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KAISEN Energy Corp.

Management Discussion & Analysis

Three and six month periods ended June 30, 2015

(unaudited)

June 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated September 11, 2015, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three and six month periods ended June 30, 2015 (the "Quarter" and "Year to Date" respectively) and the audited annual financial statements as at and for the year ended December 31, 2014 of Kaisen Energy Corp. ("Kaisen" or the "Company"). 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.

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 7 contract employees of which 4 reside within Kaisen's area of operations near Lloydminster, Saskatchewan.

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 benchmark. The decrease is 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. As a response to the challenging economic environment, Kaisen stopped all drilling activities for the first six months of 2015 and dedicated all generated cash flows towards maintaining continued balance sheet strength. The silver lining is that the industry is now beginning to see meaningful reductions in service and drilling costs which will allow for improved rates of return on invested capital when the opportunity arises. Kaisen has continued to manage modest debt levels with a June 2015 ending net debt of $3.3 million or 29% of our available borrowing facility. With the ability to realize strong rates of return in a lower commodity price environment, Kaisen proceeded with the drilling of 1 new well (in Edam) and recompletion of 1 well (in Lone Rock) in July and August with early positive results to date. For this fall, 1 new drill at Lone Rock has been scheduled with no further plans for the balance of the year as we continue to monitor the opportunities and threats of the currently volatile energy markets.

Results of Operations

		Three months ended June 30, *(unaudited)*		**Six months ended June 30,** *(unaudited)*
	2015	**2014**	**2015**	**2014**
Petroleum and natural gas sales	**$3,999,623**	$5,480,037	**$8,165,317**	$11,262,338
Realized hedging gains/(losses)	**$165,957**	($687,913)	**$467,347**	($1,091,678)
Funds flow from operations	**$996,569**	$746,809	**$1,562,105**	$1,474,483
Per share – basic & diluted	**$0.06**	$0.06	**$0.10**	$0.12
Net loss	**($1,667,243)**	($104,200)	**($2,274,196)**	($1,957,745)
Per share – basic & diluted	**($0.11)**	($0.01)	**($0.15)**	($0.16)
Expenditures on oil & gas properties	**$746,735**	$1,535,661	**$1,446,844**	$3,996,027
Net bank debt (including net working capital)	**$3,266,586**	$5,282,236	**$3,266,586**	$5,282,236
Common shares				
Outstanding – basic	**15,420,029**	11,911,922	**15,420,029**	11,911,922
Outstanding – diluted	**18,649,028**	14,735,921	**18,649,028**	14,735,921
Weighted average – basic & diluted	**15,420,029**	11,911,922	**15,420,029**	11,911,922
Sales Volumes				
Crude Oil (bbls per day)	**907**	749	**1,144**	830
Natural gas & NGL (bbls per day)	**-**	118	**-**	131
Barrels of oil equivalent (boe per day)	**907**	773	**1,144**	857
Operating Netbacks ($/boe)				
Sales price	**$48.44**	$77.86	**$39.45**	$72.69
Royalties	**($10.61)**	($18.84)	**($8.20)**	($17.53)
Saskatchewan surcharge tax	**($0.91)**	-	**($1.47)**	-
Operating expenses	**($19.74)**	($29.09)	**($17.68)**	($26.73)
Transportation expenses	**($2.84)**	($2.62)	**($2.49)**	($2.38)
Field Netbacks (before hedging)	**$14.34**	$27.31	**$9.61**	$26.05
Realized gain/(loss) on risk management contracts	**$2.01**	($9.77)	**$2.26**	($7.05)
Field Netbacks (after hedging)	**$16.35**	$17.54	**$11.87**	$19.00

FUNDS FLOW FROM OPERATIONS

For the Quarter, the Company recorded funds flow from operations of $996,569 ($0.06 per diluted share), 33% higher than the $746,809 ($0.06 per diluted share) recorded in the same period of the prior year and 76% higher than the prior quarter. However, excluding the impact of realized hedging gains and losses, the Company's corporate funds flow from operations for the Quarter was $830,612 compared to $1,434,723 in the prior year, representing a decline of 42% year over year. The same is true on a year to date basis, which for the six months ended June 30, 2015, funds flow from operations was $1,562,105, 6% higher than the prior year. However, excluding the impact of realized hedging gains and losses, funds flow for the year to date was $1,094,758 compared to $2,566,161 in the prior year, a decline of 57% in spite of a 38% increase in production over the same period. The Company's funds flow declines (excluding realized hedging) for the Quarter and year to date 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 for the Quarter and year to date lower by 38% and 46% respectively.

