



April 10, 2015: Volume 8

**KAISEN RELEASES ITS ANNUAL FINANCIAL RESULTS AND RESERVES UPDATE – DELIVERING SIGNIFICANT PRODUCTION/FUNDS FLOW AND RESERVES GROWTH**

2014 is now in the rear view mirror and we are happy to report another successful year of significant production, funds flow and reserves growth. We more than made up for a quiet first half of the year with an active second half of field activity which generated significant year over year production growth of 132% (45% per diluted share) with record fourth quarter of 2014 (or the “Quarter”) production and funds flows as well as obtaining necessary technical data to grow our 2P reserves by 67% (25% per diluted share). Once again we extend our appreciation to our field operators and many service providers through which their tireless efforts and dedication made our successes possible. Spring is now underway and we are beginning to feel the effects of the melting snow (see inset below) which will slow down production and activity levels through the balance of the first half of 2015. As for commodity prices, we believe in the inverse theory ‘what comes down, must go up’ and therefore we will bide our time and prepare for an eventual capital program which we hope to initiate sometime in the second half of 2015. In the meantime, our low debt coupled with positive funds flow facilitated in part by our low cost structure and a new Feb-Dec’15 West Texas Intermediate (“WTI”) hedge, will help us sleep well at night. More details on our view of the future can be found in the outlook section at the end of the newsletter. As for a detailed look back on the year, please read the December 31, 2014 management discussion and analysis. Now on to the highlights of the fourth quarter and the annual reserves update.



Reactivating a shut-in well acquired in a 3-section land deal in our Lone Rock area which closed in December. This well has been a great producer since its late March start-up and the acquired lands have added significant drilling inventory to the reserve book.

**OPERATIONS HIGHLIGHTS**

Quarterly Production by Area	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13
Lone Rock (bbl/d)	828	529	291	421	534
Edam (bbl/d)	864	549	458	486	394
Other (boe/d)	7	26	24	35	35
<b>Total daily average (boe/d)</b>	<b>1,699</b>	<b>1,104</b>	<b>773</b>	<b>942</b>	<b>963</b>



The big spring melt has begun! This is A11-29 at Edam, underwater (taken April 1)

In total, \$2.5 million was invested during the fourth quarter (including net divestitures totaling \$679,375) towards the completion of the last 4 wells of our 13 well program along with an additional 4 wells which were reactivated in November. Production for the Quarter averaged 1,699 barrels of oil equivalent (“boe”) per day, 53% higher than the 1,104 boe per day recorded in the prior quarter and 76% higher than the same quarter in the prior year. December month production averaged a record 1,775 barrels of oil (“bbls”) per day (100% heavy oil) benefitting from a full month of production from all 13 new wells and the 4 new well reactivations.

The increased water handling capacity from our new Edam SWD facility along with the numerous other construction projects undertaken during the prior quarter were realized during the Quarter, contributing to a 13% reduction in operating costs quarter over quarter.

99% of Kaisен’s production for the Quarter was our heavy oil core operating areas at Lone Rock and Edam. At Lone Rock, production increased by 56% averaging 828 boe per day (529 boe per day in the prior quarter), while at Edam, production increased by 57% to 864 boe per day (549 boe per day in the prior quarter). In response to the weakening oil price, Kaisен undertook a thorough review of well level profitability which resulted in the shut-in of approximately 60 bbl/d of uneconomic production. At Edam, we have kicked off engineering

pre-work required for a planned upgrade to our SWD facilities to handle an increasing H2S (sour) content in our produced water from section 22. Until these upgrades are completed in the summer, we chose to shut-in approximately 280 bbl/d of production burdened with higher H2S levels. H2S is not uncommon in the region, however our Edam water disposal must be properly configured and equipped to protect our workers and service providers. The upgrades will also maximize operating efficiencies by utilizing our own facilities rather than incurring higher H2S water disposal fees at a 3rd party facility.

Now as we enter the predictable spring break up season, we are seeing further production shut-ins as expected, due to our inability to access certain well sites for oil hauling and/or servicing. With the impact of spring break up and the economic/H2S shut-ins above, we are currently estimating an average first quarter 2015 field production rate of between 1,300-1,400 boe per day.

