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Annual Management Discussion & Analysis

December 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated April 10, 2015, and should be read in conjunction with the accompanying annual financial statements and related notes for the three and twelve month periods ended December 31, 2014 and 2013 of Kaisen Energy Corp. ("Kaisen" or the "Company"). The annual financial 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 twelve 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 December 31,		Year ended December 31,	
	2014	2013	2014	2013
Petroleum and natural gas sales	9,123,917	4,806,391	27,979,325	8,763,154
Realized hedging gains/(losses)	771,485	-	(655,333)	-
Funds flow from operations ⁽¹⁾	2,753,784	1,004,372	6,635,548	2,239,316
Per share – basic ⁽¹⁾	\$0.18	\$0.08	\$0.51	\$0.34
Per share – diluted ⁽¹⁾	\$0.17	\$0.07	\$0.48	\$0.25
Net earnings (loss)	403,377	(68,264)	63,347	119,675
Per share – basic	0.03	-	0.01	0.02
Per share – diluted	0.03	-	0.01	0.01
Expenditures on oil & gas properties	3,190,261	3,678,564	15,639,191	5,869,678
Corporate and Asset net acquisitions/(dispositions)	(679,375)	-	(679,375)	8,874,719
Bank debt (including net working capital)	3,381,845	2,626,046	3,381,845	2,626,046
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	15,420,029	11,895,114	13,036,439	6,658,493
Weighted average – diluted	16,123,473	14,240,113	13,739,883	9,003,492
Sales Volumes⁽³⁾				
Crude Oil (bbls per day)	1,692	932	1,110	470
NGL (bbls per day)	2	6	5	4
Natural gas (Mcf per day)	28	143	95	86
Barrels of oil equivalent (boe per day) ⁽²⁾	1,699	963	1,131	488
Operating Netbacks (\$/boe)				
Sales price	\$58.40	\$54.27	\$67.79	\$63.05
Royalties	(\$14.82)	(\$13.86)	(\$16.90)	(\$15.63)
Saskatchewan surcharge tax	(\$2.97)	-	(\$1.12)	-
Operating expenses	(\$17.03)	(\$17.95)	(\$21.28)	(\$17.44)
Transportation expenses	(\$2.28)	(\$2.02)	(\$2.27)	(\$1.95)
Netbacks (before hedging)	\$21.30	\$20.44	\$26.22	\$28.03
Realized gain/(loss) on risk management contracts	\$4.94	-	(\$1.59)	-
Netbacks (after hedging)	\$26.24	\$20.44	\$24.63	\$28.03

(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".

Highlights of the Year

Kaisen is pleased to report on the financial and operating results for the year ended December 31, 2014. In our first full year of operations, the Company delivered significant production, funds flow and reserves growth, demonstrating the substantial growth potential of our assets.

Activities for the year at our Lone Rock core area included:

- Drilled 8 vertical wells for total cost of approximately \$3.8 million, averaging \$478,000 per well;
- Optimization work including equipment upgrades and an independent waterflood feasibility study which supports a future meaningful waterflood development opportunity within the main Sparky channel.

Activities for the year at our Edam core area included:

- First quarter 3D seismic acquisition program (\$1.5 million) covering over 7 sections of lands within the Company's Edam Waseca pool which enabled the identification of a number of new drilling prospects and increasing the Company's original oil in place ("OOIP") estimates;
- Drilled 5 vertical wells for total cost of approximately \$3.1 million, averaging \$532,000 per well;
- Reactivated 7 wells for a total cost of approximately \$1.3 million, averaging approximately \$180,000 per event;
- Completed numerous facility projects totaling approximately \$3.5 million including the construction of a second salt water disposal ("SWD") facility ("5-29 SWD facility") along with the conversion of 2 SWD wells and the construction of numerous water flow-lines, in aggregate, nearly tripling Kaisen's water handling capability to 19,000 bbls of water per day.

