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Management Discussion & Analysis

Three and six month periods ended June 30, 2014

(unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated September 8, 2014, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three and six month periods ended June 30, 2014 of Kaisen Energy Corp. ("Kaisen" or the "Company") and the audited Financial Statements as at and for the period from inception on November 6, 2012 to December 31, 2013. Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

This MD&A and accompanying financial statements do not include comparative results for the three and six month periods ended June 30, 2013 (the "Comparative Periods") due to the insignificant level of activity. For the three and six month Comparative Periods, the Company incurred a net loss of \$270,380 and \$359,886 respectively. Accordingly, all operating results will be compared to the results for the 3 month period ended March 31, 2014 (or the "prior quarter").

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.

Results of Operations

(\$ dollars, except as noted)	Three months ended			Six months ended
	June 30, 2014	March 31, 2014	December 31, 2013	June 30, 2014
Petroleum and natural gas sales	5,480,037	5,782,300	4,806,391	11,262,338
Realized hedging losses	687,913	403,764	-	1,091,678
Funds flow from operations ⁽¹⁾	746,809	727,675	1,004,372	1,474,483
Per share – basic ⁽¹⁾	0.06	0.06	\$0.08	\$0.12
Per share – diluted ⁽¹⁾	0.06	0.06	\$0.07	\$0.12
Net loss	(104,200)	(1,853,544)	(68,264)	1,957,745
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	3,678,564	3,996,027
Net debt	5,282,236	4,358,738	2,626,046	5,282,236
Common shares				
Outstanding – basic	11,911,922	11,895,122	11,895,122	11,911,922
Outstanding – diluted	14,735,921	14,719,113	14,719,121	14,735,921
Weighted average – basic	11,911,922	11,895,122	11,895,114	11,911,922
Weighted average – diluted	14,735,921	11,895,122	14,240,113	14,735,921
Sales Volumes⁽³⁾				
Crude Oil (bbls per day)	749	911	932	830
NGL (bbls per day)	5	7	6	6
Natural gas (Mcf per day)	113	144	143	125
Barrels of oil equivalent (boe per day) ⁽²⁾	773	942	963	857
Operating Netbacks (\$/boe)				
Sales price	77.86	68.37	54.27	72.69
Royalties	(18.84)	(16.42)	(13.86)	(17.53)
Operating expenses	(29.09)	(24.73)	(17.95)	(26.73)
Transportation expenses	(2.62)	(2.19)	(2.02)	(2.38)
Netbacks (before hedging)	27.31	25.03	20.44	26.05
Realized loss on risk management contracts	(9.77)	(4.70)	-	(7.05)
Netbacks (after hedging)	17.54	20.33	20.44	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".

Kaisen Quarterly Snapshot

For the three and six month periods ended June 30, 2014 (the "Quarter"), Kaisen took advantage of the low activity levels during the winter and spring break-up period to conduct a thorough analysis of operating efficiencies and to make preparations for a very active second half drilling and facility expansion program.

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 are 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. With increasing production for the second half of 2014 in concert with planned operating cost reduction initiatives in the fall, we anticipate stronger operating netbacks in the range of \$25.00 to \$30.00 in the current price environment. We view the past six months as a period of in-depth operational analysis to improve go-forward efficiencies as well as a period of intense preparation and readiness for a significant second half drilling program which commenced in July. We are very encouraged by the current status of our operations, including the early results from the July drilling program (see ‘Outlook’ section for further details), and we anticipate that the balance of the second half of 2014 will demonstrate the significant resource potential of our properties.

What follows is a detailed review of the Company’s operating results for the Quarter and year to date with an outlook on activities planned for the balance of 2014.

