



Management Discussion & Analysis

Three month period ended March 31, 2016

(unaudited)

March 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated May 31, 2016, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three month period ended March 31, 2016 (the "Quarter") 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 5 employees and 8 contract employees of which 5 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 price benchmark. In fact for the first quarter of 2016, the decline in commodity prices reached a fever pace with heavy oil prices falling to historic lows along with industry optimism levels. However, we are hopeful that the commodity price lows realized in February will be the darkest night before the dawn. Since March, commodity prices have shown a newfound resilience, recovering to more moderate levels with a current US WTI forecast price average of approximately \$47.00 for the balance of 2016. With plummeting US and Canadian rig counts and a developing downward trend in US production levels, there may be increasing evidence for rising optimism levels, however, continued production growth from Iran, Saudi Arabia and other OPEC and non-OPEC countries will cast an ongoing cloud over continued price improvements over the nearer term, so we will remain reserved in our optimism and wait for undeniable evidence of an entrenched price recovery before considering the bold step of recommencing with a drilling program.

ASSET ACQUISITION

On June 1, 2016, Kaisen entered into an agreement with Hawk Exploration Ltd. ("Hawk") pursuant to which Kaisen has agreed to purchase 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 includes the assumption of Hawk's debt and transaction costs. Current Hawk production is approximately 500 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 will add 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 plans to fund the acquisition through 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. Kaisen anticipates closing the acquisition on or about July 15, 2016.

Results of Operations

	Three months ended March 31, (unaudited)	
Financial Highlights (\$,000, except per share amounts)	2016	2015
Petroleum and natural gas sales	\$984,839	\$4,165,694
Realized hedging gains/(losses)	-	\$301,390
Funds flow / (loss) from operations ⁽¹⁾	(\$1,068,478)	\$565,538
Per share – basic & diluted	(\$0.05)	\$0.04
Net loss	(\$1,702,781)	(\$606,951)
Per share – basic & diluted	(\$0.07)	(\$0.04)
Expenditures on oil & gas properties	\$631,912	\$700,109
Net surplus / (debt) (bank debt+ net working capital)	\$1,320,733	(\$3,516,419)
Share Capital		
Outstanding – basic	23,420,029	15,420,029
Outstanding – diluted	30,649,028	18,649,028
Weighted average – basic & diluted	23,420,029	15,420,029
Sales Volumes		
Crude Oil (barrels per day)	697	1,382
Operating Netbacks⁽¹⁾ (\$ per barrel)		
Sales price	\$15.53	\$33.48
Royalties	(\$1.40)	(\$6.60)
Saskatchewan surcharge tax	(\$0.71)	(\$1.84)
Operating expenses	(\$19.52)	(\$16.32)
Transportation expenses	(\$2.12)	(\$2.26)
Field Netbacks/(loss) (before hedging)	(\$8.22)	\$6.46
Realized gain/(loss) on risk management contracts	-	\$2.42
Field Netbacks (after hedging)	(\$8.22)	\$8.88

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

FUNDS FLOW FROM OPERATIONS

For the three months ended March 31, 2016 (the “Quarter”), the Company recorded a funds flow loss from operations of \$1,068,478, compared to positive funds flow of \$565,538, in the first quarter of the prior year. For the Quarter, the Company did not have any hedging contracts in place and as a result, Kaisen was fully exposed to the continued oil price declines in January and February. This by contrast to the same quarter in the prior year were approximately 53% of the prior year’s positive funds flow was a result of positive hedging gains. For the balance of 2016 and into the first quarter of 2017, Kaisen has implemented a hedging program which will provide a degree of insulation from the potential for continued or weaker commodity prices.

NET LOSS AND COMPREHENSIVE LOSS

The Company recorded a net loss for the Quarter of \$1,702,781 compared to a net loss of \$606,951 in the same quarter of 2015. Routine non-cash charges can have a significant impact on net earnings/losses. The most significant non-cash charges for the Quarter to depletion and depreciation of the Company’s assets amounting to \$689,558 (\$1,435,830 in the prior year), share based compensation expense of \$391,814 (\$169,656 in the prior year) and unrealized gains/losses from hedging contracts, nil for the Quarter by contrast to an unrealized loss of \$401,977 for the same quarter in 2015. 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 March 31,	
(barrels per day)	2016	2015
Sales volumes		
Crude oil	697	1,382
Production by area		
Lone Rock, Saskatchewan	280	556
Edam, Saskatchewan	417	826
Total average daily production	697	1,382

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.

