

September 8, 2014: Volume 6

KAISEN RELEASES ITS Q2 FINANCIAL RESULTS AND ANNOUNCES CLOSING OF \$8.0 MILLION PRIVATE PLACEMENT AND ACCELERATED DRILLING PROGRAM

With much anticipation, we are excited to return to the land of the working as corporate Calgary returns to work from what has been an exceptionally warm and dry summer! As for Kaisen, we saw a dramatic increase in our activity levels through the summer months on both the operations and corporate front. In July we kicked off our summer/fall drilling program while concurrently



(L-R) Andy Kramchynski (VP Geology), Jeff Holmgren (Sr. VP/CFO), Cameron King (President/CEO) and Chris McGinnis (VP Operations) take time to enjoy a day of golf in support of the Drew Clark Charity Golf Tournament at Glen Eagles.

announcing and working on a private equity raise to fund further expansions to our capital program. We are happy to report that our efforts produced great results, first in the field with early drilling successes at Lone Rock and later this summer in the closing of our significantly oversubscribed equity offering. Admittedly we were off to a slow start in the first half of the year with a minimal capital program

that excluded the drilling of new wells. However, as previously explained in our June newsletter, we view this period as the preparatory phase of our accelerated growth plans for the second half of the year. We are confident that our homework and in-depth preparations will be rewarded with an exciting second half of the year as we work towards setting the stage for a possible exit opportunity in the not so distant future.

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OPERATIONS HIGHLIGHTS

For the three months ended June 30, 2014, (the "Quarter"), Kaisen's focus was primarily on final readiness plans for the commencement of our summer/fall drilling program in July. During the Quarter, in which no wells were drilled, production declined 18% from 942 barrels of oil equivalent ("boe") per day in the prior quarter to 773 boe per day on account of continued natural declines during our extended period of no drilling activity, further impacted spring break-up and continued wet rains through May and June, which hindered access for servicing of and fluid hauling from certain well sites, resulting in unplanned shut-ins.

Area (boe per day)	Current estimated field production (Sept)	Q2/14	Q1/14	Q4/13
Lone Rock	670	291	421	534
Edam	600	458	486	394
other	30	24	35	35
Total daily average	1,300	773	942	963

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. At Lone Rock, production was hardest hit by the wet weather during the Quarter with an average 291 boe per day (31% decline from 421 boe per day in the prior quarter), while at Edam, production declined by 6% to 458 boe per day (486 boe per day in the prior quarter). During the first few weeks of September, we are currently estimating a field production rate of approximately 1,300 boe per day, due largely to continued optimization work at Edam and from the first 4 wells drilled at Lone Rock in late July.

FINANCIAL UPDATE

	Three Months Ended June 30, 2014 (unaudited)	Three Months Ended March 31, 2014 (unaudited)	Six Months Ended June 30, 2014 (unaudited)
Financial results			
Petroleum and natural gas sales	5,480,037	5,782,300	11,262
Realized hedging losses	687,913	403,764	1,091,
Funds flow from operations ⁽¹⁾	746,809	727,675	1,474,
Per share – basic ⁽¹⁾	0.06	0.06	\$0.12
Per share – diluted ⁽¹⁾	0.06	0.06	\$0.12
Net loss	(104,200)	(1,853,544)	1,957,
Per share – basic	(0.01)	(0.16)	(0.16)
Per share – diluted	(0.01)	(0.16)	(0.16)
Expenditures on oil & gas properties	1,535,661	2,460,367	3,996,
Net debt	5,282,236	4,358,738	5,282,
Common shares			
Outstanding – basic	11,911,922	11,895,122	11,911
Outstanding – diluted	14,735,921	14,719,113	14,735
Weighted average– basic	11,911,922	11,895,122	11,911
Weighted average– diluted	14,735,921	11,895,122	14,735
Operating Netbacks			
Sales price	77.86	68.37	72.69
Royalties	(18.84)	(16.42)	(17.53)
Operating expenses	(29.09)	(24.73)	(26.73)
Transportation expenses	(2.62)	(2.19)	(2.38)
Netbacks (before hedging)	27.31	25.03	26.05
Realized loss on risk management contracts (hedging)	(9.77)	(4.70)	(7.05)
Netbacks (after hedging)	17.54	20.33	19.00

⁽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".

During the Quarter, production declined 18% from 942 barrels of oil equivalent ("boe") per day in the prior quarter to 773 boe per day on account of continued natural declines during our extended period of no drilling activity, further impacted spring break-up and continued wet rains through May and June, which hindered access for servicing of and fluid hauling from certain well sites. Realized heavy oil prices continued to rise during the Quarter, reaching as high as \$83.75 per boe in June, averaging \$79.04 for the Quarter (\$66.34 per boe in the prior quarter). In direct correlation to the strong realized market prices for oil, the Company's risk management contracts (hedging contracts) generated a loss of \$9.77 per boe during the Quarter (\$4.70 per boe in the prior quarter) producing an average realized heavy oil price (net of hedging) of \$69.27 per boe. The Company's hedging contracts were initiated in February in accordance with our risk management strategy to mitigate the risk of fluctuating commodity prices. Higher realized pricing was partially offset by higher operating costs per boe during the same period of \$29.09 as compared to \$24.73 in the prior quarter. Higher operating costs per boe during the Quarter were primarily due to a relatively large fixed operating cost base divided by the lower average production rate during the period. On a nominal basis, operating costs for the Quarter were \$47,234 lower than in the prior quarter. The Company's operating netback for the Quarter (after hedging) was \$17.54 per boe, 14% lower than the \$20.33 per boe recorded in the prior quarter, generating field level profits (after hedging) of \$1,234,478, 28% lower than the \$1,708,169 recorded in the prior quarter.