On a positive note, the Company's many ongoing initiatives towards reductions in operating costs along with a defensive hedging strategy have partially offset the commodity price declines during these periods. Operating costs per barrel for the Quarter and year to date compared to the same periods in the prior year are lower by 32% and 34% respectively. On the hedging front, the Company realized hedging gains for the Quarter and year to date of $2.01 and $2.26 per barrel respectively, this in contrast to losses of $9.77 and $7.05 per barrel respectively for the same periods in the prior year. The hedging gains realized in the current year have had a dramatic impact year over year on field netbacks which when combined with the lower operating costs for the Quarter and year to date produced field netbacks of $16.35 and $11.87 per barrel, respectively, a decline of only 7% for the Quarter, and 38% year to date compared to the same periods in the prior year.

NET LOSS AND COMPREHENSIVE LOSS

The Company recorded a net loss for the Quarter of $1,667,243 ($0.11 per diluted share) compared to a loss of $104,200 ($0.01 per diluted share) in the same quarter of 2014. The net loss year to date was $2,274,196 ($0.15 per diluted share) compared to a loss of $1,957,745 ($0.16 per diluted share) 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 to date relate to depletion and depreciation of the Company's tangible assets amounting to $970,914 and $2,406,745 respectively ($887,345 and $1,905,639 respectively in the prior year), share based compensation expense of $171,541 and $341,197 respectively ($166,962 and $321,492 respectively in the prior year) and most significantly, unrealized losses from hedging contracts of $1,627,007 and $1,225,030 respectively (by contrast to unrealized gains of $320,321 and $1,367,194 respectively in 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 loss are due to several factors which are discussed in greater detail below.

OIL AND GAS PRODUCTION AND PRICING

	Three months ended June 30,		**Six months ended June 30,**	
	2015	2014	2015	2014
Sales volumes				
Crude oil *(bbls per day)*	**907**	749	**1,144**	830
Natural gas liquids ("NGL") *(bbls/d)*	**-**	5	**-**	6
Natural gas *(Mcf per day)*	**-**	113	**-**	125
Total average daily production *(boe/d)*	**907**	773	**1,144**	857
Liquids as a percentage of total	**100%**	98%	**100%**	98%
Production by area (boe per day)				
Lone Rock, Saskatchewan	**327**	291	**442**	356
Edam, Saskatchewan	**580**	458	**702**	472
Other	**-**	24	**-**	29
Total average daily production	**907**	773	**1,144**	857

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

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

Kaisen's production for the Quarter averaged 907 boe per day (773 boe per day for the same quarter in 2014). 100% of the Quarter's production was heavy oil compared to 98% in the prior year, reflecting the sale of the Company's non-core gas-weighted production in October 2014. Lone Rock production grew by 12% averaging 327 boe per day as compared to 291 boe per day for the same quarter in 2014 while Edam production grew by 27% averaging 580 boe per day as compared to 458 boe per day for the same quarter in 2014. For the year to date, production has averaged 1,144 boe per day, a 33% increase over the same period in the prior year. Growth in production for the Quarter and year to date over the same periods in 2014 is a result of the Company's capital program in the second half of 2014 which included 13 new drills and 7 well reactivations, net of the sale of the Company's non-operated Alberta properties in October 2014.

By contrast to the Company's record level heavy oil production of 1,692 barrels per day in the fourth quarter of 2014, heavy oil production is 46% lower in this Quarter due primarily to the cancellation of the Company's first quarter drilling program in response to the dramatic change in global oil prices which began in November 2014 coupled with natural declines on wells drilled 9-10 months ago along with a strategic shut-in of approximately 60 barrels per day of uneconomic production in the first quarter of 2015. A further 280 barrels per day of production was temporarily shut-in in March to accommodate a planned upgrade to the Company's salt water disposal ("SWD") facility to handle an increasing H2S (sour) content from production originating from a small portion of the Company's Edam area. The facility upgrades were completed in July and the Company is now working towards a return of all or a portion of these shut-in volumes, however at the time of release of this report, the Company has had minimal success in recovering this production. More time will be required to assess the best strategy to ensure ultimate recovery of these reserves is achieved.

