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Management Discussion & Analysis

Three and Nine month periods ended September 30, 2014

(unaudited)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated December 3, 2014, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three and nine month periods ended September 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.

All references to the comparative nine month period ended December 31, 2013 include the inactive stub period from inception on November 6, 2012 to December 31, 2012.

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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Petroleum and natural gas sales	7,593,071	3,569,374	18,855,409	3,956,763
Realized hedging losses	335,140	-	1,426,818	
Funds flow from operations ⁽¹⁾	2,510,180	1,371,859	3,984,663	1,234,944
Per share – basic ⁽¹⁾	0.20	0.14	0.33	0.20
Per share – diluted ⁽¹⁾	0.16	0.13	0.27	0.18
Net earnings (loss)	1,617,717	547,536	(340,029)	187,940
Per share – basic	0.13	0.06	(0.03)	0.03
Per share – diluted	0.11	0.05	(0.03)	0.03
Expenditures on oil & gas properties	8,486,501	1,411,785	12,482,530	2,191,111
Corporate and Asset acquisitions	-	6,840,385	-	8,874,719
Net debt	3,619,743	944,015	3,619,743	944,015
Common shares				
Outstanding – basic	15,420,029	11,895,122	15,420,029	11,895,122
Outstanding – diluted	18,649,028	14,719,121	18,649,028	14,719,121
Weighted average – basic	12,865,212	9,871,778	12,233,177	6,235,225
Weighted average – diluted	15,390,767	10,350,778	14,758,732	6,714,225
Sales Volumes⁽³⁾				
Crude Oil (bbls per day)	1,081	473	914	148
NGL (bbls per day)	6	4	6	1
Natural gas (Mcf per day)	104	113	118	32
Barrels of oil equivalent (boe per day) ⁽²⁾	1,104	496	940	154
Operating Netbacks (\$/boe)				
Sales price	\$74.76	\$78.31	\$73.48	\$78.27
Royalties	(\$19.14)	(\$19.57)	(\$18.16)	(\$18.69)
Operating expenses	(\$19.48)	(\$12.01)	(\$23.85)	(\$16.50)
Transportation expenses	(\$2.09)	(\$1.87)	(\$2.27)	(\$1.84)
Netbacks (before hedging)	\$34.05	\$44.86	\$29.20	\$41.24
Realized loss on risk management contracts	(\$3.30)	-	(\$5.56)	-
Netbacks (after hedging)	\$30.75	\$44.86	\$23.64	\$41.24

⁽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 months ended September 30, 2014 (the "Quarter"), Kaisen experienced its busiest quarter since inception with significant development drilling and facility expansion generating quarter over quarter production growth of 43% coupled with a 75% increase in the Company's realized operating netbacks over the same period. In total, \$8.5 million was invested during the

Quarter into drilling, completion and major facility projects, with another \$1.5 million forecast to project completion in the fourth quarter. 13 net heavy oil wells were drilled (four of which were completed subsequent to the Quarter end), a new salt water disposal ("SWD") facility was constructed at Edam, and numerous other construction projects were undertaken on several debottlenecking and operating cost reduction initiatives.

Production for the Quarter averaged 1,104 barrels of oil equivalent ("boe") per day, 43% higher than the 773 recorded in the prior quarter thanks to the success of the 13 well program where, eight wells were drilled at Lone Rock and five wells were drilled at Edam. At Quarter end, nine of these wells were on production adding approximately 530 bbls of oil per day for the full month of September for a total September average of 1,243 boe per day. With the remaining wells on stream and optimized in October, production adds from the 13 well program increased to approximately 800 bbls/d, for a total October average of 1,677 boe per day. Kaisen is also pleased to report the discovery of a new Colony oil pool within the Lone Rock area, where we moved quickly to drill the first Colony well in September to prove commerciality and productivity. The Colony well was on stream early October with promising initial results. Costs for drilling, completion, and equipping have averaged \$502,000 per well in 2014 in line with Company estimates of \$495,000 per well.

