



Condensed Interim Financial Statements (unaudited)

September 30, 2020

Notice of No Auditor Review of Interim Financial Statements

The accompanying condensed interim financial statements of Kaisen Energy Corp. as at and for the three- and nine-month periods ending September 30, 2020 have been prepared by and are the responsibility of the Company's management.

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

/s/ John Zahary
Managing Director

December 11, 2020

Interim Statements of Financial Position

(Unaudited, Canadian dollars)

	Note	September 30, 2020	December 31, 2019
Assets			
Current assets			
Cash		\$ 88,199	\$ 373,033
Accounts receivable	4	107,947	1,125,545
Prepaid expenses and deposits		156,059	136,593
		352,205	1,635,171
Property, plant, and equipment	5	17,760,759	28,404,521
		\$ 18,112,964	\$ 30,039,692
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	6	\$ 5,202,900	\$ 4,514,745
Risk management contracts	11	1,819	724,523
Promissory notes	8	440,000	-
Term loan	7	1,850,000	1,850,000
		7,494,719	7,089,268
Government loan	9	40,000	724,523
Decommissioning liabilities	14	13,040,397	11,874,113
		20,575,116	18,963,381
Shareholders' equity			
Share capital	15	53,189,854	53,189,854
Convertible debentures	10	6,517,100	6,517,100
Contributed surplus		8,777,352	8,484,979
Deficit		(70,946,458)	(57,115,622)
		(2,462,152)	11,076,311
		\$ 18,112,964	\$ 30,039,692

Going concern (note 2)

Subsequent events (note 19)

See accompanying notes to the unaudited condensed interim financial statements.

Interim Statements of Loss and Comprehensive Loss

(Unaudited, Canadian dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Revenue					
Petroleum and natural gas sales		\$ 249,216	\$ 3,883,518	\$ 1,871,539	\$ 11,341,956
Royalties		(37,073)	(655,587)	(259,553)	(1,893,308)
Revenue, net of royalties		212,143	3,227,931	1,611,986	9,448,648
Saskatchewan resource tax		7,441	(46,084)	(9,559)	(138,181)
Realized loss on risk management contracts	11	-	(539,663)	-	(1,805,069)
Unrealized (loss) gain on risk management contracts	11	19,116	572,700	722,704	(659,696)
Other income		29,967	6,574	61,617	22,078
		268,667	3,221,458	2,386,748	6,867,780
Expenses					
Operating		519,210	2,399,155	2,854,558	6,213,465
Transportation		11,725	183,311	207,901	573,348
General and administrative		239,942	250,176	799,047	853,177
Net finance	13	67,087	93,176	251,611	277,764
Share-based compensation	15	70,111	154,280	253,546	474,275
Depletion and depreciation	5	61,963	779,025	768,921	2,260,443
Impairment loss on property, plant, and equipment	5	-	-	11,082,000	-
		970,038	3,859,123	16,217,584	10,652,472
Net loss and comprehensive loss		\$ (701,371)	\$ (637,665)	\$ (13,830,836)	\$ (3,784,692)
Net loss per share					
Basic and diluted	16	\$ (0.02)	\$ (0.01)	\$ (0.30)	\$ (0.08)

See accompanying notes to the unaudited condensed interim financial statements.

Interim Statements of Cash Flows

(Unaudited, Canadian dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Cash provided by (used in) the following activities:					
Operating activities					
Net loss for the period		\$ (701,371)	\$ (637,665)	\$ (13,830,836)	\$ (3,784,692)
Items not affecting cash:					
Depletion and depreciation		61,963	779,025	768,921	2,260,443
Impairment loss on property plant and equipment	5	-	-	11,082,000	-
Accretion of decommissioning obligations	14	32,712	65,449	153,483	193,172
Share-based compensation	15	70,111	154,280	253,546	474,275
Unrealized (gain) loss on risk management contracts	11	(19,116)	(572,700)	(722,704)	659,696
Other		(2)	(2)	(1)	(1)
		(555,703)	(211,613)	(2,295,591)	(197,107)
Change in non-cash working capital	17	335,199	1,276,707	1,918,854	1,531,813
Cash provided by (used in) operating activities		(220,504)	1,065,094	(376,737)	1,334,706
Financing activities					
Repayment of bank loan		-	(2,161,817)	-	(2,095,857)
Advance (repayment) of term loan	7	-	1,850,000	-	1,850,000
Advance of promissory notes	8	140,000	-	440,000	-
Advance of government loan	9	-	-	40,000	-
Lease payments		(1,440)	(24,134)	(11,984)	(70,583)
Issuance of convertible debentures, net of issue costs	10	-	1,000,000	-	1,200,000
Cash provided by financing activities		138,560	664,049	468,016	883,830
Investing activities					
Development of oil and gas properties		(42,655)	(1,111,820)	(155,529)	(1,646,544)
Change in non-cash working capital	17	(1,000)	(312,667)	(220,584)	(267,664)
Cash used in investing activities		(43,655)	(1,424,487)	(376,113)	(1,914,208)
Change in cash		(125,599)	304,656	(284,834)	304,328
Cash, beginning of the period		213,798	-	373,033	328
Cash, end of the period		\$ 88,199	\$ 304,656	\$ 88,199	\$ 304,656
Supplementary disclosure					
Cash interest paid		\$ 29,141	\$ 54,088	\$ 62,380	\$ 81,332
Cash taxes paid		-	-	-	-

