



KAISEN

Energy Corp.

July 2013: Volume 1 / Issue 1

KAISEN DRILLS ITS FIRST 4 WELLS

In the last half of June, the first 4 wells in Kaisen's development program were drilled, adding 295 bbls/d of new production. The average of all four wells has exceeded our forecasted expectations for production and has confirmed our geological interpretation of the area, thereby significantly de-risking the Buzzard play.



On the rig floor of our first drill (L-R) Jeff Holmgren, Cam King, Chris McGinnis

PRESIDENT'S MESSAGE TO SHAREHOLDERS

We would like to take a moment to bring our valued shareholders up to speed on the recent developments of Kaisen Energy Corp. since the initial investment round this past spring. We are very happy to report that our strategic direction has been achieved to date with early drilling successes at Buzzard as well as the recent inking of a significant asset acquisition at Edam Saskatchewan.

Our first 4 wells at Buzzard were drilled in late June and all 4 were pumping by the end of the first 2 weeks of July. So far, the wells have proved to be a resounding success achieving early days production of ~75 bbls/d (in contrast to our initial forecast rate of 50 bbls/d). We remain very optimistic that each of these first 4 wells will become long term steady money makers for Kaisen and its shareholders. Furthermore, the success of these wells has confirmed our geological/geophysical interpretation, thereby significantly de-risking the Buzzard play for our phase two drilling program which is now in the planning stages for commencement in mid-September. We are also proud to report that our drilling and completion costs for each well were ~\$475 thousand by contrast to peer costs in the area ranging from \$550 to \$625 thousand.

Already at this early stage, we find ourselves further along than we would have anticipated in terms of production growth successes and acquisition opportunities

Our time from spud to pumping averaged only 8 days which further highlights the efficiency of our operations. Coupled with low drilling costs, payout rates on these wells of less than six months are achievable at today's prices. All-in-all, a very successful drilling program with excellent results to date.

In keeping with the Kaisen strategy, we have been scouring the many asset acquisition opportunities currently in the market with the hope of identifying an unloved and under optimized heavy oil asset which would be ripe for our technical team to exploit. In May, we identified the Edam acquisition, a property we have been closely following since the fall of 2012. By mid-June, we finalized our due diligence work and we were able to sign a definitive agreement to acquire the

properties no later than August 29, 2013. We believe the Edam property has significant resource potential and, if successful, could prove to be a 'Company Maker' for Kaisen. Further details of this deal, along with our financing strategy to acquire the properties, are provided below and include both a flow-through and common share offering to all existing shareholders.

In July, we successfully closed a small corporate acquisition (#1210757 Ab Ltd.). This deal was part of our original founding transactions and was included in all forecasts and presentations dating back to March 2013; however, the process required up to now to complete. #1210757 adds an additional ~40 bbls/d of production to our portfolio along with ~\$25-\$30k of monthly cash flow. Kaisen does not operate this property and, therefore will divert very minimal time to its ongoing management.

In summary, we are very encouraged by the developments of Kaisen thus far. Our founding belief that Kaisen would be well timed and positioned to capitalize on an upcoming heavy oil price up-cycle is beginning to catch hold. All indications suggest that with the significant improvement in heavy oil prices, coupled with the continued flood of heavy oil assets on the market, Kaisen will be in the enviable position of buying low and ultimately selling high.

Cam King
President & CEO

EDAM ACQUISITION CLOSING AUGUST 29

The Edam acquisition provides Kaisen with a significant resource potential. In fact, it is one of the largest heavy oil pools in the Lloydminster area with an estimated 234 million bbls of original oil in place (as disclosed in Government of Saskatchewan reserves reporting), in which the Edam assets hold slightly less than half of the total acreage within the pool, approximating 110 million bbls of oil. 7.4 million bbls have been produced to date, leaving another 6.7 million bbls of recoverable oil using known primary recovery technologies. There is currently 1.2 million bbls of booked 2P reserves, leaving 5.5 million bbls of oil as unbooked upside (the "prize"), along with current production of ~275 bbls/d. In our initial analysis of the opportunity, we have identified 19 new drilling locations (6 PUDs, 13 probable) plus 30 unbooked locations and 20 recompletion opportunities to capitalize on the relatively low recovery rate to date. The total acquisition price is \$6.5 million producing acquisition metrics of \$23,600 per flowing bbl and \$5.44 per bbl of 2P reserves. To put this in perspective, the year to date heavy oil acquisition metrics in the market place have averaged \$25,000 per flowing bbl and \$13.50 per bbl of 2P reserves, and on a 3-year average, heavy oil metrics have averaged \$42,000 per flowing bbl and \$16.40 per bbl of 2P reserves. As a further value enhancement, the asset also includes a water injection facility capable of handling up to 12,000 bbl/d of water.

