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October 27, 2015

Attention: Shareholders of Kaisen Energy Corp. (“Kaisen” or the “Company”)

Subject: KERN Energy Partners (“KERN”) private equity investment and concurrent non-brokered private placement of common shares to shareholders

Dear valued shareholders;

### **Strategic Private Equity Partnership with KERN**

We are pleased to inform you that Kaisen has successfully negotiated a strategic private equity partnership with KERN whereby KERN will make an initial investment of \$20 million and a potential second investment of an additional \$25 million earmarked for opportunistic acquisitions, if identified. The past twelve months have dramatically reshaped the energy industry and we believe that this down-cycle will result in significant opportunity for those energy companies that are well funded and strategically aligned with follow-on capital. With our newly formed partnership with KERN, Kaisen will be one of the few junior oil producers with the financial resources to strategically develop existing assets and to potentially aggregate complimentary assets at attractive prices. We anticipate that this counter cyclical development strategy will enable Kaisen to be a successful operator in this low commodity price environment and position itself for an eventual market rebound.

### **About KERN**

KERN is a leading independent energy sector private equity firm based in Calgary, Alberta. KERN is focused on building long-term franchise value through partnership relationships with Limited Partners, portfolio companies, service providers and members of the Firm. KERN currently has more than \$2.9 billion of direct and co-invest capital under management.

### **Changes to the Board of Directors**

Commensurate with KERN's investment, Mr. Dave Pearce, Deputy Managing Partner at KERN, Mr. Chris Hooper, Managing Director at KERN, and Richard Ramsay, Chief Operating Officer at Baytex Energy Corp. will be appointed as directors and Mr. Bart King and Mr. Colin Campbell will resign as directors. We welcome the new members to the board and wish to express our sincerest appreciation to Mr. King and Mr. Campbell for their valued contributions over the past three years.

### **Non-Brokered Private Placement of Common Shares to Shareholders**

In keeping with our commitment to all shareholders to provide further investment opportunity alongside future equity raises, we are offering shareholders the opportunity to participate alongside KERN's private equity investment in an offering of up to \$2.0 million of common shares at \$1.25 per common share (equivalent to KERN's price per share under its investment). Each shareholder is entitled to purchase as many common shares as they would like, subject to reduction on a pro rata basis or other equitable basis as the Board may determine, if the offering is over subscribed.

We have attached a common share subscription agreement which, if interested, needs to be completed and returned to Jeff Holmgren (Senior VP & CFO) along with a cheque in the amount of your investment no later than November 16, 2015. Wire transfers details can be provided upon request.

### **Strategic Development Plans for 2016**

Kaisen is currently developing a 2016 capital budget which is expected to be finalized by the end of November. At both Lone Rock and Edam, we are currently planning to focus our capital towards the conversion of our drilling inventory from vertical development to horizontal development. We believe this approach will best maximize productivity, oil recovery and overall economics with the benefit of the Saskatchewan horizontal well royalty incentive program. At Lone Rock, we are developing a potential strategy towards eventual conversion of certain producing wells to water injection for long-term pressure support. At Edam, our view is primarily towards the advancement of a cyclic steam pilot project which we hope will demonstrate significant upside potential for enhanced oil recovery on the property. Thermal recovery projects, given their attractive economics, are becoming increasingly prevalent in the Edam area in particular with Husky Energy and Serafina Energy leading sizeable projects on adjoining properties to ours. We also plan to actively pursue land consolidation in both areas through an aggressive acquisition campaign which will further expand the upside potential of our concentrated land base.

### **Current Financial and Operations Update**

At Lone Rock we have undertaken very minimal activity since September 2014. In the absence of new well production additions, Lone Rock base production decline is in line with our production profile expectations and has now stabilized in a range between 290 and 300 barrels per day. With the inclusion of one new Colony well recompletion (A3-7-47-26w3) in August, current field estimated production is approximately 330 to 350 barrels per day.

At Edam, we reconfigured our D16-22 water plant in July to handle sour water from section 22 with a number of equipment and flow modifications. The impacted wells which were shut-in in March (totaling 280 barrels per day) were back on-pump as of the end of July. However during a 4-week test phase, we were unable to recover material oil from these wells and due to operating cost considerations in this low price environment, a decision was made to shut-in these wells in September. We will continue to investigate an approach to recover these barrels but not likely until improved prices better support our efforts.

In mid August we drilled one new well at Edam (C12-15-48-19w3) which was drilled primarily to preserve our land position from a looming freehold lease expiry. Edam is currently producing at approximately 550 barrels per day having been mostly range bound between 520-620 barrels per day, showing very little decline over the past 7 months.

Total Kaisen field estimated production is approximately 850-900 barrels per day.

On the financial front, the Company is continuing to work with its lenders towards the redetermination of the existing bank facility. The Company estimates net debt as of September 30, 2015 to be

approximately \$4.8 million. Unaudited financial results for the three and nine months ended September 30, 2015 are expected to be released by the end of November.