See accompanying notes to the unaudited condensed interim financial statements.

Interim Statements of Changes in Shareholders' Equity

(Unaudited, Canadian dollars)

	Note	Share capital	Convertible debentures	Contributed surplus	Deficit	Shareholders' equity
Balance as at January 1, 2019		\$ 53,189,854	\$ 5,317,100	\$ 7,766,507	\$ (49,507,792)	\$ 16,765,669
Net loss		-	-	-	(7,607,830)	(7,607,830)
Convertible debentures issued	10	-	1,200,000	-	-	1,200,000
Share-based compensation	15	-	-	718,472	-	718,472
Balance as at December 31, 2019		\$ 53,189,854	\$ 6,517,100	\$ 8,484,979	\$ (57,115,622)	\$ 11,076,311
Net loss		-	-	-	(13,830,836)	(13,830,836)
Share-based compensation	15	-	-	292,373	-	292,373
Balance as at September 30, 2020		\$ 53,189,854	\$ 6,517,100	\$ 8,777,352	\$ (70,946,458)	\$ (2,462,152)

See accompanying notes to the unaudited condensed interim financial statements.

Notes to the Interim Financial Statements (unaudited)

As at September 30, 2020 and for the three and nine months ended September 30, 2020 and 2019

1. Reporting Entity

Kaisen Energy Corp. (the “Company” or “Kaisen”) is a Calgary-based energy company primarily focused on heavy oil development and production in Saskatchewan. The Company was incorporated in Canada on November 6, 2012. The Company’s principal place of business is 400, 522 – 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8.

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

These condensed unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. These financial statements were authorized for issue by the Board of Directors on December 11, 2020. These financial statements are condensed as they do not include all the information required by IFRS for annual financial statements and should be read in conjunction with the Company’s audited financial statements for the year ended December 31, 2019. Unless otherwise stated, amounts presented in these financial statements, including tabular amounts, are stated Canadian dollars. The functional currency of the Company is the Canadian dollar.

These financial statements have been prepared on a historical cost basis, except as detailed in the accounting policies disclosed in Note 2 “Basis of presentation” of the Company’s audited consolidated financial statements for the year ended December 31, 2019. All accounting policies, methods of computation, and the use of estimates or judgements used in the preparation of these interim financial statements are consistent with those used the previous financial year.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of \$13,830,836 during the nine months ended September 30, 2020, and as of that date, the Company’s current liabilities exceeded its current assets by \$7,142,514. A sudden collapse in global oil prices in first half of 2020 and subsequent production shut-ins have lowered the Company’s current and projected cash flows.

Management of the Company believes the current level of financing is not sufficient to pay for expected cash expenditures over the next 12 months. Furthermore, subsequent to quarter end, the Company received a notice of default from its lender for failure to repay principal and accrued interest (see note 19). Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to secure adequate financing in the future or that such financing will be on terms acceptable to the Company. The recoverability of the underlying value of the Company’s assets is entirely dependent on the Company’s ability to obtain the necessary financing to complete the development of its assets and achieve future profitable production. As a result, there is a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary to the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

3. Recent Developments and Impacts to Use of Estimates, Judgements and Assumptions

In March 2020, the outbreak of the novel coronavirus and subsequent measures intended to limit the pandemic contributed to significant declines and abnormal volatility of global financial markets. The pandemic adversely affected global commercial activity and significantly reduced worldwide demand for crude oil. Crude oil prices were concurrently impacted by increased global supply due to disagreements over production restrictions between members of OPEC and Russia.