## RESERVES HIGHLIGHTS

### Reserves summary at December 31, 2014 using Sproule December 31, 2014 forecast pricing

Company interest	Heavy Oil (mbbls)	Light oil (mbbls)	NGL's (mbbls)	Natural Gas (mmcf)	2014 Total (mboes)	2013 Total (mboes)	% Change
Proved Developed Producing	1,077.1	-	-	-	1,077.1	765.4	41%
Proved Developed Non-Producing	394.6	-	-	199.0	427.8	565.0	(24%)
Proved Non-Producing & Undeveloped	2,670.5	-	-	-	2,670.5	2,056.9	30%
Total Proved	4,142.2	-	-	199.9	4,175.4	3,387.3	23%
Total Probable	6,162.6	-	-	69.0	6,174.1	2,800.3	121%
Total Proved plus Probable	10,304.8	-	-	268.0	10,349.5	6,187.6	67%

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

Company interest (\$ thousands)	Heavy Oil	Light oil	NGL's	Natural Gas	2014 Total	2013 Total	% Change
Proved Developed Producing	26,026	-	-	-	26,026	20,818	25%
Proved Developed Non-Producing	6,858	-	-	74	6,932	8,290	(16%)
Proved Non-Producing & Undeveloped	41,052	-	-	-	41,052	23,225	77%
Total Proved	73,935	-	-	74	74,009	52,333	41%
Total Probable	104,495	-	-	46	104,541	54,239	93%
Total Proved plus Probable	178,430	-	-	121	178,551	106,572	68%

## 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, except per share amounts)	2014 Proved plus probable	2013 Proved plus probable
Reserves acquired (mboes)	540.6	1,939.5
Reserves additions (mboes)	4,036.0	4,246.1
Current year production (mboes)	(412.7)	(154.9)
Total capital spending (\$,000)	\$15,798	\$5,646
Total acquisitions (\$,000)	(\$689)	\$13,622
Change in FDC (\$,000)	\$37,151	\$33,606
Total capital (\$,000)	\$52,260	\$52,874
F&D costs including FDC per boe	\$9.54	\$9.24
FD&A costs including FDC per boe	\$11.42	\$8.55
Recycle Ratio (FD&A with FDC) <sup>1</sup>	2.4x	3.5x
Reserve life index (years) – using annualized Q4 production rate	16.8	17.6

Kaisen's 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 proved plus probable ("2P") reserves by 67% (293% in the prior year) generating a corporate finding and development ("F&D") cost (including change in future development capital) of \$9.54 per boe (\$9.24 per boe in the prior year). Finding, development and acquisition ("FD&A") costs (including the change in future development capital) was \$11.42 per boe (\$8.55 per boe in the prior year). The Company's FD&A operating recycle ratio for the year was 2.4x (3.5x in the prior year) and our corporate recycle ratio (deducting G&A, interest and current taxes) was 1.6x (2.0x in the prior year). By contrast to our peers, Kaisen delivered an FD&A and recycle ratio that is in the top quartile of our peer group.