On the facilities front, the expansion of salt water disposal ("SWD") capacity at Edam was completed near the end of the Quarter and is forecast to nearly triple Kaisen's water handling capability. By the end of October, Edam SWD capacity demonstrated capability up to 19,000 bbls of water per day from past limitations of 7,000 bbls/d. This will provide the Company with ample water disposal capacity for future development in 2015 and beyond. Kaisen is nearly complete on the construction of several additional projects aimed at increasing Edam netbacks. These projects include the installation of water transfer pumps and flowlines on four existing wells to reduce fluid trucking expenses, along with the electrification and expansion of the Edam fuel gas network to reduce propane fuel costs. In aggregate, these projects are expected to reduce Edam operating costs by approximately \$850,000 per year or \$2.00 per bbl on a current run-rate of 1,000 bbls/d for the field.

Strength in realized heavy oil prices continued during the Quarter, peaking at \$81.07 in July and averaging \$75.68 per boe. In direct correlation to the strong realized market prices, the Company's risk management contracts (hedging contracts) generated a loss of \$3.30 per boe during the Quarter (\$5.56 per boe year to date) producing an average realized heavy oil price (net of hedging) of \$71.46 (\$67.92 year to date). The Company's hedging contracts were initiated in February and expire at the end of December 2014.

Beyond the benefits of strong commodity prices, netbacks for the Quarter were further buoyed by a 33% reduction in operating costs over the same period averaging \$19.48 per boe (\$23.85 year to date) as compared to \$29.09 in the prior quarter. Lower operating costs per boe during the Quarter were driven by increased production volumes along with continuous operating efficiency initiatives and facilities investments. The Company's operating netback for the Quarter (after hedging) averaged \$30.75 per boe (\$23.64 per boe year to date), 75% higher than the \$17.54 per boe recorded in the prior quarter, generating field level profits (after hedging) of \$3,123,383, 153% higher than the \$1,234,478 recorded in the prior quarter.

Subsequent to the Quarter end on October 23, 2014, Kaisen was successful in divesting its non-core non-operated Alberta assets with production in the Pembina area of approximately 25 bbl/d of production heavily weighted to natural gas. Proceeds before selling costs of \$950,000 will be redirected towards our core area development.

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 September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Sales volumes				
Crude oil (bbls per day)	1,081	473	914	148
Natural gas liquids ("NGL") (bbls/d)	6	4	6	1
Natural gas (Mcf per day)	104	113	118	32
Total average daily production (boe/d)	1,104	496	940	154
Liquids as a percentage of total	98%	96%	98%	96%

	Three months ended September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Production by area (boe per day)				
Lone Rock, Saskatchewan	529	302	416	100
Edam, Saskatchewan	549	168	496	47
Other	26	26	28	7
Total average daily production	1,104	496	940	154

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 1,104 boe per day (773 boe per day in the prior quarter), consisting of 1,081 bbls per day of operated heavy oil from the Company's two core areas of Lone Rock and Edam. At Lone Rock, production grew by 82% averaging 529 boe per day as compared to 291 boe per day in the prior quarter while at Edam, production grew by 20% averaging 549 boe per day as compared to 458 boe per day in the prior quarter. Growth in production is a result of the Company's 13 well drilling program of which nine wells were on stream by the end of the Quarter.

	Three months ended September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Petroleum and natural gas sales				
Heavy oil	\$7,504,386	\$3,497,089	\$18,542,194	\$3,884,451
Light oil	\$27,194	\$23,812	\$79,300	\$23,812
Natural gas liquids	\$19,783	\$19,488	\$69,853	\$19,488
Natural gas	\$41,708	\$28,985	\$164,062	\$28,985
Total	\$7,593,071	\$3,569,374	\$18,855,409	\$3,956,736

	Three months ended September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Average Realized Prices	\$75.68	\$80.92	\$74.52	\$80.61
Heavy oil (\$/bbl)	\$100.57	\$90.20	\$98.12	\$90.20
Light oil (\$/bbl)	\$53.26	\$52.11	\$61.39	\$52.11
Natural gas liquids (\$/bbl)	\$4.40	\$2.80	\$5.03	\$2.80
Natural gas (\$/mcf)	\$74.76	\$78.31	\$73.48	\$78.27
Combined average realized price (\$/boe)				