		Three months ended June 30,		Six months ended June 30,
Petroleum and natural gas sales	**2015**	2014	**2015**	2014
Heavy oil	**$3,999,623**	$5,372,64	**$8,165,317**	$11,020,075
Light oil	-	$23,471	-	$52,106
Natural gas liquids	-	$29,479	-	$68,751
Natural gas	-	$54,442	-	$121,406
Total	**$3,999,623**	$5,480,037	**$8,165,317**	$11,262,338
Average Realized Prices				
Heavy oil ($/bbl)	**$48.44**	$79.04	**$39.45**	$73.64
Light oil ($/bbl)	-	$105.68	-	$96.89
Natural gas liquids ($/bbl)	-	$60.93	-	$68.42
Natural gas ($/mcf)	-	$5.31	-	$5.38
Combined average realized price	**$48.44**	$77.86	**$39.45**	$72.69
Average Benchmark Prices				
WTI oil (US$bbl)	**$57.90**	$102.97	**$53.28**	$100.82
WCS heavy oil (US$bbl)	**$46.31**	$82.61	**$39.99**	$79.08
WCS differential (US$/bbl)	**($11.59)**	($20.36)	**($13.29)**	($21.74)
WCS differential %	**20%**	20%	**25%**	22%
US/CDN exchange rate	**$1.23**	$1.09	**$1.24**	$1.10
WCS heavy oil (CDN$bbl)	**$56.96**	$90.05	**$49.59**	$86.99

Realized Pricing

Commodity prices remained weak throughout the second quarter of 2015. US denominated WTI prices for the Quarter decreased by 44% over the same period in 2014 and the WCS differential narrowed from US$20.36 per barrel to US$11.59 per barrel. These two opposing movements combined with the weakening of the Canadian dollar resulted in Kaisen's realized commodity price decreasing to Cdn$48.44 per barrel. Similarly, on a year-to-date basis, US denominated WTI prices decreased by 47%, the WCS differential narrowed from US$21.74 per barrel in 2014 to US$13.29 per barrel in 2015 and the Canadian dollar weakened resulting in Kaisen's realized commodity price decreasing to Cdn$39.45 per barrel. Considerable risks continue to exist on heavy oil pricing including supply of US shale oil, supply policy decisions from OPEC, and general demand for oil. Continued concerns about worldwide over-supply of crude oil has resulted in the forward outlook on commodity prices for the remainder of the year remaining weak. At the time of writing this letter, the fourth quarter 2015 WTI forecast is approximately US$45 per barrel with a WCS differential forecast of approximately US$13.75 per barrel which will generate a Canadian WCS price of approximately $41.00 per barrel, 28% lower than the $56.96 delivered in this second quarter.

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% 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 June 30, 2015 the Company had the following fixed price contracts:

Type	Period	Volume	Price/unit (1)	Index
Fixed – sell (Swap)	February 2015 – December 2015	350 bbl/d	CAD$76.40	WTI
Fixed – sell (Swaption)(2)	January 2016 – 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 six month periods ended June 30, 2015 and 2014:

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Realized gain/(loss)	**$165,957**	($687,913)	**$467,347**	($1,091,678)
$ per boe	**$2.01**	($9.77)	**$2.26**	($7.05)
Unrealized gain/(loss)	**($1,627,007)**	$320,321	**($1,225,030)**	($1,367,194)
Total gain/(loss) on risk management	**($1,461,050)**	($367,592)	**($757,683)**	($2,458,872)

CROWN AND FREEHOLD ROYALTIES	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Crown	**$494,771**	$1,080,673	**$1,005,281**	$2,283,186
Freehold	**$381,164**	$245,674	**$692,749**	$433,686
Total Royalties	**$875,935**	$1,326,347	**$1,698,030**	$2,716,872
$ per boe	**$10.61**	$18.84	**$8.20**	$17.53
% of revenue	**22%**	24%	**21%**	24%

Approximately 75% of Kaisen lands are held under Crown leases with the remaining held under freehold leases. Crown royalty rates range from ~7% to 30% depending upon the vintage of wells, commodity type, volume of daily production and market prices. Kaisen is currently forecasting a royalty rate of approximately 20%-23% blended for both Crown and freehold rates in the current price environment.