In the first half of the year, an extensive technical analysis of our two core areas (Lone Rock and Edam) was undertaken, including the interpretation of our 3D seismic program. The results of this technical review enabled our development of a comprehensive drilling program with additional strategic infrastructure projects (detailed above), all of which kicked off in July and wrapped up in October. 9 vertical heavy oil wells were drilled in the second quarter with another 4 vertical wells in the third quarter. In total, 13 vertical heavy oil wells were drilled, 8 at Lone Rock and 5 at Edam at an average cost of \$530,000 per well, along with 7 well reactivations which in the aggregate added approximately 800 bbls/d of production producing an industry leading capital efficiency rate of \$10,200 per bbl of production added.

On the facilities front, the expansion of salt water disposal ("SWD") capacity at Edam was completed including the commissioning of a new salt water handling facility in the third quarter. In total, these SWD projects nearly tripled Kaisen's water handling capability to 19,000 bbls of water per day providing the Company with ample water disposal capacity for future development in 2015 and beyond. Kaisen also completed several other construction projects in the second half aimed at increasing Edam operating efficiencies and field netbacks. These projects included the installation of water transfer pumps and flow lines on 4 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 on course to reduce Edam operating costs by approximately \$850,000 per year.

The success of our total capital program is reflected in the 136% growth in heavy oil production which averaged 1,110 bbls/d during the year compared to 488 bbls/d in the prior year. Total funds flow of \$6.7 million increased 200% (96% growth per diluted share) over the \$2.2 million recorded in the prior partial year wherein operations commenced in March 2013.

On the netbacks front, oil price volatility continues to be the headline. The current year heavy oil price averaged \$67.79 per bbl, only \$4.74 per bbl higher than the prior year however during the second and third quarters, realized prices climbed to an average of \$77.86 and \$74.76 per bbl respectively, before settling back down to \$58.40 in the fourth quarter (8% higher than the \$54.27 per bbl realized in the fourth quarter of 2013). Our hedging program was both a friend and a foe during the course of the year but in aggregate incurred a realized loss of \$655,333 net of \$771,485 in realized gains during the last few months of the year. Subsequent to year end, the Company entered into a fixed price swap financial contract on 350 bbls per day for the months of February to December at a WTI price of CDN\$76.40 with a further option to the counterparty to initiate a 700 bbl per day hedge for the full 2016 calendar year at WTI CDN\$80.00 per bbl. These contracts have provided meaningful downside protection in the event of further material price declines in the future.

On the acquisitions and divestitures front, in October, Kaisen sold its non-operated Alberta gas weighted assets with production of approximately 25 boe per day for proceeds before selling costs of \$950,000. In December, \$175,000 of these sale proceeds were reinvested into the acquisition of approximately 3 sections of undeveloped heavy oil prospective properties in the Lone Rock core area. This newly acquired acreage has added meaningful drilling inventory and asset value to our booked reserves portfolio representing a significant multiple to the acquired cost.

What follows is a detailed review of the Company's operating and financial results for the three and twelve month periods ending December 31, 2014 with an outlook on activities planned for 2015.

OIL AND GAS PRODUCTION AND PRICING

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
Sales volumes				
Crude oil (bbls per day)	1,692	932	1,110	470
Natural gas liquids ("NGL") (bbls/d)	2	6	5	4
Natural gas (Mcf per day)	28	143	95	86
Total average daily production (boe/d)	1,699	963	1,131	488
Liquids as a percentage of total	99%	97%	98%	97%

	Three months ended December 31,		Year ended December 31,	
	2014	2013	2014	2013
Production by area (boe per day)				
Lone Rock, Saskatchewan	828	534	521	308
Edam, Saskatchewan	864	394	587	161
Other	7	35	23	19
Total average daily production	1,699	963	1,131	488

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 year averaged 1,131 boe per day (488 boe per day in the prior year), consisting of 1,108 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 69% averaging 521 boe per day as compared to 308 boe per day in the prior year while at Edam, production grew by 264% averaging 587 boe per day as compared to 161 boe per day in the prior year bearing in mind that Edam was acquired mid way through 2013. Growth in production is a result of the Company's 13 well drilling program with 9 wells at Lone Rock and 4 wells at Edam, net of the sale of approximately 23 boe per day of non-operated Alberta properties in October. For the three months ended December 31, 2014 (the "Quarter"), production increased 76% over the same quarter in the prior year, and 54% over the prior quarter, averaging 1,699 bbls per day of nearly 100% heavy oil.

