
ACQUIRE

ENHANCE

EXPLOIT



Annual Management Discussion & Analysis

December 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated March 19, 2014, and should be read in conjunction with the accompanying annual financial statements and related notes for the three month and inception (on November 6, 2012) to date periods ended December 31, 2013 of Kaisen Energy Corp. ("Kaisen" or the "Company"). The annual financial statements have been prepared in accordance with International Accounting Standard ("IAS"). The reporting and the measurement currency is the Canadian dollar.

DESCRIPTION OF THE BUSINESS

Kaisen is a Calgary based energy company primarily focused on heavy oil development and production in Saskatchewan and was incorporated in Alberta Canada on November 6, 2012. The Company's principal place of business is located at 312, 522 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8.

FOUNDING TRANSACTIONS AND ACTIVITIES IN FIRST YEAR OF OPERATIONS

Although the Company was incorporated on November 6, 2012, operations of the Company did not commence until March 20, 2013. As such these financial statements and MD&A do not contain comparative period results. The following is a brief overview of the founding transactions and activities that have occurred since incorporation.

- a) On March 20, 2013 Kaisen successfully closed its initial seed rounding financing through the issuance of 4,314,000 common shares valued at \$1.00 per share for total proceeds of \$4,298,000 (net of share issued costs of \$17,756.)
- b) Also on March 20, 2013, Kaisen utilized a portion of the funds raised in its seed round financing to acquire all of the issued and outstanding shares of Plains Energy Ltd., 1021405 Ab Ltd. and C-Core Holdings (the "Lone Rock Companies") comprising a 100 percent working interest in properties now defining the Company's first core operating area of Lone Rock, Saskatchewan (south east of Lloydminster, SK). Consideration for the transaction was comprised of 3,470,440 Kaisen common shares (valued at \$1.00 per share) and \$2,066,867 of cash for a total transaction value of \$5,537,306. Prior to the transaction, Cameron King (President and CEO of Kaisen) was the beneficial owner of C-Core Holdings and Bart King (director of Kaisen) was the beneficial owner of Plains Energy Ltd. Both Cameron King and Bart King are related along with the beneficial owner of 1021405 Ab Ltd., hence the transaction was among related parties but has been accounted for at fair value.
- c) On May 1, 2013, Kaisen and the Lone Rock Companies agreed to amalgamate to continue as Kaisen Energy Corp.
- d) In late June 2013, Kaisen commenced its first drilling program by drilling and completing four vertical heavy oil wells at Lone Rock.
- e) On July 25, 2013, Kaisen entered into a purchase and sale agreement with 1210757 Ab Ltd. ("121 Ab Ltd."), whereby Kaisen agreed to acquire all of the issued and outstanding shares of 121 Ab Ltd. Pursuant to the agreement, 121 Ab Ltd. shareholders received 0.85 of a Kaisen common share for each 121 Ab Ltd. share held for a total issuance of 1,562,458 common shares of the Company valued at \$1.00 per share. Lowell Jackson (Executive chairman of Kaisen) and Ed Chwyl (director of Kaisen) were significant shareholders of 1210757 Ab Ltd. The transaction was accounted for at fair value.
- f) On August 27, 2013, the Company completed its second round financing through the issuance of 1,511,000 common shares valued at \$2.00 per share and 836,954 flow through common shares valued at \$2.30 for combined total proceeds of \$4,905,994 (net of share issue costs of \$67,167.)
- g) On August 29, 2013, Kaisen utilized the proceeds from its second round financing to acquire heavy oil producing properties near Edam Saskatchewan for total cash consideration of \$7,006,523. At the time of the acquisition, the acquired assets were producing 270 boe per day of heavy oil production. The acquired assets include a 12,000 boe per day water disposal facility that combined with the producing properties now defines Kaisen's second core area referred to as Edam. The transaction also included a non-producing natural gas property near Swift Current, Saskatchewan herein referred to as Wymark.
- h) On September 30, 2013, Kaisen and 121 Ab Ltd. agreed to amalgamate to continue as Kaisen Energy Corp.
- i) In October and November of 2013, the Company completed a five well drilling program at Lone Rock along with an optimization program including the reactivation of 5 shut-in wells at Edam.