1. Recycle ratio is calculated using the Company's full year operating netback of \$26.22 per boe (28.03 in 2013)

## FINANCIAL UPDATE

	Quarterly Results				Year Ended
	Dec 31, 2014 (unaudited)	Sept 30, 2014 (unaudited)	June 30, 2014 (unaudited)	March 31, 2014 (unaudited)	Dec 31, 2014 (audited)
<b>Financial results</b>					
Petroleum and natural gas sales	\$9,123,917	\$7,593,071	\$5,480,037	\$5,782,300	\$27,979,325
Realized hedging gains/(losses)	\$771,485	(\$335,140)	(\$687,913)	(\$403,764)	(\$655,333)
Funds flow from operations <sup>(1)</sup>	\$2,753,784	\$2,510,180	\$746,809	\$727,675	\$6,635,548
Per share – basic <sup>(1)</sup>	\$0.18	\$0.20	\$0.06	\$0.06	\$0.51
Per share – diluted <sup>(1)</sup>	\$0.17	\$0.16	\$0.06	\$0.06	\$0.48
Net earnings / (loss)	\$403,377	\$1,617,717	(\$104,200)	(\$1,853,544)	\$63,347
Per share – basic	\$0.03	\$0.13	(\$0.01)	(\$0.16)	\$0.01
Per share – diluted	\$0.03	\$0.11	(\$0.01)	(\$0.16)	\$0.01
Capital Expenditures	\$2,510,886	\$8,486,501	\$1,535,661	\$2,460,367	\$14,993,416
Net debt	\$3,381,845	\$3,619,743	\$5,282,236	\$4,358,738	\$3,381,845
<b>Common shares</b>					
Outstanding – basic	15,420,049	15,420,029	11,911,922	11,895,122	15,420,049
Outstanding – diluted	18,649,028	18,649,028	14,735,921	14,719,113	18,649,028
Weighted average– basic	15,420,029	12,865,212	11,911,922	11,895,122	13,036,439
Weighted average– diluted	16,123,473	15,390,767	14,735,921	11,895,122	13,739,883
<b>Operating Netbacks</b>					
Sales price	\$58.40	\$74.76	\$77.86	\$68.37	\$67.79
Royalties	(\$14.82)	(\$19.14)	(\$18.84)	(\$16.42)	(\$16.90)
Saskatchewan surcharge tax	(\$2.97)	-	-	-	(\$1.12)
Operating expenses	(\$17.03)	(\$19.48)	(\$29.09)	(\$24.73)	(\$21.28)
Transportation expenses	(\$2.28)	(\$2.09)	(\$2.62)	(\$2.19)	(\$2.27)
Netbacks (before hedging)	\$21.30	\$34.05	\$27.31	\$25.03	\$26.22
Realized gain/(loss) on hedging	\$4.94	(\$3.30)	(\$9.77)	(\$4.70)	(\$1.59)
<b>Netbacks (after hedging)</b>	<b>\$26.24</b>	<b>\$30.75</b>	<b>\$17.54</b>	<b>\$20.33</b>	<b>\$24.63</b>
G&A	(\$5.42)	(4.88)	(6.73)	(11.23)	(\$6.70)
Cash interest costs	(\$0.11)	(0.33)	(0.65)	(0.35)	(\$0.31)
Current taxes	(\$2.57)	-	-	-	(\$0.97)
<b>Corporate Netbacks</b>	<b>\$18.14</b>	<b>25.54</b>	<b>10.16</b>	<b>8.75</b>	<b>\$16.65</b>

(1) The reader is referred to the section - "Non-IFRS Measurements" in the annual financial statements.

(2) The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's" in the annual financial statements.

Commensurate with a 54% increase in production during the Quarter, revenues (before hedging) increased by 20% over the prior quarter in spite of weakening heavy oil prices which slid 22% over the same period. However in direct correlation to the weaker realized oil price, the Company's hedging contracts generated a realized gain of \$4.94 per boe for an average realized heavy oil price (net of hedging) of \$63.34 per boe, only 11% lower than the prior quarter. With hedging you either win or lose...in this quarter we won big!

Operating netbacks for the Quarter (before hedging) averaged \$21.30 per boe, 37% lower than the \$34.05 per boe recorded in the prior quarter mostly due to the 22% decline in oil prices. However, in October (the beginning of the Company's tax year), the Saskatchewan Ministry of Finance triggered Kaisen's inevitable obligation to pay the Saskatchewan Corporate Surcharge Tax which equates to 1.7% of gross revenues net of certain small deductions. Hence the current quarter is burdened with a full year catch up entry for this tax plus the current quarter accrual. For future periods, the surcharge tax should be in the range of \$0.50-\$0.80 per boe. On a positive note, operating costs per boe dropped 13% or \$2.45 per boe, certainly at the low end of the range for our peer group. Overall, the Quarter's production and realized netbacks (including hedging gains of \$771,485) generated field level profits of \$4,098,588, 31% higher than the prior quarter.

On the administrative front, G&A expenses averaged \$5.42 per boe for the Quarter, up slightly from the prior quarter due to the inclusion of year end cost true-ups such as for the financial audit and annual reserves update. On the income tax front, Kaisen exhausted the last of its much loved exploration tax pools in the prior quarter which means the Company is now taxable going forward. Therefore, for the Quarter, we recorded a current income tax expense of \$401,236 however we expect this to dwindle through the balance of the tax year due to subsequent non-taxable quarters on account of low oil prices.