	Three months ended December 31,		Year ended December 31,	
	2014 (unaudited)	2013 (unaudited)	2014	2013
Petroleum and natural gas sales				
Heavy oil	\$9,099,388	\$4,704,224	\$27,641,582	\$8,588,709
Light oil	\$7,822	\$33,986	\$87,121	\$57,672
Natural gas liquids	\$6,235	\$25,374	\$76,088	\$44,465
Natural gas	\$10,472	\$42,807	\$174,534	\$72,308
Total	\$9,123,917	\$4,806,391	\$27,979,325	\$8,763,154

	Three months ended December 31,		Year ended December 31,	
	2014 <i>(unaudited)</i>	2013 <i>(unaudited)</i>	2014	2013
Average Realized Prices				
Heavy oil (\$/bbl)	\$58.49	\$55.08	\$68.36	\$64.46
Light oil (\$/bbl)	\$91.66	\$91.60	\$98.12	\$86.68
Natural gas liquids (\$/bbl)	\$45.57	\$43.05	\$60.12	\$44.57
Natural gas (\$/mcf)	\$4.13	\$3.25	\$4.96	\$2.95
Combined average realized price (\$/boe)	\$58.40	\$54.27	\$67.79	\$63.05
Average Benchmark Prices				
WTI oil (US\$/bbl)	\$73.14	\$97.46	\$92.97	\$97.97
WCS heavy oil (US\$/bbl)	\$58.90	\$65.26	\$73.58	\$72.78
US/CDN exchange rate	0.8789	0.9529	0.9050	0.9710
WCS differential (US\$/bbl)	(\$14.24)	(\$32.20)	(\$19.39)	(\$25.19)
WCS differential %	20%	33%	21%	26%
WCS heavy oil (CDN\$/bbl)	\$67.02	\$68.49	\$81.30	\$74.95

Realized Pricing

Kaisen realized an average heavy oil price for the year of \$68.36 per boe (84% of Cdn\$ Western Canadian Select ("WCS")) which was 6% higher than the prior year average of \$64.46 (86% of Cdn\$WCS).

During the year, US\$WTI experienced significant volatility, averaging \$92.97/bbl for the year (5% lower than the prior year average of \$97.97/bbl) with prices settling as high as \$107.26/bbl in the summer and as low as \$53.27/bbl in December. The volatile price range seen through 2014 reflected strong prices through the first half of the year, falling steadily through the second half as OPEC relinquished its traditional swing producer role in favor of a market share strategy, setting a target production level for the group of 30 million bbl/d.

Further to the changes on US\$WTI prices, the discount for Canadian heavy oil, as measured by the WCS price differential to US\$WTI, improved considerably, averaged 21% for the year, as compared to 26% in 2013. The improvement in the WCS differential along with lessor volatility as compared to the prior year is largely a product of increased refining capacity in the U.S. midwest, more rail transportation options and expanded pipeline capacity out of Western Canada.

In aggregate, despite the year over year softening of US\$WTI prices, the increase in realized heavy oil price was due to a 19% narrowing of the heavy oil differential with further thanks to an 8% weakening of the Canadian dollar against its US counterpart over the same period.

For the Quarter, our average realized heavy oil price was \$58.49/bbl, or 87% of Cdn\$WCS, compared to \$55.08/bbl, or 80% of Cdn\$WCS in the same quarter of 2013. The 6% increase in realized prices despite a slight 2% decline in WCS pricing during the same period was due primarily to improvements in our oil marketing options at various sales points during the year.