Results of Operations

Financial	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
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")

Introduction to operating and financial results

Since the commencement of operations following the acquisition of Lone Rock in the Company's first series of corporate acquisitions on March 20, 2013, Kaisen has made significant strides in growth, adding one additional corporate acquisition (1210757 Ab Ltd.) in July, a significant asset acquisition (Edam) in August, drilling nine wells at Lone Rock, implementing a five well reactivation program at Edam and various optimization project also at Edam. These combined activities added approximately 1,000 boe per day of production by the end of 2013, averaging 488 boe per day for the Operating Period and 963 boe per day in the three months ended December 31, 2013 (the "Quarter"), an increase of 94 percent over the prior quarter's average production of 496 boe per day. To achieve this, Kaisen invested \$5.9 million in drilling and completions work generating a drilling an optimization capital efficiency of \$7,826 per boe of new production and \$8.9 million in acquisitions which generated an all-in capital efficiency of \$14,744 per boe for the year. Overall, a significant achievement for a small junior producer in its first nine months of operations.

To support this high rate of growth, Kaisen grew its staff only minimally from four employees and office contractors in March to twelve employees and contractors at year end, generating a General and Administrative costs of \$4.99 per boe per day for the Quarter and \$9.08 year to date.

While production growth accelerated in the second half of 2013, realized prices experienced significant volatility reaching as high as \$90.74 in August (at lower rates of production) to a low of \$47.72 in December (the Company's highest month of production). Kaisen remains focused on all factors within its control to ensure that aside from the uncontrolled and unpredictable macro-economic environment, the Company will operate as efficiently and effectively as possible always ensuring a reasonable risk-

management strategy to balance the operational rewards with the unforeseen and/or unpredictable risks associated with operating in the oil and gas industry.

What follows is a detailed review of the Company's operating results for the Quarter and from inception on November 6, 2012 to December 31, 2013.

Oil and gas production

	Three Months Ended December 31, 2013	From inception on November 6, 2012 until December 31, 2013 ⁽¹⁾
Sales volumes		
Crude oil (bbls per day)	932	470
Natural gas liquids ("NGL") (bbls per day)	6	4
Natural gas (Mcf per day)	143	86
Total daily production (boe per day)	963	488
Liquids as a percentage of total	97%	97%
Production by area (boe per day)		
Lone Rock, Saskatchewan	534	308
Edam, Saskatchewan	394	161
Other	35	19
Total daily production	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

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company's results of operations are dependent on production volumes of heavy crude oil, natural gas and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States ("US") currency exchange rate.

In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Kaisen's production for the Quarter averaged 963 boe per day (496 boe per day in the prior quarter), consisting of 928 bbls per day of the Company's operated heavy oil. For the Operating Period Kaisen averaged 488 boe per day, consisting of 470 bbls per day of operated heavy oil.

Production growth for the Quarter was driven by drilling and optimization successes with the addition of five new vertical wells at Lone Rock, adding approximately 240 boe per day of heavy oil volumes at year end, and 200 boe per day of incremental production from optimization initiatives implemented at Edam.

Petroleum and natural gas sales

	Three Months Ended December 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Heavy oil	4,704,224	8,588,709
Light oil	33,986	57,672
Natural gas liquids	25,374	44,465
Natural gas	42,807	72,308
Total	4,806,391	8,763,154

Average realized prices

	Three Months Ended December 31, 2013 <i>(unaudited)</i>	From commencement of operations on March 20, 2013 until December 31, 2013
Heavy oil (\$/bbl)	55.08	64.46
Light oil (\$/bbl)	91.60	86.68
Natural gas liquids (\$/bbl)	43.05	44.57
Natural gas (\$/mcf)	3.25	2.95
Total (\$/boe)	54.27	63.05
Benchmark pricing		
West Texas Intermediate ("WTI") oil (Cdn\$/bbl)	102.29	99.17
Western Canadian Select ("WCS") heavy oil (Cdn\$/bbl)	70.29	80.17
WCS % differential	31%	19%
AECO Natural gas (\$/mcf)	3.15	3.13
US\$/Cdn\$ foreign exchange rate	1.0494	1.0299

Realized Pricing

During the Quarter and Operating Period, Kaisen realized an average heavy oil price of \$55.08 and \$64.46 per boe respectively. This by comparison to WCS pricing during the same periods of \$70.29 and \$80.17 respectively. Kaisen's realized discount to the WCS benchmark price reflects: i) the cost of blending our heavy oil with diluent to meet pipeline specifications, and ii) certain quality discounts associated with our heavy oil production. The cost of blending is influenced by both the amount of diluent required to blend with the heavy oil (i.e. the blend ratio) and the actual cost of the diluent (i.e. a premium or discount to WTI). This blend ratio can vary depending on the quality of the diluent.

