KAISEN Energy Corp.

Annual Management Discussion & Analysis

December 31, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated April 5, 2016, and should be read in conjunction with the accompanying financial statements and related notes for the three and twelve month periods ended December 31, 2015 and 2014 of Kaisen Energy Corp. ("Kaisen" or the "Company"). The 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.

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. Kaisen operates with a total of 5 employees and 8 contract employees of which 5 reside within Kaisen's area of operations near Lloydminster, Saskatchewan.

STRATEGIC PARTNERSHIP WITH AZIMUTH CAPITAL MANAGEMENT

On November 12, 2015, Kaisen successfully closed a strategic private equity partnership with Azimuth Capital Management ("Azimuth", formerly KERN Energy Partners) with an initial common share investment of $20,000,000 at $1.25 per share. The past twelve months have dramatically reshaped the energy industry and we believe that this down-cycle will result in significant opportunity for those energy companies that are well funded and strategically aligned with follow-on capital. With our newly formed partnership with Azimuth, Kaisen will be one of the few junior oil producers with the financial resources to strategically develop existing assets and to potentially aggregate complimentary assets at attractive prices. We anticipate that this counter cyclical development strategy will enable Kaisen to be a successful operator in this low commodity price environment.

ECONOMIC ENVIRONMENT

Since the fourth quarter of 2014, Kaisen has seen a material decrease in its realized commodity prices, spurred by a significant drop in the West Texas Intermediate ("WTI") crude oil price benchmark. The decrease has been largely due to a current supply-demand imbalance, with OPEC participants flooding the market with crude oil in addition to expanding supplies from North American producers. Now as we move into the second quarter of 2016, the market continues to be over supplied with oil inventories reaching historic highs, OPEC remaining on course to defend market share, Iranian sanctions ending resulting in added oil barrels, and concerns about global growth principally in China. As with every past resource cycle however, there has been a massive investment response to low oil prices with significant capital investment reductions by the industry. Major long-life oil projects have been put on hold, spurring predictions of a very volatile oil price environment in the future with a greater and sharper upward price response the longer capital investment continues to erode. More recent news of slowing inventory builds (yet still at record levels) coupled with news of a major producers meeting in April to discuss proposed production caps from both OPEC and non-OPEC producers has provided recent support to WTI prices with a material rebound in the WTI price from $26.00 per barrel in February to approximately $40.00 in the last days of March. The differential for heavy oil has also improved on a percentage basis from almost a 50% discount in February to the current forecast of closer to 30%. Recent price strengthening has occurred in spite of continuing record crude oil storage levels which might suggest that the market is becoming more bullish beyond the current refinery turnaround season with growing recognition that the massive reduction in active drilling over the past 18 months is very likely to start having a material impact on production in the second half of 2016. However, regardless of any speculative views on forward commodity prices, volatility will continue to produce nearer term material price movements in both directions until clearer indications of a fundamental supply/demand balance occurs.

As a continued response to this ongoing challenging economic environment, Kaisen will continue to wait for a sustained price rebound to levels at or higher than US WTI$40.00 before giving further consideration to implementing a measured capital program. In the meantime, we will continue to seek out further operating efficiencies through ongoing well be well level economic and technical reviews and where economically practical, we may initiate various low-cost well workovers and facility enhancements to squeeze further benefit from our existing asset base. Until such time as we are comfortable with injecting capital towards well optimization and new drilling activities, we recognize that natural production declines will continue as they have over the past 12 months to levels not seen since our maiden year, 2013. However, in these unusual economic times, we have conscientiously focused our attention towards the preservation of our balance sheet strength to ensure that when the opportunity arises, we will have maximum optionality to capitalize on the growth of our existing assets as well as the ability to act on acquisition opportunities that may become present in the coming months.

