that occur within the next 12 months.

The following is a summary of realized and unrealized gains/(losses) from risk management contracts for the three and nine month periods ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Realized gain/(loss) on risk management contracts	\$ (23,784)	\$ 504,972	\$ (71,916)	\$ 972,319
Unrealized gain/(loss) on risk management contracts	(1,386,997)	1,795,342	(1,838,121)	570,312
<b>Total gain/(loss) on risk management contracts</b>	<b>\$ (1,410,781)</b>	<b>\$ 2,300,314</b>	<b>\$ (1,910,037)</b>	<b>\$ 1,542,631</b>

## 6. Property, plant and equipment

<b>Cost</b>	<b>Oil and Gas Assets</b>	<b>Corporate Assets</b>	<b>Total Assets</b>
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
<b>Balance, March 31, 2016</b>	<b>46,934,543</b>	<b>111,806</b>	<b>47,046,349</b>
Development expenditures	389,187	46,911	436,098
Capitalized general and administrative costs	109,937	-	109,937
Capitalized stock based compensation	68,518	-	68,518
<b>Balance, June 30, 2016</b>	<b>47,502,185</b>	<b>158,717</b>	<b>47,660,902</b>
Development expenditures	<b>764,864</b>	<b>18,029</b>	<b>782,893</b>
Corporate acquisition	<b>17,728,895</b>	-	<b>17,728,895</b>
Capitalized general and administrative costs	<b>82,497</b>	-	<b>82,497</b>
Capitalized stock based compensation	<b>87,750</b>	-	<b>87,750</b>
<b>Balance, September 30, 2016</b>	<b>\$ 66,166,191</b>	<b>\$ 176,746</b>	<b>\$ 66,342,937</b>
<b>Accumulated depletion and depreciation</b>			
Balance, December 31, 2015	\$ (10,694,648)	\$ (34,318)	\$ (10,728,966)
Depletion and depreciation	(684,254)	(5,304)	(689,558)
<b>Balance, March 31, 2016</b>	<b>(11,378,902)</b>	<b>(39,622)</b>	<b>(11,418,524)</b>
Depletion and depreciation	(575,459)	(9,110)	(584,569)
<b>Balance, June 30, 2016</b>	<b>(11,954,361)</b>	<b>(48,732)</b>	<b>(12,003,093)</b>
Depletion and depreciation	<b>(1,176,261)</b>	<b>(10,255)</b>	<b>(1,186,516)</b>
<b>Balance, September 30, 2016</b>	<b>\$ (13,130,622)</b>	<b>\$ (58,987)</b>	<b>\$ (13,189,609)</b>
<b>Net book value</b>			
Balance, December 31, 2015	\$ 35,587,322	\$ 30,137	\$ 35,617,460
Balance, March 31, 2016	35,555,641	72,184	35,627,825
Balance, June 30, 2016	35,547,821	109,985	35,657,809
<b>Balance, September 30, 2016</b>	<b>\$ 53,035,569</b>	<b>\$ 117,759</b>	<b>\$ 53,153,329</b>

During the Quarter, the Company capitalized general and administrative expenses of \$103,297 (\$67,497 in the prior year) and \$299,452 Year to Date (\$202,492 in the prior year). The Company also capitalized share based compensation expense relating to development activities which for the Quarter amounted to \$87,750 (\$14,523 in the prior year) and \$224,279 Year to Date (\$49,694 in the prior year).

Future development costs associated with proved and probable undeveloped reserves of \$73,677,600 (\$84,546,000 in the prior year) are included in the depletion calculation, net of salvage values of \$2,474,000 for the Quarter (\$1,624,000 in the prior year). No other costs have been included or excluded from property plant and equipment in the determination of depletion and depreciation expense.

No impairment indicators were identified on the property, plant and equipment as at September 30, 2016.

## 7. Bank Debt

In conjunction with the Hawk acquisition, the Company entered into a new \$5,500,000 revolving operating facility (previously \$2,000,000) with its existing lender. There were no changes to lending rates. The semi-annual borrowing base review has been scheduled for January 2017.

