



## Condensed Interim Financial Statements

For the three and nine month periods ended September 30, 2017

*Unaudited*

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**September 30, 2017**

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## Interim Statements of Financial Position

(Unaudited)

(Cdn\$)	September 30, 2017	December 31, 2016
<b>Assets</b>		
Cash & cash equivalents	\$ 133,180	\$ 2,399,085
Accounts receivable	2,411,200	1,831,470
Prepaid expenses and deposits	296,400	609,842
Risk management contracts (Note 4)	179,474	-
Total current assets	3,020,254	4,840,397
Due from shareholder (Note 14)	266,194	259,275
Property, plant and equipment (Note 5)	57,574,957	53,347,150
Total assets	\$ 60,861,405	\$ 58,446,822
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 5,063,673	\$ 4,505,943
Risk management contracts (Note 4)	-	2,517,685
Bank debt (Note 6)	1,349,306	-
Total current liabilities	6,412,979	7,023,628
Risk management contracts (Note 4)	389,950	1,465,598
Asset retirement obligations (Note 9)	10,270,473	9,862,302
Total non-current liabilities	10,660,423	11,327,900
Total liabilities	17,073,402	18,351,528
<b>Equity</b>		
Share capital (Note 10b)	53,189,854	50,689,854
Contributed surplus (Note 10e)	5,582,697	3,851,531
Deficit	(14,984,548)	(14,446,091)
Total equity	43,788,003	40,095,294
Total liabilities and equity	\$ 60,861,405	\$ 58,446,822

Commitments and contingencies (Note 13)

See accompanying notes to the unaudited interim financial statements

## Interim Statements of Loss and Comprehensive loss

(Unaudited)

(\$Cdn)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Petroleum and natural gas sales	\$ 5,059,543	\$ 3,835,684	\$ 15,854,338	\$ 6,567,557
Royalties	(864,378)	(646,492)	(2,735,399)	(1,042,453)
<b>Revenue, net of royalties</b>	<b>4,195,165</b>	<b>3,189,192</b>	<b>13,118,939</b>	<b>5,525,104</b>
Saskatchewan resource tax	(105,000)	(10,000)	(290,851)	(85,000)
Realized gain/(loss) on risk management contracts (Note 4)	467,566	(23,784)	380,063	(71,916)
<b>Revenue, net of royalties and realized hedging gain/(loss)</b>	<b>4,557,731</b>	<b>3,155,408</b>	<b>13,208,151</b>	<b>5,368,188</b>
Operating expenses	2,105,243	2,258,950	8,616,990	4,530,289
Transportation expenses	244,290	210,690	810,260	441,703
General and administrative expenses	801,827	743,233	2,200,315	1,949,105
Transaction expenses	-	290,049	-	290,049
Share-based compensation (Note 10e)	488,506	531,227	1,455,966	1,310,236
Depletion and depreciation (Note 5)	1,377,467	1,186,516	4,190,870	2,460,642
Unrealized (gain)/loss on risk management contracts (Note 4)	1,085,351	1,386,997	(3,772,807)	1,838,121
<b>Total expenses</b>	<b>6,102,684</b>	<b>6,607,662</b>	<b>13,501,594</b>	<b>12,820,145</b>
<b>Loss from operating activities</b>	<b>(1,544,953)</b>	<b>(3,452,254)</b>	<b>(293,443)</b>	<b>(7,451,957)</b>
Finance charges (Note 8)	88,684	65,668	240,498	158,066
Loss before taxes	(1,633,637)	(3,517,922)	(533,941)	(7,610,023)
Current tax expense	-	-	4,514	-
Deferred income tax recovery	-	-	-	(882,263)
Total Income tax expense / (recovery)	-	-	4,514	(882,263)
<b>Loss and comprehensive loss</b>	<b>\$ (1,633,637)</b>	<b>\$ (3,517,922)</b>	<b>\$ (538,455)</b>	<b>\$ (6,727,760)</b>
<b>Loss per share (Note 10d)</b>				
Basic & diluted	\$ (0.04)	\$ (0.09)	\$ (0.01)	\$ (0.23)