Kaisen delivers its production to three primary sales points. Each sales point differs with respect to pricing arrangements. Approximately 60% of the Company's production is delivered to a sales point wherein the Company's heavy oil is pooled with other producers and shipped by combination of pipeline and rail cars. The allocation between pipeline and rail cars varies monthly in response to market conditions and the arbitrage opportunities for rail, however, on average for the Quarter and the Operating Period, approximately 40% of Kaisen's production was shipped by rail and therefore benefited from reduced blending fees and beneficial market pricing. Kaisen's average heavy oil price for the Operating Period, in particular the realized discount to average market prices over the same period, was impacted by the imbalance of the Company's higher realized volumes in the latter months of the period at a time when market prices were significantly discounted from the year's average.

Heavy Oil Price

100% of Kaisen's heavy crude volumes are priced off the benchmark heavy oil price, WCS. The WCS Index quoted represents a blended volume weighted average of Net Energy and Shorcan trades. The discount for Canadian heavy oil, as measured by the WCS price differential to WTI, averaged 22% for the Company's Operating Period (25% for the full year) and 31% for the Quarter, as compared to 16% in the prior quarter. WCS differentials widened at the end of the year (October, November and December trade months averaged 26.2%, 33.3%, and 39.8%, respectively) due to capacity restrictions on Canadian crude export pipelines in much of the first and fourth quarters of 2013, which forced Western Canada crude into storage. This effect was partially offset by steady demand for heavy oil throughout the second and third quarters of 2013, as well as the increase in volumes transported by rail, which pulled heavy oil supply away from traditional heavy oil markets.

For the first two months of 2014, the WCS differential has improved as compared to November and December of 2013, trading in the \$20-22 per bbl range with the forward curve for the remainder of 2014 now trading at approximately \$20 per bbl. Positive catalysts including the recently commissioned BP Whiting refinery conversion, a continued increase in crude by rail volumes, and a number of pipeline capacity improvements and expansion projects have helped move the WCS differential in this positive direction. The view of tightening heavy oil differentials is supported by the Petroleum Industry Research Associates ("PIRA"), in their most recent "North American Midcontinent Oil Forecast", issued January 7, 2014. They are forecasting the WCS differential to narrow to US\$12-13/bbl in 2014 as more refineries run heavy and Canadian oil is able to move more freely to the US Gulf Coast.

Price risk management

The Company may from time to time enter into crude oil and natural gas financial contracts to manage the volatility of commodity prices. Kaisen's policy is to hedge no more than 50 percent of budgeted net volumes using a combination of fixed swaps and price collars, under contract terms not exceeding 24 months with only investment grade counterparties. As at December 31,

2013 the Company had no hedging contracts in place, however subsequent to the year end, the Company entered into a combination of WTI hedges fixing an average price of CAD\$100.00 on 600 bbls per day for the period from February 1 to December 31, 2014 and a WCS differential of -\$22.50 per bbl for 300 bbls per day for the same period.

Crown and other royalties

	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Crown	914,399	1,646,395
Freehold	313,206	526,007
Total Royalties	1,227,605	2,172,402
\$ per boe	13.86	15.63
% of revenue	25.5%	24.8%

Approximately 75% of Kaisen lands are held under Crown leases with the remaining held under freehold leases. Crown royalty rates range from ~7% to 30% depending upon the vintage of wells, commodity type, volume of daily production and market prices. Kaisen currently forecasts a royalty rate of approximately 26% blended for both Crown and freehold rates.

Operating expenses

	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Total	1,589,217	2,423,156
\$ per boe	17.95	17.44
% of revenue	33.1%	27.7%

Operating costs, excluding crude oil transportation costs, are driven by both fixed and variable costs. Kaisen's primary fixed cost drivers include contract operator wages, property taxes, freehold mineral rentals, and surface rentals, while primary variable cost drivers include emulsion treating, produced waste water and sand trucking and disposal, utilities, heating fuel and routine maintenance. Primary non-routine expenses include minor and major workovers. Kaisen is currently forecasting operating costs (exclusive of transportation expenses) in the range of \$17.00 - \$20.00 per boe.