Quarterly Netbacks (\$ per boe)	Q2/14	Q1/14	Q4/13
	June 30, 2014 (unaudited)	Mar 31, 2014 (unaudited)	Dec 31, 2013 (unaudited)
Sales price	77.86	68.37	54.27
Royalties	(18.84)	(16.42)	(13.86)
Operating expenses	(29.09)	(24.73)	(17.95)
Transportation expenses	(2.62)	(2.19)	(2.02)
Operating Netbacks (before	27.31	25.03	20.44
Realized loss on hedging	(9.77)	(4.70)	-
Netbacks (after hedging)	17.54	20.33	20.44
G&A	(6.71)	(11.23)	(4.99)
Cash interest costs	(0.65)	(0.35)	(0.17)
Current taxes	-	-	(3.85)
Corporate Netback (before taxes)	10.18	8.75	11.43

For the balance of 2014, Kaisen is currently forecasting an average operating netback in the range of \$25.00 to \$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.

G&A costs for the Quarter are in line with expectations however on a per boe basis, costs of \$6.73 per boe are higher than forecast due to the lower production rates realized during the same period.

Net working capital at June 30, 2014 was \$5.3 million (\$4.3 million in the prior quarter) driven primarily by lower

revenues and equipment acquisitions for the July drilling program. In early July, our lender (ATB Bank) provided 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 second quarter financial results, please refer to the accompanying unaudited financial statements and management discussion and analysis.

KAISEN CLOSES \$7.8 MILLION PRIVATE PLACEMENT

As previously mentioned in the June newsletter, Kaisen announced a non-brokered private placement offering in July for up to 2,000,000 common shares at a price of \$2.25 per share for total gross proceeds of \$4,500,000. As a result of the significant interest shown in the offering, coupled with the confidence we have in the opportunity to deploy additional funds into value enhancing projects, the Company elected to close on total proceeds of approximately \$7,823,000, issuing approximately 3,477,000 common shares at \$2.25 per share to existing and new retail (non-institutional) investors. We were very encouraged by the response from both existing and new shareholders and we express our appreciation for your support in helping build the Kaisen story.

ACCELERATED SECOND HALF 2014 CAPITAL PROGRAM AND OUTLOOK FOR REMAINDER OF 2014

Due to the good fortune of our oversubscribed private placement, we have accelerated our previously planned capital program by adding an additional five wells thereby increasing our forecast exit rate from a previous range of 1,300 to 1,600 upwards to 1,500 to 1,800. Total cost of the enhanced capital program has increased from \$12.0 million to \$15.4 million. These additional funds will also strengthen our balance sheet by reducing our exit debt forecast to \$6.0 million (previously \$7.5 million). A manageable debt leverage rate of 52% and a very healthy debt to annualized forecast December cashflow rate of 0.3x will provide the Company with enhanced financial flexibility as we enter 2015.

At Lone Rock, we have already drilled the first 4 vertical wells of the program (in late July). Three of these four wells commenced production at initial production rates that have far exceeded our forecast. An additional five wells in September will extend our existing development boundaries for the regional Sparky formation as well as test the Colony formation which we believe may be prolific in the Lone Rock area. With receipt of our independent waterflood potential report (prepared by Sproule Associates) in June, we will continue to further the development of this significant enhanced recovery opportunity by seeking regulatory approval in the fall. In total, we will drill nine vertical wells at Lone Rock adding approximately 500 boe per day with a forecast year end exit between 700-800 boe per day.

At Edam, we are excited to be drilling for the first time since acquiring the assets in August 2013. Our first well spudded on August 23 with five more vertical wells to be completed in September/October. We have also planned two horizontal wells to be drilled in November which holds the potential of opening up a significant horizontal drilling opportunity. We will also reactivate four wells in October from our inventory of shut-in wells. In September we expect to receive an independent feasibility study (prepared by Sproule Associates) which when coupled with the results of a stratigraphic well planned for October, we hope will demonstrate a highly prospective thermal opportunity not unlike similar projects Husky has recently initiated in West Edam. In total, we plan to drill nine wells at Edam, (6 verticals, 2 horizontals, and 1 stratigraphic well) along with five well reactivations, which will add approximately 500 boe per day with a forecast year end exit between 800-1,000 boe per day.

On the facilities side of the equation, in July, we commenced with construction of our phase-1 water handling facility and related pipeline tie-ins at Edam to handle the planned production growth for 2014 and beyond. With scheduled start-up of this new facility in late September, we believe the additional water disposal capacity, in concert with reduced water trucking costs, will generate operating cost savings between \$3.00 and \$5.00 per boe.

We anticipate the results of our 2014 capital program will add approximately 1,000 boe per day of new production at an average capital efficiency rate of approximately \$12,000 per boe (excluding infrastructure costs) and will strengthen our operating netbacks (after hedging) into the range of \$25.00 to \$30.00 per boe. Very importantly, the capital program will greatly enhance 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 as well as the developing potential of horizontal development in both areas. With a forecasted exit rate of 1,500 to 1,800 boe per day coupled with stronger operating netbacks, we will have significant cash flow heading into 2015 which will enable the Company to cash fund an aggressive 2015 drilling program. With our sights set on the future, we remain steadfast in building a long term growth platform from which to build shareholder value into 2015 and beyond. However, we continue to watch for current and approaching market opportunities that could provide a liquidity event at attractive rates of return to shareholders at the earliest practical opportunity.

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