See accompanying notes to the unaudited interim financial statements

## Statements of Cash Flows

(Unaudited)

(\$Cdn)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cash provided by (used in)				
Net loss for the period	\$ (1,633,637)	\$ (3,517,922)	\$ (538,455)	\$ (6,727,760)
Add (deduct) items not affecting cash:				
Depletion and depreciation expense	1,377,467	1,186,516	4,190,870	2,460,642
Accretion of asset retirement obligations (Note 8)	56,666	51,933	167,358	127,491
Deferred income tax recovery	-	-	-	(882,263)
Share-based compensation (Note 10e)	488,506	531,227	1,455,966	1,310,236
Unrealized (gain)/loss on risk management contracts (Note 4)	1,085,351	1,386,997	(3,772,807)	1,838,121
Well abandonment costs incurred (Note 9)	(55,913)	-	(55,913)	-
	1,318,440	(361,249)	1,447,019	(1,873,533)
Change in non-cash working capital (Note 11)	569,046	345,282	(388,303)	727,589
Cash flow from (used in) operating activities	1,887,486	(15,967)	1,058,716	(1,145,944)
<b>Financing activities</b>				
Increase (decrease) in bank debt	(2,690,975)	-	1,349,306	-
Proceeds from issuance of shares (note 10b)	2,500,000	20,000,000	2,500,000	20,000,000
Share issue costs	-	(731,474)	-	(731,474)
Cash flow from (used in) financing activities	(190,975)	19,268,526	3,849,306	19,268,526
<b>Investing activities</b>				
Development of oil and gas properties	(2,966,536)	(865,393)	(7,846,752)	(2,043,337)
Change in non-cash working capital (Note 11)	1,309,045	(15,579,774)	672,825	(15,579,774)
Cash used in investing activities	(1,657,491)	(16,445,167)	(7,173,927)	(17,623,111)
Net change in cash during the period	39,020	2,807,392	(2,265,905)	499,471
Cash, beginning of the period	94,160	673,788	2,399,085	2,981,709
<b>Cash, end of the period</b>	<b>\$ 133,180</b>	<b>\$ 3,481,180</b>	<b>\$ 133,180</b>	<b>\$ 3,481,180</b>
<b>Supplementary disclosure</b>				
Cash interest paid	\$ 34,348	\$ 14,640	\$ 75,058	\$ 27,310
Cash taxes paid	-	-	-	-

See accompanying notes to the unaudited interim financial statements

## Statement of Changes in Shareholders' Equity

(Unaudited)

<i>(Cdn\$)</i>	Share Capital <i>(Note 13)</i>	Contributed Surplus	Retained Earnings / (deficit)	Total Equity
Balance at December 31, 2015	\$ 31,228,855	\$ 1,732,881	\$ (3,146,084)	\$ 29,815,652
Net loss	-	-	(11,300,007)	(11,300,007)
Shares issued for cash	20,000,000	-	-	20,000,000
Share issue costs (net of tax of \$197,498)	(539,001)	-	-	(539,001)
Share-based compensation – stock options	-	2,118,650	-	2,118,650
Balance at December 31, 2016	\$ 50,689,854	\$ 3,851,531	\$ (14,446,091)	\$ 40,095,294
Net earnings	-	-	252,914	252,914
Share-based compensation – stock options	-	572,546	-	572,546
Balance at March 31, 2017	\$ 50,689,854	\$ 4,424,077	\$ (14,193,177)	\$ 40,920,754
Net earnings	-	-	842,266	842,266
Share-based compensation – stock options	-	578,341	-	578,341
Balance at June 30, 2017	\$ 50,689,854	\$ 5,002,418	\$ (13,350,911)	\$ 42,341,361
<b>Shares issued for cash</b>	<b>2,500,000</b>	<b>-</b>	<b>-</b>	<b>2,500,000</b>
<b>Net loss</b>	<b>-</b>	<b>-</b>	<b>(1,633,637)</b>	<b>(1,633,637)</b>
<b>Share-based compensation – stock options</b>	<b>-</b>	<b>580,279</b>	<b>-</b>	<b>580,279</b>
<b>Balance at September 30, 2017</b>	<b>\$ 53,189,854</b>	<b>\$ 5,582,697</b>	<b>\$ (14,984,548)</b>	<b>\$ 43,788,003</b>