Results of Operations

	Three months ended December 31, (unaudited)		Year ended December 31,	
Financial Highlights *($,000, except per share amounts)*	**2015**	2014	**2015**	**2014**
Petroleum and natural gas sales	**$2,059**	$9,123	**12,954**	$27,979
Realized hedging gains/(losses)	**651**	$771	**1,623**	($655)
Funds flow / (loss) from operations[1]	**205**	$2,754	**1,623**	$6,636
Per share – basic	**$0.01**	$0.18	**$0.10**	$0.51
Per share –diluted	**$0.01**	$0.17	**$0.10**	$0.48
Net Earnings / (loss)	**(1,429)**	$403	**($3,345)**	$63
Per share – basic	**($0.07)**	$0.03	**($0.20)**	$0.01
Per share –diluted	**($0.07)**	$0.03	**($0.20)**	$0.01
Expenditures on oil & gas properties	**$1,091**	$3,190	**$4,056**	$15,639
Net surplus / (debt) (bank debt+ net working capital)	**$3,022**	($679)	**$3,022**	($679)
Share Capital *(,000)*				
Outstanding – basic	**23,420**	15,420	**23,420**	15,420
Outstanding – diluted	**30,649**	18,649	**30,649**	18,649
Weighted average – basic	**19,768**	15,420	**16,516**	13,036
Weighted average – diluted	**19,768**	16,123	**16,516**	13,740
Sales Volumes				
Crude Oil (bbls per day)	**822**	1,692	**983**	1,110
Natural gas & NGL (bbls per day)	-	2	-	5
Natural gas (Mcf per day)	-	28	-	95
Barrels of oil equivalent (boe per day)	**822**	1,699	**983**	1,131
Operating Netbacks[1] *($/boe)*				
Sales price	**$27.22**	$58.40	**$36.11**	$67.79
Royalties	**($4.08)**	($14.82)	**($6.99)**	($16.90)
Saskatchewan surcharge tax	**($0.69)**	($2.97)	**($1.40)**	($1.12)
Operating expenses	**($22.50)**	($17.03)	**($20.24)**	($21.28)
Transportation expenses	**($2.79)**	($2.28)	**($2.64)**	($2.27)
Field Netbacks (before hedging)	**($2.84)**	$21.30	**$4.84**	$26.22
Realized gain/(loss) on risk management contracts	**$8.60**	$4.94	**$4.52**	($1.59)
Field Netbacks (after hedging)	**$5.76**	$26.24	**$9.36**	$24.63

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

FUNDS FLOW FROM OPERATIONS

For the three and twelve months ended December 31, 2015 (the "Quarter" and "Year", respectively), the Company recorded a funds flow from operations of $204,955 and $1,622,642, respectively, compared to $2,753,784 and $6,635,548, respectively, in the same periods of the prior year.

Excluding the significant contribution of realized hedging gains during the Quarter and Year of $650,659 and $1,622,977, respectively, the Company would have realized a funds flow loss for the Quarter of $445,704 and nil funds flow for the Year, by contrast to funds flow (excluding hedging) of $1,982,299 and $7,290,881, respectively, in 2014.

The Company's funds flow declines for the Quarter and Year as compared to the same periods in the prior year demonstrate the full weight of the impact from the significant decline in commodity prices since the end of 2014 which has driven the Company's realized price for its' crude oil production lower by 53% and 47% respectively. The funds flow impact of declining commodity prices was furthered by lower average production rates on account of natural declines and drilling inactivity, which for the Quarter and Year was lower by 52% and 13%, respectively.