Risk management contracts

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 current policy is to hedge no more than 50 percent of budgeted net volumes using a combination of fixed swaps, swaptions and price collars, under contract terms not exceeding 24 months with only investment grade counterparties. As at December 31, 2014 the Company had no hedging contracts in place, however subsequent to the year end, the Company entered the following fixed price contracts:

Type	Period	Volume	Price/unit ⁽¹⁾	Index
Fixed – sell (Swap)	February – December 2015	350 bbl/d	CAD\$76.40	WTI
Fixed – sell (Swaption) ⁽²⁾	January – December 2016	700 bbl/d	CAD\$80.00	WTI

1. Based on the weighted average price/bbl for the duration of the contract

2. Counterparty holds an option to exercise the contract by the expiry deadline of 4pm (MST) on December 31, 2015

The following is a summary of realized and unrealized losses for the three and twelve months ended December 31, 2014:

	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>		
Realized gain/(loss)	\$771,485	-	(\$655,333)	-
\$ per boe	\$3.30	-	(\$5.56)	-
Unrealized gain/(loss)	282,497	-	-	-
Total gain/(loss) on risk management	\$1,053,982	-	(\$655,333)	-

CROWN AND FREEHOLD ROYALTIES	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>		
Crown	\$1,450,096	\$914,399	\$5,246,893	\$1,646,395
Freehold	\$865,965	\$313,206	\$1,729,621	\$526,007
Total Royalties	\$2,316,061	\$1,227,605	\$6,976,514	\$2,172,402
\$ per boe	\$14.82	\$13.86	\$16.90	\$15.63
% of revenue	25%	26%	25%	25%

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 is currently forecasting a royalty rate of approximately 20%-23% blended for both Crown and freehold rates in the currently forecasted 2015 price environment.

OPERATING EXPENSES	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>		
	\$2,661,277	\$1,589,217	\$8,781,631	\$2,423,156
\$ per boe	\$17.03	\$17.95	\$21.28	\$17.44
% of revenue	29%	33.1%	31%	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.

Operating costs per bbl for the year averaged \$21.28. The 20% increase per bbl year over year was largely a result of the late 2013 acquisition of the Edam core area, a property initially burdened with high operating costs prior to the subsequent initiation of numerous optimization initiatives throughout the current year which targeted reductions in water handling costs and fuel gas consumption.

For the Quarter, operating costs averaged \$17.03 per bbl, a 5% decline over the same quarter in 2013 and a 31% decline over the first quarter of the year. The current quarter average cost per bbl best reflects the success of our cost reduction initiatives during the year which have enabled a more efficient and stable operating cost environment. Short of unforeseen material fluctuations in input costs such as heating fuels (which spiked in the first quarter contributing to a \$24.73 per bbl operating cost), and unscheduled well repairs and workovers, the Company forecasts 2015 operating costs to continue in the range of \$17.00-\$21.00 bbl/d.

TRANSPORTATION EXPENSES	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>		
	\$355,499	\$178,877	\$937,255	\$271,676
\$ per boe	\$2.27	\$2.02	\$2.27	\$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 however the Company's transportation expenses has consistently trended in the range of \$1.95 to \$2.30 per boe since inception.

OPERATING NETBACKS	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)		
<i>(\$ per boe)</i>				
Sales price	\$58.40	\$54.27	\$67.79	\$63.05
Royalties	(\$14.82)	(\$13.86)	(\$16.90)	(\$15.63)
Saskatchewan surcharge tax	(\$2.97)	-	(\$1.12)	-
Operating expenses	(\$17.03)	(\$17.95)	(\$21.28)	(\$17.44)
Transportation expenses	(\$2.28)	(\$2.02)	(\$2.27)	(\$1.95)
Netbacks (before hedging)	\$21.30	\$20.44	\$26.22	\$28.03
Realized gain/(loss) on risk management contracts	\$4.94	-	(\$1.59)	-
Netbacks (after hedging)	\$26.24	\$20.44	\$24.63	\$28.03