Average Benchmark Prices

WTI oil (US\$/bbl)	\$97.17	\$105.82	\$99.60	\$98.13
US/CDN exchange rate	0.917	0.971	0.909	0.9804
WTI Oil (Cdn\$/bbl)	\$105.92	\$108.99	\$109.56	\$100.09
WCS differential (US\$/bbl)	(\$20.17)	(\$17.48)	(\$21.22)	(\$22.64)
AECO natural gas (Cdn\$/bbl)	\$4.22	\$2.82	\$4.55	\$3.12

Realized Pricing

Kaisen's realized average heavy oil price for the Quarter remained reasonably stable over the prior quarter with a slight 4% decline averaging \$75.68 per boe as compared to \$79.04 per boe in the prior quarter. The Company's realized pricing closely parallels the broader North American markets where over the same period, US denominated WTI prices decreased by 6% averaging

US\$97.17 per boe versus US\$102.97 per boe in the prior quarter. A flat US/Cdn exchange rate and WCS differential quarter over quarter had little further impact.

On a year to date basis, US denominated WTI remained relatively constant from 2013 to 2014 while the WCS differential strengthened 6%, further compounded by the weakening of the Canadian dollar. However in contrast, Kaisen's heavy oil quality mix shifted slightly towards a heavier quality oil through the acquisition of the Edam core area in August of 2013, the impact on realized pricing was not significant in the year to date realized pricing for 2013 however it was fully realized in year to date pricing for 2014. This is reflected in a slightly lower average realized heavy oil price year to date of \$74.52 per boe as compared to \$80.61 per boe recorded in 2013.

Pricing into the fourth quarter of 2014 has softened as the forward market for US WTI has weakened by up to 23% in the November trading month as compared to the third quarter average. However thanks to a weakening Canadian dollar, the price decline reflected in Canadian dollars is only 16% while an approximate 8% narrowing in the Canadian WCS differential over the same period has resulted in a net Canadian decline in WCS prices of only 13% which demonstrates the continuing strength of heavy oil relative to its light oil counterpart.

Risk management contracts

To protect against potential future volatility in the WTI price and WCS differential, Kaisen implemented a risk management (hedging) program during the first 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 54% of the heavy oil production for the Quarter (66% year to date), generating a realized loss of \$335,140 or \$3.30 per boe (\$687,914 or \$9.77 per boe in the prior quarter) and a realized loss of \$1,426,818 or \$5.56 per boe year to date.

Summary of current financial contracts:

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 September 30, 2014 the fair value associated with Kaisen's risk management contracts was a liability of \$282,497. The following is summary of realized and unrealized losses for the three and nine months ended September 30, 2014:

	Three months ended September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Realized loss	\$335,140	-	\$1,426,818	-
\$ per boe	\$3.30	-	\$5.56	-
Unrealized loss (gain)	(\$1,084,697)	-	\$282,497	-
Total loss (gain) on risk management contracts	(\$749,557)	-	\$1,709,315	-

The Company has not yet entered into risk management contracts for production beyond December 31, 2014 but will continue to monitor current market conditions and future pricing forecasts to identify the best entry point to implement further risk mitigation measures.

CROWN AND FREEHOLD ROYALTIES	Three months ended September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Crown	\$1,513,611	\$704,047	\$3,796,797	\$731,995
Freehold	\$429,969	\$187,906	\$863,655	\$212,801
Total Royalties	\$1,943,580	\$891,953	\$4,660,452	\$944,796
\$ per boe	\$19.14	\$19.57	\$18.16	\$18.69
% of revenue	25.6%	25.0%	24.7%	23.9%

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		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$1,978,654	\$547,528	\$6,120,354	\$833,938
\$ per boe	\$19.48	\$12.01	\$23.85	\$16.50
% of revenue	26%	15%	32%	21%

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.