Transportation expenses

	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Total	178,877	271,676
\$ per boe	2.02	1.95
% of revenue	4.0%	3.1%

Transportation expense relates specifically to the cost of trucking produced emulsion to the sales point where it is then cleaned and blended for market. Costs related to water and sand transportation are included within operating costs. 100% of the Company's crude oil production is trucked to sales facilities near Lloydminster and Edam Saskatchewan. Bottlenecking of trucks at sales facilities and seasonal delays may impact the cost of transportation in any given period. Kaisen is currently forecasting transportation costs in the range of \$1.75 - \$2.15 per boe.

Operating netbacks

<i>(\$ per boe)</i>	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	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)
Netbacks	20.44	28.03

General and administration ("G&A") expenses

	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Salaries and benefits	207,868	652,899
Other G&A expenses	264,258	672,595
Gross G&A expenses	472,126	1,325,494
Capitalized G&A expenses	(29,999)	(83,329)
Net G&A expenses	442,127	1,242,165
\$ per boe	4.99	8.94

As at December 31, 2013, Kaisen Employed four full-time office staff and eight consultants (office/field). Kaisen capitalizes to property, plant and equipment, a percentage of technical staff salaries for engineering and geological work at a rate that is commensurate with the extent of work required to execute on the Company's capital program.

Transaction expenses

During the Quarter, the Company incurred transaction expenses totaling \$4,598 primarily relating to minor adjustments from estimate to actual legal fees in connection with the corporate acquisition of 121 Ab Ltd. (July 2013) and the Edam asset acquisition (August 2013). Inception to date, \$205,814 of transaction expenses were incurred with the inclusion of legal fees in connection with the Lone Rock corporate acquisitions in March 2013.

Finance charges

	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Interest expense	14,878	27,039
Accretion expense	35,390	73,759
Finance charges	50,268	100,798

Interest expense relates to interest charges, stand by fees on the Company's banking facility and annual banking fees. For the inception to date, interest expense of \$27,039 included 'new money' fees and annual charges in connection with the establishment of the Company's new banking facility in August (refer to the 'Liquidity and Capital Resources' section of this report for further details on the banking facility).

Accretion expense relates to the Company's asset retirement obligation for the future abandonment and reclamation of our lands and well sites. The estimated future asset retirement obligation is discounted at a risk free rate in accordance with the Company's accounting policies and recorded as a liability on the Statement of Financial Position. The liability is increased monthly to account for the passage of time with the monthly increase recorded as accretion expense. Material changes in the accretion expense is typically driven by new well additions in each period, being a combination the Company's drilling program and acquisitions and/or divestitures.

Share-based compensation

	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Share-based compensation	161,634	228,919

During the inception to date, the Company implemented an equity settled stock option plan and performance warrants plan to provide staff, contractors and directors with a performance based incentive to maximize shareholder value.

On July 31, the Company granted 958,000 options to executive, staff, contractors and directors with a \$1.00 exercise price. On September 5th, an additional 85,000 options were granted to new staff and contractors with a \$2.00 exercise price. In total, 1,043,000 options (\$1.08 weighted average exercise price) and 1,780,990 performance warrants (\$2.00 exercise price) have been issued since inception, none have been forfeited and none are currently vested. As at December 31, 2013, all of the granted options and performance warrants remain outstanding.

Options granted during the inception to date have a five year expiry and vest equally over the first, second and third anniversary of the date of grant. The performance warrants granted during the period vest upon achieving predetermined market value thresholds within predetermined time periods as follows:

In the period commencing:	Series 1	Series 2	Series 3
September 5, 2013 to September 4, 2014 (Year 1)	\$2.30	\$2.50	\$2.70
September 5, 2014 to September 4, 2015 (Year 2)	\$2.65	\$3.13	\$3.65
September 5, 2015 to September 4, 2016 (Year 3)	\$3.04	\$3.91	\$4.92
September 5, 2016 to September 4, 2017 (Year 4)	\$3.50	\$4.88	\$6.64
September 5, 2017 to September 4, 2018 (Year 5)	\$4.02	\$6.10	\$8.97

The Company utilizes the Black-Scholes model to estimate the total cost of option grants and a binomial model for the total cost of performance warrant grants which is then amortized over the estimated life of the options and performance warrants (3 years). Refer to Note 12 – *Share Capital* in the interim financial statements for further details on the valuation assumptions employed by the Company.