NET LOSS AND COMPREHENSIVE LOSS

The Company recorded a net loss for the Quarter of $1,428,936 compared to net earnings of $403,377 in the same quarter of 2014. For the Year, the Company recorded a net loss of $3,345,137 compared to net earnings of $63,347 in the prior year. Routine non-cash charges can have a significant impact on net earnings/losses. The most significant non-cash charges for the Quarter and Year relate to depletion and depreciation of the Company's assets amounting to $813,782 and $4,128,428 respectively ($1,795,090 and $4,963,471 respectively in the prior year), share based compensation expense of $260,325 and $760,632, respectively ($173,426 and $688,327 respectively in the prior year) and an unrealized loss from hedging contracts of $570,312 for the Quarter (nil for the Year) (by contrast to an unrealized gain of $282,497 for the same quarter in 2014 (nil for the prior year). These non-cash charges do not reflect cash costs of the Company and can therefore be misleading in measuring the financial health of operations from one period to the next. The changes in net earnings/loss are due to several factors which are discussed in greater detail below.

OIL AND GAS PRODUCTION AND PRICING

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
Sales volumes				
Crude oil *(bbls per day)*	**822**	1,692	**983**	1,110
Natural gas liquids ("NGL") *(bbls/d)*	**-**	2	**-**	5
Natural gas *(Mcf per day)*	**-**	28	**-**	95
Total average daily production *(boe/d)*	**822**	1,699	**983**	1,131
Liquids as a percentage of total	***100%***	99%	***100%***	99%
Production by area (boe per day)				
Lone Rock, Saskatchewan	**382**	828	**389**	521
Edam, Saskatchewan	**440**	864	**594**	587
Other	**-**	7	**-**	23
Total average daily production	**822**	1,699	**983**	1,131

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 822 barrels per day (1,699 boe per day for the same quarter in 2014). 100% of the Quarter's production was heavy oil compared to 99% in the prior year, reflecting the sale of the Company's non-core gas-weighted production in October 2014. Lone Rock average production is lower by 54% averaging 382 barrels per day as compared to 828 barrels per day for the same quarter in 2014 while Edam production is lower by 49% averaging 440 barrels per day as compared to 864 barrels per day for the same quarter in 2014. For the Year, production averaged 983 barrels per day, a 13% decrease over the prior year. Declining production since the fourth quarter of 2014 is primarily a result of the Company's strategic decision in late 2014 to conserve balance sheet strength with an indefinite postponement of the Company's drilling and optimization program in the face of dramatically declining commodity prices.

	Three months ended December 31,		Year ended December 31,	
Petroleum and natural gas sales	**2015**	2014	**2015**	2014
Heavy oil	**$2,058,562**	$9,099,388	**$12,953,714**	$27,641,582
Light oil	**-**	$7,822	**-**	$87,121
Natural gas liquids	**-**	$6,235	**-**	$76,088
Natural gas	**-**	$10,472	**-**	$174,534
Total	**$2,058,562**	$9,123,917	**$12,953,714**	$27,979,325
Average Realized Prices				
Heavy oil ($/bbl)	**$27.22**	$58.49	**$36.11**	$68.36
Light oil ($/bbl)	**-**	$91.66	**-**	$98.12
Natural gas liquids ($/bbl)	**-**	$45.57	**-**	$60.12
Natural gas ($/mcf)	**-**	$4.13	**-**	$4.96
Combined average realized price ($/boe)	**$27.22**	$58.40	**$36.11**	$67.79
Average Benchmark Prices				
WTI oil (US$bbl)	**$42.16**	$73.14	**$48.78**	$92.97
WCS differential (US$/bbl)	**($14.49)**	($14.24)	**($13.59)**	($19.39)
WCS heavy oil (US$bbl)	**$27.67**	$58.90	**$35.19**	$73.58
WCS differential %	**34%**	20%	**28%**	21%
US/CDN exchange rate	**$0.7520**	$0.8789	**$0.7810**	$0.9050
WCS heavy oil (CDN$bbl)	**$36.94**	$67.02	**$44.94**	$81.30

Realized Pricing

During the Quarter, oil prices dropped to their lowest point in 2015 with US denominated WTI averaging US$42.16. The Western Canada Select ("WCS") differential to WTI, as a percentage of WTI was 34%, where historically it has been in the 20% to 25% range. In January 2016 US denominated WTI prices intermittently dipped below US$30.00 per barrel and the WCS differential widened to almost a 50% discount. The net result is that WCS heavy barrels have traded at the lowest they ever have since inception of the WCS benchmark. Considerable risks continue to exist on heavy oil pricing including supply of US shale oil, supply policy decisions from OPEC, and the general demand for oil. Continued concerns about worldwide over-supply of crude oil have resulted in the forward outlook on commodity prices into 2016 remaining weak. However, there has been a significant reduction in capital investment in the oil sector which historically has resulted in a re-balancing of oil supply and demand.

