December 18, 2015: Volume 11

KAISEN RELEASES THIRD QUARTER FINANCIAL AND OPERATING RESULTS, PROVIDES UPDATE ON AZIMUTH PARTNERSHIP AND CURRENT OPERATIONS

KAISEN PARTNERS WITH AZIMUTH CAPITAL MANAGEMENT

Kaisen is pleased to present the financial and operating results for the three and nine months ended September 30, 2015 (the "Quarter"), albeit a few weeks later than normal due to delays on account of numerous events of the past month that have added new elements of consideration to our business. Most significantly, we are very pleased to have closed our equity partnership with Azimuth Capital Management ("Azimuth" formerly Kern Energy Partners) on November 19, as previously disclosed in our letter to shareholders dated October 27, 2015 and in a Canada wide press release dated November 23, 2015. Our partnership with Azimuth has seen an initial injection of $10,000,000 in gross proceeds priced at $1.25 per common share with an additional line of equity of $10,000,000, on the same terms. The full $20,000,000 has been designated for ongoing development of the Company's existing asset base. Azimuth has also committed a further $25,000,000, on similar terms, to fund opportunistic acquisitions if identified, however no obligation exists to utilize these funds.

We believe the ability to close this equity financing during these difficult times in the industry speaks volumes to the the quality of our assets, and the significance of the approaching acquisition opportunities that are likely to emerge over the coming months. The timely culmination of these factors, now coupled with access to meaningful capital, have placed Kaisen in an enviable position of strength with financial security in a 'lower for even longer' price outlook, and the financial resources to take advantage of current and emerging market opportunities for the creation of substantial value for all shareholders.

Management is keen to exploit our position of strength, however we remain steadfast to the basic principles of our business, namely sound and responsible fiscal management with an emphasis on continued balance sheet strength and reponsible debt leverage levels. We also want to assure shareholders that we feel the weight of responsibility to make prudent financial investments that will deliver accretive value to all shareholders with investment criteria that is centered on quality assets with substantial upside that best maximises the skillset of Kaisen's technical team. To achieve this goal, we will remain patient but persistent in our search for acquisition opportunities. Lastly, we will continue to view the development of our business in the context of seeking an eventual liquidity event for shareholders at the earliest opportunity when meaningful value can be achieved.

A LOOK IN THE REARVIEW MIRROR

We, like most other oil and gas producers, are less than enthusiastic to look in the rearview mirror to the results of the third quarter. What more can be said than commodity prices jumped off a tall cliff immediately after posting encouraging results in the prior quarter. Though we can all admit we suspected the modest price rebound in May/June was too good to be true, the full weight of our false hopes were felt through the entirety of the third quarter with an average realized price that was down 26% over the prior quarter, and 52% lower than the prior year. Unfortunately lower prices are a double edged sword that have inflicted casualty to capital activity levels which in response has delivered declining production volumes and uneconomic production shut-ins. Since our production peak of ~1,800 bbl/d in December of last year, average production volumes are down 51% to 828 bbl/d in third quarter. With the culmination of lower prices and lower production, Kaisen reported a third quarter funds flow loss of $144k, a painful contrast to a funds flow profit of $997k in the prior quarter and $2,510k in the same quarter of last year.

Suffice to say we are doing what we can to maintain production levels with as few dollars as possible while also working to minimize costs without sacrificing operating efficiencies or safety. However, further uneconomic production shut-ins may be considered if prices continue down this bearish path for longer. Any further shut-ins would be determined on a mutliple of criteria including current well economics (are the barrels contributing to, or eroding funds flow?), strategic preservation of future value (should we preserve high volume/low cost wells for a higher price environment?), land tenure considerations, and lastly, strategic learnings (does this well contribute to the understanding and future development of the underlying reserves?)

There is always more to be done and we will continue to seek out opportunities to operate more efficiently in this environment. We believe strongly in the old adage that 'what does not kill you makes you stronger'. With thanks to a strong balance sheet, future capital access, and the experience and expertise of our board and management, we aim to emerge out of this downturn stronger than when we entered it in the fall of 2014.

OPERATIONS UPDATE

Quarterly Production by Area	**Q3/15**	Q2/15	Q1/15	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13
Lone Rock (bbl/d)	**291**	327	556	828	529	291	421	534
Edam (bbl/d)	**537**	580	826	864	549	458	486	394
Other (boe/d)	**-**	-	-	7	26	24	35	35
Total daily average (boe/d)	**828**	907	1,382	1,699	1,104	773	942	963

For the year to date, our development activites have been relatively minimal due to the precipitous decline in oil prices. Since November of last year, Kaisen shelved a total of 22 new drill projects and numerous smaller optimization and facility projects. Despite these deferrals, there has still been a lot of low cost activity focused on production optimization, operating cost reductions, land tenure, and strategic learning about our plays.