OPERATING EXPENSES	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
	$1,629,975	$2,047,233	**$3,659,742**	$4,141,700
$ per boe	**$19.74**	$29.09	**$17.68**	$26.73
% of revenue	**41%**	37%	**45%**	37%

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.

For the Quarter, operating costs averaged $19.74 per barrel, a 32% decline over the same quarter in 2014 while year to date operating costs were down 34% to $17.68 per barrel compared to the same period in 2014. The decline in operating costs per barrel for both periods reflects the positive impact of increased production volumes spread over a large fixed base operating structure. Furthermore, the success of the Company's water handling facilities and cost reduction initiatives during the summer of 2014 coupled with lower first quarter heating fuel costs in contrast to the price spike in the first quarter of 2014 added further reductions to costs year over year. 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 continue in the range of $18.00-$24.00 per barrel.

TRANSPORTATION EXPENSES	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
	$234,748	$184,066	**$516,134**	$369,442
$ per boe	**$2.84**	$2.62	**$2.49**	$2.38
% of revenue	**6%**	3%	**6%**	3%

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 boe since inception. For the Quarter and year to date, transportation costs per barrel have increased by 8% and 5% respectively, reflecting the increased proportion of production arising from Edam which incurs a higher transportation cost commensurate with its location to sales points.

OPERATING NETBACKS	**Three months ended June 30,**		**Six months ended June 30,**	
	2015	**2014**	**2015**	**2014**
($ per boe)				
Sales price	**$48.44**	$77.86	**$39.45**	$72.69
Royalties	**($10.61)**	($18.84)	**($8.20)**	($17.53)
Saskatchewan surcharge tax	**($0.91)**	-	**($1.47)**	-
Operating expenses	**($19.74)**	($29.09)	**($17.68)**	($26.73)
Transportation expenses	**($2.84)**	($2.62)	**($2.49)**	($2.38)
Netbacks *(before hedging)*	**$14.34**	$27.31	**$9.61**	$26.05
Realized gain/(loss) on risk management	**$2.01**	($9.77)	**$2.26**	($7.05)
Netbacks *(after hedging)*	**$16.35**	$17.54	**$11.87**	$19.00

The Company realized an average netback (before hedging) for the Quarter of $14.34 per barrel ($6.46 per barrel in the prior quarter), and $11.87 per barrel year to date, compared to $27.31 and $26.05 per barrel respectively for the same periods in 2014. Substantially lower netbacks (before hedging) for the current periods is a direct reflection of the precipitous fall in oil prices during the first half of 2015 and the inclusion of the Saskatchewan Resource Surcharge tax, partially offset by lower royalties and operating costs. Most notably, operating costs were 34% lower driven by enhanced operating efficiencies from the Company's Edam facility projects during the summer of 2014 coupled with ongoing cost reduction initiatives through the first half of 2015.

Including realized hedging gains of $2.01 and $2.26 per barrel for the Quarter and year to date respectively (compared to realized losses of $9.77 and $7.05 per barrel respectively for the same periods in 2014), the Company's average netback for the Quarter was $16.35 per barrel ($8.88 per barrel in the prior quarter), and $11.87 per barrel year to date, which when compared to netbacks of $17.54 and $19.00 per barrel respectively for the same periods in 2014, demonstrates the impact of a hedging strategy to smooth financial results in the face of volatile commodity prices.