US denominated WTI prices for the fourth quarter decreased by 42% over the same period in 2014 and the WCS differential widened slightly from US$14.24 per barrel to US$14.49 per barrel. These two movements combined with the weakening of the Canadian dollar resulted in Kaisen's realized commodity price decreasing to $27.22 per boe. For the Year, US denominated WTI prices decreased by 47%, the WCS differential narrowed from $19.47 per barrel in 2014 to $13.59 per barrel in 2015 and the Canadian dollar weakened, resulting in Kaisen's realized commodity price decreasing to $36.11 per barrel.

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 60% of forecasted net volumes using a combination of financial instruments including fixed swaps, swaptions and price collars, under contract terms not exceeding 24 months with only investment grade counterparties. As at December 31, 2015 all of the Company's financial derivative contracts expired. Subsequent to the year end, the Company entered into the following financial derivative contract:

Type	Period	Volume	Price/unit [1]	Index
Fixed – sell (Swap)	April 2016 – December 2016	100 bbl/d	CAD$56.00	WTI-NYMEX

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

The following is a summary of realized and unrealized losses for the three and nine month periods ended December 31, 2015 and 2014:

	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Realized gain/(loss)	**$650,659**	$771,485	**$1,622,977**	($655,333)
$ per boe[1]	**$8.60**	$3.30	**$4.52**	($5.56)
Unrealized gain/(loss)	**($570,312)**	282,497	**-**	-
Total gain/(loss) on risk management contracts	**$80,347**	$1,053,982	**$1,622,977**	($655,333)

[1] The reader is referred to the section - "Non-IFRS Measurements".

CROWN AND FREEHOLD ROYALTIES	Three months ended December 31,		Year ended December 31,	
	2015	**2014**	**2015**	**2014**
Crown	**$156,905**	$1,450,096	**$1,437,328**	$5,246,893
Freehold	**$151,948**	$865,965	**$1,069,889**	$1,729,621
Total Royalties	**$308,853**	$2,316,061	**$2,507,217**	$6,976,514
$ per boe[1]	**$4.08**	$14.82	**$6.99**	$16.90
% of revenue	**15%**	25%	**19%**	25%

[1] The reader is referred to the section - "Non-IFRS Measurements".

Approximately 75% of Kaisen lands are held under Crown leases with the remaining held under freehold leases. Crown vertical well royalty rates range from ~7% to 30% depending upon the vintage of wells, commodity type, volume of daily production and market prices. At current commodity prices, Kaisen is currently forecasting a royalty rate of approximately 12%-15% blended for both Crown and freehold rates.

OPERATING EXPENSES	Three months ended December 31,		Year ended December 31,	
	2015	**2014**	**2015**	**2014**
	$1,701,489	$2,661,277	**$7,261,008**	$8,781,631
$ per boe[1]	**$22.50**	$17.03	**$20.24**	$21.28
% of revenue	**82%**	29%	**56%**	31%

[1] The reader is referred to the section - "Non-IFRS Measurements".

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 well and facility workovers.