Our principle activites for the year to date can be categorized into 27 separate projects which included the drilling of two vertical wells (one at each Edam and Lone Rock), two zonal well recompletions at Lone Rock, two well reactivations at Edam for land tenure, downhole pump upgrades to maximise production returns, installation of casing gas compressors and fuel gas tie-ins to reduce fuel gas costs and water transfer tie-ins to reduce produced water trucking costs, for a combined investment of approximately $2.3 million. A further $1.1 million was invested in facility work including expansion and upgrades to handle increased sour water influx and water production capacity at Edam.

Given the low price environment of the past 12 months, we have had little choice but to allow production to decline from our prior year high of ~1,800 bbl/d as we focus on minimizing costs to enhance profitability. Current field estimate for production at the time of writing this letter is in the range of 750-850 bbl/d, approximatley 10% lower than the production range most recently reported to shareholders in our last communication on October 27.

With ongoing volatility in the industry, we will continue to be prudent in our investment decisions as we contemplate the near and long term benefits of each project in the context of maximising shareholder value while preserving financial flexibility and security.

Edam Operations

- At Edam, minimal drilling activity has occurred since our last Edam well was drilled in September of 2014.
- In efforts to minimize expenditures while maximizing gains, our Edam program focused on operating cost reductions and facility & pump upgrades as needed.
- In mid August we drilled 1 new well (C12-15-48-19w3) for land tenure purposes and completed one well reactivation in August (6-34-48-19w3). This reactivation has delivered a modest production average of approximately 40 bbl/d. Two recompletions were performed in late November (also for land tenure purposes) with minimal data to report at this point.
- For most of the year (March-October), Edam production was range bound between 520 to 600 bbl/d, however current total Edam field estimated production is approxiomately 400 bbl/d having fallen victim to economically driven shut-ins of approximately 100 bbl/d.

Lone Rock Operations

- At Lone Rock we have undertaken minimal activity since September 2014. However, the work that was carried out during year has provided significant insight on how best to exploit this area.
- In the absense of a new well drilling budget for 2015, our principle activites in the area focused on gaining a better understanding of the Sparky, Colony and Lloydminster reservoirs. Key activites included;
  a. One well reactivation in the Lloydminster formation to validate horizontal well potential and land tenure.
  b. Three well recompletions: one Colony conversion to Sparky, and two Sparky conversions to Colony
  c. One new vertical Sparky well (A6-7-47-26w3) drilled in November for production. This well has produced positive results, averaging 180 bbl/d of high quality (16.3 API) oil over the past 30 days.
- Lone Rock base production continues to track type curve expectations and is currently stable at approximately 250 bbl/d.
- Current total Lone Rock field estimated production is approximately 400 to 420 bbl/d.

FINANCIAL UPDATE

	Quarterly Results (unaudited)						
	Q3, 2015	Q2, 2015	Q1, 2015	Q4, 2014	Q3, 2014	Q2, 2014	Q1, 2014
Financial results *($,000 except per share amounts)*							
Petroleum and natural gas sales	**$2,730**	$4,000	$4,166	$9,124	$7,593	$5,480	$5,782
Realized hedging gains/(losses)	**$505**	$166	$301	$771	($335)	($688)	($404)
Funds flow from operations[1]	**($144)**	$997	$566	$2,754	$2,510	$747	$728
Per share – basic[1]	**($0.02)**	$0.06	$0.04	$0.18	$0.20	$0.06	$0.06
Per share – diluted[1]	**($0.02)**	$0.06	$0.04	$0.17	$0.16	$0.06	$0.06
Net earnings / (loss)	**$358**	($1,667)	($607)	$403	$1,618	($104)	($1,854)
Per share – basic	**$0.02**	($0.11)	($0.04)	$0.03	$0.13	($0.01)	($0.16)
Per share – diluted	**$0.02**	($0.11)	($0.04)	$0.03	$0.11	($0.01)	($0.16)
Capital Expenditures	**$1,519**	$747	$700	$2,511	$8,487	$1,536	$2,460
Net debt	**$4,930**	$3,267	$3,516	$3,382	$3,620	$5,282	$4,359
Share Capital *(,000)*							
Outstanding – basic	**15,420**	15,420	15,420	15,420	15,420	11,912	11,895
Outstanding – diluted	**18,649**	18,649	18,649	18,649	18,649	14,736	14,719
Weighted average– basic	**15,420**	15,420	15,420	15,420	12,865	11,912	11,895
Weighted average– diluted	**15,598**	15,420	15,420	16,123	15,391	14,736	11,895
Operating Netbacks							
Sales price	**$35.85**	$48.44	$33.48	$58.40	$74.76	$77.86	$68.37
Royalties	**($6.57)**	($10.61)	($6.60)	($14.82)	($19.14)	($18.84)	($16.42)
Saskatchewan surcharge tax	**($1.92)**	($0.91)	($1.84)	($2.97)	-	-	-
Operating expenses	**($24.95)**	($19.74)	($16.32)	($17.03)	($19.48)	($29.09)	($24.73)
Transportation expenses	**($2.89)**	($2.84)	($2.26)	($2.28)	($2.09)	($2.62)	($2.19)
Netbacks (before hedging)	**($0.48)**	$14.34	$6.46	$21.30	$34.05	$27.31	$25.03
Realized gain/(loss) on hedging	**$6.63**	$2.01	$2.42	$4.94	($3.30)	($9.77)	($4.70)
Netbacks (after hedging)	**$6.15**	$16.35	$8.88	$26.24	$30.75	**$17.54**	**$20.33**
G&A	**($7.59)**	($7.35)	($4.88)	($5.42)	(4.88)	(6.73)	(11.23)
Cash interest costs	**($0.52)**	($0.47)	($0.28)	($0.11)	(0.33)	(0.65)	(0.35)
Current tax (expense)/recovery	**$0.06**	$3.54	$0.84	($2.57)	-	-	-
Corporate Netbacks	**($1.90)**	$12.07	$4.56	$18.14	25.54	10.16	8.75