Operating costs for the Quarter of \$1,978,654, remained almost flat over the prior quarter, however, when coupled with a 43% increase in production over the same period, operating costs per boe declined dramatically from \$29.09 per boe in the prior quarter to \$19.48 per boe in the current Quarter, or 33% quarter over quarter.

Kaisen continuously works to fine tune its existing operating practices in order to achieve enhanced efficiencies. With a longer term view, wise investments in facilities and infrastructure can make a significant positive impact in operating efficiencies. During the Quarter, we initiated several projects targeting reductions in water handling costs and fuel gas consumption which were mostly completed by late September and October. The benefits of these projects are expected to be fully realized in the fourth quarter where the Company is currently forecasting operating costs (exclusive of transportation expenses) in the range of \$18.00 - \$22.00 per boe for the balance of 2014.

TRANSPORTATION EXPENSES	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$212,314	\$85,172	\$581,756	\$92,799
\$ per boe	\$2.09	\$1.87	\$2.27	\$1.84
% of revenue	3%	2%	3%	2%

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		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
(\$ per boe)				
Sales price	\$74.76	\$78.31	\$73.48	\$78.27
Royalties	(\$19.14)	(\$19.57)	(\$18.16)	(\$18.69)
Operating expenses	(\$19.48)	(\$12.01)	(\$23.85)	(\$16.50)
Transportation expenses	(\$2.09)	(\$1.87)	(\$2.27)	(\$1.84)
Netbacks (before hedging)	\$34.05	\$44.86	\$29.20	\$41.24
Realized loss on risk management contracts	(\$3.30)	-	(\$5.56)	-
Netbacks (after hedging)	\$30.75	\$44.86	\$23.64	\$41.24

The Company realized an average netback (net of hedging) for the Quarter of \$30.75, 75% higher than the \$17.54 recorded in the prior quarter. Although realized average prices declined by 4% during the Quarter, the significant rise in netbacks were driven by substantially lower operating costs largely in response to higher production volumes and operating efficiency initiatives during the same period. Year to date netbacks have averaged \$23.64, reflecting a large \$5.56 per boe loss on hedging contracts and the impact of higher operating costs during the first half of 2014 where production averages were negatively impacted by a period of no drilling activity and spring break-up related production shut-ins.

**GENERAL AND ADMINISTRATIVE (“G&A”) AND
OTHER NON-CASH EXPENSES**

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(<i>unaudited</i>)	(<i>unaudited</i>)	(<i>unaudited</i>)	(<i>unaudited</i>)
Salaries and benefits	\$313,896	\$340,427	\$1,266,636	\$445,032
Other G&A expenses	\$249,195	\$252,192	\$856,155	\$408,337
Gross G&A expenses	\$563,090	\$592,619	\$2,122,791	\$853,369
Capitalized G&A expenses	(\$67,497)	(\$53,331)	(\$202,492)	(\$53,331)
Net G&A expenses	\$495,593	\$539,288	\$1,920,299	\$800,038
\$ per boe	\$4.88	\$11.83	\$7.48	\$15.83

G&A expenses for the Quarter are in line with expectations, averaging \$4.88 per boe as compared to \$6.73 in the prior quarter. G&A expenses are primarily fixed costs in nature and therefore fluctuate on a per boe basis with the rate of production. This is apparent in the 27% decline on a per boe basis when noting that total nominal G&A costs declined by only 8%. Kaisen capitalizes to property, plant and equipment, a percentage of technical staff salaries and share based compensation expense 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. Year to date G&A expenses have averaged \$7.48 per boe, a direct reflection of lower production rates during the first half of 2014. The Company is currently forecasting G&A expense per boe for the fourth quarter to average between \$5.00 and \$6.00 and for the year to average in the range of \$6.00 to \$7.00.

