



November 2013: Volume 3

KAISEN RELEASES ITS THIRD QUARTER FINANCIAL STATEMENTS MD&A – DRILLING AND ACQUISITION RESULTS EXCEED EXPECTATIONS

We are happy to provide you, our valued shareholders and stakeholders of Kaisen Energy Corp., with our latest financial and operational update in concert with the finalization of the Company’s financial statements for the three month and inception to date periods ended September 30, 2013 (“Q3 Financial Statements”) and the accompanying Management Discussion and Analysis (“MD&A”). This newsletter will provide a high level update of the current operational and financial results of the Company, however for an in-depth review of the Company’s financial results to September 30, I encourage you to review the Q3 Financial Statements and MD&A.

OPERATIONS UPDATE

Kaisen has had a phenomenal start as an upstart conventional heavy oil producer, with current production volumes exceeding 1,300 barrels (“bbls”) of oil per day. In this first year, the Company has prioritized revenue growth through aggressive drilling and production optimization, while concurrently targeting accretive resource rich acquisitions. Kaisen’s early positioning in conventional heavy oil coupled with a highly technical approach to operations has generated significant value for its shareholders. This comes at a time when the ‘herd’ of Canadian producers are focused on the expensive tight light oil developments like the Montney, Cardium and Viking. Unfortunately for the ‘herd’, capital constrained markets have significantly impeded the ability to fund these tight oil plays in the current price environment. This is where Kaisen’s heavy oil strategy shines, having demonstrated solid production growth with capital efficiencies that are 3-4 times better than our light oil counterparts.

For Kaisen, the operational focus has been centered on production growth and capital efficiency, leveraging the best of the best in people and services when it comes to heavy oil expertise. The Company moved forward in developing its health, safety and environment (“HS&E”) and regulatory compliance programs, while driving forward to minimize costs in concert with maximising the revenue stream.

Production

Kaisen has demonstrated its ability to add production volumes very cheaply. Best in class operating practices have enabled the Company to successfully optimize our base production while efficient development drilling and top tiered reactivation opportunities have added significant growth volumes. All of the planned 2013 capital projects are now complete and on stream with total heavy oil volumes now exceeding 1,300 bbls of oil per day (97% heavy oil) up 33% since our last newsletter in October.

Area (boe per day)	Current	October Newsletter
Lone Rock	743	515
Edam	580	350
Pembina	37	40
Total	1,360	905

Total Company production averaged 503 barrels of oil equivalent (“boe”) per day for the three month period ended September 30, 2013 (the “Quarter”) with Lone Rock contributing 369 bbl per day, Edam contributing 106 bbl per day and the Company’s non-operated properties at Pembina contributing approximately 29 boe per day (25% light crude oil and natural gas liquids). Current total production is approximately 1,360 boe per day as we continue to dial in the production efficiencies of the new wells and reactivations. We are currently forecasting to exit the year with production in the range of 1,350 – 1,450 boe per day.

Up to the date of this newsletter, Kaisen has invested a total of \$5.2 million on drilling and optimization programs. One measure of the success of a capital program or the capital efficiency is the cost of adding production or \$/flowing barrel of production per day. The benchmark one typically compares this capital efficiency against is the industry average cost of acquiring production. The current year to date industry average for heavy oil is \$31,668 per flowing bbl and \$41,610 per flowing bbl for the three year rolling average, by contrast to our corporate average of \$8,900 per flowing bbl. Highlights of these programs along with the Edam acquisition are in the inset to the above.

At present, the five new wells at Lone Rock have added approximately 275 bbls per day of production at a total cost of approximately \$2.3 million (average \$460,000 per well) or \$8,300 per flowing bbl added. While at Edam, the six reactivations (along with base production optimization) have added an additional 330 bbls per day for total costs of \$860,000 or \$2,600 per flowing bbl added.

Overall, the Edam acquisition has proven to be extremely accretive for Kaisen shareholders. If one considers the purchase price, the subsequent capital investment, and current production performance; the overall acquisition metrics yield a capital efficiency of approximately \$13,000 per flowing bbl added with a total investment to date of \$7.9 million.

With capital efficiencies this low, we are confident that Kaisen is one of the most cost efficient operators in the greater Lloydminster conventional heavy oil play.

FINANCIAL UPDATE

The Q3 Financials and MD&A are the first financial reports of the Company to be issued since inception on November 6, 2012. Beginning with the Q3 reports, Kaisen will issue full financial statements, notes and MD&A (in compliance with International Financial Accounting Standards (“IFRS”)) for each quarter ending on March 31, June 30, September 30 and December 31. Ernst & Young LLP has been engaged as the Company’s auditors to provide a review of quarterly financial results and an audit of annual December 31 financial results.

1. LONE ROCK Q3 DRILLS (PREVIOUSLY REFERRED TO AS BUZZARD)

- Total 4 wells drilled
- Total spend was \$1.85MM, nearly 20% under budget.
- Average per well cost of \$460,000 all-in.
- Added 500 bbls oil per day, outperforming expectations by 150%.
- Capital Efficiency of \$3,700 per flowing bbl added
- Spud to on-stream timing of 8 days on average – efficient and fast turnover of capital.

2. LONE ROCK Q4 DRILLS

- Total 5 wells drilled
- Total spend was \$2.3MM
- Average per well cost of \$460,000 all-in.
- Added 275 bbls oil per day as of Nov 19....on target and optimizing).
- Capital Efficiency of \$8,300 per flowing bbl added
- Spud to on-stream timing of 10 days on average

2. EDAM ACQUISITION:

- Integrated 270 bbls oil per day and 15 producing wells into Kaisen Operations on August 29, 2013.
- Quickly employed a strategy to optimize production, reactivate wells, and reduce unit costs.
- Capital efficiency of \$2,600 per flowing bbl added.

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Revenues and cashflow for the Quarter ramped up in direct correlation to the substantial growth in production during the same period. Total revenues for the Quarter and inception to date were \$3.6 million and \$4.0 million respectively, generating cash flows of \$1.4 million for the Quarter and \$1.2 million inception to date. Revenues for the period benefited from the strong Western Canada Select (“WCS”) heavy oil price over the summer months, particularly in July and August. Refer to the commodity price section of the MD&A for an overview of the current and forecasted heavy oil price environment.

Operating costs for the Quarter averaged \$12.01 per boe while general and administrative (“G&A”) expenses averaged \$11.83. We will continue to execute on operating cost reduction initiatives over the coming months as we become increasingly familiar with our new assets particularly at Edam. G&A expenses for the period are reflective of a new junior startup considering typical startup costs and initial lower production, however we anticipate G&A per boe will continue to decline into a peer competitive range of \$5.00-\$6.00 per bbl as we enter into 2014 on account of continued efficient operations and increasing production.

Kaisen ended the Quarter with positive working capital \$442,570 (cash and accounts receivable net of accounts payable) and total net debt of \$944,015. With a strong balance sheet and operating cash flows, we are in the enviable position of having numerous options available to us as we look towards future development and acquisition opportunities.

CONCLUDING REMARKS

We are very encouraged by our operational and financial results to date and we look forward to the coming months ahead as we plan for the next phase of growth and value creation for our shareholders. Please review the Q3 Financial Statements and MD&A and do not hesitate to contact any of the Kaisen management team with your comments and/or questions. We look forward to providing our next update early in the new year, until then, we wish you all the best in the quickly approaching holiday season.

KAISEN EXECUTIVE MANAGEMENT TEAM:

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