The revolving 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 (if applicable) would be 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, 2016, the Company had a net working capital surplus of \$2,328,383 (\$3,022,039 at December 31, 2015) with no amounts drawn on the operating facility (nil at December 31, 2015).

The operating facility is subject to two financial covenants wherein 1) the working capital ratio at no time shall 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), and 2) the net debt to trailing cashflow ratio shall not exceed 2.00:1.00 where net debt is defined as current liabilities and long-term debt less current assets (excluding unrealized financial contracts), and where trailing cashflow is defined as cashflow from the most recently completed financial quarter, annualized. As at September 30, 2016, the working capital ratio was 3.3:1 and the Company had nil net debt, as such, the Company was compliant with both financial covenants. A demand debenture on all the assets of the Company has been provided as collateral for the facility.

## 8. Finance Charges

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Interest and financing charges on bank debt	\$ 13,735	\$ 39,924	\$ 30,575	\$ 113,929
Accretion of asset retirement obligations	51,933	37,087	127,491	110,342
<b>Finance charges</b>	<b>\$ 65,668</b>	<b>\$ 77,011</b>	<b>\$ 158,066</b>	<b>\$ 224,271</b>

During the Quarter and Year to Date, the Company had nil bank debt and incurred bank fees related to standby charges on the unused operating facility and facility renewal fees.

## 9. Asset Retirement Obligations

The total future asset retirement obligations were estimated by management based on the expected cost to abandon and restore its net ownership interest in well sites and facilities and the estimated timing of the costs to be incurred in future periods. Asset retirement 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 asset retirement obligations at June 30, 2015 was \$8,523,852 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:

	Nine months ended September 30, 2016	Year ended December 31, 2015
Balance, beginning of period	\$ 6,798,773	\$ 6,567,254
Liabilities incurred	-	83,742
Liabilities acquired	2,881,632	-
Accretion	127,491	147,777
<b>Balance, end of period</b>	<b>\$ 9,807,896</b>	<b>\$ 6,798,773</b>

## 10. Share Capital

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

	Nine months ended September 30, 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 <sup>(1)</sup>	20,000,000	20,000,000	8,000,000	10,000,000
Share issue costs (net of tax of \$197,498)		(533,976)		(666,010)
<b>Balance, end of period</b>	<b>43,420,029</b>	<b>\$ 50,694,879</b>	<b>23,420,029</b>	<b>\$ 31,228,855</b>

- On July 12, 2016, the Company closed a private placement equity offering to Azimuth Capital Management for an aggregate of 20,000,000 Common Shares for total gross proceeds of \$20,000,000 (\$19,268,526 net of share issuance costs.)
- 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.)
  - 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;
  - 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
  - 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.

(b) Share Based Compensation

i. Stock Option Plan

The following table summarizes Kaisen's stock option plan and activity during the Year to Date;

Nine months ended September 30, 2016						
			Number of Options	Weighted Average Exercise Price		
Balance, beginning and end of period			1,448,000	\$1.46		
			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	2.1	\$1.00	595,333	\$1.00	
\$2.00	85,000	2.2	\$2.00	56,667	\$2.00	
\$2.25	470,000	3.2	\$2.25	156,667	\$2.25	
	1,448,000	2.9	\$1.46	808,667	\$1.31	

ii. Performance Warrants

The following table summarizes Kaisen's performance warrants plan and activity during the Year to Date;

Nine months ended September 30, 2016			
		Number of warrants	Weighted Average Exercise Price
Balance, December 31, 2015		5,780,999	\$1.91
Performance warrants granted		5,000,000	\$1.63
Balance, September 30, 2016		10,780,999	\$1.78