The scale and duration of these developments remain uncertain and the full extent of the impact on the Company’s operations and future financial performance is currently unknown. The coronavirus outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial statements.

A full list of the significant estimates and judgements made by Management in the preparation of its financial statements are included in Note 5 “Use of Estimates, Judgement and Assumptions” of the annual financial statements. The outbreak and volatile market conditions have increased the complexity of estimates, judgements and assumptions used to prepare these financial statements, particularly related to the recoverability of asset carrying values. Changes to any of these estimates, judgements and assumptions could result in a material adjustment to the carrying values of assets and liabilities. Estimates and underlying assumptions are reviewed on an ongoing basis, and any revisions to accounting estimates are recognized in the period in which the estimates are revised.

4. Financial Assets and Credit Risk

Credit risk arises from the potential that the Company may incur a loss if a counterparty to a financial instrument fails to meet its obligation in accordance with agreed terms. The Company’s credit exposure on accounts receivable at September 30, 2020 pertains to accrued revenue for September 2020 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. All revenues recorded at September 30, 2020 were received in October 2020. For joint operating partners, Kaisen bills these partners typically 2 months after the month of activity with receipt 30 days thereafter.

The Company's carrying values of accounts receivable represent the Company's maximum credit exposure. The aging of accounts receivable is as follows:

	September 30, 2020	December 31, 2019
Not past due	\$ 88,289	\$ 1,022,859
Past due greater than 90 days	19,658	102,686
Accounts receivable	\$ 107,947	\$ 1,125,545

The Company has historically not experienced any collection issues with its oil and natural gas sales and therefore has not recorded an allowance for doubtful accounts as at September 30, 2020.

5. Property, Plant, and Equipment

	Oil and gas assets	Corporate assets	Total assets
Cost:			
Balance, January 1, 2019	\$ 81,426,986	\$ 197,780	\$ 81,624,766
Development additions	1,541,480	1,050	1,542,530
Decommissioning obligations change in estimate	(202,855)	-	(202,855)
Right-of-use assets	-	46,586	46,586
Capitalized general and administrative costs	249,600	-	249,600
Capitalized share-based compensation	115,773	-	115,773
Balance, December 31, 2019	\$ 83,130,984	\$ 245,416	\$ 83,376,400
Development additions	27,544	1,985	29,529
Decommissioning obligations change in estimate	1,012,803	-	1,012,803
Capitalized general and administrative costs	126,000	-	126,000
Capitalized share-based compensation	38,827	-	38,827
Balance, September 30, 2020	\$ 84,336,158	\$ 247,401	\$ 84,583,559
Accumulated depletion and depreciation:			
Balance, January 1, 2019	\$ 48,892,092	\$ 132,542	\$ 49,024,634
Depletion and depreciation	2,978,864	57,381	3,036,245
Impairment	2,911,000	-	2,911,000
Balance, December 31, 2019	\$ 54,781,956	\$ 189,923	\$ 54,971,879
Depletion and depreciation	751,253	17,668	768,921
Impairment	11,082,000	-	11,082,000
Balance, September 30, 2020	\$ 66,615,209	\$ 207,591	\$ 66,822,800
Net book value:			
Balance, December 31, 2019	\$ 28,349,028	\$ 55,493	\$ 28,404,521
Balance, September 30, 2020	\$ 17,720,949	\$ 39,810	\$ 17,760,759

As at September 30, 2020, the Company evaluated its petroleum assets for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified, and no impairment or related reversal was recorded.

As a result of the COVID-19 pandemic, global crude oil oversupply and the resulting decrease in forecasted oil prices compared to those at December 31, 2019, indicators of impairment were identified at March 31, 2020. The assessment factored in reserves, change in commodity prices from year end, the health of the sector and the general economy, and near-term development plans. As a result of uncertainties regarding future strip pricing, impairment tests were conducted on all properties resulting in a non-cash impairment charge of \$11,082,000 recognized in the statement of income. The recoverable amount was calculated as the fair value of assets less cost of disposal. The fair value was determined using an after-tax discount rate of 20% (December 31, 2019 – 19.2%) and forecasted cash flows. The forecasted cash flows are based on the total proved reserves and used by the Company's independent reserve engineers (considered level 3 inputs within the fair value hierarchy) as at December 31, 2019 and internally adjusted to reflect updated price assumptions as of March 31, 2020.