OIL AND GAS PRODUCTION AND PRICING

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Sales volumes				
Crude oil (<i>bbls per day</i>)	749	911	932	830
Natural gas liquids (“NGL”) (<i>bbls per day</i>)	5	7	6	6
Natural gas (<i>Mcf per day</i>)	113	144	143	125
Total average daily production (<i>boe per day</i>)	773	942	963	857
Liquids as a percentage of total	98%	97%	97%	98%

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Production by area (<i>boe per day</i>)				
Lone Rock, Saskatchewan	291	421	534	356
Edam, Saskatchewan	458	486	394	472
Other	24	35	35	29
Total average daily production	773	942	963	857

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 773 boe per day (942 boe per day in the prior quarter), consisting of 749 bbls per day of operated heavy oil from the Company’s two core areas of Lone Rock and Edam. The Company invested very little capital towards production during the Quarter other than spring repair and maintenance work as we exited spring break-up. As discussed above, the focus of the Quarter was in preparation and readiness for a highly active 2014 summer/fall drilling program which commenced in July. At Lone Rock, production declined 30% from the prior quarter averaging 291 boe per day. Subsequent

start-ups of shut-in wells from the spring break-up period were delayed during the Quarter due to unusually wet weather which hindered our ability to move in service rigs. At Edam, production rates held strong over the prior quarter, declining by only 6%.

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Heavy oil (\$)	5,372,645	5,656,853	4,704,224	11,020,075
Light oil (\$)	23,471	28,634	33,986	52,106
Natural gas liquids (\$)	29,479	29,850	25,374	68,751
Natural gas (\$)	54,442	66,963	42,807	121,406
Petroleum and natural gas sales	5,480,037	5,782,300	4,806,391	11,262,338

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Heavy oil (\$/bbl)	79.04	66.34	55.08	73.64
Light oil (\$/bbl)	105.68	84.17	91.60	96.89
Natural gas liquids (\$/bbl)	60.93	65.77	43.05	68.42
Natural gas (\$/mcf)	5.31	4.43	3.25	5.38
Combined average realized price (\$/boe)	77.86	68.37	54.27	72.69

Realized Pricing

Heavy oil prices continued to rise during the Quarter driven by a slight (4%) increase in Cdn\$WTI coupled with a further narrowing of the WCS differential which improved by 15%, averaging US\$20.04/bbl (or 19.5%) during the Quarter as compared to US\$23.13/bbl (or 23.6%) in the prior quarter. These price movements resulted in an overall increase in Kaisen's realized heavy oil price of 17% to \$79.04 per boe (\$66.34 per boe in the prior quarter). The strong market conditions reflect a number of positive catalysts unfolding in 2014, including increased refinery demand in the U.S. Midwest, a continued increase in crude by rail volumes and a number of pipeline capacity improvements and expansion projects. To protect against potential future volatility in the WTI price and WCS differential, Kaisen implemented a risk management (hedging) program during the prior quarter fixing the Canadian WTI price on 600 boe per day at an average of \$100.00/boe and a Canadian WCS differential price of \$22.50/boe on 300 boe per day beginning in February through to the end of 2014. Combined, these hedges accounted for approximately 80% of the heavy oil production for the Quarter, generating a realized loss of \$687,914 or \$9.77 per boe (\$403,764 or \$4.70 per boe in the prior quarter).

Loss on risk management contracts

In February, the Company entered into the following financial contracts to mitigate the risk of fluctuating commodity prices:

Type	Period	Volume	Price/unit	Index
Fixed – sell	February – December 2014	300 bbl/d	CAD\$97.00	WTI
Fixed – sell	February – December 2014	300 bbl/d	CAD\$103.00	WTI
Fixed – sell	February – December 2014	300 bbl/d	CAD-\$22.50	WCS ⁽¹⁾

(1) Based on the weighted average price/unit for the remainder of the contract Western Canadian Select index pricing differential to West Texas Intermediate Canadian pricing.

As at June 30, 2014 the fair value associated with Kaisen's risk management contracts was a liability of \$1,367,194. The following is summary of realized and unrealized losses for the three months ended June 30, 2014:

Risk management contracts	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Realized loss	687,913	403,764	-	1,091,678
\$ per boe	9.77	4.70	-	7.05
Unrealized loss / (gain)	(320,321)	1,687,515	-	1,367,194
Total loss on risk management contracts	367,592	2,091,279	-	2,458,872

CROWN AND FREEHOLD ROYALTIES

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Crown (\$)	1,080,673	1,268,481	914,399	2,283,186
Freehold (\$)	245,674	122,044	313,206	433,686
Total Royalties	1,326,347	1,390,525	1,227,605	2,716,872
\$ per boe	18.84	16.42	13.86	17.53
% of revenue	24%	24%	26%	24%

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 25% blended for both Crown and freehold rates.