On July 12, 2016 and concurrent with the private equity issuance of common shares to Azimuth Capital Management, the Company granted 5,000,000 performance warrants to employees, directors and contractors serving in the capacity of employees of the Company. On November 12, 2015 and in connection with the Company's initial private equity offering to Azimuth Capital Management, 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	Grant Date
Series 1	1,000,000	\$1.50	November 12, 2015
Series 2	1,000,000	\$1.75	November 12, 2015
Series 3	1,000,000	\$2.00	November 12, 2015
Series 4	1,000,000	\$2.25	November 12, 2015
Series 5	1,250,000	\$1.25	July 12, 2016
Series 6	1,250,000	\$1.50	July 12, 2016
Series 7	1,250,000	\$1.75	July 12, 2016
Series 8	1,250,000	\$2.00	July 12, 2016
Total	9,000,000	\$1.74	

Concurrent with the November 12, 2015 grant of performance warrants, the Company approved the cancellation of the then 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, was accounted for as a modification of incentive units in accordance with IFRS 2. The incremental expense attributed to the modified performance warrants is being 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)
\$1.25	1,250,000	4.8	\$1.25		
\$1.50	2,250,000	4.5	\$1.50	-	-
\$1.75	2,250,000	4.5	\$1.75	-	-
\$2.00	4,030,999	4.3	\$2.00	-	-
\$2.25	1,000,000	4.1	\$2.25	-	-
	10,780,999	4.4	\$1.78	-	-

(c) **Weighted Average Common Shares**

The following table summarizes the weighted average common shares used in calculating net earnings (or loss) per share:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Basic	40,376,551	15,420,029	29,113,460	15,420,029
Diluted	40,376,551	15,420,029	29,113,460	15,420,029

For the purpose of calculation net loss per diluted share, none of the outstanding options and performance warrants have been included as these instruments were anti-dilutive as at September 30, 2016 and 2015.

(d) **Contributed Surplus**

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Balance, beginning of period	\$ 2,648,419	\$ 1,260,628	\$ 1,732,881	\$ 884,260
Share based compensation	618,977	173,634	1,534,515	\$550,002
Balance, end of period	\$ 3,267,396	\$ 1,434,262	\$ 3,267,396	\$ 1,434,262

Share based compensation recorded to contributed surplus differs from Share based compensation expense due to the inclusion of capitalized share based compensation of \$87,750 and \$224,279 for the Quarter and Year to Date respectively \$14,523 and \$49,694 in the same periods in 2015).

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

The net change in working capital is comprised of:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Accounts receivable and due from shareholder	\$ (404,662)	\$ 750,329	\$ (119,464)	\$ 1,659,173
Prepaid expenses and deposits	(223,769)	(107,619)	(351,200)	(247,208)
Accounts payable and accrued liabilities	973,713	(276,595)	1,198,253	(1,800,707)
Change in non-cash working capital	345,282	366,115	727,589	(388,742)
Related to operating activities	\$ 345,282	\$ 366,115	\$ 727,589	\$ (388,742)

12. **Major Customers**

The majority of the credit exposure on accounts receivable at the Quarter end pertains to accrued revenue for September 2016 production volumes. Kaisen typically sells its heavy oil production to four 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 September 30, 2016 are from two 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 September 30, 2016. The Company is confident in the collectability of its' receivables and therefore has not recorded an allowance for doubtful accounts.

13. **Commitments and Contingencies**

Following is a summary of Kaisen's contractual obligations and commitments as at September 30, 2016:

(\$ thousands)	Total	2016	2017	2018	2019	2020
Office leases	653	63	250	161	153	26

14. **Related Party Transactions**

The corporate secretary (and small shareholder) of the Company is a partner of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). The Company has accrued for legal expenses from BDP in connection with the Hawk acquisition and concurrent private equity offering totaling \$280,000 during the Quarter.

On July 12, 2016, the Company closed a private equity offering of 20.0 million common shares of the Company to Azimuth Capital Management for total gross proceeds of \$20.0 million (\$19,268,525 net of share issue costs). Prior to the equity offering, Azimuth held approximately 51% of the voting shares of Kaisen, subsequent to the offering Azimuth holds approximately 70% of the voting shares of the Company. Azimuth occupies two of the five seats on Kaisen's board of directors.

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.

# 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

Sproule 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  
Vice President, Geology

James Kidd, LL.B  
Corporate Secretary

## Corporate Office

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