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## KAISEN RELEASES ITS Q1 FINANCIAL RESULTS AND ANNOUNCES SHAREHOLDER RIGHTS OFFERING TO FUND 2014 STRATEGIC DRILLING PROGRAM

The first half of 2014 has been a busy period for Kaisen. Since exiting 2013, we have spent considerable time reflecting on the successes of the past year along with the areas we feel we can improve upon, in an effort to best translate these learnings into future opportunities and value growth for shareholders. Our analysis of the results from the 2013 drilling program has provided significant insights into how to best improve on our upcoming drilling program with regards to enhancements and tweaks to our drilling and completions process. As for new drilling targets, Kaisen's in-depth geological and geophysical work, coupled with our recently acquired 3D seismic covering the majority of our Edam lands has provided much needed detail to identify the best drilling locations at Edam, and further geological and geophysical work at Lone Rock has helped to focus our efforts there also. With our top drilling locations identified, we are now ready and excited to execute on a 2014 capital program with great expectations for a repeat of our successful first year.

With respect to funding our planned 2014 drilling program, we believe it is of utmost importance to maintain a strong balance sheet to ensure financial flexibility in response to the ever changing markets and the unique risks of this industry. To ensure this, Kaisen intends to capitalize on the strength of our equity capital and value creation to date with an equity raise of between \$5 million-\$10 million which we anticipate closing within the next 4-6 weeks. With the closing of this equity raise, we will be sufficiently capitalized to fund what we believe is a very strategic and value enhancing drilling program in the second half of this year. Our commitment to shareholders has always been to ensure you receive equal opportunity to participate in equity raises through the development of the Kaisen story. We plan to do this through a rights offering to shareholders which is further explained later in this newsletter. As for any remaining funding gap, we will look towards new shareholders including small private equity firms and other retail investors that wish to participate. We are confident in the significant potential of Kaisen and we are optimistic for success in this equity raise, comfortable with the fact that as a small company, we have the unique advantage of being nimble and responsive to the ever shifting sands of our business.

What follows is a high level review of our first quarter financial results, a brief operations update on our two core operating areas at Lone Rock and Edam, and further details on the shareholder rights offering.

### OPERATIONS HIGHLIGHTS

For the three months ended March 31, 2014, (the "Quarter"), Kaisen incurred very little activity in the field, choosing instead to focus our efforts on analyzing production results from the 2013 nine well drill program and the furthering of our engineering assessments for future development planning in order to develop the best possible strategic approach for the 2014 drilling program and beyond. To further the Company's understanding of the resource opportunity at Edam, approximately \$1.5 million (net to Kaisen) was invested during the Quarter in a 3D seismic acquisition program over the majority of our Edam lands. The cost of this program was shared approximately 50/50 with Husky Energy Ltd. and provided significant insight into the future drilling opportunities on this property.

Area (boe per day)	Current estimated field production (June)	Three months ended March 31, 2014	Three months ended December 31, 2013
Lone Rock	330	421	534
Edam	500	486	394
other	30	35	35
<b>Total daily average</b>	<b>860</b>	<b>942</b>	<b>963</b>

Total Company production for the Quarter averaged 942 boe per day which is unchanged from the prior quarter. 97% of Kaisen's production for the Quarter 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. In spite of drilling zero wells during the Quarter, coupled with the late quarter effects of the spring thaw (the annual two month season that inevitably impacts production on account of road bans that restrict the ability to transport oil to market and movement of service rigs and well site equipment within the field), Kaisen was successful at maintaining relatively flat production. At Lone Rock, production averaged 421 boe per day, a reduction of 21% over the prior quarter while at Edam, production increased 24% to 486 boe per day. During the first few weeks of June, we are currently estimating a field production rate of approximately 860 boe per day as we continue to recover from spring break up.