OPERATING EXPENSES

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
(\$)	2,047,233	2,094,467	1,589,217	4,141,700
\$ per boe	29.09	24.73	17.95	26.73
% of revenue	37%	36%	33%	37%

Operating costs for the Quarter were relatively unchanged from the prior quarter albeit impacted by repairs and maintenance work during the period. However on a per boe basis, operating costs climbed 18% due to a fixed cost operating base divided by lower production volumes during the same period. 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 continues to fine tune its operating practices in order to achieve enhanced efficiencies. In July, we initiated several projects scheduled for completion in October targeting a reduction in water handling costs, and a reduction in fuel gas consumption. Based on forward forecasted production rates, the Company is currently forecasting operating costs (exclusive of transportation expenses) in the range of \$20.00 - \$25.00 per boe for the balance of 2014.

TRANSPORTATION EXPENSES

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
(\$)	184,066	185,375	178,877	369,442
\$ per boe	2.62	2.19	2.02	2.38
% of revenue	3%	3%	4%	3%

Transportation expense, which remained consistent quarter over quarter, 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 \$2.00 - \$2.50 per boe.

OPERATING NETBACKS

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
<i>(\$ per boe)</i>				
Sales price	77.86	68.37	54.27	72.69
Royalties	(18.84)	(16.42)	(13.86)	(17.53)
Operating expenses	(29.09)	(24.73)	(17.95)	(26.73)
Transportation expenses	(2.62)	(2.19)	(2.02)	(2.38)
Netbacks (before hedging)	27.31	25.03	20.44	26.05
Realized loss on risk management contracts	(9.77)	(4.70)	-	7.05
Netbacks (after hedging)	17.54	20.33	20.44	19.00

The Company realized an average price (net of hedging) for the Quarter of \$68.09 which was in line with our pricing forecast. However, operating netbacks for the Quarter were impacted by high operating costs largely in response to lower production volumes during the same period. For the balance of 2015, the Company is forecasting stronger realized netbacks (after hedging) in the range of \$25.00 to \$30.00 per boe in response to numerous operating cost reduction initiatives previously disclosed, coupled with a significant increase in average production volumes for the balance of 2014.

GENERAL AND ADMINISTRATIVE ("G&A") AND OTHER NON-CASH EXPENSES

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Salaries and benefits (\$)	303,089	629,651	207,868	932,740
Other G&A expenses (\$)	237,942	274,969	264,258	626,961
Gross G&A expenses (\$)	541,031	1,018,669	472,126	1,559,701
Capitalized G&A expenses (\$)	(67,497)	(67,497)	(29,999)	(134,995)
Net G&A expenses (\$)	473,534	951,172	442,127	1,424,706
\$ per boe	6.73	11.23	4.99	9.19

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. In the prior quarter, employee bonuses totaling \$360,000 were paid to executive, staff and field operators as well as director fees totaling \$150,000. Excluding bonuses and other one-time cash costs, G&A expenses for the prior quarter were \$5.56 per boe. 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. No staffing changes were made during the Quarter. The Company is currently forecasting G&A expense per boe to average in the range of \$5.00 to \$6.00 for 2014.

FINANCE CHARGES

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Interest expense	45,494	29,322	14,878	74,816
Accretion expense	36,384	36,384	35,390	72,768
Finance charges	81,878	65,706	50,268	147,584

Interest expense relates to interest charges and related service fees on the Company's banking facility. Higher interest expense during the Quarter is a direct reflection of the higher average debt levels sustained over the same period.

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			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Share-based compensation	166,962	154,530	161,634	321,492

No changes were made to the Company's share-based compensation program during the Quarter and the expense is in-line with our expectations.

DEPLETION AND DEPRECIATION

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Depletion	869,858	1,000,955	1,011,194	1,870,813
Depreciation	17,487	17,338	26,729	34,826
Depletion and depreciation	887,345	1,018,293	1,037,923	1,905,639
\$ per boe	12.61	12.02	11.72	12.30

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).