The Company realized an average netback for the year of \$24.63/bbl (net of hedging losses of \$1.59/bbl), which was 12% lower than the \$28.03/bbl recorded in the prior year. Although realized average prices increased by 8% over the prior year, the slight decline in netbacks was driven in part by the inclusion of the Saskatchewan Resource Surcharge tax ("SK surcharge"). This tax is based on the net equity value of the Company, which was triggered in 2014. The SK surcharge tax is calculated as to 1.7% on gross Saskatchewan resource sales net of certain allowable deductions, resulting in a \$463,977 charge during the year, all of which was included in Quarter. Further impacting netbacks was higher operating costs during the first half of the year coupled with full year realized hedging losses. For the Quarter, netbacks (net of hedging) averaged \$26.24/bbl, 28% higher than the \$20.44/bbl recorded in the same quarter of 2013, on account of realized hedging gains (\$4.94/bbl), the inclusion of the full year SK surcharge and slightly lower operating costs.

GENERAL AND ADMINISTRATIVE ("G&A") AND OTHER NON-CASH EXPENSES	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)		
Salaries and benefits		\$207,868		\$652,899
Other G&A expenses		\$264,258		\$672,595
Gross G&A expenses	\$898,602	\$472,126	\$3,021,393	\$1,325,494
Capitalized G&A expenses	(\$67,497)	(\$29,999)	(\$269,989)	(\$83,329)
Net G&A expenses	\$831,105	\$442,127	\$2,751,404	\$1,242,165
\$ per boe	\$5.42	\$4.99	\$6.70	\$8.94

G&A expenses for the year are in line with expectations, averaging \$6.70 per boe as compared to \$8.94 per boe in the prior year. G&A expenses are primarily fixed costs in nature and therefore fluctuate on a per boe basis with the rate of production. 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. For the Quarter, G&A expenses averaged \$5.42 per boe compared to \$4.99 per boe in the same quarter in 2013. The Company is currently forecasting full year 2015 G&A expense to average between \$5.00 and \$6.00 per boe.

FINANCE CHARGES	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)		
Interest expense	\$16,838	\$14,878	\$128,013	\$27,039
Accretion expense	\$41,168	\$35,390	\$152,119	\$73,759
Finance charges	\$58,006	\$50,268	\$280,132	\$100,798

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

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. During the Quarter, the Company reduced the assumed risk free interest rate from 2.50% to 2.22%, reflecting the lower Canadian interest rates at year end. Reserve life assumptions were also modified to reflect the estimated reserves life of the Company's wells. The combined impact of the change in assumptions was a reduction in the liability of \$25,035. An inflation rate of 2.0% to inflate the estimated future costs to abandon the wells remained unchanged.

SHARE-BASED COMPENSATION	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>		
Share-based compensation	\$173,426	\$161,634	\$688,327	\$228,919

On September 5, 2014, the Company granted 470,000 stock options to employees, directors and consultants at an exercise price of \$2.25 per share. The granting of options occurred 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 significantly higher share based compensation expense year over year is due to the initial granting of the majority of incentive options and warrants mid-way through 2013. For the Quarter, the impact of the current year option grant is reflected in the slight increase as compared to the same quarter in 2013.

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.

DEPLETION AND DEPRECIATION	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	<i>(unaudited)</i>	<i>(unaudited)</i>		
Depletion	\$1,791,813	\$1,011,194	\$4,941,235	\$1,763,484
Depreciation	\$3,277	\$26,729	\$22,236	\$42,131
Depletion and depreciation	\$1,795,090	\$1,037,923	\$4,963,471	\$1,805,615
\$ per boe	\$11.50	\$11.72	\$12.03	\$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 (\$84.5 million) less the total salvage value of the assets (\$1.6 million).

