

## KAISEN RELEASES SECOND QUARTER FINANCIAL RESULTS AND PROVIDES UPDATE ON SUMMER ACTIVITIES

Once again we find ourselves at the end of another quarter, by contrast to the first quarter of 2015 however, the second quarter was much more kind to us, delivering funds flow of \$997,000 compared to \$566,000 in the prior quarter. We can thank the temporary relief in the form of surging oil prices in May and June for the improved profitability which more than offset the lower production volumes of 907 barrels per day for the second quarter compared to 1,382 barrels per day in the first quarter. Unfortunately the industry's hopes of a longer term price recovery were dashed by the middle of July when re-emerging fears of global over supply coupled with fears of waning demand from China began a new price tumble which by middle of August saw new lows for oil prices not seen in 20 years. Most recently on August 31, OPEC members including Saudi Arabia have indicated a willingness to meet, at a time yet to be disclosed, to discuss a path towards fairer pricing. While in other news, higher than expected declines in North American supply coupled with better than expected economic news out of Asia sent the WTI price soaring upwards of 30% to nearly US\$50 over the last three 3 days of August only to settle back to ~US\$45.00 for the first 10 days of September. No one knows what will come of any upcoming OPEC meeting and/or what other stories or theories will come to light over the coming weeks and months, so until more data arrives that proves a positive trend is in motion, speculators will continue to drive the oil price north and south in spectacular fashion because that's what they do and they can't help themselves! And so the story goes...that what goes up will always come down and in the case of financial and commodity markets the reverse is also true. Therefore it is safe to assume that we will continue to see extreme volatility in oil prices for the foreseeable future. However we believe strongly that by abiding to the simple economic principle of supply and demand, eventual declining supply and increasing demand are set on a course of inevitable collision at some point inside the next 12 months which will once again drive a sustained price recovery to levels sufficient to spur capital investment. This time around however, our capital dollars will attract improved rates of return thanks to the significant reduction in well service and drilling costs during the downturn. Now let's turn our attention to the highlights of the second quarter and our view of the bright future we are planning for.

The two key take aways for the second quarter are improved realized oil prices which in terms of gross revenues almost fully offset lower production volumes. On the pricing front, commodity prices remained weak throughout the second quarter of 2015 compared to last year, however by contrast to the first quarter of this year, prices were 45% stronger. US denominated WTI prices for the current quarter increased by 19% over the prior quarter while the WCS differential narrowed from US\$14.99 per barrel to US\$11.59 per barrel over the same period. These two movements combined with the further weakening of the Canadian dollar resulted in our realized commodity price improving from Cdn\$33.48 per barrel in the first quarter to Cdn\$48.44 per barrel in the second quarter. On the production front, due to our extended period of drilling and reactivation inactivity, production declines have continued to rule the roost with wells drilled last summer, having already achieving their expected flush recovery of reserves, now beginning to decline upwards of 40-50% off their initial high rates of production, as expected. In spite of inactivity at the drill bit, activity levels in the field have continued at a hectic pace with numerous initiatives implemented during the second quarter as a continuation of efforts made in the first quarter, to drive operating efficiencies and to maximise economic returns as inexpensively as possible. Admittedly we can't control the price we sell our oil for, but we can certainly squeeze every nickel possible out of the cost structure to ensure we maximise profits. And while considering that at least 50% of our cost structure is fixed costs, total operating costs per barrel climbed only 20% in the face of a 34% decline in production volumes over the same period. We believe this clearly demonstrates the success of our cost reduction efforts during the period.

### OPERATIONS UPDATE

Quarterly Production by Area	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13
Lone Rock (bbl/d)	327	556	828	529	291	421	534
Edam (bbl/d)	580	826	864	549	458	486	394
Other (boe/d)	-	-	7	26	24	35	35
<b>Total daily average (boe/d)</b>	<b>907</b>	<b>1,382</b>	<b>1,699</b>	<b>1,104</b>	<b>773</b>	<b>942</b>	<b>963</b>

Our current field estimate for production at the time of writing this letter is in the range of 850-950 barrels per day, up slightly from the end of the second quarter.

## Lone Rock Operations

At Lone Rock where we haven't drilled a well since September 2014, current field estimated production is 330 to 350 barrels per day. The 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. However in addition to base production, in August we recompleted a Colony well at A3-7-47-26w3, that has averaged 45 bbls oil per day since August 12 which puts production into the 330-350 bbl/d range.

