



## **Management Discussion & Analysis**

**Three and six month periods ended June 30, 2016**

*(unaudited)*

---

**June 30, 2016**

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated August 30, 2016, 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, 2016 (the "Quarter" and "Year to Date" respectively) and the audited annual financial statements as at and for the year ended December 31, 2015 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 400, 522 - 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8. Kaisen operates with a total of 6 employees and 8 contract employees of which 5 reside within Kaisen's area of operations near Lloydminster, Saskatchewan.

## Results of Operations

	Three months ended		Six months ended	
	2016	June 30, (unaudited) 2015	2016	June 30, (unaudited) 2015
<b>Financial highlights</b>				
Petroleum and natural gas sales	\$1,747,034	\$3,999,623	\$2,731,873	\$8,165,317
Realized hedging gains/(losses)	(\$48,133)	\$165,957	(\$48,133)	\$467,347
Funds flow from operations	(\$443,806)	\$996,569	(\$1,512,283)	\$1,562,105
Per share – basic & diluted	(\$0.02)	\$0.06	(\$0.06)	\$0.10
Net loss	(\$1,507,057)	(\$1,667,243)	(\$3,209,837)	(\$2,274,196)
Per share – basic & diluted	(\$0.06)	(\$0.11)	(\$0.14)	(\$0.15)
Expenditures on oil & gas properties	\$546,032	\$746,735	\$1,177,946	\$1,446,844
Net Bank surplus/(debt) (including net working capital)	\$329,979	(\$3,266,586)	\$329,979	(\$3,266,586)
<b>Common shares</b>				
Outstanding – basic	23,420,029	15,420,029	23,420,029	15,420,029
Outstanding – diluted	30,649,028	18,649,028	30,649,028	18,649,028
Weighted average – basic & diluted	23,420,029	15,420,029	23,420,029	15,420,029
<b>Sales Volumes</b>				
Crude Oil (barrels ("bbl") per day)	582	907	640	1,144
<b>Operating Netbacks (\$/bbl)</b>				
Sales price	\$32.96	\$48.44	\$23.47	\$39.45
Royalties	(\$5.80)	(\$10.61)	(\$3.40)	(\$8.20)
Saskatchewan surcharge tax	(\$0.57)	(\$0.91)	(\$0.64)	(\$1.47)
Operating expenses	(\$19.51)	(\$19.74)	(\$19.51)	(\$17.68)
Transportation expenses	(\$1.82)	(\$2.84)	(\$1.98)	(\$2.49)
Field Netbacks (before hedging)	\$5.26	\$14.34	(\$2.06)	\$9.61
Realized gain/(loss) on risk management contracts	(\$0.91)	\$2.01	(\$0.41)	\$2.26
Field Netbacks (after hedging)	\$4.35	\$16.35	(\$2.47)	\$11.87

### ACQUISITION OF HAWK EXPLORATION LTD.

On July 14, 2016, Kaisen closed the acquisition of Hawk Exploration Ltd. ("Hawk") wherein Kaisen acquired all of the issued and outstanding Class A shares of Hawk at a cash price of \$0.08 per share for aggregate consideration of approximately \$16.1 million, which included the assumption of Hawk's debt and transaction costs. Current Hawk field estimated production is approximately 500 to 550 boe per day with a 96% oil weighting, comprised mainly of heavy oil properties in geographic proximity to Kaisen's existing operations in the Lloydminster region of Saskatchewan. The Hawk acquisition has added significant land acreage and drilling inventory within the heavy oil fairway of Saskatchewan, as well as further expansion into new highly prospective areas of west central Saskatchewan. Kaisen funded the acquisition through the concurrent closing of a private placement issuance of 20,000,000 common shares for aggregate gross proceeds of \$20,000,000 to the Company's private equity partner, Azimuth Capital Management. The financial results of Hawk will be consolidated into Kaisen's financial reports for the three and nine month periods ended September 30, 2016.