All of Kaisen’s production in the Quarter and comparative quarter is from heavy oil, which for the Quarter averaged 697 barrels per day (1,382 barrels per day for the same quarter in 2015). Average production in both of Kaisen’s core areas is lower by 50%, with Lone Rock averaging 280 barrels per day compared to 556 barrels per day for the same quarter in 2015 while Edam production averaged 417 barrels per day compared to 826 barrels per day for the same quarter in 2015. The 50% decline in production over these periods is primarily a result of the Company’s strategic decision, in the face of dramatically declining commodity prices beginning in late 2014, to conserve balance sheet strength with an indefinite postponement of the majority of the Company’s drilling and optimization. Kaisen will remain patient in determining the best time to return to drilling activities.

	Three months ended March 31,	
Petroleum and natural gas revenue and prices	2016	2015
Heavy oil	\$984,839	\$4,165,694
Average Kaisen realized Heavy oil price (\$ per barrel)	\$15.53	\$33.48
Average Benchmark Prices		
WTI oil (US\$ per barrel)	\$33.45	\$48.65
WCS differential (US\$ per barrel)	(\$14.24)	(\$14.99)
WCS heavy oil (US\$ per barrel)	\$19.21	\$33.66
WCS differential %	43%	31%
US/CDN exchange rate	\$0.728	\$0.813
WCS heavy oil (CDN\$bbl)	\$26.39	\$41.40

Realized Pricing

During the quarter WCS heavy barrels traded at the lowest they ever have since inception of the WCS benchmark. Kaisen’s average realized price dipped to a low of \$12.19 per bbl in February, and averaged \$15.53 per barrel for the Quarter. Fortunately, the forward outlook on pricing has improved with US WTI forecasted to average approximately \$46.00 per barrel for the remainder of the year and Western Canada Select (“WCS”) differentials expected to tighten in relation to WTI. This upward price trend was beginning to show in the last month of the Quarter with a realized price increase over February’s lows of 71%. 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. Ongoing concerns regarding 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 first quarter decreased by 31 per cent over the same period in 2015 and the WCS differential narrowed slightly on an absolute basis from US\$14.99 per barrel to US\$14.24 per barrel. However, on a relative basis the WCS differential expanded during the Quarter to a 43% discount from WTI versus a 31% discount during the same period in 2015. These two movements were offset with the weakening of the Canadian dollar and resulted in Kaisen's realized commodity price decreasing by 54% to \$15.53 per boe compared to the prior year.

Risk management contracts

The Company routinely enters into crude oil financial 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 and as at March 31, 2016 the Company did not have any outstanding risk management contracts. Subsequent to the Quarter end, the Company entered into the following financial derivative contracts:

Type	Period	Volume	Price/unit ⁽¹⁾	Index
Fixed – sell (Swap)	April 1, 2016 – December 31, 2016	100 bbl/d	CAD\$56.00	WTI-NYMEX
Fixed – sell (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/bbl for the duration of the contract

The following is a summary of realized and unrealized losses for the three month periods ended March 31, 2016 and 2015

	Three months ended March 31,	
	2016	2015
Realized gain/(loss)	-	\$301,390
\$ per barrel ⁽¹⁾	-	\$2.42
Unrealized gain/(loss)	-	\$401,977
Total gain/(loss) on risk management	-	\$703,367

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

CROWN AND FREEHOLD ROYALTIES

	Three months ended March 31,	
	2016	2015
Crown	\$47,626	\$510,510
Freehold	\$40,841	\$311,585
Total Royalties	\$88,467	\$822,095
\$ per barrel ⁽¹⁾	\$1.40	\$6.60
% of revenue	9%	20%

⁽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 10%-15% blended for both Crown and freehold rates.

OPERATING EXPENSES

	Three months ended March 31,	
	2016	2015
\$ per barrel ⁽¹⁾	\$1,237,417	\$2,029,767
	\$19.52	\$16.32
% of revenue	126%	49%

⁽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 and early 2016, 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 \$19.52 per barrel, a 14% decline over the fourth quarter of 2015 in spite of a 15% decline in production volumes. Operating costs per barrel for the Quarter were 20% higher than the same period in 2015 due primarily to the Company's fixed costs which were spread over lower production volumes during the Quarter. Short of unforeseen material fluctuations in input costs and unscheduled well repairs and workovers, the Company forecasts 2016 operating costs to average in the range of \$18.00-\$22.00 for the remainder of the first half of 2016.