CURRENT TAXES

Due in part to the full utilization of existing exploration tax pools, Kaisen was not taxable as at September 30, 2014, being the date of the Company's tax year end. For the three months ended December 31, 2014, the Company recorded a current tax expense of \$401,236 on taxable earnings for the Quarter.

FUNDS FLOW FROM OPERATIONS

For the year, the Company recorded funds flow from operations of \$6,635,548 (\$0.48 per diluted share), 196% higher than the \$2,239,316 (\$0.25 per diluted share) recorded in the prior year. The substantial increase in funds flow is a direct result of the 131% increase in production despite a slight 12% decline in netbacks during the same period. Funds flow for the Quarter was \$2,753,784 (\$0.17 per diluted share) compared to \$1,004,372 (\$0.07 per diluted share) reflecting a 76% increase in production with a further 28% increase in realized netbacks during the same period.

NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)

The Company recorded net earnings for the year of \$63,347 (\$0.01 per diluted share) compared to \$119,675 (\$0.01 per diluted share) in the prior year. For the Quarter, the Company recorded net earnings of \$403,377 (\$0.03 per diluted share) compared to a net loss of \$68,264 (\$nil per diluted share) in the same quarter in 2013. Routine non-cash charges relating to depletion and depreciation of \$4,963,471 for the year (\$1,795,090 for the Quarter), share based compensation expense of \$688,327 (\$173,426 for the Quarter) and unrealized gains/losses in hedging contracts significantly impact net earnings/(loss) in each period. Net earnings for the period was further impacted by the \$580,883 loss (\$485,258 non-cash) recorded on the sale of a majority of the Company's non-operated gas weighted Alberta assets in October.

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.

In October, the Company divested of non-core gas weighted properties which resulted in a reduction to the revolving operating facility from \$9,500,000 to \$9,100,000.

At December 31, 2014, \$1,300,000 was drawn on the facility (\$900,000 at December 31, 2013) with total debt of \$2,277,581 (\$1,724,548 in the prior year). Total net debt (including net working capital) at December 31, 2014 was \$3,381,845 (\$2,626,046 in the prior year). The Company was compliant with this financial covenant at December 31, 2014.

CAPITAL INVESTMENT	Three months ended		Year ended	
	December 31,		December 31,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)		
Land	\$3,242	(\$12,900)	\$18,461	\$61,103
Geological and geophysical	\$30,919	-	\$1,559,901	\$13,339
Drilling and completions	\$2,498,701	\$1,894,426	\$11,091,570	\$3,098,045
Equipment and facilities	\$683,527	\$1,761,645	\$2,980,240	\$2,579,223
Office equipment	\$2,001	\$5,055	\$4,394	\$48,112
Corporate acquisitions	(\$1,417,216)	\$235,959	(\$1,438,708)	\$15,353,402
Capitalized G&A	\$67,497	\$29,999	\$269,989	\$83,329
Capitalized stock based compensation	\$17,877	-	\$64,294	-
Additions to asset retirement obligations	\$63,123	\$202,462	\$584,093	\$5,747,492
Total capital additions	\$1,949,671	\$4,116,646	\$15,134,234	\$26,984,045

