KAISEN Energy Corp.

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KAISEN RELEASES ITS ANNUAL FINANCIAL STATEMENTS AND MD&A – OUR FIRST YEAR OF OPERATIONS EXCEEDS EXPECTATIONS

2013 will certainly be remembered as a tremendous founding year for Kaisen. From acquisition of our initial Lone Rock assets on March 20 till now, production has surpassed our initial expectations, exiting the year with a December production average of 1,170 boe per day, when only nine months earlier we viewed 1,000 boe per day as a stretch goal. What brought us to this point was a culmination of factors, including an exceptionally opportunistic acquisition of the Edam properties in August, coupled with a highly effective optimization/reactivation program at Edam along with a solid nine well drilling program at Lone Rock. A program that in its entirety educated us on the geological and engineering opportunities (and challenges) that lay ahead, but foremost confirmed our view of the substantial resource potential of our properties.

With our internal reserves assessment of over 200 million barrels of original oil-in-place, historic ultimate primary recovery rates of 10-12 percent (analogous of similar pools in the area) plus enhanced (waterflood/thermal) oil recoveries in the 20-30 percent range (analogous of similar pools in the area), the Company controls a resource far beyond what is typical for a junior producer of our size.

We encourage you to review in detail, the full year audited financial results and management discussion and analysis accompanying this newsletter. Herein we will update you on the highlights of the year, both operational and financial, and our outlook and plans for 2014 and beyond. The key message in our financial and operational results to date is that Kaisen is well positioned to take on the new year with 'optionality' as its greatest strength. Kaisen has been afforded the luxury of numerous paths available from which to choose. Each path brings value creation opportunities coupled with varying degrees of risk. With a strong balance sheet (low debt level relative to borrowing capacity), supportive shareholders, elevated interest levels from various sources of equity and a continually improving outlook for heavy oil, we see the opportunity to capitalize on the convergence of these factors through a continued (and possibly accelerated) rate of development, or by contrast an opportunity to monetize the value creation to date through a sales transaction of the Company all, or in part, thereby locking in a financial return for shareholders. However, before we get the proverbial 'cart before the horse', we assure shareholders that we remain solely focused on the continued development and value creation for Kaisen and look forward to doing so for as long as it takes to do so.

Drilling D12-6 (Lone Rock) in June – Kaisen's first, and one of its' best wells

OPERATIONS HIGHLIGHTS

Total Company production averaged 488 boe per day in 2013, beginning on March 20, 2013 (date of the Lone Rock acquisition) until December 31, 2013, herein referred to as the Operating Period ("Operating Period"). 97 percent of Kaisen's production for the three months ended December 31, 2013 (the "Quarter") and the Operating Period was heavy oil from the Company's core operating areas at Lone Rock and Edam with the remaining production from the Company's non-operating interests in the Pembina area of Alberta (acquired in the acquisition of 1210757 Ab Ltd. in July). For the Quarter, production averaged 963 boe per day (97 percent heavy oil), benefitting from the addition of the Edam assets in September and the fourth quarter drilling, reactivation and optimization programs.

Area *(boe per day)*	**Current estimated field production**	**Three months ended December 31, 2013**	**From inception to December 31, 2013**
Lone Rock	450	534	308
Edam	600	394	161
other	35	35	19
Total daily average	**1,085**	**963**	**488**

(1) Daily production averages for the period from inception on November 6, 2012 to December 31, 2013 are reflected as of the date of commencement of operations on March 20, 2013 to December 31, 2013

Lone Rock

The Company's drilling program for 2013 was focused 100 percent at Lone Rock. As previously disclosed, Kaisen drilled a highly successful four well program in July and followed this up with an additional five new wells in October/November. Although the results of the fall program were not as spectacular as the July program, we remain encouraged that the combined program has exceeded the statistical type curve expectations for both production rate and cumulative oil volumes. The results at Lone Rock demonstrate the importance of approaching a development program from a statistical perspective which requires that a sufficient number of wells be drilled in a program to achieve a statistical average that meets or exceeds the type curve averages. Lone Rock delivered average production for the Quarter of 534 boe per day and provides the strongest netbacks of the two core areas based on a higher overall oil quality and lower operating costs. We currently forecast netbacks at Lone Rock to be in the range of $35.00 to $40.00 per boe in 2014.