GENERAL AND ADMINISTRATIVE ("G&A") AND OTHER NON-CASH EXPENSES	**Three months ended June 30,**		**Six months ended June 30,**	
	2015	**2014**	**2015**	**2014**
Salaries, bonus and benefits	**$346,401**	$303,089	**$780,142**	$932,740
Other G&A expenses	**$327,990**	$237,942	**$569,375**	$626,961
Gross G&A expenses	**$674,391**	$541,031	**$1,349,517**	$1,559,701
Capitalized G&A expenses	**($67,497)**	($67,497)	**($134,995)**	($134,995)
Net general and administrative costs	**$606,894**	$473,534	**$1,214,522**	$1,424,706
$ per boe	**$7.35**	$6.73	**$5.87**	$9.19

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. G&A expenses for the Quarter compared to the second quarter in 2014 have increased 28% reflecting a 14% increase in overall salaries, bonus and benefits coupled with a 38% increase in other G&A costs largely attributed to IT license and software costs commensurate with the Company's growth. However for the year to date, net G&A costs are lower by $210,184 or 15% over the same period in 2014. The Company is currently forecasting full year 2015 G&A expense to average between $6.00 and $7.00 per barrel.

FINANCE CHARGES	**Three months ended June 30,**		**Six months ended June 30,**	
	2015	**2014**	**2015**	**2014**
Interest expense	**$38,910**	$45,494	**$74,004**	$74,816
Accretion expense	**$36,729**	$36,384	**$73,255**	$72,768
Finance charges	**$75,639**	$81,878	**$147,259**	$147,584

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

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 June 30,**		**Six months ended June 30,**
	2015	**2014**	**2015**	**2014**
Share-based compensation	**$171,541**	$166,962	**$341,197**	$321,492

In the prior year 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 higher share based compensation expense for the Quarter compared to the same period in the prior year is due to this grant.

DEPLETION AND DEPRECIATION		**Three months ended June 30,**		**Six months ended June 30,**
	2015	**2014**	**2015**	**2014**
Depletion	**$968,072**	$869,858	**$2,400,774**	$1,870,813
Depreciation	**$2,842**	$17,487	**$5,971**	$34,826
Depletion and depreciation	**$970,914**	$887,345	**$2,406,745**	$1,905,639
$ per boe	**$11.76**	$12.61	**$11.63**	$12.30

Depletion expense is a product of depletable assets multiplied by total production divided by estimated proved and probable oil and natural gas reserves at the beginning of each period. Included within depletable assets is an estimate of future development costs ($84.5 million) less the total salvage value of the assets ($1.6 million).

CURRENT AND FUTURE TAXES

During the Quarter, Kaisen realized a $292,450 current tax recovery compared to a current tax expense of $2,241 in the same quarter of 2014. The current period tax recovery is due to taxable losses incurred on account of the lower price environment while for the same period in 2014 Kaisen utilized existing tax deductions to nearly eliminate taxable income. The current quarter's tax recovery has reduced the Company's September 31, 2015 (corporate tax year end) estimated current tax liability to nil from the estimated $400,000 at December 31, 2014 driven by taxable income from higher prices and production in the fourth quarter of 2014. Consequently, the Company's future tax liability as at June 30, 2015 of $2,380,538 is $142,380 lower than the prior quarter.

LIQUIDITY AND CAPITAL RESOURCES

The Company's borrowing facility from ATB Bank is $11,100,000 comprised of a $9,100,000 revolving operating facility and a $2,000,000 bridge facility. Prime-based loans are available through the operating facility at prime plus 1.25% per annum.

The bridge facility was previously due and payable in full on May 31, 2015 concurrent with the next borrowing base review scheduled for the same date, however ATB has extended the facility repayment deadline and concurrent annual borrowing base review initially to July 31, 2015 and has now provided a further extension beyond the date of these financial statements as they continue to monitor the volatile energy market conditions. The Company is current working with the bank on a redetermination of the borrowing facility commensurate with the decline in commodity prices, however although it is anticipated that a reduction in the borrowing facility is imminent, the timing and amount of any reduction is not yet known. Kaisen maintains a strong and cooperative relationship with its lendor and anticipates continued confidence and support especially in light of the Company's historically conservative debt management practices and present balance sheet strength.

At June 30, 2015, the Company had total bank debt of $2,916,992 ($2,277,581 at December 31, 2014) and total net debt (including net working capital) of $3,266,586 ($3,381,845 at December 31, 2014). The Company was compliant with its financial covenant at June 30, 2015.