### ECONOMIC ENVIRONMENT

The start of the second quarter of 2016 brought renewed optimism to the industry, with a prevailing sentiment that the worst of the supply glut was over. Non-OPEC production was declining due to ongoing reductions in capital investment as well as supply disruptions in Nigeria, Venezuela, and the spring fires that shut-in much of the Canadian oil sands. These factors combined to reduce the amount of global oversupply which has driven prices lower over the past 3 years. On the demand side of the equation, a steady growth in global oil demand was also expected promulgated by the oil prices fall. In aggregate, global oil prices increased in the second quarter with WTI averaging US\$45.59 per barrel or 36%

higher than the first quarter. Recent volatility has persisted with macro level expectations ranging from the ongoing fears of softening demand, contrasted by OPEC's recent agreement to meet in September to discuss possible production freezes. To combat the uncertainty of commodity prices, Kaisen continues to focus on reducing its cost structure both on operating and capital costs while incorporating financial hedging contracts to protect the downside in the event past price lows are retested at any point between now and the end of 2017. We also look forward to executing on value creation through the drilling of economically positive rate of return wells all while maintaining a strong balance sheet. In addition, we continue to seek out low cost, high value acquisition opportunities in this weak commodity price market with the expectation that oil prices will continue to recover.

#### FUNDS FLOW FROM OPERATIONS

For the Quarter, the Company recorded a funds flow loss from operations of \$443,806 (\$0.02 per diluted share) by contrast to positive funds flow of \$996,569 (\$0.06 per diluted share) recorded in the same period of the prior year. A funds flow loss of \$1,512,283 (\$0.06 per diluted share) was recorded for the Year to Date by contrast to positive funds flow of \$1,562,105 (\$0.10 per diluted share) for the same period in the prior year. The realization of funds flow losses for the Quarter and Year to Date by contrast to the prior year, are a direct result of the continued fall in oil prices that was experienced since the summer of 2015. In the comparative prior year periods, Kaisen further benefited from realized hedging gains as a result of a higher priced commodity hedge (CAD\$76.50) which expired at the end of 2015. For the first quarter of 2016, there were no hedge contracts in place leaving Kaisen fully exposed to the continued oil price declines in January and February. Beginning in April 2016, Kaisen took advantage of rising oil prices above the Company's approximate break-even field level operating threshold of CAD\$55.00, to begin the process of layering in commodity hedges at CAD\$56.00 to protect funds flow from the risk of renewed price declines, however as prices continued to rise through the Quarter, these hedges incurred realized losses amounting to \$48,133. Subsequent to the Quarter end, the Company has continued to layer in hedge contracts for the remainder of 2016 and 2017 at weighted average hedge prices of CAD\$58.63 and CAD\$62.88, respectively. The Company intends to continue laying in additional hedges (not to exceed 60% of forecast production) as the opportunities arise.

#### NET LOSS AND COMPREHENSIVE LOSS

The Company recorded a net loss for the Quarter of \$1,507,057 (\$0.06 per diluted share) compared to a loss of \$1,667,243 (\$0.11 per diluted share) for the same period of the prior year. The net loss Year to Date was \$3,209,837 (\$0.14 per diluted share) compared to a loss of \$2,274,196 (\$0.15 per diluted share) in the prior year. Routine non-cash charges 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 \$584,569 and \$1,274,126 respectively (\$970,914 and \$2,406,745 respectively in the prior year), share based compensation expense of \$387,195 and \$779,009 respectively (\$171,541 and \$341,197 respectively in the prior year), changes in deferred income taxes amounting to recoveries of \$397,521 and \$882,263 respectively (\$142,380 and \$209,926 respectively in the prior year), and unrealized losses from hedging contracts of \$451,124 for the Quarter and Year to Date (by contrast to unrealized gains of \$1,627,007 and \$1,225,030 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,	
	2016	2015	2016	2015
<b>Sales volumes</b>				
Heavy crude oil (bbls per day)	582	907	640	1,144
<b>Production by area (bbls per day)</b>				
Lone Rock, Saskatchewan	175	327	228	442
Edam, Saskatchewan	407	580	412	702
Other	-	-	-	-
<b>Total average daily production</b>	<b>582</b>	<b>907</b>	<b>640</b>	<b>1,144</b>

*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 582 bbl per day compared to 907 bbl per day for the same quarter in 2015 where in both periods 100% of the Companies production was conventional heavy oil. Lone Rock production was lower by 47% averaging 175 bbl per day as compared to 327 bbl per day for the same quarter in 2015 while Edam production was lower by 30% averaging 407 bbl per day as compared to 580 bbl per day for the same quarter in 2015. For the Year to Date, production has averaged 640 bbl per day, 44% lower over the same period in the prior year. The significant declines in production over these periods is attributed to the Company's strategic decision, in the face of dramatically declining commodity prices beginning in late 2014 through to the current quarter, to conserve balance sheet strength with an indefinite postponement of the majority of the Company's drilling and optimization projects. Kaisen will continue to remain patient in determining the best time to return to drilling activities.