See accompanying notes to the unaudited interim financial statements

## Notes to the Interim Financial Statements

For the three and nine month periods ended September 30, 2017 (unaudited)

### 1. Corporate information:

Kaisen Energy Corp. (the "Company" or "Kaisen") is a Calgary based energy company primarily focused on heavy oil development and production in Saskatchewan. The Company was incorporated in Canada on November 6, 2012. The Company's principal place of business is located at 400, 522 – 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") for the three and nine month periods ended September 30, 2017 (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 consolidated financial statements as at and for the year ended December 31, 2016, which have been prepared in accordance with IFRS.

These financial statements were authorized for issue by the Board of Directors on November 30, 2017. All three and nine month periods presented in these financial statements are unaudited.

### 3. Significant Accounting Policies

#### Adopted and Future Accounting Policy Changes

- As of January 1, 2017 the Company was required to adopt amendments to IAS 7 Statement of Cash Flows. The amendments relate to disclosure requirements regarding changes in liabilities arising from financing activities. The adoption of this standard did not have an impact on the disclosures in the financial statements.
- 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.
- 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.
- In January 2016, the IASB issued IFRS 16 *Leases*, which replaces IAS 17 *Leases*. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 *Revenue from Contracts with Customers*. IFRS 16 will be applied by the Company on January 1, 2019 and the Company is currently evaluating the impact of the standard on the financial statements.

### 4. Risk Management Contracts

The following is a summary of realized and unrealized gains and losses for the three and nine month periods ended September 30, 2017 and 2016:

(\$Cdn)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Realized gain/(loss) on risk management contracts	467,566	(23,784)	380,063	(71,916)
Unrealized gain/(loss) on risk management contracts	(1,085,351)	(1,386,997)	3,772,807	(1,838,121)
<b>Total loss on risk management contracts</b>	<b>(617,785)</b>	<b>(1,410,781)</b>	<b>4,152,870</b>	<b>(1,910,037)</b>

For the Quarter, the Company recorded a realized gain of \$467,566 (\$23,784 loss in the same period in the prior year.) For the Year to Date, the Company has recorded a gain of \$380,063 (\$71,916 loss in the prior year). As at September 30, 2017, the fair value associated with Kaisen's risk management contracts was a net liability of \$210,476 (\$3,983,283 liability at December 31, 2016), of which \$179,474 is a current asset reflecting contracts that will settle by September 30, 2018 with the remaining balance of \$389,950 classified as a long-term liability with settlements after September 30, 2018. The change in fair value during the Quarter and Year to Date produced an unrealized loss of \$1,085,351 and a gain of \$3,772,807 respectively (losses of \$1,386,997 and \$1,838,121 respectively for the same periods in the prior year).