6. Financial Liabilities, Liquidity Risk and Contingencies

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's goal in managing liquidity is to ensure it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objectives. The Company's liquidity is dependent on the Company's expected business growth and changes in its business environment. The Company manages this risk by continuously monitoring forecast and actual cash flows from operating, financing, and investing activities and opportunities to extend or modify its existing debt facility or to issue additional equity. The Company will continue to manage its capital expenditures to reflect current financial resources in the interest of sustaining long-term viability. Estimated undiscounted cash outflows relating to financial liabilities as at September 30, 2020 were as follows:

	Undiscounted amount	Less than 1 year	1 - 3 years	4 – 5 years
Accounts payable and accrued liabilities	\$ 5,202,900	\$ 5,202,900	\$ -	\$ -
Risk management contracts	1,819	1,819	-	-
Promissory notes	440,000	440,000	-	-
Government loan	40,000	-	7,567	25,946
Term loan	1,850,000	1,850,000	-	-
Financial liabilities	\$ 7,534,719	\$ 7,494,719	\$ 7,567	\$ 25,946

The Company is in receipt of five Statements of Claim from service providers seeking payment of approximately \$530,000 in total for past due invoices plus additional interest charges. The overdue payables are included in accounts payable and accrued liabilities in the condensed interim financial statements as at September 30, 2020. The interest portion has not been accrued at this time as the Company is still working with its legal counsel on these matters, and the probable exposure and timing of the additional interest charges cannot be determined.

7. Term Loan

On July 15, 2019, the Company completed an arrangement with its lender for a \$2,280,000 term loan, which discharged and replaced the \$2,500,000 revolving bank loan previously in place with the same lender. The term loan is principally secured by fixed and floating security interest over all present and after acquired assets of the Company. The term loan arrangement contains industry standard representation and warranties, positive and negative covenants and events of default, and does not contain financial covenants.

When entered, the term loan bore interest at a rate of prime plus 1.25% per annum, was payable in full on demand by the lender, and required the Company to make the monthly principal payments up until May 31, 2020, when the term loan was scheduled to be repaid in full. On December 11, 2019, the Company and its lender entered into an amending agreement whereby the scheduled borrowing base determination date was extended from November 30, 2019 to January 31, 2020, the interest rate was raised to prime plus 3.5% per annum, and it was agreed upon that the Company shall make principal payments of \$240,000 per month commencing February 29, 2020 until the term loan was repaid in full.

During the first nine months of 2020, the Company and its lender entered into a series of amending agreements with respect to its term loan. The latest amendment, effective September 29, 2020, deferred the borrowing base determination date and confirmed all outstanding amounts under the term loan to be due and payable in full on October 30, 2020. On December 2, 2020, the lender issued the Company a notice of default for failing to repay all outstanding amounts, in accordance with the latest amendment. (see note 19).

The term loan is classified as current on the statement of financial position.

8. Promissory Notes

In the third quarter of 2020 the Company issued \$140,000 in subordinated secured promissory notes ("Promissory Notes") to Azimuth Capital Management for the purpose of funding current working capital requirements. Year to date a total of \$440,000 in Promissory Notes have been issued. The Promissory Notes bear interest at a rate of 8% per annum, accruing daily and the repayment of principal is due on demand and subrogated in right of payment in full of all senior indebtedness (see note 7). The Promissory Notes are secured by the Company's present and after-acquired personal and real property, subordinate to any claims to such property by the holders of its term loan. Subsequent to quarter end, the Company issued an additional \$235,000 in Promissory Notes (see note 19).

9. Government loan

As a response to the COVID-19 global pandemic, the Government of Canada created the Canada Emergency Business Account ("CEBA") to provide interest-free loans of up to \$40,000. During the second quarter of 2020, the Company successfully applied for and received funding \$40,000 in funding from the CEBA program. The loan is interest-free and 25% of the loan is forgivable if the Company repays the loan on or before December 31, 2022. If the loan is not repaid by that date, the loan can be converted to a three-year term loan at an interest rate of 5%.