Petroleum and natural gas sales	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Heavy oil	\$1,747,034	\$3,999,623	2,731,873	\$8,165,317
<b>Average Realized Price</b>				
Heavy oil (\$/bbl)	\$32.96	\$48.44	\$23.47	\$39.45
<b>Average Benchmark Prices</b>				
WTI oil (US\$/bbl)	\$45.59	\$57.90	\$39.52	\$53.28
WCS differential (US\$/bbl)	(\$13.30)	(\$11.59)	(\$13.77)	(\$13.29)
WCS heavy oil (US\$/bbl)	\$32.29	\$46.31	\$25.75	\$39.99
WCS differential %	29%	20%	35%	25%
US/CDN exchange rate	1.28	\$1.23	1.33	\$1.24
<b>WCS heavy oil (CDN\$/bbl)</b>	<b>\$41.61</b>	<b>\$56.93</b>	<b>\$34.24</b>	<b>\$49.38</b>

### Realized Pricing

Throughout the second quarter commodity prices strengthened in comparison to the record lows experienced in the first part of the year, however, considerable risks continue to exist on oil pricing including supply of US shale oil, supply policy decisions from OPEC, and global demand for oil. Continued concerns about worldwide over-supply of crude oil has resulted in the forward outlook on commodity prices for the second half of the year remaining relatively weak. At the time of writing, the second half of 2016 WTI is forecasted to be approximately US\$45.00-US\$50.00 per barrel and the WCS differential is forecasted to be approximately US\$14 per barrel. US denominated WTI prices for the second quarter decreased by 21% over the same period in 2015 and the WCS differential widened from US\$11.59 per barrel to US\$13.30 per barrel. These two movements were offset by the weakening of the Canadian dollar and resulted in Kaisen's realized commodity price decreasing by 32% to \$32.96 per barrel compared to the prior year. On a year-to-date basis, US denominated WTI and the WCS differential weakened by 26% and 4%, respectively. This combined with the weakening of the Canadian dollar, resulted in an overall decrease in Kaisen's realized commodity price of 41% in 2016 to \$23.47 per barrel.

### Risk management contracts

The Company routinely enters into crude oil financial (hedging) contracts to manage the volatility of commodity prices, and may from time to time also enter into foreign exchange financial contracts. Kaisen's current policy is to hedge no more than 60% of forecasted net production 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. During the Quarter, the Company layered in numerous small volume hedge contracts to protect downside risk. As at June 30, 2016 the Company had the following fixed price contracts:

Type	Period	Volume	Price/unit <sup>(1)</sup>	Index
Fixed WTI Swap	April 1, 2016 – December 31, 2016	100 bbl/d	CAD\$56.00	WTI-NYMEX
Fixed WTI Swap	April 1, 2016 – December 31, 2016	100 bbl/d	CAD\$56.25	WTI-NYMEX
Fixed – sell (Swap)	July 1, 2016 – December 31, 2016	100 bbl/d	CAD\$65.00	WTI-NYMEX
Fixed – sell (Swap)	January 1, 2017 – March 31, 2017	100 bbl/d	CAD\$60.00	WTI-NYMEX
Fixed – sell (Swap)	January 1, 2017 – December 31, 2017	100 bbl/d	CAD\$65.00	WTI-NYMEX