HOW WILL KAISEN FINANCE THIS ACQUISITION?

As part of our financing strategy for the \$6.5 million dollar Edam acquisition, we have been working closely with Casimir Capital, where over the past 2 weeks discussions have been held with over 20 private equity providers in efforts to raise \$10-13 million. The response from our meetings has been very good as they clearly see the deep value in our team, our corporate strategy and the assets accumulated to date. We hope to bring 1-3 significant private equity investors into our story, which will provide us with a meaningful partnership for future access to development and acquisition capital. In addition, we have opened a \$2 million flow-through share offering, the details of which are provided below. Although we are aiming for a combined financing in the range of \$10-15 million, market demand will dictate the overall size and pricing of this financing.

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\$2 MILLION FLOW THROUGH SHARE OFFERING

As part of our financing strategy for the Edam acquisition, Kaisen is taking advantage of a 1-time allowance to provide a flow through of development tax pools to shareholders, deductible at the exploration deduction rate of 100% to investors. As will be our practice for all future equity offerings, the flow-through share offering is being extended initially to shareholders to provide our investors with the first opportunity to take advantage of the relatively low risk tax deductible investment. Pricing for this offering will be determined when the Edam acquisition financing is completed, ensuring equivalent pricing plus a 15% premium for the tax deduction benefit. For example, if the Edam financing closes at a price of \$2.00 per share, as we expect, the flow through shares will be valued at \$2.00 + 15% for a total price of \$2.30 per flow through share. As we are taking subscriptions for the flow through offering now, the number of shares acquired will be ultimately determined

upon closing of the Edam acquisition; however, the nominal dollar value of the investment and the ultimately deductibility will remain unchanged. Shareholders will also be invited to participate in the follow-on equity financing in connection with the Edam acquisition at the time when the terms and pricing are known.

\$10-13 MILLION COMMON SHARE OFFERING

Kaisen is currently working on a common share financing with Casimir Capital acting as our broker. The details of this financing, once finalized, will be provided to all shareholders to allow for shareholder participation on the same terms. This may be of particular interest to shareholders who do not need the tax deduction benefit of the aforementioned flow through share offering.

As always will be our practice for all equity offerings, the flow through and common share offering is being offered initially to existing shareholders to take advantage of the relatively low risk tax deduction

Deadline for expression of interest for flow through and/or common shares is Friday August 9, 2013.

If you are interested in making an investment in the Kaisen Flow Through and/or common share offering, please contact Jeff Holmgren at 587-350-5772 or email jholmgren@kaisenenergy.com in order to receive a share subscription form and/or further information.

CONCLUDING REMARKS

The Kaisen team is very proud to report of our achievements in these first 4 months of operations, adding value to shareholders through a successful initial drilling program, growth in drilling inventory at Buzzard and the signing of our first meaningful asset acquisition at Edam. Our current reserves based net asset value per share on a 2P and 3P basis is approximately \$2.72 and \$3.82, respectively. Upon the closing of the Edam acquisition on August 29, we will have a 2P and 3P net asset value of \$3.00 and \$4.31, respectively - an accretive transaction to shareholders by any measure! With the inclusion of the Edam property in conjunction with the availability of the \$8 million of development capital included in the current equity financing, we would forecast achieving an average of 800 bbl/d of production for the 2nd half of 2013 with an exit rate north of 1,000 bbl/d and 2nd half cash flow of \$3.7 million. In 2014, we would see the full impact of our planned development program, where we would expect to achieve an average of 1,800 bbl/d exiting the year north of 2,000 bbl/d with cash flow generation of \$20 million. We look forward to sharing our future successes and go forward strategies, as well as keeping investors up to date on a regular basis through this newsletter, and as always we encourage investor feedback at any time.