TRANSPORTATION EXPENSES	Three months ended March 31,	
	2016	2015
\$ per boe ⁽¹⁾	\$134,348	\$281,386
% of revenue	\$2.12	\$2.26
	14%	7%

(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, transportation costs per barrel decreased by 6% over the same period in 2015.

FIELD LEVEL NETBACKS (\$ per boe) ⁽¹⁾	Three months ended March 31,	
	2016	2015
Sales price	\$15.53	\$33.48
Royalties	(\$1.40)	(\$6.60)
Saskatchewan surcharge tax	(\$0.71)	(\$1.84)
Operating expenses	(\$19.52)	(\$16.32)
Transportation expenses	(\$2.12)	(\$2.26)
Netbacks (before hedging)	(\$8.22)	\$6.46
Realized gain/(loss) on risk management	-	\$2.42
Netbacks (after hedging)	(\$8.22)	\$8.88

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

The Company realized an average field netback loss for the Quarter of \$8.22 per barrel, compared to a field netback profit (before hedging) of \$6.46 per barrel for the same period in the prior year. Substantially lower netbacks for the Quarter is a direct reflection of the precipitous fall in oil prices during 2015 and through the Quarter, furthered by higher operating costs per barrel due to lower production volumes realized over the same period. In contrast to the same period in 2015, the Company did not have any hedge contracts in place during the Quarter. Refer to the *Risk Management section* of this MD&A for details on hedging contracts entered into subsequent to the Quarter end.

GENERAL AND ADMINISTRATIVE ("G&A")	Three months ended March 31,	
	2016	2015
Salaries, bonus and benefits	\$334,789	\$388,740
Other G&A expenses	\$292,899	\$286,385
Gross G&A expenses	\$627,688	\$675,125
Capitalized G&A expenses	(\$86,217)	(\$67,497)
Net G&A costs	\$541,471	\$607,628
\$ per boe	\$8.54	\$4.88

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, net G&A costs are lower by 11% compared to the same period in 2015, reflecting a 14% reduction in total executive compensation along with other corporate cost savings initiatives.

FINANCE CHARGES	Three months ended March 31,	
	2016	2015
Interest expense	\$6,614	\$35,094
Accretion expense	\$37,675	\$36,526
Finance charges	\$44,288	\$71,620

Interest expense relates to interest charges and related service fees on the Company's banking facility. Significantly lower interest expense during the Quarter as compared to the same period in the prior year is a direct reflection of the bank debt elimination from the proceeds of the Company's private equity financing in November 2015.

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 March 31,

	2016	2015
Share-based compensation	\$391,814	\$169,656

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	\$1.88

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 increase in share based compensation expense compared to the same period 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 March 31,

	2016	2015
Depletion	\$684,254	\$1,432,701
Depreciation	\$5,304	\$3,129
Depletion and depreciation	\$689,558	\$1,435,830
\$ per boe	\$10.88	\$11.54

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 March 31, 2016, 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 the completion of this review has been delayed into June 2016.

As at March 31, 2016, the Company had no debt, and a net working capital surplus (current assets net of current liabilities) of \$1,320,733 (\$3,022,039 net surplus including working capital at December 31, 2015), with \$5,500,000 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 in November 2015.

CAPITAL INVESTMENT

Three months ended March 31,

	2016	2015
Land	\$4,060	\$9,887
Geological and geophysical	\$17,794	\$35,120
Drilling and completions	\$277,602	\$146,397
Equipment and facilities	\$198,889	\$441,208
Capitalized G&A	\$86,217	\$67,497
Capitalized stock based compensation	\$68,011	\$17,489
Office	\$47,351	-
Total capital additions	\$699,924	\$717,598

During the Quarter, Kaisen continued to restrict capital activity levels to only those well events required to maintain minimal base production thresholds, land tenure and regulatory compliance. In fact since November 2014, Kaisen has deferred a total of 23 new drill projects in an effort to maximize balance sheet strength. However, despite the deferred activity, Kaisen has remained focused on optimizing profitability, strategic development planning, and land tenure; while improving field data capture, asset integrity, and HS&E processes for future growth.