LONE ROCK TOTAL 2013 PROGRAM SUMMARY

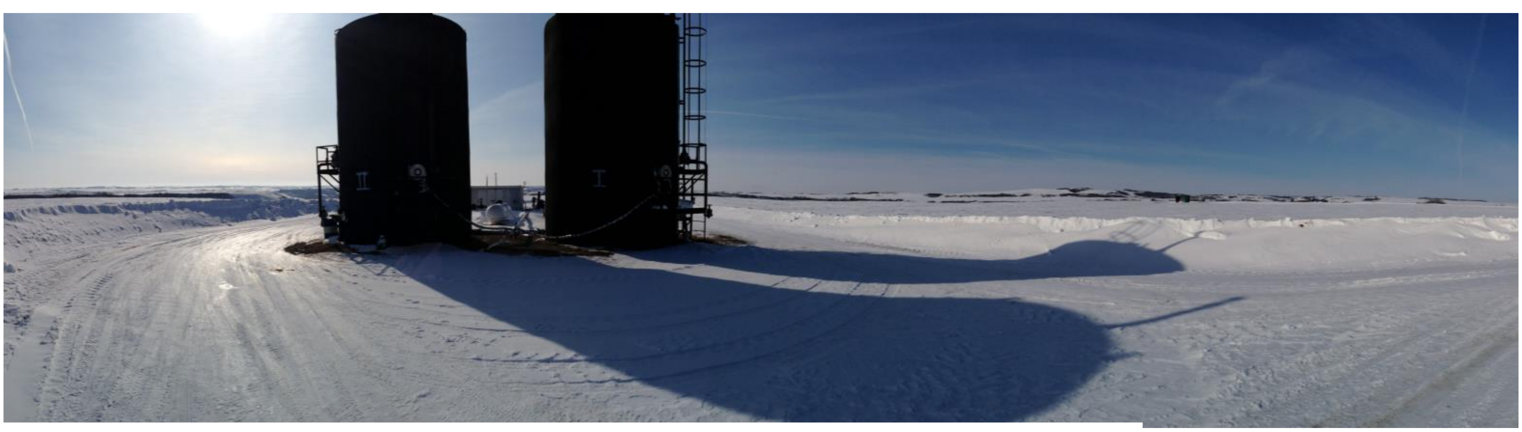
- Acquisition cost $5.5MM
- Total 9 wells drilled
- Total capital spend $4.16MM
- Added 550 bbls oil per day at exit, outperforming original type curve expectations by ~20%.
- Change in future development capital $11.6MM
- Finding, development & acquisition cost $12.62 per boe (inc. Future Development Capital ("FDC")
- Recycle rate ($35.00 netback) 2.8x
- Total capital efficiency of $7,563 per flowing bbl added
- Spud to on-stream timing of 8 days on average – efficient and fast

Edam

Edam, which was added to the portfolio in September, provided the Company with an under-optimized asset wrought with opportunity for optimization and well reactivation projects, the first of which were initiated in the late fall. The initial strategy with Edam was to first maximize production after which operating cost reductions and optimizations would further enhance overall economics. Kaisen succeeded in this strategy, increasing production from 270 boe per day in August to over 500 boe per day by years end without drilling a single well. For the Quarter, Edam averaged 394 boe per day. We currently forecast netbacks at Edam to be in the range of $25.00 to $30.00 per boe in 2014

EDAM TOTAL 2013 PROGRAM SUMMARY

- Acquisition cost $6.5MM
- Integrated 270 bbls oil per day and 15 producing wells into Kaisen Operations on August 29, 2013.
- Re-activated 5 shut-in wells
- Completed numerous cost optimization initiatives reduced field operating costs by ~35%.
- Total capital spend $1.0MM
- Added 200 bbls oil per day at exit, outperforming expectations by 100%.
- Change in future development capital $20.1MM
- Finding, development & acquisition cost $6.70 per boe (inc. FDC)
- Recycle rate ($25.00 netback) 3.7x
- Total capital efficiency of $4,819 per flowing bbl added



A cold but sunny day at our Lone Rock 5-7 well

RESERVES HIGHLIGHTS

Reserves summary at December 31, 2013 using Sproule January 1, 2014 forecast pricing

Company interest	Heavy Oil (mbbls)	Light oil (mbbls)	NGL's (mbbls)	Natural Gas (mmcf)	Total (mboes)
Proved Developed Producing	735.2	4.4	3.8	320.0	765.4
Proved Developed Non-Producing	532.2	-	-	-	565.0
Proved Non-Producing & Undeveloped	1,988.1	7.7	10.2	291.0	2,056.9
Total Proved	3,255.1	12.2	14.0	611.0	3,387.3
Total Probable	2,740.3	5.7	6.2	272.0	2,800.3
Total Proved plus Probable	5,995.8	17.9	20.3	883.0	6,187.6

Net present value of future revenues before income taxes under forecast prices and costs discounted at 10%

Company interest ($ thousands)	Heavy Oil (mbbls)	Light oil (mbbls)	NGL's (mbbls)	Natural Gas (mmcf)	Total (mboes)
Proved Developed Producing	20,188	631	-	92	20,818
Proved Developed Non-Producing	8,198	-	-	-	8,290
Proved Non-Producing & Undeveloped	22,217	1,008	-	-	23,225
Total Proved	50,602	1,639	-	92	52,333
Total Probable	53,528	665	-	46	54,239
Total Proved plus Probable	104,130	2,303	-	138	106,572

Efficiency Ratios

The following table highlights Kaisen's annual capital efficiency through finding and development ("F&D") and finding, development and acquisition ("FD&A") per boe metrics as well as a recycle ratio metric.