Kaisen achieved record funds flow from operations for the Quarter of \$2.8 million, up 10% over the prior quarter. Fourth quarter funds flow was negatively impacted by the inclusion of the Saskatchewan surcharge tax and current quarter income taxes. Normalizing funds flow by excluding the one-time catch-up for Saskatchewan surcharge tax, funds flow would have been \$3.1 million or 23% higher than the prior quarter, more in line with our production growth and realized netbacks.

From a debt leverage perspective, our net debt declined over the prior quarter by \$237,898 ending at \$3.4 million thanks in part to the proceeds from our Pembina property disposition for gross proceeds of \$950,000 (which closed in October) coupled with continued strong cash flows. Our current debt level demonstrates the continuing strength of our balance sheet with only 31% drawn on our \$11.1 million lending base. Using current April'15 strip pricing, our debt to forecast 2015 funds flow ratio is approximately 1.5x still a very low level by contrast to many of our peers.

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

## OUTLOOK FOR 2015

As we approached the end of 2014, it was clear to all industry participants that a potentially tumultuous year lay ahead due to the precipitous decline in world oil prices which picked up speed in December. Now as we move past the end of the first quarter of 2015, we are seeing continued downward pressure on commodity prices which have dropped nearly 50% since December, yet with an emerging support for a bottom that seems resilient to push back at or near to US\$45.00 per bbl.

In early February during a one day WTI price run to US\$55.00, we entered into a 2015 WTI swap at Cdn\$76.40 on 350 bbl/d for the period February to December 2015. This hedge has provided immediate funds flow stability which for March added approximately \$170,000 of realized gains, more than sufficient to cover corporate overhead. In conjunction with the 2015 WTI swap, the counterparty holds the option to exercise a WTI price swap at Cdn\$80.00 for the full 2016 calendar year on 700 bbl/d. This option expires on December 31, 2015.



(L-R Jeff, Cam, Andy) Some executive bonding hosted at Chris's cabin. Here we are ice fishing on Chitek Lake, 1.5 hours northeast of our Edam field. Chris took the photo since his fish "got away", truthfully stolen by a raven right off the ice!

For 2015 we will remain patient and cautious, being flexible to adapt to market fluctuations and opportunities as they arise. There is much debate as to the timing and rate of recovery in oil prices, but one fact remains indisputable, prices will rise. We are currently preparing for a potential summer drilling and facilities program that could include the drilling of up to 6 wells (both horizontal and vertical) with further facilities related optimizations and H2S upgrades to enhance efficiencies and field netbacks as well as operator safety. A preliminary program would be designed to further de-risk the significant horizontal inventory potential while also adding low risk production to offset declines from an inactive first half of the year.

We see a potential trigger point to kick off this program at a sustained WCS per bbl price of Cdn\$50.00 (US\$40.00) which translates into a WTI price of approximately US\$53.00 per bbl. At this price Kaisen would be able to maintain a healthy balance sheet by having no more than 50% utilization on our available bank facility and less than 1.5x debt to forecast

2015 funds flow. However with all the best of intentions to grow production and confidence in the assets, we will not risk the health and security of the Company. Therefore a final commitment on this program will not be made until we are confident it can be executed without incurring undue financial strain.

We will continue to run the business with the paramount objective of maintaining optionality. Optionality to utilize our balance sheet strength and sustaining funds flow to accelerate production growth if the opportunity arises, or to hunker down through a continuing and prolonged commodity price environment. However, it is our view that current commodity price volatility will stabilize and begin the long road of recovery as we move through the second half of 2015. We maintain a bullish longer term view on North American heavy oil demand which we see rebounding quicker than its' light oil counterpart, do largely to increasing heavy oil refinery demand supported by continued debottlenecking of transport capacity on both rail and pipeline. All things considered, we are happy with the position we are in at this point in the year and we look forward to continued operational successes as we move forward. And as always, we remain mindful and attentive to the eventual opportunity to delivery liquidity to shareholders as and when the opportunity arises.

### KAISEN EXECUTIVE MANAGEMENT TEAM:

*Cameron King*  
President & CEO

*Jeff Holmgren*  
Senior VP & CFO

*Chris McGinnis*  
VP Operations & Engineering

*Andy Kramchynski*  
VP Geology