FINANCE CHARGES

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(<i>unaudited</i>)	(<i>unaudited</i>)	(<i>unaudited</i>)	(<i>unaudited</i>)
Interest expense	\$33,360	\$12,161	\$111,176	\$12,162
Accretion expense	\$38,183	\$34,680	\$110,951	\$38,368
Finance charges	\$74,543	\$46,841	\$222,127	\$50,530

Interest expense relates to interest charges and related service fees on the Company’s banking facility. Higher interest expense during the Quarter as compared to the prior year 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 September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	(<i>unaudited</i>)	(<i>unaudited</i>)	(<i>unaudited</i>)	(<i>unaudited</i>)
Share-based compensation	\$193,409	\$67,285	\$514,901	\$67,285

On September 5, 2014, the Company granted 470,000 stock options to employees, directors and consultants at an exercise price of \$2.25. The granting of options was made concurrently with the closing of the Company’s \$7.9 million equity offering of 3,508,107 common shares at \$2.25 per share on the same day. The impact of the option grant on share-based compensation expense was negligible for the Quarter.

Also on September 5, 2014, 65,000 options with an exercise price of \$1.00 were net-settled in cash to the option holder based on a then current market value of \$2.25 per share. Accordingly, \$19,364 was reclassified from contributed surplus to a cash settled liability on the statement of financial position along with a further \$61,886 of share based compensation expense which combined comprised the total amount of the cash settlement of \$81,250. The full amount of the liability was settled with the option holder on September 5, 2014.

During the Quarter, the Company capitalized share based compensation expense in the amount of \$46,417, relating to development activities. \$16,030 of the capitalized stock based compensation for the current year pertains to the prior year and has been recorded as an adjustment to opening retained earnings of the current year.

DEPLETION AND DEPRECIATION	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Depletion	1,278,608	\$678,459	\$3,149,422	\$752,291
Depreciation	(\$15,866)	\$4,588	\$18,959	\$15,402
Depletion and depreciation	\$1,262,742	\$683,047	\$3,168,381	\$767,693
\$ per boe	\$12.43	\$14.99	\$12.35	\$15.19

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 (\$41.2 million) less the total salvage value of the assets (\$1.6 million).

FUNDS FLOW FROM OPERATIONS

During the Quarter, the Company recorded funds flow from operations of \$2,510,180 (\$0.16 per diluted share), 236% higher than the \$746,809 (\$0.06 per diluted share) recorded in the prior quarter. The substantial increase in funds flow is a direct result of the 75% increase in netbacks (after hedging) coupled with a 43% increase in production over the same period. Funds flow year to date was \$3,984,663 (\$0.27 per diluted share).

NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

The Company recorded net earnings for the Quarter of \$1,617,717 (\$0.11 per diluted share) compared to a net loss of \$104,200 (\$0.01 per diluted share) in the prior quarter. For the year to date, the Company has recorded a net loss of \$340,029 (\$0.03 per diluted share). The increase in net earnings quarter over quarter is consistent with the 75% increase in netbacks and the 43% increase in production over the same period. Routine non-cash charges relating to depletion and depreciation of \$1,262,742 (\$3,168,381 year to date) and share based compensation expense of \$112,159 (\$433,651 year to date) significantly contribute to the year to date net loss.

LIQUIDITY AND CAPITAL RESOURCES

On July 4, 2014, the Company's lending bank increased its' banking 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 concurrent with the next borrowing base review which is scheduled for May 31, 2015. Prime-based loans are available through the operating facility at prime plus 1.25% per annum.

Subsequent to the Quarter end, the Company divested of certain non-core properties which resulted in a reduction to the revolving operating facility from \$9,500,000 to \$9,100,000. See accompanying financial statements, note 14 – Subsequent events.

At September 30, 2014, a negligible amount of \$5,000 was drawn on the banking facility and the Company's net working capital deficit (current assets net of accounts payable and bank debt) was \$3,619,743 (\$5,282,236 at June 30, 2014). The Company is compliant with all lender covenants.