Supplier and contractor relationships have always been of the utmost importance to Kaisen and in the current depressed commodity price environment these relationships have become even more important. Throughout 2015 Kaisen worked closely with suppliers and service providers to seek out cost reductions, increased operating efficiencies and decreased labor costs. In addition, Kaisen shut-in approximately 60 barrels per day of high operating cost production in early 2015 and then an additional 100 barrels per day in the fall/winter of 2015. For the Quarter, operating costs averaged $22.50 per barrel, a 32% increase over the same quarter in 2014 due primarily to the impact of lower production volumes spread over a large fixed base operating structure. For the Year, operating costs were down 5% to $20.24 per barrel compared to the prior year, impacted to a lessor degree by lower production volumes compared to the prior year and more significantly to cost reduction measures implemented during the year as discussed above. Short of unforeseen material fluctuations in input costs such as heating fuels, and unscheduled well repairs and workovers, the Company forecasts 2015 operating costs to average in the range of $18.00-$24.00 for the first half of 2016.

TRANSPORTATION EXPENSES	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
	$210,852	$355,499	**$946,998**	$937,255
$ per boe[(1)]	**$2.79**	$2.27	**$2.64**	$2.27
% of revenue	**10%**	4%	**7%**	3%

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

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 expense has typically trended in the range of $1.95 to $2.30 per barrel since inception. For the Quarter and Year, transportation costs per barrel increased by 22% and 16% respectively, reflecting the increased proportion of production from Edam which incurs a higher transportation cost commensurate with its location to sales points.

FIELD LEVEL NETBACKS	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
($ per boe) [(1)]				
Sales price	**$27.22**	$58.40	**$36.11**	$67.79
Royalties	**($4.08)**	($14.82)	**($6.99)**	($16.90)
Saskatchewan surcharge tax	**($0.69)**	($2.97)	**($1.40)**	($1.12)
Operating expenses	**($22.50)**	($17.03)	**($20.24)**	($21.28)
Transportation expenses	**($2.79)**	($2.28)	**($2.64)**	($2.27)
Netbacks *(before hedging)*	**($2.84)**	$21.30	**$4.84**	$26.22
Realized gain/(loss) on risk management contracts	**$8.60**	$4.94	**$4.52**	($1.59)
Netbacks *(after hedging)*	**$5.76**	$26.24	**$9.36**	$24.63

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

The Company realized an average field netback loss (before hedging) for the Quarter of $2.84 per barrel, compared to a field netback profit of $21.30 per barrel for the same period in the prior year. For the Year, the Company has realized a field netback profit of $4.84 per barrel, compared to $26.22 per barrel in 2014. Substantially lower netbacks (before hedging) for the current periods is a direct reflection of the precipitous fall in oil prices during 2015 furthered by higher operating costs per barrel due to lower production volumes realized over the same period. Beginning in the fourth quarter of 2014, the Company became subject to Saskatchewan Resource Surcharge tax which for the current year has added $0.69 and $1.40 per barrel for the Quarter and Year respectively. This provincial tax is levied at a rate of 1.7% on gross Saskatchewan oil and gas revenues (less qualifying labour expenses) for wells drilled after June 30, 2008 (prior thereto at a rate of 3.0%.) Included in Saskatchewan Resource Surcharge tax for the 2014 periods are additional amounts owing as a result of a 2014 Saskatchewan surcharge tax reassessment which concluded during the Year, the results of which resulted in an additional accrual amount for the Year. At current commodity prices, the Company anticipates this tax to continue in the range of $0.50 to $1.00 per barrel.

With the inclusion of realized hedging gains of $8.60 and $4.52 per barrel for the Quarter and Year respectively (compared to a realized gain of $4.94 and a loss of $1.59 per barrel respectively for the same periods in 2014), the Company's average netback for the Quarter was $5.76 per barrel and $9.36 per barrel for the Year, which when compared to netbacks of $26.24 and $24.63 per barrel respectively for the same periods in 2014, demonstrates the impact of a hedging strategy to smooth financial results during periods of volatile commodity prices.