(1) Based on the weighted average price/unit for the remainder of the contract

The following is a summary of realized and unrealized losses for the three and six month periods ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Realized gain/(loss)	(\$48,133)	\$165,957	(\$48,133)	\$467,347
\$ per bbl	(\$0.91)	\$2.01	(\$0.41)	\$2.26
Unrealized gain/(loss)	(\$451,124)	(\$1,627,007)	(\$451,124)	(\$1,225,030)
<b>Total gain/(loss) on risk management contracts</b>	<b>(\$499,257)</b>	<b>(\$1,461,050)</b>	<b>(\$499,257)</b>	<b>(\$757,683)</b>

Subsequent to the Quarter end, the Company entered into the following additional financial derivative contracts:

Type	Period	Volume	Price/unit <sup>(1)</sup>	Index
Fixed WTI Swap	January 1, 2016 – December 31, 2016	100 bbl/d	CAD\$54.55 <sup>(2)</sup>	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD\$52.40 <sup>(2)</sup>	WTI-NYMEX
Fixed WTI Swap	October 1, 2016 – March 31, 2017	100 bbl/d	CAD\$64.05	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD\$65.80	WTI-NYMEX
Fixed WCS Basis Swap	January 1, 2017 – December 31, 2017	100 bbl/d	USD -\$15.50	WCS-Net Energy

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

2. Contract acquired with acquisition of Hawk Exploration Ltd. on July 14, 2016, refer to note 14 Subsequent Events in the accompanying financial statements for the period ended June 30, 2016.

<b>CROWN AND FREEHOLD ROYALTIES</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Crown	\$179,381	\$494,771	\$227,007	\$1,005,281
Freehold	\$128,113	\$381,164	\$168,954	\$692,749
<b>Total Royalties</b>	<b>\$307,494</b>	<b>\$875,935</b>	<b>\$395,961</b>	<b>\$1,698,030</b>
\$ per bbl	\$5.80	\$10.61	\$3.40	\$8.20
% of revenue	18%	22%	15%	21%

Approximately 75% of Kaisen lands are held under Crown leases with the remaining held under freehold leases. Crown royalty rates range from ~2% to 30% depending upon the type/vintage of wells, commodity type, volume of daily production and market prices. Kaisen is currently forecasting a royalty rate of approximately 18%-22% blended for both Crown and freehold rates in the current price environment.

<b>OPERATING EXPENSES</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	\$1,033,921	\$1,629,975	\$2,271,338	\$3,659,742
\$ per bbl	\$19.51	\$19.74	\$19.51	\$17.68
% of revenue	59%	41%	83%	45%

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.

Supplier and contractor relationships continue to be of the utmost importance to Kaisen and in the currently depressed commodity price environment the continued strength of these relationships has become increasingly more important. Throughout 2015 and early 2016, Kaisen has worked closely with suppliers and service providers to seek out cost reductions, increased operating efficiencies and decreased labor costs. For the Quarter and Year to Date, operating costs averaged \$19.51 per barrel, consistent with the prior quarter and the same quarter in the prior year and 10% higher than the prior year to date. Short of unforeseen material fluctuations in input costs and unscheduled well repairs and workovers, the Company forecasts 2016 operating costs per barrel to average in the range of \$18.00-\$22.00 for the second half of 2016.

<b>TRANSPORTATION EXPENSES</b>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	\$96,665	\$234,748	\$231,012	\$516,134
\$ per bbl	\$1.82	\$2.84	\$1.98	\$2.49
% of revenue	6%	6%	9%	6%

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 decreased over the same periods in the prior year by 36% and 21% respectively, reflecting a 15% reduction in hauling rates from Kaisen's service providers and the decreased proportion of production arising from Edam which incurs a higher transportation cost commensurate with its location to sales points.

<b>OPERATING NETBACKS</b> <i>(\$ per bbl)</i>	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Sales price	\$32.96	\$48.44	\$23.47	\$39.45
Royalties	(\$5.80)	(\$10.61)	(\$3.40)	(\$8.20)
Saskatchewan surcharge tax	(\$0.57)	(\$0.91)	(\$0.64)	(\$1.47)
Operating expenses	(\$19.51)	(\$19.74)	(\$19.51)	(\$17.68)
Transportation expenses	(\$1.82)	(\$2.84)	(\$1.98)	(\$2.49)
Field netbacks <i>(before hedging)</i>	\$5.26	\$14.34	(\$2.06)	\$9.61
Realized gain/(loss) on risk management contracts	(\$0.91)	\$2.01	(\$0.41)	\$2.26
<b>Field netbacks <i>(after hedging)</i></b>	<b>\$4.35</b>	<b>\$16.35</b>	<b>(\$2.47)</b>	<b>\$11.87</b>