Since the beginning of the oil price collapse last fall, our initial response was in the trimming of our fourth quarter of 2014 program by 6 wells. By January 2015 we made the decision to defer another 11 wells scheduled for the first quarter, and now most recently we have indefinitely postponed 4 of 5 wells initially slated for this fall. In total, we have drilled only 1 vertical well in 2015, at Edam and reactivated 1 well at Lone Rock at a total cost of \$746,735. With the continued volatility within the industry, we stand by our prudent decisions over the past 9 months as we reflect on the luxury of our currently healthy balance sheet in these tumultuous times.

## Edam Operations

Edam is currently producing at approximately 570 barrels per day having been mostly range bound between 520-620 barrels per day over the past 5 months. In mid August we drilled 1 new well at C12-15-48-19w. This well was drilled primarily to preserve our land position from a looming freehold lease expiry and we are happy to report that the well has turned out to be a solid success delivering an average of 65 bbls/d over the first few weeks on pump. We were also encouraged to be able to drill this well at a record low cost of \$320,000, 40% lower than our 2014 average for all-in drilling and completion cost and at a lightening speed of only 10 days from spud to production. A portion of the savings on this well were due to our ability to re-allocate surplus equipment from other suspended wells however we believe this is repeatable for up to 6-8 of our next wells making for great rates of return.

In July we reconfigured the D16-22 water plant to handle sour water from section 22 in Edam 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. Unfortunately we have not recovered material oil from these wells as of the date of this report so it appears further work may be required to ensure we ultimately recover these reserves, however this may be an initiative better suited for a stronger price environment, so we will remain patient.

## FINANCIAL UPDATE

	Quarterly Results					
	Q2, 2015 (unaudited)	Q1, 2015 (unaudited)	Q4, 2014 (unaudited)	Q3, 2014 (unaudited)	Q2, 2014 (unaudited)	Q1, 2014 (unaudited)
<b>Financial results</b>						
Petroleum and natural gas sales	\$3,999,623	\$4,165,694	\$9,123,917	\$7,593,071	\$5,480,037	\$5,782,300
Realized hedging gains/(losses)	\$165,957	\$301,390	\$771,485	(\$335,140)	(\$687,913)	(\$403,764)
Funds flow from operations <sup>(1)</sup>	\$996,569	\$565,538	\$2,753,784	\$2,510,180	\$746,809	\$727,675
Per share – basic <sup>(1)</sup>	\$0.06	\$0.04	\$0.18	\$0.20	\$0.06	\$0.06
Per share – diluted <sup>(1)</sup>	\$0.06	\$0.04	\$0.17	\$0.16	\$0.06	\$0.06
Net earnings / (loss)	(\$1,667,243)	(\$606,951)	\$403,377	\$1,617,717	(\$104,200)	(\$1,853,544)
Per share – basic	(\$0.11)	(\$0.04)	\$0.03	\$0.13	(\$0.01)	(\$0.16)
Per share – diluted	(\$0.11)	(\$0.04)	\$0.03	\$0.11	(\$0.01)	(\$0.16)
Capital Expenditures	\$746,735	\$700,109	\$2,510,886	\$8,486,501	\$1,535,661	\$2,460,367
Net debt	\$3,266,586	\$3,516,419	\$3,381,845	\$3,619,743	\$5,282,236	\$4,358,738
<b>Outstanding</b>						
Outstanding – basic	15,420,029	15,420,029	15,420,049	15,420,029	11,911,922	11,895,122
Outstanding – diluted	18,649,028	18,649,028	18,649,028	18,649,028	14,735,921	14,719,113
Weighted average– basic	15,420,029	15,420,029	15,420,029	12,865,212	11,911,922	11,895,122
Weighted average– diluted	15,420,029	15,420,029	16,123,473	15,390,767	14,735,921	11,895,122
<b>Operating Netbacks</b>						
Sales price	\$48.44	\$33.48	\$58.40	\$74.76	\$77.86	\$68.37
Royalties	(\$10.61)	(\$6.60)	(\$14.82)	(\$19.14)	(\$18.84)	(\$16.42)
Saskatchewan surcharge tax	(\$0.91)	(\$1.84)	(\$2.97)	-	-	-
Operating expenses	(\$19.74)	(\$16.32)	(\$17.03)	(\$19.48)	(\$29.09)	(\$24.73)
Transportation expenses	(\$2.84)	(\$2.26)	(\$2.28)	(\$2.09)	(\$2.62)	(\$2.19)
Netbacks (before hedging)	\$14.34	\$6.46	\$21.30	\$34.05	\$27.31	\$25.03
Realized gain/(loss) on hedging	\$2.01	\$2.42	\$4.94	(\$3.30)	(\$9.77)	(\$4.70)
<b>Netbacks (after hedging)</b>	<b>\$16.35</b>	<b>\$8.88</b>	<b>\$26.24</b>	<b>\$30.75</b>	<b>\$17.54</b>	<b>\$20.33</b>
G&A	(\$7.35)	(\$4.88)	(\$5.42)	(4.88)	(6.73)	(11.23)
Cash interest costs	(\$0.47)	(\$0.28)	(\$0.11)	(0.33)	(0.65)	(0.35)
Current tax (expense)/recovery	\$3.54	\$0.84	(\$2.57)	-	-	-
<b>Corporate Netbacks</b>	<b>\$12.07</b>	<b>\$4.56</b>	<b>\$18.14</b>	<b>25.54</b>	<b>10.16</b>	<b>8.75</b>