## 5. Property, plant and equipment

Cost	Oil and Gas Assets	Corporate Assets	Total Assets
Balance, December 31, 2015	\$ 46,281,970	\$ 64,455	\$ 46,346,425
Development expenditures	\$ 2,976,202	116,548	3,092,750
Corporate acquisition	17,728,895	-	17,728,895
Capitalized general and administrative costs	374,832	-	374,832
Capitalized stock based compensation	316,899	-	316,899
Balance, December 31, 2016	\$ 67,678,798	181,003	67,859,801
Development expenditures	\$ 4,370,028	\$ 4,512	\$ 4,374,540
Additions to asset retirement obligations	176,509	-	176,509
Capitalized general and administrative costs	97,500	-	97,500
Capitalized stock based compensation	90,781	-	90,781
Balance, March 31, 2017	\$ 72,413,616	\$ 185,515	\$ 72,599,131
Development expenditures	\$ 303,247	7,429	310,676
Capitalized general and administrative costs	97,500	-	97,500
Capitalized stock based compensation	92,646	-	92,646
Balance, June 30, 2017	\$ 72,907,009	192,944	73,099,953
<b>Development expenditures</b>	<b>\$ 2,866,125</b>	<b>2,910</b>	<b>2,869,035</b>
<b>Additions to asset retirement obligations</b>	<b>120,217</b>	<b>-</b>	<b>120,217</b>
<b>Capitalized general and administrative costs</b>	<b>97,500</b>	<b>-</b>	<b>97,500</b>
<b>Capitalized stock based compensation</b>	<b>91,773</b>	<b>-</b>	<b>91,773</b>
<b>Balance, September 30, 2017</b>	<b>\$ 76,082,625</b>	<b>\$ 195,854</b>	<b>\$ 76,278,478</b>
<b>Accumulated depletion and depreciation</b>			
Balance, December 31, 2015	\$ (10,694,648)	\$ (34,318)	\$ (10,728,966)
Depletion and depreciation	(3,748,967)	(34,718)	(3,783,685)
Balance, December 31, 2016	\$ (14,443,615)	(69,036)	(14,512,651)
Depletion and depreciation	(1,280,701)	(9,558)	(1,290,259)
Balance, March 31, 2017	\$ (15,724,316)	\$ (78,594)	\$ (15,802,910)
Depletion and depreciation	(1,513,334)	(9,810)	(1,523,144)
Balance, June 30, 2017	(17,237,650)	(88,404)	(17,326,054)
<b>Depletion and depreciation</b>	<b>(1,368,233)</b>	<b>(9,234)</b>	<b>(1,377,467)</b>
<b>Balance, September 30, 2017</b>	<b>\$ (18,605,883)</b>	<b>\$ (97,638)</b>	<b>\$ (18,703,521)</b>
<b>Net book value</b>			
Balance, December 31, 2015	\$ 35,587,322	\$ 30,137	\$ 35,617,460
Balance, December 31, 2016	\$ 53,235,183	\$ 111,967	\$ 53,347,150
Balance, March 31, 2017	\$ 56,689,300	\$ 106,921	\$ 56,796,221
Balance, June 30, 2017	\$ 55,669,359	\$ 104,540	\$ 55,773,899
<b>Balance, September 30, 2017</b>	<b>\$ 57,476,742</b>	<b>\$ 98,216</b>	<b>\$ 57,574,957</b>

During the Quarter and Year to Date, the Company capitalized general and administrative expenses of \$97,500 and \$292,500 respectively (\$103,297 and \$299,452 respectively in 2016) and share based compensation expenses, relating to development activities, of \$91,773 and \$275,200 respectively (\$87,750 and \$224,279 respectively in 2016). Future development costs associated with proved and probable undeveloped reserves of \$75,219,700 (\$73,677,600 in the same quarter of 2016) are included in the depletion calculation, net of salvage values of \$2,554,000 for the Quarter (\$2,474,000 in 2016). No other costs have been included or excluded from property plant and equipment in the determination of depletion and depreciation expense. As at September 30, 2017, there were no indicators of impairment of the Company's property, plant and equipment.

## 6. Bank Debt

During the Quarter on July 18, 2017, the Company renewed its revolving operating facility with its lender. The revolving operating facility limit is \$5,500,000 and 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 is 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. A demand debenture on all the assets of the Company has been provided as collateral for the facility. The next facility review date is scheduled for November 30, 2017 and is currently underway.

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, 2017, the working capital ratio was compliant with its lenders covenant limit at 1.38:1.00 and the net debt to trailing cashflow ratio was compliant with its lenders covenant limit at 0.64:1.00.