SELECTED QUARTERLY RESULTS AND ANALYSIS

(unaudited)	Three months ended				Dec 31, 2013
	Dec 31, 2014	Sept 30, 2014	June 30, 2014	March 31, 2014	
Petroleum and natural gas sales	\$9,123,917	\$7,593,071	\$5,480,037	\$5,782,300	\$4,806,391
Realized hedging gains/(losses)	\$771,485	(\$335,140)	(\$687,913)	(\$403,764)	-
Funds flow from operations ⁽¹⁾	\$2,753,784	\$2,510,180	\$746,809	\$727,675	\$1,004,372
Net earnings (loss)	\$403,377	\$1,617,717	(\$104,200)	(\$1,853,544)	(\$68,264)
Expenditures on oil & gas properties	\$3,190,261	\$8,486,501	\$1,535,661	\$2,460,367	\$3,678,564
Corporate and Asset acquisitions	(\$679,375)	-	-	-	-
Net debt	\$3,381,845	\$3,619,743	\$5,282,236	\$4,358,738	\$2,626,046
Common shares outstanding - diluted	18,649,028	18,649,028	14,735,921	14,719,113	14,719,121
Sales Volumes (boe per day)⁽²⁾	1,699	1,104	773	942	963
Operating Netbacks (\$/boe)					
Sales price	\$58.40	\$74.76	\$77.86	\$68.37	\$54.27
Royalties	(\$14.82)	(\$19.14)	(\$18.84)	(\$16.42)	(\$13.86)
Saskatchewan surcharge tax	(\$2.97)	-	-	-	-
Operating expenses	(\$17.03)	(\$19.48)	(\$29.09)	(\$24.73)	(\$17.95)
Transportation expenses	(\$2.28)	(\$2.09)	(\$2.62)	(\$2.19)	(\$2.02)
Field netbacks (before hedging)	\$21.30	\$34.05	\$27.31	\$25.03	\$20.44
Realized loss on risk management	\$4.94	(\$3.30)	(\$9.77)	(\$4.70)	-
Field netbacks (after hedging)	\$26.24	\$30.75	\$17.54	\$20.33	\$20.44
General & administration expenses	(\$5.32)	(\$4.88)	(\$6.73)	(\$11.23)	(\$4.99)
Corporate netback	\$20.92	\$25.87	\$10.81	\$9.10	\$15.45

(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".

Since commencement of operations in March 2013, Kaisen has executed three distinct drilling programs which have occurred primarily in the second and fourth quarters of 2013 and the third and fourth quarters of 2014. The result of each of these drilling programs has been a subsequent increase in production rates as reflected in the 94% and 120% increase in production rates

between the third and fourth quarters of 2013 and the second through fourth quarter of 2014 respectively. 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 strengthening prices during the same period. Funds flow from operations surged upwards 236% between the second and third quarters of 2014 due to a 43% increase in production during the third 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. For the fourth quarter, funds flow increased by 10% due to a 54% increase in production along with \$771,485 of realized gains from the Companies hedging contracts which when combined more than offset a 15% decline in realized field netbacks driven by lower commodity prices and the inclusion of the full year impact of the SK surcharge (\$463,977) triggered during the Quarter.

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 5 quarters have been volatile, clearly demonstrating the impact of routine and non-routine non-cash charges. Routine non-cash charges include 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. Non-routine charges during the periods in review include the fourth quarter \$580,883 loss on sale of the Company's non-operated gas weighted Alberta assets.

OUTLOOK

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

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

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

We see a potential trigger point to kick off this program at a sustained WCS price of Cdn\$50.00 (US\$40.00) which translates into a WTI price of approximately US\$53.00/bbl. At this price Kaisen would be able to maintain a healthy balance sheet by having no more than 50% utilization on our available bank facility and less than 1.5x debt to forecast 2015 funds flow. However with all the best of intentions to grow production and confidence in the assets, we will not risk the health and security of the Company. Therefore a final commitment on this program will not be made until we are confident it can be executed without incurring undue financial strain.

We will continue to run the business with the tantamount objective of maintaining optionality. Optionality to utilize our balance sheet strength and sustaining funds flow to accelerate production growth if the opportunity arises, or to hunker down through a

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

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,		Year ended December 31,	
	2014 (unaudited)	2013 (unaudited)	2014	2013
Cash flow from (used in) operating activities	(\$2,153,835)	\$2,925,955	\$6,896,492	\$3,843,778
Exclude the change in non-cash working capital	\$5,266,096	\$1,921,583	\$200,431	\$1,604,462
Funds flow from operations	\$3,112,261	\$1,004,372	\$7,096,923	\$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.