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## FINANCIAL UPDATE

	Three Months Ended March 31, 2014 <i>(unaudited)</i>	Three Months Ended December 31, 2013 <i>(unaudited)</i>
<b>Financial results</b>		
Petroleum and natural gas sales	5,782,300	4,806,391
Hedging losses	403,764	-
Funds flow from operations <sup>(1)</sup>	727,675	1,004,372
Per share – basic <sup>(1)</sup>	0.06	\$0.08
Per share – diluted <sup>(1)</sup>	0.06	\$0.07
Net loss	(1,853,544)	(68,264)
Per share – basic	(0.16)	-
Per share – diluted	(0.16)	-
Expenditures on oil & gas properties	2,460,367	3,678,564
Net debt	4,358,738	2,626,046
<b>Common shares</b>		
Outstanding – basic	11,895,122	11,895,122
Outstanding – diluted	14,719,113	14,719,121
Weighted average– basic	11,895,122	11,895,114
Weighted average– diluted	11,895,122	14,240,113
<b>Operating Netbacks</b>		
Sales price	68.37	54.27
Royalties	(16.42)	(13.86)
Operating expenses	(24.73)	(17.95)
Transportation expenses	(2.19)	(2.02)
Netbacks (before hedging)	25.03	20.44
Realized loss on risk management contracts (hedging)	(4.70)	-
Netbacks (after hedging)	20.33	20.44

<sup>(1)</sup> The reader is referred to the section - "Non-IFRS Measurements".

<sup>(2)</sup> The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's".

During the Quarter, the Company recorded funds flow from operations of \$727,675 (\$0.06 per diluted share) compared to \$1,004,372 (\$0.07 per diluted share) in the prior quarter. A 26% increase in realized pricing during the Quarter as compared to the prior quarter was the largest factor driving a 22% increase in field netbacks (before hedging) over the same period, however realized hedging losses during the Quarter of \$403,764 along with bonus payments to management and staff were the key drivers contributing to the 28% decline in funds flow quarter over quarter.

While production remained relatively flat during the Quarter, realized prices increased significantly in February and March reaching as high as \$77.63 per boe in February by contrast to the significantly lower realized price of \$47.72 per boe in December 2013. Higher realized heavy oil prices which averaged \$66.34 per boe during the Quarter (\$55.08 per boe in the prior quarter) were partially offset by higher operating costs during the same period of \$24.73 per boe as compared to \$17.95 per boe in the prior quarter, due largely to the significantly higher price of propane and natural gas coupled with higher fuel gas usage during the cold winter months, along with seasonal repair and maintenance work carried out during the period. During the Quarter, the Company's risk management contracts (hedging contracts) generated a loss of \$4.70 per boe with financial derivative contracts that were initiated in February in accordance with our risk management strategy to mitigate the risk of future fluctuations in commodity prices.

Kaisen's average operating netback for the Quarter compared to the prior quarter was \$20.33 and \$20.44 per boe respectively, generating field level profits (after hedging) of \$1,708,169 compared to \$1,810,682 in the prior quarter. Although prices were higher in the Quarter, the operating netback remained flat due to the inclusion of hedging losses of \$4.70 per boe. 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% (-\$21.00), along with continued operating cost optimizations.

Netbacks (\$ per boe)	Three Months Ended Mar 31, 2014 <i>(unaudited)</i>	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>
	Sales price	68.37
Royalties	(16.42)	(13.86)
Operating expenses	(24.73)	(17.95)
Transportation expenses	(2.19)	(2.02)
<b>Operating Netbacks (before hedging)</b>	<b>25.03</b>	<b>20.44</b>
Realized loss on risk management	(4.70)	-
<b>Netbacks (after hedging)</b>	<b>20.33</b>	<b>20.44</b>
G&A	(11.23)	(4.99)
Cash interest costs	(0.35)	(0.17)
Current taxes	-	(3.85)
<b>Corporate Netback (before taxes)</b>	<b>8.75</b>	<b>11.43</b>

G&A costs during the Quarter were higher than in the prior quarter due to the inclusion of the aforementioned bonuses and directors fees that were paid in March. Excluding these payments, G&A expenses for the Quarter would have averaged \$5.56 per boe, on trend with our forecast for the remainder of 2014.

