



October 2013: Volume 2

KAISEN'S 4 WELL FALL DRILLING PROGRAM SET TO COMMENCE LATE OCTOBER

On the heels of Kaisen's highly successful spring drilling program, plans are set to commence with our next 4-well program at Buzzard in late October along with numerous well reactivations at Edam through the winter to harvest the initial low lying fruit from this summer's Edam acquisition.

Now with summer safely in the rear view mirror we would like to take a brief pause to update our shareholders on the significant milestones that have occurred since our last letter in July.

Summer was highly eventful on many fronts, most notably with the continued operations of our Buzzard property and ongoing optimization of our 4 new wells drilled in late June, along with the summer financing and readiness for the closing of the Edam acquisition on August 29. We are happy to report that our efforts throughout the summer have been rewarded with continued high production rates at Buzzard and the successful closing of our \$5.0 million financing and concurrent Edam Acquisition.

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Any oil and gas executive will quickly tell you that raising capital funds in the summer months is a challenge, however, layering on a currently poor capital markets environment would for most make the thought of success a near impossibility. We believe Kaisen's summer financing was successful for 3 key reasons; 1) Team: we have been very fortunate to assemble a technical and financial team that has the credentials and past successes to inspire confidence, a team that works extremely well together and loves what they do from the beginning of the day to end, along with the guiding hand of a seasoned and insightful board of directors that are engaged in the development of this Company; 2) Quality assets: the Edam assets nearly sold themselves once a proper technical analysis and development story was designed. Assets that we believe are a 'Company Maker' for Kaisen with the potential for a significant valuation upside with minimal capital outlay; and lastly 3) Early success at Buzzard with our June drilling program set the stage as we headed on the road in middle July to tell our story, demonstrating that the team was capable of delivering solid well results cost effectively.

In keeping with the Kaisen strategy, we will continue to assess asset acquisition opportunities currently in the market with the hope of identifying other unloved and under optimized heavy oil assets similar to Edam.

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Our focus over the coming months will be to continue to successfully integrate the Edam assets, to further our understanding of the drilling and reactivation opportunities through a series of reactivations scheduled for this fall and winter; to execute a successful 4 well drilling program at Buzzard scheduled to begin later this month; to ready ourselves for the year end third party reserves evaluation with Sproule Associates; and to ensure our financial house remains in order with continued emphasis on cost management and a strong balance sheet. We believe that in achieving these objectives, we will be in a position of both financial and operational strength, a unique position in these tougher times which will serve us well as we move into 2014.

OPERATIONS UPDATE

Current production is approximately 900 boe per day (95% heavy oil).

Area	Boe per day
Buzzard	515
Edam	350
Pembina	40
Total	905

The initial 4 wells drilled in June at Buzzard continue to exceed our forecast expectations, with combined production of ~470 boe per day for an average initial production rate of ~120 boe per day per well. Drilling costs are now all in and the average cost per well was \$440,000, 17% under budget, safely 25% lower than the average of our peers. With the stage now set for our 4 well program scheduled to commence later this month, we hope to see similar results. At Edam, we have initiated 2 early projects to reduce operating costs and downtime through installation of gas trees at producing wells which will enable the use of produced gas to fuel the tank heaters, foregoing the need to purchase expensive propane, and installation of SCADA monitoring on producing wells to better monitor operating conditions which should reduce the risk of unexpected shut-ins and resulting service rig costs. A series of 6 reactivations have been scheduled at Edam to re-start old shut-in wells which we believe are still capable of production under better operational practices. The first of these optimizations has already been completed, turning a shut-in well into a well producing ~ 45 boe per day at a total cost of less than \$100,000 generating an extremely low capital efficiency ratio of \$2,300/bbl. The low cost of these initial reactivations are due to the utilization of surplus equipment acquired in the Edam Acquisition.

Management is currently discussing the possibility of shooting a 3-D seismic program over the Edam properties this winter, however this decision will not be made until later this month. 3-D data would significantly enhance the technical interpretation and identification of drilling locations for 2014 and beyond.

Overall, operations are running very smoothly as we continue to manage the day to day with our principal focus on revenue maximization while also ensuring cost efficiencies are maximised at every opportunity.

FINANCIAL UPDATE

In connection with the closing of the Edam Acquisition for total closing funds of \$7.0 million (inclusive of purchase adjustments for July net revenues, property taxes, land and mineral rentals etc.), Kaisen raised a total of \$4.95 million in equity which was comprised of a \$1.95 million flow through share offering at \$2.30 per share, and a \$3.0 million common share offering at \$2.00 per share. To bridge the funding gap, Kaisen entered into a banking facility agreement with ATB Bank to provide up to a \$3.0 million revolving operating facility (to be reviewed on May 31, 2014) and a \$3.0 million bridge facility (due and payable on March 31, 2014). \$2.0 million was initially drawn on the operating facility to close the acquisition. Kaisen anticipates the September 30 net debt (net of working capital) to be reduced to approximately \$750,000 through operating cash flows from August and September production. A formal lending review with ATB will occur after completion of the year end reserves evaluation, from which it is anticipated that our revolving operating facility will increase beyond the amount of our current bridge facility which is due on March 31, 2014, however current forecasts do not see Kaisen utilizing the bridge loan between now and March 31, 2014. As we stated at the beginning of this story, Kaisen intends to utilize only minimal amounts of debt leverage (relative to our peers) during peak periods of drilling activity to ensure we maintain complete financial flexibility to weather unforeseen storms.

Kaisen has engaged Ernst & Young LLP as its auditors to provide quarterly financial statement reviews and a year end audit on behalf of the board of directors and shareholders. A full financial review will be provided to shareholders along with the September 30, 2013 quarterly financial statements in late November following the completion of Ernst & Young's review.

CONCLUDING REMARKS

We continue to be very optimistic about the future of Kaisen. Operational plans for the fall and winter will continue to further our story of rapid production growth and value creation. We will stay the course as charted in the beginning to build a high quality heavy oil producing company well positioned to find an exit when the right opportunity arises. 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.

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