($ thousands, expect per share amounts)	2013 Proved plus probable
Reserves acquired (mboes)	1,939.5
Reserves additions (mboes)	4,246.1
Current year production (mboes)	154.9
Total capital spending	$5,646
Total acquisitions	$13,622
Change in FDC	$33,606
Total capital	$52,874
F&D costs including FDC per boe	$8.91
FD&A costs including FDC per boe	$8.34
Recycle Ratio (FD&A with FDC)[1]	3.4x
Reserve life index (years) – using annualized Q4 2013 production rate	17.6

(1) *Recycle ratio is calculated using the Company's full year operating netback of $28.03 per boe*

Kaisen's efforts towards its operational successes and learnings, coupled with extensive geological review, culminated into a strong reserves report at year end from our independent reserves engineers, Sproule & Associates. Kaisen increased reserves by 293 percent generating a corporate finding and development ("F&D") cost (including change in future development capital) of $8.91 per boe. Finding, development and acquisition ("FD&A") costs (including the change in future development capital) was $8.34 per boe. In a survey of our peers (publically available data), our FD&A rate ranked second best among a group of 50, the lowest of which was $7.99 per boe and the average of which was $17.58 per boe. The Company's operating recycle ratio for the year was 3.4x and our corporate recycle ratio (deducting G&A, interest and current taxes) was 2.0, an unusual accomplishment for a junior producer in its first year typically burdened with the higher operating and G&A costs in the start-up phase. Using a normalized G&A rate of $5.00 per boe produces a corporate recycle ratio of 2.4x.

FINANCIAL UPDATE

	Three Months Ended Dec 31, 2013 *(unaudited)*	From inception on November 6, 2012 until December 31, 2013
Financial results		
Petroleum and natural gas sales	4,806,391	8,763,154
Cash from operating activities	2,925,955	3,843,778
Funds flow from operations[(1)]	1,004,372	2,239,316
Per share – basic[(1)]	$0.08	$0.34
Per share – diluted[(1)]	$0.07	$0.25
Net earnings (loss)	(68,264)	119,675
Per share – basic	-	0.02
Per share – diluted	-	0.01
Expenditures on oil & gas properties	3,678,564	5,869,678
Corporate and Asset acquisitions	-	8,874,719
Net debt	2,626,046	2,626,046
Common shares		
Outstanding – basic	11,895,122	11,895,122
Outstanding – diluted	14,719,121	14,719,121
Weighted average– basic	11,895,114	6,658,493
Weighted average– diluted	14,240,113	9,003,492
Sales Volumes[(3)]		
Crude Oil (bbls per day)	932	470
NGL (bbls per day)	6	4
Natural gas (Mcf per day)	143	86
Barrels of oil equivalent (boe per day) [(2)]	963	488

(1) *The reader is referred to the section - "Non-IFRS Measurements".*
(2) *The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's".*
(3) *Daily production averages for the period from inception on November 6, 2012 to December 31, 2013 are reflected as of the date of commencement of operations on March 20, 2013 to December 31, 2013 (the "Operating Period")*

From inception on November 6, 2012 to December 31, 2013 (the "Year"), Kaisen generated $8.7 million in sales (~98 percent heavy oil) and funds flow of $2.2 million. For the Quarter, sales were $4.8 million with funds flow of $1.0 million. Realized pricing for our heavy oil production during the Quarter and Year were $55.08 and $64.46 respectively by contrast to market averages for Western Canadian Select ("WCS") of $70.29 and $80.17 respectively.

Timing is everything, and for Kaisen it was unfortunate that our highest month of production for the Year (December) was mismatched with the lowest realized average price during the same period of $47.72, by contrast to a realized price of $90.74 in August (the month before acquiring our Edam production). This clearly demonstrates the volatility of commodity prices which can dramatically impact revenues and cash flow from one month to the next. Following the pricing lows in December, Kaisen decided it was time to layer in a price risk mitigation strategy by entering into West Texas intermediate ("WTI") price hedges totaling 600 boe per day at CAD$100.00 as well as a fixed WCS differential to WTI hedge of CAD$22.50 for 300 boe per day, all for the period February 1 to December 31, 2014. Currently these hedges are below the current market prices, however we remain mindful that if one's hedges are profitable, the larger unhedged production volumes are even worse off. Therefore we hope the Company is always on the losing side of high priced hedge positions!