Net debt at March 31, 2014 was \$4.3 million and was driven primarily by the cost of our 3D seismic program during the Quarter. We are anticipating net debt will decline through to June before we ramp up our summer capital program. By contrast to our peers, Kaisen's net debt is considered below average peer levels with a

Quarter ending net debt to annualized first quarter funds flow (normalized for bonus and director fees) ratio of <1.0. Our low debt leverage position

is in keeping with our strategy to ensure we maintain financial flexibility for unforeseen events and/or opportunities. At the end of May, we completed our negotiations with our lender (ATB Bank) resulting in an increase in our borrowing limit from the previous \$6 million to a revised limit of \$11.5 million, comprised of a \$9.5 million operating facility and a \$2.0 million bridge facility. ATB's willingness to increase our borrowing capacity commensurate with the growth of our story, over a relatively short period of time, is a clear demonstration of their confidence in the team and our assets.

For further details on our first quarter financial results, please refer to the accompanying unaudited financial statements and management discussion and analysis.

## PLANNED 2014 CAPITAL PROGRAM

Kaisen has prepared a comprehensive 2014 capital program (subject to success on a minimum \$5 million equity raise) that will ensure advancements in both Lone Rock and Edam on a production/cashflow basis and value enhancements from strategic drilling that we believe will greatly add to the vertical and horizontal drilling inventory (and hence reserves value) of the properties. 6 vertical wells are planned at Lone Rock and 4 vertical wells at Edam with another 4 well reactivations at Edam. The Company is also excited to test the horizontal potential at Edam with one 4-well pad which we believe has the potential to open up a significant horizontal development opportunity. In total, the second half of 2014 drilling program budget has been set at \$10 million with a further \$4.0 million to be invested in infrastructure and maintenance work at Edam to ensure we have sufficient water transport and disposal capacity to handle the planned long term growth. We anticipate the drilling program will deliver an additional 500-800 boe per day of new production at an averaged capital efficiency of \$20,000 to \$12,325 per boe (excluding infrastructure costs). More importantly, we believe this program will create tremendous value by greatly enhancing the confidence factor of our properties, in particular the significant oil in place opportunity at Edam which may be further advanced through potential thermal recovery methods in the not-too-distant future and the emerging potential of horizontal development in both areas. For these reasons, we believe this program is a carefully crafted balance between near term production and cashflow growth with long term upside value creation, all of which will be enticing qualities in the eyes of a potential future acquirer. Adjustments, if necessary, will be made to this program in response to the results of our current equity raise.

## JUNE 2014 SHAREHOLDER RIGHTS OFFERING

As mentioned in the opening of this newsletter, Kaisen is announcing a rights offering (the "Rights Offering") to all existing shareholders to participate in a portion of the planned \$5-10 million equity raise anticipated to close in early to mid July. The Rights Offering will provide all shareholders with a right to acquire additional shares of the Company (reserved from a portion of the total equity offering) proportionate to each shareholders' existing ownership percentage. Once pricing for the equity offering has been determined, we will communicate to all shareholders all of the pertinent information necessary for you make an informed decision on whether or not to participate, so stay tuned.

## OUTLOOK FOR REMAINDER OF 2014

With the extensive preparatory work of the past six months behind us, we are excited to get back to the drill bit with our planned 2014 capital program (pending success with our current equity raise.) We will also continue to monitor all relevant acquisition opportunities as they arise to ensure we take advantage of any low cost opportunistic assets that may come to the market from time to time. With optimism for success in our equity raise along with the strong gesture of support from our bank, we believe we will be sufficiently capitalized to take Kaisen to the next level, a level at which we are confident Kaisen's carefully developed asset portfolio and strong balance sheet may be well positioned for an eventual corporate sale to one of the larger heavy oil players in our identified buyer's universe. However, we remain mindful that our eventual exit will be a culmination of operating results, timing and market conditions, not all of which is within our control.

For 2014 we anticipate exiting the year between 1300-1600 boe per day with a net debt estimate of approximately \$6.2 million based on forecasted continued strong commodity pricing for the balance of the year.

### KAISEN EXECUTIVE MANAGEMENT TEAM:

*Cameron King*  
*President & CEO*

*Jeff Holmgren*  
*Senior VP & CFO*

*Chris McGinnis*  
*VP Operations & Engineering*

*Andy Kramchynski*  
*VP Geology*

*Lowell Jackson*  
*Executive Chairman*