GENERAL AND ADMINISTRATIVE ("G&A")

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
Salaries, bonus and benefits	**$282,564**	$547,367	**$1,332,905**	$1,864,603
Other G&A expenses	**$170,961**	$351,235	**$1,115,478**	$1,156,790
Gross G&A expenses	**$453,525**	$898,602	**$2,448,383**	$3,021,393
Capitalized G&A expenses	**($67,497)**	($67,497)	**($269,989)**	($269,989)
Net G&A costs	**$386,028**	$831,105	**$2,178,394**	$2,751,404
$ per boe	**$5.10**	$5.42	**$6.07**	$6.70

G&A expenses are primarily fixed costs by nature and therefore fluctuate on a per barrel 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 and Year, net G&A costs are lower by 54% and 20% respectively, as compared the same period in 2014 reflecting reductions in executive compensation and other corporate cost savings initiatives throughout the Year.

FINANCE CHARGES	Three months ended December 31,		Year ended December 31,	
	2015	**2014**	**2015**	**2014**
Interest expense	**$27,654**	$16,838	**$141,583**	$128,013
Accretion expense	**$37,435**	$41,168	**$147,777**	$152,119
Finance charges	**$65,089**	$58,006	**$289,360**	$280,132

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

SHARE-BASED COMPENSATION	Three months ended December 31,		Year ended December 31,	
	2015	**2014**	**2015**	**2014**
Share-based compensation	**$260,325**	$173,426	**$760,632**	$688,327

On November 12, 2015 and in conjunction with the closing of the Company's private placement offering to Azimuth Capital Management, the Company granted 4,000,000 performance warrants to employees, directors and contractors serving in the capacity of employees of the Company. These performance warrants vest upon a qualifying liquidity event, expire in 5 years and have exercise prices as follows:

	Performance warrants granted	Exercise price
Series 1	1,000,000	$1.50
Series 2	1,000,000	$1.75
Series 3	1,000,000	$2.00
Series 4	1,000,000	$2.25
Total	4,000,000	$1.90

Also on November 12, 2015, the Company approved the cancellation of the existing outstanding 1,780,999 performance warrants and re-issued the same number of performance warrants under the new performance warrants plan, retaining the same exercise price ($2.00) with revised vesting and expiry terms consistent with the terms of the new performance warrants granted. The cancellation of these warrants and the re-granting of the same number of performance warrants under revised terms, has been accounted for as a modification of incentive units in accordance with IFRS 2. The incremental expense attributed to the modified performance warrants will be amortized to share based compensation expense over the expiry period of the new performance warrants granted.

The impact of the performance warrant grant on share based compensation expense for the Quarter and Year is minimal due to the late year timing of the grant. The new grant along with the incremental expense associated with the modification of existing performance warrants is expected to add approximately $330,000 per quarter to share based compensation expense.

DEPLETION AND DEPRECIATION	Three months ended December 31,		Year ended December 31,	
	2015	**2014**	**2015**	**2014**
Depletion	**$810,315**	$1,791,813	**$4,115,602**	$4,941,235
Depreciation	**$3,467**	$3,277	**$12,826**	$22,236
Depletion and depreciation	**$813,782**	$1,795,090	**$4,128,428**	$4,963,471
$ per boe	**$10.76**	$11.50	**$11.51**	$12.03

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 ($58,051,600) less the total salvage value of the assets ($1,644,000).

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2015, the Company has a revolving debt operating facility limit from ATB Bank of $5,500,000. Prime-based loans are available through the operating facility at prime plus 1.25% per annum.

The next borrowing base review was scheduled for January 31, 2016, however this review is not expected to be completed until later in April 2016.

As at December 31, 2015, the Company had no debt, and a net working capital surplus (current assets net of current liabilities) of $3,022,039 ($3,381,845 net debt including working capital deficit in the prior year), with $5,500,000 ($7,700,000 in the prior year) of borrowings available under the credit facility. Furthermore, Kaisen has $10,000,000 of currently undrawn equity available under its arrangements with Azimuth Capital Management in connection with the private placement offering that closed on November 12, 2015 (see note 11a of the financial statements).