10. Convertible Debentures and Obligation Debentures

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

(a) Convertible debentures

The key terms of the convertible debentures are as follows:

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

The convertible debentures represent the Company’s obligation to deliver a variable number of its own equity instruments upon a liquidity event. Management has determined that the liquidity event is a contingent settlement provision that the Company has control over. As such, the convertible debentures have been classified as equity net of issue costs. If a liquidity event occurred on September 30, 2020 and the convertible debentures were converted to common shares, 131,540,000 additional shares of the Company would have been issued. As at September 30, 2020, the total face value of the convertible debentures plus accrued undeclared interest was \$7,692,000.

(b) Obligation debentures

Concurrent with the initial convertible debenture issuance, on May 28, 2018 the Company entered into an agreement with the subscriber for 5,426 committed Obligation Debentures, which require the subscriber to subscribe for and purchase, and for the Company to issue and sell, the remaining \$5,426,000 in convertible debentures two years from the date of issuance or at the Company’s discretion. On May 28, 2020 the agreement expired with the remaining Obligation Debentures expiring unexercised.

11. Financial Derivatives and Market Risk Management

Management of cash flow variability is an integral component of the Company’s business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board of Directors to establish risk management guidelines to be used by Management. The risk exposure inherent in the movement of the price of crude oil and natural gas prices and fluctuations in foreign exchange rates are all proactively reviewed by the Company and may be managed through the use of derivative contracts as considered appropriate.

(a) Commodity price risk

The Company is exposed to commodity price movements as part of its operations. The Company maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. The Company’s strategy focuses on the use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices. The Company had the following risk management contract in place as at September 30, 2020:

Type	Period	Volume	Price/unit ⁽¹⁾
WTI - Call option ⁽²⁾	January 1, 2020 – December 31, 2020	500 bbl/d	US\$60.00

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

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

As at September 30, 2020, the fair value associated with these risk management contracts was a liability of \$1,819 (December 31, 2019 – liability of \$724,523), of which the total amount is reported as a current liability reflecting contracts which will settle by December 31, 2020.

(b) Interest rate risk

The only liability on the Company’s balance sheet exposed to fluctuations in interest rates is the term loan. Based upon the Company’ term debt at September 30, 2020, an increase or decrease in net earnings for the three- and nine-months periods for each 1% change in interest rates would amount to \$4,625 and \$13,875, respectively (2019 - \$5,015 and \$15,699).

(c) Foreign currency risk

The Company does not sell or transact in any foreign currency except the Company's commodity prices are largely denominated in United States dollars. As a result, the prices that the Company receive are affected by fluctuations in the exchange rates between the US dollar and the Canadian dollar. The exchange rate effect cannot be quantified, but generally an increase in the value of the Canadian dollar compared to the US dollar will reduce the prices received by the Company for its crude oil and natural gas sales. The Company had no foreign exchange forward rate contracts in place as at or during the period ended September 30, 2020.

12. Capital Management

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

13. Net Finance Expenses

The following table summarizes net finance expenses recorded during the three and nine months ended September 30, 2020 and 2019:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Interest expense on term and bank loan	\$ 29,131	\$ 26,952	\$ 88,511	\$ 81,332
Interest expense on promissory notes	8,184	-	9,297	-
Accretion of decommissioning obligations	32,712	65,449	153,483	193,172
Capital lease interest expense and other	60	775	320	3,260
Net finance expenses	\$ 67,087	\$ 93,176	\$ 251,611	\$ 277,764

14. Decommissioning Liabilities

The total future decommissioning obligations were estimated by Management based on the expected cost to reclaim and abandon its net ownership interest in well sites and facilities and the estimated timing of the costs to be incurred in future periods. Decommissioning obligations acquired as part of an acquisition are initially measured at fair value using a credit-adjusted risk-free rate. Management estimates the total undiscounted amount of cash flows required to settle its decommissioning obligations at September 30, 2020 is \$13.8 million, which will be incurred over the next 10-15 years with the majority of costs incurred between 2021 and 2026. The Bank of Canada's long-term risk-free rate of 1.1% and an inflation rate of 2.0% (December 31, 2019 – 2.2% and 1.8% respectively) were used to calculate the present value of the decommissioning obligation at September 30, 2020.