The Company realized an average field netback (before hedging) for the Quarter of \$5.26 per barrel and a field netback loss of \$2.06 per barrel Year to Date, compared to \$14.34 and \$9.61 per barrel respectively for the same periods in the prior year. Substantially lower netbacks (before hedging) for the current periods compared to the prior year is a direct reflection of the continued precipitous fall in oil prices that has occurred since the summer of 2015 as shown in the realized price decline of 32% and 41% for the Quarter and Year to Date respectively. With relative adjustments in royalties and largely unchanged operating costs per barrel over the comparative periods, price is the single largest driver to lower field netbacks.

Including a realized hedging loss of \$0.91 and \$0.41 per barrel for the Quarter and Year to Date respectively (compared to realized gains of \$2.01 and \$2.26 per barrel respectively for the same periods in 2015), the Company's average field netback for the Quarter was \$4.35 per barrel (\$16.35 per barrel in the prior year), and a loss of \$2.47 per barrel Year to Date (\$11.87 per barrel in the prior year).

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Salaries, bonus and benefits	\$370,414	\$346,401	\$711,000	\$780,142
Other G&A expenses	\$403,925	\$327,990	\$691,027	\$569,375
Gross G&A expenses	\$774,339	\$674,391	\$1,402,027	\$1,349,517
Capitalized G&A expenses	(\$109,938)	(\$67,497)	(\$196,155)	(\$134,995)
<b>Net general and administrative costs</b>	<b>\$664,401</b>	<b>\$606,894</b>	<b>\$1,205,872</b>	<b>\$1,214,522</b>
\$ per bbl	\$12.54	\$7.35	\$10.36	\$5.87

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. Net G&A expenses for the Quarter compared to the second quarter in 2015 have increased 10% reflecting the addition of a full time Land and Business Development Manager, coupled with a 23% increase in other G&A costs largely attributed to IT license and software costs as well as costs associated with the relocation of the Company's head office to a larger space in the same building. Due to the decline in production coupled with the mostly fixed nature of G&A expenses, the net G&A cost per barrel increased to \$12.54 for the Quarter and \$10.36 Year to Date from prior year levels of \$7.35 and \$5.87 respectively. However, with the addition of production from the acquisition of Hawk Exploration Ltd. (refer to note 14 of accompanying financial statements for the period ended June 30, 2016), coupled with the Company's current production optimization program, the Company anticipates a return to G&A expenses per barrel in the range of \$5.00 and \$6.00 for the second half of 2016.

**FINANCE CHARGES**

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Interest and bank fees expense	\$10,226	\$38,910	\$16,840	\$74,004
Accretion expense	\$37,884	\$36,729	\$75,558	\$73,255
<b>Finance charges</b>	<b>\$48,110</b>	<b>\$75,639</b>	<b>\$92,398</b>	<b>\$147,259</b>

Interest and bank fees expense relates to interest charges and related service fees on the Company's banking facility. During the Quarter and Year to Date, the Company has carried nil bank debt by contrast to higher debt levels carried during the comparative periods in the prior year which has resulted in the elimination of interest expense for the Quarter and Year to Date, net of standby charges incurred on the unused portion of the facility, the annual facility renewal fee, and other incidental banking fees.

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,	
	2016	2015	2016	2015
<b>Share-based compensation</b>	<b>\$387,195</b>	<b>\$171,541</b>	<b>\$779,009</b>	<b>\$341,197</b>

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
<b>Total</b>	<b>4,000,000</b>	<b>\$1.88</b>

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 is being amortized to share based compensation expense over the expiry period of the new performance warrants granted.

The increase in share based compensation expense compared to the same periods in 2015 is due to the new grant and the incremental expense associated with the modification of existing performance warrants.