For the Quarter, the Company drilled one new exploratory well at Lone Rock. Unfortunately, the Company plugged and abandoned the well based upon less the optimal well logs which showed thick Sparky pay but with limited porosity. However disappointing, these results have provided meaningful insight into the mapping of the Company's resource as we expand our well inventory opportunities further south at Lone Rock. Kaisen also carried out a number of smaller workover projects for purposes of land tenure, regulatory compliance and production optimization.

Total capital investment for the Quarter is consistent with capital investment in the same quarter of the prior year, where a similar minimal approach was taken. For the comparative period, 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.

SELECTED QUARTERLY RESULTS AND ANALYSIS

<i>(Cdn\$ thousands, except per share, shares and per boe amounts)</i>	2016		2015			2014		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	\$985	\$2,059	\$2,730	\$4,000	\$4,166	\$9,124	\$7,593	\$5,480
Realized hedging gains/(losses)	-	\$651	\$505	\$166	\$301	\$771	(\$335)	(\$688)
Funds flow (loss) from operations ⁽¹⁾	(\$1,068)	\$205	(\$144)	\$997	\$566	\$2,754	\$2,510	\$747
Net earnings (loss)	(\$1,703)	(\$1,429)	\$358	(\$1,667)	(\$607)	\$403	\$1,618	(\$104)
Expenditures on oil & gas properties	\$632	\$1,091	\$1,519	\$747	\$701	\$3,190	\$8,487	\$1,536
Corporate and Asset acquisitions	-	-	-	-	-	(\$679)	-	-
Net surplus / (debt)	\$1,320	\$3,022	(\$4,930)	(\$3,267)	(\$3,516)	(\$3,382)	(\$3,620)	(\$5,282)
Shares outstanding – diluted (thousands)	30,649	30,649	18,649	18,649	18,649	18,649	18,649	14,736
Sales Volumes (boe per day) ⁽²⁾	697	822	828	907	1,382	1,699	1,104	773
Operating Netbacks (\$/boe)								
Sales price	\$15.53	\$27.22	\$35.85	\$48.44	\$33.48	\$58.40	\$74.76	\$77.86
Royalties	(\$1.40)	(\$4.08)	(\$6.57)	(\$10.61)	(\$6.60)	(\$14.82)	(\$19.14)	(\$18.84)
Saskatchewan surcharge tax	(\$0.71)	(\$0.69)	(\$1.92)	(\$0.91)	(\$1.84)	(\$2.97)	-	-
Operating expenses	(\$19.52)	(\$22.50)	(\$24.95)	(\$19.74)	(\$16.32)	(\$17.03)	(\$19.48)	(\$29.09)
Transportation expenses	(\$2.12)	(\$2.79)	(\$2.89)	(\$2.84)	(\$2.26)	(\$2.28)	(\$2.09)	(\$2.62)
Field netbacks (before hedging)	(\$8.22)	(\$2.84)	(\$0.48)	\$14.34	\$6.46	\$21.30	\$34.05	\$27.31
Realized gain/(loss) on risk mgmt contracts	-	\$8.60	\$6.63	\$2.01	\$2.42	\$4.94	(\$3.30)	(\$9.77)
Field netbacks (after hedging)	(\$8.22)	\$5.76	\$6.15	\$16.35	\$8.88	\$26.24	\$30.75	\$17.54
General & administration expenses	(\$8.54)	(\$5.10)	(\$7.59)	(\$7.35)	(\$4.88)	(\$5.32)	(\$4.88)	(\$6.73)
Corporate netback	(\$16.76)	\$0.66	(\$1.44)	\$9.00	\$4.00	\$20.92	\$25.87	\$10.81

⁽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 2015 and worsened in the first 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. This resulted in a record quarterly funds flow loss of \$1,068,478.

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 quarter of

2015 and the first quarter of 2016 continued to be significantly impacted by the precipitous global oil price collapse since November 2014 which declined even more dramatically falling to a record WCS low in February 2016.

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, reflect ongoing measures to reduce costs while not sacrificing long-term value creation initiatives.

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. 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 March 31,	
	2016	2015
Cash flow from (used in) operating activities	(\$487,730)	(\$366,943)
Exclude the change in non-cash working capital	(\$580,748)	\$932,481
Funds flow / (loss) from operations	(\$1,068,478)	\$565,538

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.