A 45% increase in realized prices for the Quarter offset by a 34% decrease in production resulted in slightly lower revenues (before hedging) over the prior quarter. However in direct correlation to the overall weaker oil price environment, the Company's hedging contracts generated a realized gain of \$165,957 (\$2.01 per bbl) for an average realized heavy oil price (net of hedging) of \$50.45 per bbl, 41% higher than the prior quarter of \$35.90.

Operating netbacks for the Quarter (before hedging) averaged \$14.34 per bbl, 122% higher than the \$6.46 per bbl recorded in the prior quarter due to the 45% rise in oil prices which absorbed a 21% increase in operating costs per barrel due to lower production volumes over the same period. Kaisen continued with further cost reduction initiatives which were responsible for holding operating costs below \$20.00 per bbl during a period of production declines. Overall, the Quarter's much improved realized netbacks (including hedging gains) generated field level profits of \$1,349,922 22% higher than the \$1,104,375 recorded in the prior quarter. Considering the pessimism within the energy industry of late, we are pleased to report positive funds flow for second quarter of \$996,569, which was 76% higher than the prior quarter.

On the administrative front, net G&A expenses for the Quarter totaled \$606,894, unchanged from the prior quarter. And on the income tax front, Kaisen realized a current income tax recovery of \$142,380 with a year to date recovery of \$209,926 which has offset more than 50% of the fourth quarter accrued current tax expense of \$401,236. We expect our current tax liability to further decline through the balance of the tax year (ending September 30, 2015) due to a forecasted taxable income loss in the final quarter of this tax year.

From a debt leverage perspective, our net debt decreased by \$249,833 or 7% over the prior quarter ending at \$3.3 million. Our current debt level following this tumultuous period demonstrates the continuing strength of our balance sheet with only 29% drawn on our \$11.1 million lending base. However with our annual loan facility review underway with ATB, we expect to see a meaningful reduction in our borrowing base to reflect current economic conditions. We remain confident in the strength of our relationship with ATB and in our overall position of balance sheet strength and expect to leverage these points in our ongoing discussions.

For further details on our second quarter operations and related financial results, please refer to the accompanying unaudited financial statements and management discussion and analysis for the three and six month periods ended June 30, 2015.

## **OUTLOOK FOR THE REMAINDER OF 2015**

Now mostly through the summer months, we continue to be optimistic that these challenging times will provide significant opportunities for Kaisen to grow through potential land consolidation and lower cost drilling opportunities. We have spent considerable time strategizing on how best to capture these opportunities and how best to maximize shareholder value through an ever evolving view of our existing assets and the most efficient way to recover the significant resource below our feet. We are looking towards the growth of our horizontal well inventory, enhanced recovery initiatives and well down spacing opportunities to ensure we flourish in whatever price environment we find ourselves in.

We know that opportunity may arise with little notice to commence with a renewed development program, to this end, we have surveyed and acquired a drill ready inventory of 20 wells, including 4 horizontal wells which will allow us to be highly nimble in response to improving market conditions. Furthermore, through the use of existing idle equipment on currently shut-in wells, we have amassed an inventory of completion equipment sufficient to drill the next 6-8 wells which when coupled with drilling rate reductions of up to 20% would see an overall reduction in costs of 40% below our 2014 drill and complete average. However, until the opportunity arises to recommence drilling, we will continue to seek further operating efficiencies through well by well profitability reviews, continued bids for service cost reductions, potential well electrifications and other similar initiatives, as well as the potential advancement of low cost well optimizations and tie-ins.

Patience remains to be our key mantra as we move through the remainder of 2015. We remain flexible to adapt to market fluctuations and opportunities as they arise which we believe will be plentiful in the months ahead. All things considered, we continue to be happy with the position we are in at this point in the year and we look forward to continued operational successes as we move forward. And as always, we remain mindful and attentive to the eventual opportunity to delivery liquidity to shareholders if and when the opportunity arises.

### **KAISEN EXECUTIVE MANAGEMENT TEAM:**

*Cameron King*  
President & CEO

*Jeff Holmgren*  
Senior VP & CFO

*Chris McGinnis*  
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*Andy Kramchynski*  
VP Geology