FUNDS FLOW FROM OPERATIONS

During the Quarter, the Company recorded funds flow from operations of \$746,809 (\$0.06 per diluted share) consistent with \$727,675 (\$0.06 per diluted share) recorded in the prior quarter. Funds flow remained stable despite a 20% decline in production during the Quarter due to the positive impact of a 17% increase in realized pricing during the same period which, net of operating costs, yielded a 9% increase in the Company's operating netback (before hedging). However with higher prices came higher realized hedging losses which eroded the operating netback by \$687,913 or \$9.77 per boe. Funds flow year to date was \$1,474,483.

NET LOSS AND COMPREHENSIVE LOSS

The Company recorded a net loss for the Quarter of \$104,200 (nil per diluted share) compared to a net loss of \$1,853,544 (\$0.16 per diluted share) in the prior quarter. For the year to date, the Company recorded a net loss of \$1,957,745. The net loss for the year to date and the prior quarter was significantly impacted by the initial non-cash loss of \$1,687,515 recorded on the fair value of the financial risk management contracts entered into during the prior quarter. Routine non-cash charges relating to depletion and depreciation of \$887,345 (\$1,905,639 year to date) and share based compensation expense of \$166,962 (\$321,492 year to date) significantly contribute to the net loss.

LIQUIDITY AND CAPITAL RESOURCES

During the Quarter, the Company amended its banking facility arrangements with Alberta Treasury Branches ("ATB") by combining the previous \$3,000,000 revolving operating facility and the \$3,000,000 bridge facility into a single \$6,000,000 revolving operating facility. 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 June 30, 2014, \$2,429,507 was drawn on the facility.

Subsequent to the Quarter on July 4, 2014, ATB increased the revolving operating facility from \$6,000,000 to \$11,500,000 comprised of a \$9,500,000 revolving operating facility and a \$2,000,000 bridge facility. The bridge facility is due and payable in full on May 31, 2015.

As at June 30, 2014, the Company had a working capital deficit of \$5,282,236 (excluding amounts available under the credit facilities of \$717,764) and is compliant with all lender covenants.

CAPITAL INVESTMENT

	Three months ended			Six months ended
	June 30, 2014 <i>(unaudited)</i>	March 31, 2014 <i>(unaudited)</i>	December 31, 2013 <i>(unaudited)</i>	June 30, 2014 <i>(unaudited)</i>
Land	12,560	2,659	(12,900)	15,219
Geological and geophysical	44,225	1,453,250	-	1,497,472
Drilling and completions	453,245	340,120	1,894,426	793,366
Equipment and facilities	978,240	752,980	1,761,645	1,731,220
Office equipment	2,393	-	5,055	2,393
Corporate acquisitions ⁽¹⁾	134,646	(156,138)	235,959	(21,492)
Capitalized G&A	44,998	67,497	29,999	112,496
Additions to asset retirement obligations	-	-	202,462	-
Total capital additions	1,670,307	2,460,368	4,116,646	4,130,674

(1) Amounts relate to non-cash adjustments to the purchase price allocation for the Edam asset acquisition subsequent to the closing in August 2013.

OUTLOOK

In July, Kaisen announced a non-brokered private placement offering of 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.

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 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 believe this 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. Overall, this program reflects a carefully crafted balance between near term production and cashflow growth and longer term reserves value growth, which when combined will demonstrate significant value now and in the long term for shareholders. In total, we anticipate this program will deliver an additional 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. With a forecast exit rate between 1,500 to 1,800 boe per day at year end coupled with improved operating netbacks, Kaisen will be a significant funds flow generator as we move into 2015.

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			Six months ended
	June 30, 2014	March 31, 2014	December 31, 2013	June 30, 2014
Cash flow from operating activities	1,420,971	1,755,409	2,925,955	1,723,129
Deduct the change in non-cash working capital	(674,162)	(1,027,734)	(1,921,583)	(248,646)
Funds flow from operations	746,809	727,675	1,004,372	1,474,483

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.