Depletion and depreciation

	Three Months Ended Dec 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Depletion	1,011,194	1,763,484
Depreciation	26,729	42,131
Total	1,037,923	1,805,615
\$ per boe	11.72	12.99

Depletion expense is a product of depletable assets multiplied by total production divided by estimated proved and probable oil and natural gas reserves at the beginning of each period. Included within depletable assets is an estimate of future development costs (\$47.4 million) less the total salvage value of the assets (\$1.4 million).

Cash flow from Operations

During the Quarter and inception to date, the Company recorded cash flow from operating activities of \$2,925,955 (\$0.21 per diluted share) and \$3,843,778 (\$0.43 per diluted share) respectively. Cash flow for the inception to date period was significantly enhanced by increased production from the Company's nine well drilling program, the Edam asset acquisition in September, and from the Edam optimization program during the Quarter. Partially offsetting the positive impacts to cash flow from production additions were lower realized commodity prices during the Quarter as compared to the prior quarter.

Net earnings and comprehensive earnings

The Company recorded a net loss for the Quarter of \$68,264 (nil per diluted share) and net earnings of \$119,675 (\$0.01 Per diluted share) inception to date. Net earnings/(loss) for both the Quarter and inception to date was impacted most significantly by routine non-cash charges relating to depletion and depreciation of \$1,037,923 and \$1,805,615 respectively and share based compensation expense of \$161,634 and \$228,919 respectively.

LIQUIDITY AND CAPITAL RESOURCES

On August 29, and in conjunction with the acquisition of the Edam assets, the Company secured a banking facility from Alberta Treasury Branches ("ATB") comprised of a \$3,000,000 revolving operating facility and a \$3,000,000 revolving bridge facility with the following terms;

- a) The operating facility is a revolving facility with the next anticipated borrowing base review to occur on or before May 31, 2014. The operating facility is payable in full on demand by the lender, and the lender may terminate the availability thereof (including any undrawn portion) at any time without notice, therefore the facility has been classified by the Company as a current liability on the statement of financial position. Prime-based loans are available through the operating facility at prime plus 1.25% per annum. At December 31, 2013, \$900,000 was drawn on the operating facility.

- b) The bridge facility of \$3,000,000 is due and payable on the earlier of: a) a demand or b) March 31, 2014 and has therefore been reported as a current liability. Prime-based loans are available through the bridge facility at prime plus 1.75% per annum. Amounts owing under the bridge facility are to be repaid in an amount equal to the Company's issuance of any equity raised after September 15, 2013; and/or any increase to the operating facility beyond \$3,000,000. At December 31, 2013, no amount was drawn on the bridge facility.

The Company's investing activities for the inception to date consisted of corporate and asset acquisitions as well as expenditures on its capital program. As at December 31, 2013, the Company had a working capital deficit of \$901,498 (excluding amounts available under the credit facilities of \$4.3 million), this in addition to forecasted positive cash flows provides the Company with adequate liquidity to fund budgeted capital investments planned for 2014. Management is currently working with ATB to review and increase its lending facility and anticipates an increase in excess of the expiring bridge facility on or before May 31, 2014. With the anticipation of a significant yet underutilized borrowing capacity, coupled with strong cash flows and the ability to issue equity (assuming on acceptable terms), management is confident the Company is sufficiently capitalized to fund growth in 2014 and beyond.

CAPITAL INVESTMENT

	Three Months Ended December 31, 2013 <i>(unaudited)</i>	From inception on November 6, 2012 until December 31, 2013
Land	(12,900)	61,103
Geological and geophysical	-	13,339
Drilling and completions	1,894,426	3,098,045
Equipment and facilities	1,761,645	2,579,223
Capitalized G&A	29,999	83,329
Office equipment	5,055	48,112
	3,678,225	5,883,151
Corporate acquisitions	235,959	15,353,402
Additions to asset retirement obligations	202,462	5,747,492
Capital additions	4,116,646	26,984,045

OUTLOOK

Kaisen is well positioned entering 2014 with strong cash flows and access to sufficient debt, to execute a full year 2014 drilling program which includes 15 wells (15.0 net) in the second half of 2014 (5-Lone Rock, 10-Edam). Based on the very positive results of our year end reserves report, the Company has confirmed a significant drilling inventory of wells from which to develop a multi-year drilling program in both of our core areas.