CAPITAL INVESTMENT	Three months ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
Land	**$11,604**	$3,242	**$55,327**	$18,461
Geological and geophysical	**$210**	$30,919	**$35,330**	$1,559,901
Drilling and completions	**$589,519**	$2,498,701	**$1,787,840**	$11,091,570
Equipment and facilities	**$417,741**	$683,527	**$1,883,539**	$2,980,240
Capitalized G&A	**$67,497**	$67,497	**$269,989**	$269,989
Capitalized stock based compensation	**$38,294**	$17,877	**$87,988**	$64,294
Corporate acquisitions / (divestitures)	**-**	($1,417,216)	**$12,443**	($1,438,708)
Office equipment	**$4,276**	$2,001	**$11,949**	$4,394
Total capital additions	**$1,129,141**	$1,886,548	**$4,144,405**	$14,550,141

In November 2014, Kaisen responded to the sudden oil price decline by deferring a planned 11 well program scheduled for the first quarter of 2015. This decision was made to ensure the continuance of a strong balance sheet moving forward into the unknown global economic shift. In the first quarter of 2015, the Company reactivated 1 shut-in well in order to fulfill a commitment on a lease acquisition made in the fourth quarter of 2014 as well as carried out minimal well servicing/upgrade work and honored equipment delivery commitments made in late 2014. During the second quarter, the Company carried out planned facility upgrade work at its Edam water disposal in order to take on an increased sour water component from certain areas of the Edam field. This facility work was completed in early July. In the third Quarter, 1 well was reactivated at Edam and 1 new well was drilled at Lone Rock, both in order to fulfil lease commitments. And in the fourth quarter, 1 additional well was drilled at Lone Rock.

SELECTED QUARTERLY RESULTS AND ANALYSIS

(Cdn$ thousands, expect per share, shares and per boe amounts)	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Petroleum and natural gas sales	**$2,059**	**$2,730**	**$4,000**	**$4,166**	$9,124	$7,593	$5,480	$5,782
Realized hedging gains/(losses)	**$651**	**$505**	**$166**	**$301**	$771	($335)	($688)	($404)
Funds flow from operations[1]	**$205**	**($144)**	**$997**	**$566**	$2,754	$2,510	$747	$728
Net earnings (loss)	**($1,429)**	**$358**	**($1,667)**	**($607)**	**$403**	$1,618	($104)	($1,854)
Expenditures on oil & gas properties	**$1,091**	**$1,519**	**$747**	**$701**	**$3,190**	$8,487	$1,536	$2,460
Corporate and Asset acquisitions	**-**	**-**	**-**	**-**	**($679)**	-	-	-
Net surplus / (debt)	**3,022**	**($4,930)**	**($3,267)**	**($3,516)**	($3,382)	($3,620)	($5,282)	($4,359)
Shares outstanding – diluted *(thousands)*	**30,649**	**18,649**	**18,649**	**18,649**	18,649	18,649	14,736	14,719
Sales Volumes *(boe per day)* [2]	**822**	**828**	**907**	**1,382**	1,699	1,104	773	942
Operating Netbacks ($/boe)								
Sales price	**$27.22**	**$35.85**	**$48.44**	$33.48	$58.40	$74.76	$77.86	$68.37
Royalties	**($4.08)**	**($6.57)**	**($10.61)**	($6.60)	($14.82)	($19.14)	($18.84)	($16.42)
Saskatchewan surcharge tax	**($0.69)**	**($1.92)**	**($0.91)**	($1.84)	($2.97)	-	-	-
Operating expenses	**($22.50)**	**($24.95)**	**($19.74)**	($16.32)	($17.03)	($19.48)	($29.09)	($24.73)
Transportation expenses	**($2.79)**	**($2.89)**	**($2.84)**	($2.26)	($2.28)	($2.09)	($2.62)	($2.19)
Field netbacks (before hedging)	**($2.84)**	**($0.48)**	**$14.34**	$6.46	$21.30	$34.05	$27.31	$25.03
Realized gain/(loss) on risk mgmt contracts	**$8.60**	**$6.63**	**$2.01**	$2.42	$4.94	($3.30)	($9.77)	($4.70)
Field netbacks (after hedging)	**$5.76**	**$6.15**	**$16.35**	$8.88	$26.24	$30.75	$17.54	$20.33
General & administration expenses	**($5.10)**	**($7.59)**	**($7.35)**	**($4.88)**	($5.32)	($4.88)	($6.73)	($11.23)
Corporate netback	**$0.66**	**($1.44)**	**$9.00**	**$4.00**	$20.92	$25.87	$10.81	$9.10