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

	September 30, 2020	December 31, 2019
Balance, beginning of period	\$ 11,874,113	\$ 11,817,595
Liabilities incurred	-	53,172
Accretion	153,483	259,371
Change in estimate	1,012,801	(256,025)
Balance, end of period	\$ 13,040,397	\$ 11,874,113

15. Share Capital

(a) Issued and Outstanding Common Shares

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

	Number of Shares	Share Capital
September 30, 2020 and December 31, 2019	45,420,029	\$ 53,189,854

(b) Share Based Compensation

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

years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10% of the issued and outstanding common shares.

Incentive options vest quarterly over one year, expire three years from the anniversary of the grant date and each Incentive Option entitles the holder to receive one common share of the Company without the payment of an exercise price. Share options vest evenly over a three-year period and expire five years from the anniversary of the grant date. Performance warrants vest upon a qualifying liquidity event and expire five years from the grant date. During the three and nine months ended September 30, 2020, the Company recorded share-based compensation expense of \$70,111 and \$253,546, respectively (2019 - \$154,280 and \$474,275).

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

	September 30, 2020			December 31, 2019		
	Number of units outstanding	Weighted average exercise price (\$ per share)	Weighted average remaining life (years)	Number of units outstanding	Weighted average exercise price (\$ per share)	Weighted average remaining life (years)
Issued						
Incentive options	10,500,000	-	0.8	10,700,000	-	1.5
Share options	10,100,000	0.05	2.9	11,000,000	0.05	3.6
Performance warrants	31,514,999	0.49	2.4	34,250,999	0.49	3.1
Units outstanding	52,114,999	0.31	2.2	55,950,999	0.31	2.9
Exercisable						
Incentive options	10,500,000	-	1.2	6,250,000	-	1.7
Share options	6,200,000	0.05	2.8	3,400,000	0.05	3.6
Performance warrants	-	-	-	-	-	-
Units outstanding	16,700,000	0.02	1.8	2,531,000	0.02	2.3

16. Net loss per Common Share

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Net loss	\$ (701,371)	\$ (637,665)	\$ (13,830,836)	\$ (3,784,692)
Weighted number of average common shares outstanding:				
Basic and diluted	45,420,029	45,420,029	45,420,029	45,420,029
Basic and diluted net income (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.30)	\$ (0.08)

For the purpose of calculating net loss per diluted share for the three and nine months ended September 30, 2020 and 2019, none of the outstanding options, performance warrants, incentive options, or convertible debentures are included as these instruments are anti-dilutive.

17. Supplemental Cash Flow Information

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

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Accounts receivable	\$ 14,332	\$ (897,320)	\$ 1,017,598	\$ (1,832,471)
Prepaid expenses and deposits	(75,219)	(15,787)	(19,466)	(103,004)
Accounts payable and accrued liabilities, and other	395,086	1,877,147	700,138	3,199,624
Change in non-cash working capital	\$ 334,199	\$ 964,040	\$ 1,698,270	\$ 1,264,149
Related to operating activities	335,199	1,276,707	1,918,854	1,531,813
Related to investing activities	\$ (1,000)	\$ (312,667)	\$ (220,584)	\$ (267,664)

18. Related Party Transactions

On December 23, 2015, the Company provided a loan in the amount of \$250,000 to a shareholder on competitive commercial interest-bearing terms with a maturity period of 5 years. In 2018, a portion of the individual's severance was applied against the loan and the remaining balance of \$154,692 owing at that time was impaired. The individual is still personally liable to Kaisen for the remaining balance and the Company will continue to seek repayment in full.

The corporate secretary of the Company is a partner of the Company's legal counsel, Burnet, Duckworth & Palmer LLP ("BDP"). As at September 30, 2020, \$220,969 in related party amounts were included in accounts payable and accrued liabilities (December 31, 2019 - \$174,222).

19. Subsequent Events

(a) Issuance of Promissory Notes

On October 26, 2020 and November 30, 2020, the Company issued an additional \$140,000 and \$95,000, respectively, in Promissory Notes to Azimuth Capital Management for the purpose of funding current working capital requirements. The Promissory Notes have the same interest rate, repayment terms, and security as those previously issued in in the year (see note 8).

(b) Notice of Default

On December 2, 2020, the Company's lender issued a notice of default to the Company's for its failure to repay all amounts outstanding under its term loan, including \$1,850,000 million in principal and \$17,720 in accrued interest. The seventh amending agreement between the Company and its lender was effective September 29, 2020 had required the Company to repay all outstanding principal and accrued liabilities by October 30, 2020. The term loan is due on demand and is currently classified under current liabilities.