At Edam, a cost sharing arrangement was negotiated in December 2013 with a major oil and gas producer eager to acquire 3D seismic data on a majority of the Company's Edam lands. Under the terms of this arrangement, Kaisen will pay approximately 50 percent (\$1.3 million) of the total program and will have full rights to the data as proprietary seismic. Kaisen plans to drill 10 wells at Edam on targets identified from the newly acquired 3D seismic which is expected to be completed and interpreted no later than May. With a view for the longer term, the Company is currently designing a multi-year development strategy to ensure the most efficient and beneficial development approach for Edam which encompasses sizeable infrastructure requirements to maximize reserves recoveries and operating netbacks.

With a view for enhanced recovery opportunities at Edam, Kaisen also has plans to investigate the development of a cyclic steam pilot project in the second half of 2014 that we believe may have the potential to significantly enhance recovery factors, reserves value and hence shareholder value. A better understanding of the potential of this opportunity will be known following receipt of an independent resource study that has been commissioned with anticipated completion in the late spring.

At Lone Rock, the Company has licensed 5 new wells for planned drilling in late spring based on our latest geological and operational learnings from the successful 2013 program. Based on the long term success of a neighboring water flood program, operating by CNRL, and the positive impacts this water flood has shown on one of our producing well on an adjoining section, further investigation is underway to consider the possibilities of enhanced recovery through a similar smaller scale program on the Company's Lone Rock properties. A better understanding of the potential of this opportunity at Lone Rock will be known following receipt of an independent water flood study that has been commissioned with anticipated completion in the early spring.

With a planned \$12.4 million capital program for 2014, we anticipate full year production for the year will average 1,200-1,400 boe per day with a year-end exit of 1,600-1,800 boe per day.

We look towards 2014 and beyond with optimism for a successful 2014 drilling program and the further development of a long term strategy to maximize recoveries through both conventional and possibly enhanced recovery methods while also remaining keen to identify additional accretive acquisition opportunities along the way. With each step, we remain steadfast that our decisions must be guided by the ultimate aim to enhance value while maintaining harmony with the management of risks and ultimate investment return to shareholders.

ADDITIONAL INFORMATION

For additional information regarding the Company and its business and operations, please contact the Company at Kaisen Energy Ltd. 312, 522 – 11th Avenue S.W., Calgary, Alberta, Canada T2R 0C8 or by e-mailing Cameron King, President and CEO (CKing@KaisenEnergy.com) or Jeff Holmgren, Senior Vice President and CFO (JHolmgren@KaisenEnergy.com)

ADVISORIES

Oil, Natural Gas Liquids ("NGL's"), and Natural Gas - Conversions to Boe's

The calculation of barrels of oil equivalent ("boe") is based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil to estimate relative energy content and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation.

Non-IFRS measurements

Readers are cautioned that this MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with IFRS as an indicator of Kaisen's performance. The reconciliation between funds flow from operations and cash provided by operating activities is as follows:

	Three Months Ended December 31, 2013 (unaudited)	From inception on November 6, 2012 until December 31, 2013
Cash flow from operating activities	\$2,925,955	\$3,843,778
Deduct the change in non-cash working capital	\$1,921,583	\$1,604,462
Funds flow from operations	\$1,004,372	\$2,239,316

Kaisen also presents funds flow from operations per share, whereby funds flow from operations is divided by the weighted average number of shares outstanding to determine per share amounts. Netbacks are also presented, which represents Kaisen's revenue per boe, less per boe royalties, operating expenses and transportation expenses, in order to determine the amount of funds generated by each boe produced. Kaisen calculates net debt as current liabilities less current assets, excluding the current portion of future tax assets (if applicable).

Forward-looking statements

In the interest of providing Kaisen shareholders and potential investors with information regarding the Company, including management's assessment of Kaisen's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Kaisen's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks and uncertainties include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in Kaisen's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids; Kaisen's ability to replace and expand oil and gas reserves; risks associated with technology; its ability to generate sufficient cash from operations to meet its current and future obligations; Kaisen's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; Kaisen's ability to secure adequate product transportation; changes in environmental and other regulations or the interpretations of such regulations; political and economic conditions; terrorist threats; risks associated with potential future lawsuits and regulatory actions made against Kaisen; Kaisen's ability to utilize all of its tax pools and investment tax credits; other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Kaisen disclosure intentions with respect to strategic alternative review process and; the outcome of the Company's strategic alternatives process.

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Kaisen believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and Kaisen does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.