CAPITAL INVESTMENT	**Three months ended June 30,**		**Six months ended June 30,**	
	2015	**2014**	**2015**	**2014**
Land	**$34,752**	$12,560	**$44,639**	$15,219
Geological and geophysical	**-**	$44,225	**$35,120**	$1,497,472
Drilling and completions	**$462,176**	$453,245	**$788,065**	$793,366
Equipment and facilities	**$180,136**	$980,633	**$441,851**	$1,733,613
Capitalized G&A	**$67,497**	$44,998	**$134,995**	$112,496
Capitalized stock based compensation	**$17,682**	-	**$35,171**	-
Corporate acquisitions / (divestitures)	**-**	$134,646	**-**	($21,492)
Office equipment	**$2,174**		**$2,174**	
Total capital additions	**$764,417**	$1,670,307	**$1,482,015**	$4,130,674

In December 2014, Kaisen responded to the sudden oil price decline by deferring a planned 11 well $7 million drilling 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 current 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 allowing for the Company to begin pursuit of up to 280 barrels per day of previously shut-in volumes as disclosed in the first quarter. A continued focus was also placed on further cost reduction and operating efficiency initiatives during the Quarter.

SELECTED QUARTERLY RESULTS AND ANALYSIS

(Cdn$ thousands, expect per share, shares and per boe amounts)	2015		2014				2013
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	**$4,000**	**$4,166**	$9,124	$7,593	$5,480	$5,782	$4,806
Realized hedging gains/(losses)	**$166**	**$301**	$771	($335)	($688)	($404)	-
Funds flow from operations[1]	**$997**	**$566**	$2,754	$2,510	$747	$728	$1,004
Net earnings (loss)	**($1,667)**	**($607)**	$403	$1,618	($104)	($1,854)	($68)
Expenditures on oil & gas properties	**$747**	**$701**	$3,190	$8,487	$1,536	$2,460	$3,679
Corporate and Asset acquisitions	**-**	**-**	($679)	-	-	-	-
Net debt	**$3,267**	**$3,516**	$3,382	$3,620	$5,282	$4,359	$2,626
Shares outstanding – diluted *(thousands)*	**18,649**	**18,649**	18,649	18,649	14,736	14,719	14,719
Sales Volumes *(boe per day)* [2]	**907**	**1,382**	1,699	1,104	773	942	963
Operating Netbacks ($/boe)							
Sales price	**$48.44**	$33.48	$58.40	$74.76	$77.86	$68.37	$54.27
Royalties	**($10.61)**	($6.60)	($14.82)	($19.14)	($18.84	($16.42)	($13.86)
Saskatchewan surcharge tax	**($0.91)**	($1.84)	($2.97)	-	-	-	-
Operating expenses	**($19.74)**	($16.32)	($17.03)	($19.48)	($29.09	($24.73)	($17.95)
Transportation expenses	**($2.84)**	($2.26)	($2.28)	($2.09)	($2.62)	($2.19)	($2.02)
Field netbacks (before hedging)	**$14.34**	$6.46	$21.30	$34.05	$27.31	$25.03	$20.44
Realized gain/(loss) on risk management	**$2.01**	$2.42	$4.94	($3.30)	($9.77)	($4.70)	-
Field netbacks (after hedging)	**$16.35**	$8.88	$26.24	$30.75	$17.54	$20.33	$20.44
General & administration expenses	**($7.35)**	**($4.88)**	($5.32)	($4.88)	($6.73)	($11.23)	($4.99)
Corporate netback	**$9.00**	**$4.00**	$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 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. A further production decline of 34% in the second quarter of 2015 reflects the Company's development inactivity in response to the precipitous decline in commodity prices during the first half 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.

Netback results over the past seven 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 seven 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 first and second quarters of 2015 have been significantly impacted by the precipitous global oil price collapse since November 2014 while operating costs during the same periods improved by 5% (first quarter 2015) and 21% (second quarter 2015).

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 seven 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 $580,883 loss on sale of the Company's non-operated gas weighted Alberta assets during the fourth quarter of 2014.

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 June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Cash flow from (used in) operating activities	**$1,174,192**	$1,420,971	**$807,247**	$1,723,129
Exclude the change in non-cash working capital	**($177,623)**	($674,162)	**$754,858**	($248,646)
Funds flow from operations	**$996,569**	$746,809	**$1,562,105**	$1,474,483

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

Forward-looking statements

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

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

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

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