Kaisen's average operating netback for the Quarter and Year was $20.44 and $28.03 per boe respectively. The lower netback for the Quarter reflects the pricing lows realized in December. For 2014, Kaisen is currently forecasting an average operating netback of approximately $30.00 principally based on a stronger (yet still conservative) price forecast of US$95.00 for WTI, Canada/US foreign exchange rate of 0.95 and a WCS differential to CAD WTI of 21 percent (-$21.00), along with continued operating cost optimizations.

Netbacks *($ per boe)*	Three Months Ended Dec 31, 2013 *(unaudited)*	From inception on November 6, 2012 until December 31, 2013
Sales price	54.27	63.05
Royalties	(13.86)	(15.63)
Operating expenses	(17.95)	(17.44)
Transportation expenses	(2.02)	(1.95)
Operating Netbacks	**20.44**	**28.03**
G&A	(4.99)	(8.94)
Cash interest costs	(0.17)	(0.19)
Current taxes	(3.85)	(2.48)
Corporate Netback (before taxes)	**11.43**	**16.42**

Kaisen commenced operations with a mandate to always maximize efficiencies at all levels, this applies very significantly to our general and administrative ("G&A") costs. For the Quarter and Year, Kaisen's G&A costs per boe were $4.99 and $8.94 respectively. The higher rate for the Year reflects the higher costs relative to the lower production rates realized in the first half of the year as Kaisen commenced operations and readied itself for its initial drilling program. The most recently completed quarter is a fair reflection of the forecasted G&A cost burden for 2014. With the inclusion of G&A, interest and current taxes, the Company realized a corporate netback for the Quarter and Year of $11.43 and $16.42 per boe respectively.

Kaisen ended the Year with net debt of $2.6 million (including a working capital deficit of $901,498) against a borrowing limit of $6.0 million. At the time of drafting this newsletter, we have initiated discussions with our lendor (ATB Bank) to review our borrowing limit in concert with the final results of our December 31, 2013 reserves report (discussed below). Based on these initial discussions, we are anticipating our borrowing limit will increase to a revised limit between $10.0-$13.0 million. For March 31, 2014, we are anticipating net debt will peak at approximately $4.0 million which encompasses the costs associated with our January/February capital program in addition to the $1.3 million 3D seismic acquisition program acquired over the majority of our Edam lands in February. However, we are forecasting a steady decline in net debt levels to below $1.5 million by June before we ramp up our summer capital program. By contrast to our peers, Kaisen's net debt is considered well below average peer levels with a year ending net debt to 2013 annualized fourth quarter funds flow ratio of 0.6x. Our low debt leverage position is in keeping with our strategy to ensure we maintain financial flexibility for unforeseen events and/or opportunities.

For further details on our 2013 year ended financial results, please refer to the accompanying financial statements and management discussion and analysis.

OUTLOOK FOR 2014

Kaisen is encouraged by its results to date, and enters 2014 with a $12.4 million capital program budget that includes 15 new wells (10 at Edam, 5 at Lone Rock), Edam 3D seismic acquisition (discussed below), plus water handling/disposal infrastructure to increase water handling capacity to support the planned production growth which is forecasted to average 1,200-1,400 boe per day with a year-end exit of 1,600-1,800 boe per day

At Edam, we anxiously await the interpreted results of our 3D seismic program which encompasses the majority of our Edam lands in a joint cost share agreement with Husky Energy. We believe that Husky was eager to shoot a seismic program on our properties to satisfy their own geological curiosities as they look to expand their thermal recovery projects beyond the existing two 10,000 boe per day projects in East Edam (contiguous to Kaisen's Edam lands) which were recently announced in January.

2014 will also see further advancements towards possible enhanced recovery opportunities at both Lone Rock and Edam beginning with two independent resource studies (by Sproule & Associates), one in April for a water flood at Lone Rock, and the second in early summer for the potential for small scale thermal recovery opportunities at Edam (following completion of the 3D seismic interpretation.) Later this year Kaisen will assess the findings of both of these reports in concert with our continued drilling results, project economics and long term strategic development plans to determine how best to maximize the possible recovery of these sizeable resource plays.

As stated at the beginning of this newsletter, the overriding message to shareholders is that Kaisen has tremendous optionality at hand. We feel fortunate to have realized positive drilling and reactivation results to date and endeavor to take these learnings forward into 2014 while continually and responsibly focusing on the ultimate goal of generating and monetizing maximum value back to you, our shareholders. Kaisen plans to release its next financial and operations newsletter in May following completion of the March 31, 2013 financial statements. Until then, feel free to contact any one of the management team members listed below…we always enjoy hearing from you.

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