## 7. Capital Management

The Company's policy is to maintain a strong capital base in order 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 in order to understand its position relative to industry peers. The Company 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 exception to covenants in place with the Company's lender (refer to note 6). There have been no material changes in the Company's approach to capital management during the Quarter.

Kaisen has an operating credit facility in the amount of \$5,500,000. Management closely monitors debt leverage against internally imposed borrowing limits to ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and/or opportunities as they arise. As at September 30, 2017, the Company's net debt (comprised of bank debt plus current assets net of current liabilities excluding risk management contracts) was \$3,572,199 (\$334,454 net surplus at December 31, 2016).

Based on currently forecasted commodity prices through 2017, Kaisen's current capital resources (cash on hand, undrawn equity proceeds from Azimuth Capital Management and currently available borrowing capacity) are sufficient to fund ongoing corporate obligations through 2017 and into 2018. However, if the current economic circumstances affecting our business materially change, Kaisen maintains optionality to adjust its capital structure through such means as the issuance of new equity, and/or the issuance of new debt instruments in various forms tailored to the Company's specific needs, and/or by making adjustments to its operations and/or capital expenditure programs to the extent that capital expenditures are not committed.

## 8. Finance Charges

(\$Cdn)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest and financing charges on bank debt	32,018	13,735	73,140	30,575
Accretion of asset retirement obligations	56,666	51,933	167,358	127,491
<b>Finance charges</b>	<b>88,684</b>	<b>65,668</b>	<b>240,498</b>	<b>158,066</b>

## 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 September 30, 2017 was \$12.0 million 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:

(\$Cdn)	Nine months ended September 30,		Year ended
	2017	2016	December 31, 2016
Balance, beginning of period	9,862,302	6,798,773	6,798,773
Liabilities incurred	296,726	-	-
Liabilities acquired	-	2,881,632	2,881,632
Accretion	167,358	127,491	181,897
Abandonment expenditures incurred	(55,913)	-	-
<b>Balance, end of period</b>	<b>10,270,473</b>	<b>9,807,896</b>	<b>9,862,302</b>

## 10. Share Capital

### (a) Authorized

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

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

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

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Shares	Amount	Shares	Amount
Balance, beginning of period	43,420,029	\$ 50,689,854	23,420,029	\$ 31,228,855
Issued for cash <sup>(a)</sup>	2,000,000	2,500,000	20,000,000	\$ 20,000,000
Share issue costs <sup>(a)</sup>		-		(539,001)
<b>Balance, end of period</b>	<b>45,420,029</b>	<b>\$ 53,189,854</b>	<b>43,420,029</b>	<b>\$ 50,689,854</b>

- a) On July 11, 2017, the Azimuth Capital Management converted 2,000,000 Special Voting Shares into Common Shares for net proceeds to the Company of \$2,500,000 (nil share issuance costs). Subsequent to the conversion, Azimuth holds 6.0 million Special Voting Shares representing a remaining \$7.5 million of equity available to Kaisen to fund future growth opportunities.

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 (\$19,263,501 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.)

- i. each Put and Call Obligation sets forth the rights of the Company to cause the holder ("Azimuth") thereof to subscribe for, or the right of the holder thereof to cause the Company to issue and sell, one Common Share at an issue price of \$1.25 per share pursuant to the terms of the put and call obligation agreement on or prior to the expiry time set forth therein;
- ii. each Special Voting Share entitles Azimuth to notice of and to attend and vote at all meetings of shareholders of the Company but not providing any rights in respect of liquidation, dissolution or winding up or any entitlement to dividends; and
- iii. For every Common Share of the Company issued in accordance with the terms of the Put and Call Obligations, an equal number of Special Voting Shares will be cancelled.

### (c) Share Based Compensation

#### i. Stock Option Plan

The following table summarizes Kaisen's stock option plan and activity during the following periods.