During the Quarter, oil prices dropped to their lowest point in 2015 with WTI averaging US$46.40, 52% lower than the same period in 2014 and 20% lower than the prior quarter while to our benefit, the WCS differential narrowed from US$20.17 per barrel in the third quarter of 2014 to US$13.27 per barrel in the current Quarter (up however, from US$11.59 per barrel in the prior quarter). These commodity price movements when coupled with a 21% weakening of the Canadian dollar over the same period, resulted in a realized well-head commodity price for the Quarter of $35.85 per barrel, 52% lower than the $74.76 per barrel realized in third quarter of 2014 and 26% lower than the $48.44 per barrel realized in the prior quarter.

Operating netbacks for the Quarter (before hedging) averaged a loss of $0.48 per barrel, in stark contrast to the prior quarter netback profit of $14.34 per barrel and $34.05 per barrel in the same quarter of 2014. Kaisen continued with cost reduction initiatives during the Quarter, however with a large fixed cost component to our operations, spread over a declining production base, we realized an increase in operating costs per barrel of $5.21 for the Quarter and $5.47 year to date over the prior quarter and prior year, respectively.

Realized field netbacks (including hedging gains) received partial relief from our 2015 hedging program which generated a realized hedging gain of $6.63 per barrel ($505,000) for a total netback of $6.15 per barrel ($16.35 per barrel in the prior quarter and $30.75 per barrel in the same period in 2014.)

On the administrative front, net G&A expenses for the Quarter totaled $577,844, 5% lower than the prior quarter and 17% higher than the same period in 2014. For the full year, we anticipate up to a 20% reduction in G&A expenses over the prior year due to various cost reduction measures implemented over the past many months.

With considerably lower funds flow for the Quarter and year to date, net debt increased by $1.7 million and $1.3 million respectively. The Quarter ending net debt of $4.9 million was 44% drawn on our $11.1 million lending base. However, subsequent to the Quarter end, our loan facility review was completed with our bank resulting in a borrowing limit reduction from $11.1 million to $5.5 million which would have increased our debt leverage to 95% had we not completed the Azimuth private equity financing in November.

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

OUTLOOK FOR 2016

With a continuing low and extremely volatile commodity price environment expected to persist well into 2016, Kaisen intends to take measured and calculated steps regarding our level of capital activity for the first half of 2016 while also appreciating the opportunity exists to take advantage of significantly reduced drilling and equipment costs. To this end, we are closely reviewing a first half of 2016 program which may include the drilling of certain strategic wells, low cost well reactivations and further cost reduction projects to improve our netbacks, however each project will only be initiated if it makes sense in the context of market and operational circumstances.

On the acquisition front, we view an emerging market for asset opportunities during the first half of 2016. Already we are seeing signs of extreme distress with some of our core area competitors, however we believe patience will be critical in reviewing these opportunities as will be reading the markets to determine when best (if at all) to jump into action.

Our efforts over the coming months will continue to be guided by our key principles of maintaining balance sheet strength and financial optionality while maximizing value for all shareholders in the context of a 'lower for even longer' view towards an eventual oil price recovery.

2015 has been a difficult year for most, and 2016 is likely to deliver even more challenges, however for at least the few short weeks leading up to and during the Christmas and New Year's holidays, we hope you find time to pause, to rest and rejuvenate with close friends and family. Like you, we will return in 2016 ready to take on these challenges and to turn them into great opportunities and successes.

We wish you a Merry Christmas from the Kaisen management team!

KAISEN EXECUTIVE MANAGEMENT TEAM:			
Cameron King	***Jeff Holmgren***	***Chris McGinnis***	***Andy Kramchynski***
President & CEO	***Senior VP & CFO***	***VP Operations & Engineering***	***VP Geology***