We sincerely appreciate your continued support and investment in Kaisen and we will continue to work tirelessly to ensure that maximum shareholder value is generated through to a liquidity event at the earliest opportunity. Please feel free to contact either of us if you have any further questions.

Our annual and special general meeting has been scheduled for November 19, 2015 at 3pm at the Calgary office of Burnet, Duckworth and Palmer LLP. A shareholder town hall has been scheduled in Lloydminster SK on December 2, 2015 (more details to follow). All required shareholder materials for the annual and special meeting are being provided with this letter to shareholders. We look forward to meeting with all of our shareholders to provide a comprehensive business and operations update along with our plans for 2016.

Sincerely,

*[signed]*

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Cameron King  
President and CEO

*[signed]*

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Jeff Holmgren  
Senior VP and CFO

PLEASE BE AWARE THAT THERE IS SIGNIFICANT DISCLOSURE OF CONFIDENTIAL INFORMATION IN THIS LETTER. THE KAISEN BOARD CONSIDERS THIS DISCLOSURE NECESSARY FOR KAISEN SHAREHOLDERS TO ASSESS THE NON-BROKERED PRIVATE PLACEMENT OF COMMON SHARES AND THE CURRENT FINANCIAL AND OPERATIONAL STATE OF KAISEN, BUT WE EMPHASIZE THAT DISSEMINATION OF THIS INFORMATION BEYOND OUR SHAREHOLDER GROUP COULD EXPOSE KAISEN TO COMPETITIVE RISK. PLEASE USE DISCRETION WHEN DISCUSSING OR SHARING THIS INFORMATION. YOU SHOULD ALSO BE SURE TO READ THE ADVISORY STATEMENT AND OTHER INFORMATION BELOW.

#### **Forward-Looking Information Advisory**

This letter provides our assessment of Kaisen's future plans and operations as at October 31, 2015 and contains forward-looking information including: the potential of KERN making a second investment in the Company; the Company's ability to develop its existing assets; the Company's ability to aggregate complimentary assets at attractive prices; Kaisen's ability to be a successful operator in a low commodity price environment; the appointment of Messrs. Pearce, Hooper and Ramsay to the board of directors of the Company and the resignation of Messrs. King and Campbell; the number of common shares to be issued and the aggregate proceeds to be raised by the Company pursuant to the non-brokered private placement; the Company's capital budget for 2016, including the proposed capital projects for Edam and Lone Rock; the success of implementing enhanced oil recovery projects including cyclic steam and waterflooding; the Company's ability to successfully pursue land consolidation in Edam and Lone Rock; the timing for production from shut in wells located at Edam ; the date of release for the third quarter financial statements; the results of the redetermination of the Company's existing credit facility; competition for, among other things, capital and acquisitions of reserves, additional petroleum and natural gas assets and undeveloped lands; incorrect assessments of the value of acquisitions; risks related to the environment and changing environmental laws in relation to oil and gas operations; geological, technical, drilling and completions, processing and handling issues associated with petroleum and natural gas development activities by third parties; claims made or legal actions brought or realized against the Company or its properties or assets; a failure by the Company to hire or retain key

personnel; general economic, market and business conditions; and changes in tax or environmental laws or royalty or incentive programs relating to the oil and natural gas industry.

Since forward-looking information addresses future events and conditions, by its very nature it involves inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, risks associated with the oil and gas industry in general (e.g., operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; as the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), commodity prices and exchange rate fluctuations, changes in legislation affecting the oil and gas industry and uncertainties resulting from potential delays or changes in plans with respect to exploration or development projects or capital expenditures.

With respect to forward looking information contained in this letter, we have made the following assumptions, including the success of optimization and efficiency improvement projects, including the cyclic stem and waterflood projects discussed herein, the availability of capital, current legislation, receipt of required regulatory approval, the success of future drilling and development activities, the performance of existing wells, the performance of new wells, the Company's growth strategy, general economic conditions, availability of required equipment and services and prevailing commodity prices.

Also included in this letter is an estimate of Kaisen's net debt as at September 30, 2015 which is based on various assumptions as to production levels and commodity pricing. To the extent that such estimate constitutes a financial outlook, it was approved by management and the Board of Directors of Kaisen on October 23, 2015 and is included to provide readers with an understanding of Kaisen's anticipated net debt levels based on capital expenditures and other assumptions described herein and readers are cautioned that the information may not be appropriate for other purposes.

You are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be inaccurate and, as such, undue reliance should not be placed on forward-looking information. We can give no assurance that any of the events anticipated will transpire or occur, or if any of them do, what benefits we will derive from them. The forward-looking information contained herein is expressly qualified by this cautionary statement. Kaisen does not assume any obligation to publicly update or revise any forward-looking information to reflect new events or circumstances.