DEPLETION AND DEPRECIATION	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Depletion	\$575,459	\$968,072	\$1,259,713	\$2,400,774
Depreciation	\$9110	\$2,842	\$14,413	\$5,971
<b>Depletion and depreciation</b>	<b>\$584,569</b>	<b>\$970,914</b>	<b>\$1,274,126</b>	<b>\$2,406,745</b>
\$ per bbl	\$11.03	\$11.76	\$10.95	\$11.63

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 (\$84,546,000 in the same quarter of 2015) \$1,644,000 for the Quarter (\$1,624,000 in the same quarter of 2015).

#### LIQUIDITY AND CAPITAL RESOURCES

On June 1, 2016, the Company completed its annual facility redetermination with its lender resulting in a reduction to the Company's revolving operating facility to \$2,000,000. Subsequent to the Quarter end, and in connection with the closing of Kaisen's acquisition of Hawk Exploration Ltd. on July 14, 2016 (refer to note 14 'Subsequent Events', of the accompanying financial statements for the period ended June 30, 2016) the Company's lender increased the revolving operating facility to \$5,500,000, with no changes to lending rates. A mid-year borrowing base review has been scheduled for November 2016.

At June 30, 2016, the Company had a net working capital surplus of \$329,979 with no amounts drawn on the operating facility (\$3,022,039 net surplus including working capital at December 31, 2015). 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 in November 2015. With positive working capital, available debt and an undrawn equity line, Kaisen is well positioned with sufficient capital resources to execute on potential acquisitions and/or a comprehensive development program at the appropriate time.

CAPITAL INVESTMENT	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Land	-	\$34,752	\$4,060	\$44,639
Geological and geophysical	-	-	\$17,794	\$35,120
Drilling and completions	\$193,929	\$462,176	\$471,531	\$788,065
Equipment and facilities	\$195,254	\$180,136	\$394,143	\$441,851
Capitalized G&A	\$109,937	\$67,497	\$196,155	\$134,995
Capitalized stock based compensation (non-cash)	\$68,518	\$17,682	\$136,529	\$35,171
Corporate acquisitions / (divestitures)	-	-	-	-
Office equipment	\$46,911	\$2,174	\$94,262	\$2,174
<b>Total capital additions</b>	<b>\$614,549</b>	<b>\$764,417</b>	<b>\$1,314,474</b>	<b>\$1,482,015</b>

During the Quarter and Year to date, the Company continued with a minimal approach to field development and optimization activities in order to preserve the strength of our balance sheet during the continued uncertainty of the direction of commodity prices. In fact, since November 2014, Kaisen has deferred a total of 23 new drill projects. Despite the deferred activity, Kaisen has remained focused on optimizing profitability, evaluating potential acquisitions, and managing land tenure; while improving field data capture, asset integrity, and HS&E processes for future growth. More specifically, the focus of capital activity for the Year to Date has been on 1) non-discretionary regulatory compliance and land tenure, resulting in the need to complete 3 well reactivations; 2) drilling a single exploratory well at Lone Rock which showed thick Sparky formation, but was silty with limited porosity resulting in a decision to abandon the well; and 3) Maintenance and workovers to maintain minimal production levels.

Beginning in late June, the Company commenced with a production optimization program to reactivate and grow production for the second half of 2016 as well as the development of a comprehensive drilling program which the Company hopes to kick-off if and when prices stabilize around WTI US\$55.00.