CAPITAL INVESTMENT	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Land	-	\$9,460	\$13,769	\$74,003
Geological and geophysical	\$31,509	\$1,160	\$1,528,982	\$13,339
Drilling and completions	\$6,315,275	\$804,719	\$8,595,326	\$1,203,620
Equipment and facilities	\$2,072,221	\$615,205	2,296,713	\$817,239
Office equipment	-	\$11,682	\$2,393	\$43,056
Corporate acquisitions	-	\$7,726,893	-	\$15,117,442
Capitalized G&A	\$67,497	\$53,331	\$179,993	\$53,331
Capitalized stock based compensation	\$46,417	-	\$46,417	-
Additions to asset retirement obligations	\$520,970	\$5,102,354	\$520,970	\$5,545,030
Total capital additions	\$9,053,889	\$14,324,804	\$13,184,563	\$22,867,060

SELECTED QUARTERLY RESULTS AND ANALYSIS

	Three months ended				
	Sept 30, 2014	June 30, 2014	March 31, 2014	Dec 31, 2013	Sept 30, 2013
Petroleum and natural gas sales	\$7,593,071	\$5,480,037	\$5,782,300	\$4,806,391	\$3,569,374
Realized hedging losses	\$335,140	\$687,913	\$403,764	-	-
Funds flow from operations ⁽¹⁾	\$2,510,180	\$746,809	\$727,675	\$1,004,372	\$1,371,859
Net earnings (loss)	\$1,617,717	(\$104,200)	(\$1,853,544)	(\$68,264)	\$547,536
Expenditures on oil & gas properties	\$8,486,501	\$1,535,661	\$2,460,367	\$3,678,564	\$1,411,785
Corporate and Asset acquisitions	-	-	-	-	\$6,840,385
Net debt	\$3,619,743	\$5,282,236	\$4,358,738	\$2,626,046	\$944,015
Common shares outstanding - diluted	18,649,028	14,735,921	14,719,113	14,719,121	14,719,121
Sales Volumes (boe per day) ⁽²⁾	1,104	773	942	963	496
Operating Netbacks (\$/boe)					
Sales price	\$74.76	\$77.86	\$68.37	\$54.27	\$78.31
Royalties	(\$19.14)	(\$18.84)	(\$16.42)	(\$13.86)	(\$19.57)
Operating expenses	(\$19.48)	(\$29.09)	(\$24.73)	(\$17.95)	(\$12.01)
Transportation expenses	(\$2.09)	(\$2.62)	(\$2.19)	(\$2.02)	(\$1.87)
Field netbacks (before hedging)	\$34.05	\$27.31	\$25.03	\$20.44	\$44.86
Realized loss on risk management	(\$3.30)	(\$9.77)	(\$4.70)	-	-
Field netbacks (after hedging)	\$30.75	\$17.54	\$20.33	\$20.44	\$44.86
General & administration expenses	(\$4.88)	(\$6.73)	(\$11.23)	(\$4.99)	(\$11.83)
Corporate netback	\$25.87	\$10.81	\$9.10	\$15.45	\$33.03

(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".

Over the past five quarters, Kaisen has executed three distinct drilling programs which have occurred primarily in the second and fourth quarters of 2013 and the third quarter of 2014 (the current quarter). The result of each of these drilling programs has been a subsequent increase in production rates as reflected in the 94% and 43% increase in production rates between the third and fourth quarters of 2013 and the second and third quarters of 2014. The 18% decline in production for the second quarter of 2013 is due to an extended period of no drilling activity coupled with natural declines and spring break-up related production shut-ins.

Funds flow from operations is primarily impacted not only by production rates, but also by fluctuations in commodity prices and overall netbacks as reflected in the 27% decline in funds flow from operations between the third and fourth quarters of 2013 where the 94% increase in production was not sufficient to offset the 30% decline in prices. Funds flow from operations inclined steadily through the first half of 2014 in spite of flat production rates due to price strengthening during the same period. However funds flow from operations surged upwards 236% between the second and third quarters of 2014 due to the 43% increase in production during the Quarter where a 4% decline in commodity prices was more than offset by a 33% reduction in operating costs driving an overall 75% increase in netbacks over the same period.