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning and end of period	1,448,000	\$1.46	1,448,000	\$1.46

Exercise price (\$/share)	Outstanding stock options			Exercisable stock options	
	Number of options outstanding	Weighted average remaining contractual life	Weighted average exercise price (\$/share)	Number of options exercisable	Weighted average exercise price (\$/share)
\$1.00	893,000	0.8	\$1.00	893,000	\$1.00
\$2.00	85,000	0.9	\$2.00	85,000	\$2.00
\$2.25	470,000	1.9	\$2.25	470,000	\$2.25
	1,448,000	1.2	\$1.46	1,448,000	\$1.46

## ii. Performance Warrants

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

	Nine months ended September 30, 2017		Year ended December 31, 2016	
	Number of warrants	Weighted Average Exercise Price	Number of warrants	Weighted Average Exercise Price
Balance, beginning of period	10,780,999	\$1.78	5,780,999	\$1.91
Granted	-	-	5,000,000	\$1.63
<b>Balance, end of period</b>	<b>10,780,999</b>	<b>\$1.78</b>	<b>10,780,999</b>	<b>\$1.78</b>

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	2,780,999	\$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
<b>Total</b>	<b>10,780,999</b>	<b>\$1.78</b>	

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	3.8	\$1.25	-	-
\$1.50	2,250,000	3.5	\$1.50	-	-
\$1.75	2,250,000	3.5	\$1.75	-	-
\$2.00	4,030,999	3.3	\$2.00	-	-
\$2.25	1,000,000	3.1	\$2.25	-	-
	10,780,999	3.4	\$1.78	-	-

## (d) Per share information

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Basic	45,180,899	40,376,551	43,942,485	29,113,460
Diluted	45,180,899	40,376,551	43,942,485	29,113,460

For the purpose of calculating earnings per diluted share for the three and nine month periods ended September 30, 2017 and 2016, the Company estimates that none of the outstanding options/warrants were "in-the-money" and therefore diluted outstanding shares equals basic outstanding shares.

**(e) Contributed Surplus**

<i>(\$Cdn)</i>	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Balance, beginning of period	5,002,418	2,648,419	3,851,531	1,732,881
Share based compensation	580,279	618,977	1,731,166	1,534,515
Balance, end of period	5,582,697	3,267,396	5,582,697	3,267,396

Share based compensation recorded to contributed surplus differs from Share based compensation expense due to the inclusion of capitalized share based compensation for the Quarter and Year to Date of \$91,773 and \$275,200 respectively (\$87,750 and \$224,279 respectively in 2016).

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

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

<i>(\$Cdn)</i>	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Accounts receivable and due from shareholder	80,988	(404,662)	(646,801)	(119,464)
Prepaid expenses and deposits	5,973	(223,769)	313,442	(351,200)
Accounts payable and accrued liabilities	1,791,130	973,713	617,881	1,198,253
Change in non-cash working capital	1,878,091	345,282	284,522	727,589
Related to operating activities	569,046	345,282	(388,303)	727,589
Related to investing activities	1,309,045	-	672,825	-

**12. Major Customers**

The majority of credit exposure on accounts receivable at September 30, 2017 pertains to accrued revenue for September 2017 production volumes in addition to amounts receivable from joint operating partners. 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. All accrued revenues at September 30, 2017 were received in October 2017. For joint operating partners, Kaisen bills these partners typically 2 months after the month of activity with receipt 30 days thereafter. Kaisen did not have any other counterparties from which it had outstanding accounts receivable greater than 10 per of the total outstanding balance at September 30, 2017. 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, 2017:

<i>(\$ thousands)</i>	Total	2017	2018	2019	2020	2021
Office leases	402	63	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"). No legal expenses were invoiced from BDP during the Quarter.

On December 23, 2015, the Company provided a loan in the amount of \$250,000 to a shareholder on competitive commercial interest bearing terms with a maturity period of 5 years. Accrued interest is payable on the maturity date. The loan has been recorded as a long-term receivable on the statement of financial position.

# 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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