[2] The reader is referred to the section - "Non-IFRS Measurements".
[3] 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 two 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 and the 19% decline in the first quarter of 2015 is due to no drilling during the winter months coupled with natural declines and spring break-up related production shut-ins typical of the first quarter. Further production declines of 34% and 9% in the second and third quarters of 2015 respectively, reflects the Company's development inactivity in response to the precipitous decline in commodity prices which continued through to the end of 2015.

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 of 2014, funds flow increased by 10% due to a 54% increase in production along with $771,485 of realized gains from the Company's 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). For the first quarter of 2015, realized prices declined by 50% due to global oil supply/demand imbalances which when coupled with the 19% decline in production produced a decline of nearly 80% in funds flow. With a 45% increase in realized commodity prices in the second quarter of 2015, coupled with a full quarter of realized hedging gains from a hedging program implemented in February 2015, the Company realized an increase in funds flow of 76% over the prior quarter. A 26% drop in realized prices in the third quarter of 2015 coupled with a 9% decline in production resulted in a funds flow loss of $242,111 including realized hedging gains $504,972. A further reduction in operating costs and corporate G&A costs in the fourth quarter of 2015 helped to offset continuing commodity price declines over the same period, resulting in positive funds flow of $204,955 including realized hedge gains of $650,659.

Netback results over the past eight 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 eight 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 2015) and the rate of production and its correlation to the Company's ratio of fixed to variable cost structure which for the second quarter of 2014, burdened the brunt of all three (weather, lower production and hedging losses.) Netbacks for the four quarters of 2015 have been significantly impacted by the precipitous global oil price collapse since November 2014.

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. Further reductions in G&A expenses in the fourth quarter of 2015 reflect ongoing measures to reduce costs, most specifically reductions to total executive compensation through annual cash bonus accrual reversals during the quarter.

Net earnings (loss) for the past eight 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.

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces International Accounting Standard ("IAS") 18 Revenue, IAS 11 Construction Contracts, and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Kaisen on January 1, 2018 and the Company is currently evaluating the impact of the standard on Kaisen's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied on a retrospective basis by Kaisen on January 1, 2018 and the Company is currently evaluating the impact of the standard on Kaisen's financial statements.

In January 2016, the IASB issued IFRS 16 Leases, which replaces IAS 17 Leases. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. IFRS 16 will be applied by Kaisen on January 1, 2019 and the Company is currently evaluating the impact of the standard on Kaisen's financial statements.

ADDITIONAL INFORMATION

For additional information regarding the Company and its business and operations, please contact the Company at Kaisen Energy Ltd. 400, 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

Funds flow from operations: *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,	
	2015	2014	**2015**	2014
Cash flow from (used in) operating activities	**($645,821)**	($591,724)	**$383,124**	$6,950,696
Exclude the change in non-cash working capital	**$850,776**	$3,345,508	**$1,239,518**	($315,148)
Funds flow / (loss) from operations	**$204,955**	$2,753,784	**$1,622,642**	$6,635,548

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).

Operating and Corporate Netbacks*: Operating netbacks are presented both before and after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Corporate netbacks are presented after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties, operating costs, general and administrative expenses, interest and foreign exchange gain or loss.*

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.