Netback results over the past five quarters clearly demonstrates the intricate inter-play between commodity pricing, operating efficiencies and gains/losses in financial hedges. Operating costs per boe over these past 5 quarters has been largely impacted by; seasonal impacts associated with cold weather and its higher fuel cost demands (first quarter 2014), spring break-up causing production shut-ins (second quarter 2014) and the rate of production and its correlation to the Company's ratio of fixed to variable cost structure (second quarter 2014) which for the second quarter of 2014, burdened the brunt of all three (weather, lower production and hedging losses.)

G&A expenses by its very nature is comprised of a high ratio of fixed to variable costs (i.e. salaries, rent, operating licenses and subscriptions), as such, G&A expenses per boe will fluctuate conversely in close correlation with the rate of production in any given quarter. This is reflected in the quarterly results above with exception to the first quarter of 2014 where G&A expenses included bonuses to employees, directors and consultants for extraordinary contributions made during the first quarter of 2014.

Net earnings (loss) for the past five quarters has been impacted by non-cash charges primarily attributed to depletion of the Company's assets, changes in the future tax liability and changes in the unrealized gain (loss) of the Company's financial risk management contracts (hedges) which fluctuates from quarter to quarter based on the pricing environment at each quarter end.

OUTLOOK

As a follow on to the exceptional results of this third quarter of 2014, much time and effort has been invested into the continued refinement of our budget for the balance of 2014 and our plans for 2015. In our previous quarter end outlook we positioned ourselves to execute a 17 well program in the second half of 2014 for a total cost of \$15.4 million with a 2014 exit range between 1,500 and 1,800 boe per day. Kaisen is nimble and capable of quick adaptation to ever changing market conditions. This is a luxury we aim to exploit to the fullest through continuous strategy development. For the balance of 2014, we are keenly aware of the pricing volatility that commenced in October which will negatively impact realized commodity prices for November and December production months and into 2015. In light of this unpredictable volatility and the duration for which it may last, we have reviewed our remaining capital program for 2014 and have made the proactive decision to cease with any further drilling for the balance of the year and instead will focus our efforts during the balance of the year towards optimizing our existing production and completing four additional well reactivations which were kicked off in late November. To some this may seem reactionary to what we hope will be a short volatility cycle, however when reviewing our results to date on the 13 wells drilled in the current quarter coupled with results from the four well reactivations soon to be completed, we are confident that we will deliver a production rate at exit safely within the guidance previously forecasted for the end of the year. Furthermore, we will deliver these results on a program that is approximately 25% or \$3.5 million cheaper than planned. This outcome will leave Kaisen with an enviably strong balance sheet (forecasted to be less than 30% leveraged) and strong production/funds flow setting the stage for maximum optionality in 2015. As for 2015, we have developed a comprehensive drilling program tentatively scheduled to kick-off in January where we hope to see continued production growth through the first quarter. However, no program is cast in stone and although we will ensure full readiness for this planned program, we will also remain flexible to make further adjustments in response to market conditions and opportunities that may evolve.

The key message in our outlook for the balance of 2014 and into 2015 is that we have optionality. Optionality to utilize our balance sheet strength and strong funds flow to accelerate production growth, or to defensively sustain production and endure any possible prolonged market challenges that may evolve. However, it is our view that current commodity price volatility will stabilize as we enter into 2015 and with a bullish longer term view on North American heavy oil demand, coupled with continued debottlenecking of transport capacity on both rail and pipeline, prices will eventually stabilize and strengthen, particularly for heavy oil. 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 approach 2015, always being mindful and attentive to the eventual opportunity to delivery liquidity to shareholders as and when the opportunity arises.

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 September 30,		Nine months ended September 30,	
	2014 (unaudited)	2013 (unaudited)	2014 (unaudited)	2013 (unaudited)
Cash flow from operating activities	1,770,085	\$847,048	3,645,318	\$917,821
Deduct the change in non-cash working capital	740,095	\$524,811	339,345	\$317,123
Funds flow from operations	2,510,180	\$1,371,859	3,984,663	\$1,234,944

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.