## SELECTED QUARTERLY RESULTS AND ANALYSIS

<i>(Cdn\$ thousands, except per share, shares and per boe amounts)</i>	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	\$1,747	\$985	\$2,059	\$2,730	\$4,000	\$4,166	\$9,124	\$7,593
Realized hedging gains/(losses)	(\$48)	-	\$651	\$505	\$166	\$301	\$771	(\$335)
Funds flow (loss) from operations <sup>(1)</sup>	(\$444)	(\$1,068)	\$205	(\$144)	\$997	\$566	\$2,754	\$2,510
Net earnings (loss)	(\$1,507)	(\$1,703)	(\$1,429)	\$358	(\$1,667)	(\$607)	\$403	\$1,618
Expenditures on oil & gas properties	\$546	\$632	\$1,091	\$1,519	\$747	\$701	\$3,190	\$8,487
Corporate and Asset acquisitions	-	-	-	-	-	-	(\$679)	-
Net surplus / (debt)	\$330	\$1,320	\$3,022	(\$4,930)	(\$3,267)	(\$3,516)	(\$3,382)	(\$3,620)
<b>Shares outstanding – diluted (thousands)</b>	<b>30,649</b>	<b>30,649</b>	<b>30,649</b>	<b>18,649</b>	<b>18,649</b>	<b>18,649</b>	<b>18,649</b>	<b>18,649</b>
<b>Sales Volumes (boe per day) <sup>(2)</sup></b>	<b>582</b>	<b>697</b>	<b>822</b>	<b>828</b>	<b>907</b>	<b>1,382</b>	<b>1,699</b>	<b>1,104</b>
<b>Operating Netbacks (\$/boe)</b>								
Sales price	\$32.96	\$15.53	\$27.22	\$35.85	\$48.44	\$33.48	\$58.40	\$74.76
Royalties	(\$5.80)	(\$1.40)	(\$4.08)	(\$6.57)	(\$10.61)	(\$6.60)	(\$14.82)	(\$19.14)
Saskatchewan surcharge tax	(\$0.57)	(\$0.71)	(\$0.69)	(\$1.92)	(\$0.91)	(\$1.84)	(\$2.97)	-
Operating expenses	(\$19.51)	(\$19.52)	(\$22.50)	(\$24.95)	(\$19.74)	(\$16.32)	(\$17.03)	(\$19.48)
Transportation expenses	(\$1.82)	(\$2.12)	(\$2.79)	(\$2.89)	(\$2.84)	(\$2.26)	(\$2.28)	(\$2.09)
Field netbacks (before hedging)	\$5.26	(\$8.22)	(\$2.84)	(\$0.48)	\$14.34	\$6.46	\$21.30	\$34.05
Realized gain/(loss) on risk mgmt contracts	(\$0.91)	-	\$8.60	\$6.63	\$2.01	\$2.42	\$4.94	(\$3.30)
Field netbacks (after hedging)	\$4.35	(\$8.22)	\$5.76	\$6.15	\$16.35	\$8.88	\$26.24	\$30.75
General & administration expenses	(\$12.54)	(\$8.54)	(\$5.10)	(\$7.59)	(\$7.35)	(\$4.88)	(\$5.32)	(\$4.88)
Corporate netback	(\$8.19)	(\$16.76)	\$0.66	(\$1.44)	\$9.00	\$4.00	\$20.92	\$25.87

(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 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 since the second quarter of 2015 reflects the Company's development inactivity in response to the precipitous decline in commodity prices which continued through the first quarter of 2016 with a significant price improvement by approximately 100% realized during the second quarter of 2016.

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. The first quarter of 2016 was further impacted by continued and significant declines in commodity prices without the insulation of hedging gains during a period where the Company was unhedged, resulting in a record quarterly funds flow loss of \$1,068,478. Significant price strengthening in the second quarter of 2016 more than offset continued production declines to generate a reduction in funds flow losses which amounting to \$443,805 for the Quarter.

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 through the second half of 2015 and the first quarter of 2016 continued to be significantly impacted by the precipitous global oil price collapse which saw the WCS price fall to a record low in February 2016. The second quarter of 2016 has seen a significant improvement in commodity prices, nearly doubling from the record lows realized in February 2016 driving a field netback (pre-hedged) of \$5.26 per bbl compared to a field net loss of \$8.22 per bbl in the prior quarter.

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 with continuance at these levels in the first quarter of 2016, reflected ongoing measures to reduce costs while not sacrificing long-term value creation initiatives. With the continued decline in production over the past six quarters, the largely fixed nature of G&A expenses has resulted in continued increase in G&A costs per bbl over the same periods.

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.

#### **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](mailto:CKing@KaisenEnergy.com)) or Jeff Holmgren, Senior Vice President and CFO ([JHolmgren@KaisenEnergy.com](mailto: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,	
	2016	2015	2016	2015
Cash flow from (used in) operating activities	(\$642,247)	\$1,174,192	(\$1,129,976)	\$807,247
Exclude the change in non-cash working capital	\$198,442	(\$177,623)	(\$382,307)	\$754,858
Funds flow from operations	\$443,805	\$996,569	(\$1,512,283)	\$1,562,105

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.