



Annual Management Discussion & Analysis

December 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated April 7, 2018, and should be read in conjunction with the accompanying financial statements (the "financial statements") and related notes for the three and twelve month periods ended December 31, 2017 and 2016 of Kaisen Energy Corp. ("Kaisen" or the "Company"). The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

DESCRIPTION OF THE BUSINESS

Kaisen is a Calgary based energy company primarily focused on heavy oil development and production in Saskatchewan and was incorporated in Alberta Canada on November 6, 2012. The Company's principal place of business is located at 400, 522 - 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8. Kaisen operates with a total of 7 employees and 13 contract employees of which 9 reside within Kaisen's area of operations near Lloydminster, Saskatchewan.

Results of Operations

	Three months ended December 31, (unaudited)		Year ended December 31,	
	2017	2016	2017	2016
Financial Highlights (\$,000, except per share amounts)				
Petroleum and natural gas sales	\$5,578	\$4,588	\$21,433	\$11,156
Realized hedging gains/(losses)	(\$256)	(\$302)	\$124	(\$374)
Funds flow / (loss) from operations ⁽¹⁾	\$1,460	(\$558)	\$2,907	(\$2,432)
Per share – basic & diluted	\$0.03	(\$0.01)	\$0.07	(\$0.08)
Net Earnings / (loss)	(\$1,824)	(\$4,572)	(\$2,362)	(\$11,300)
Per share – basic	(\$0.04)	(\$0.11)	(\$0.05)	(\$0.35)
Expenditures on oil & gas properties	\$311	\$1,424	\$8,158	\$3,468
Net (debt) / surplus	(\$2,425)	\$335	(\$2,425)	\$335
Share Capital (,000)				
Outstanding – basic	45,420	43,420	45,420	43,420
Outstanding – diluted	57,649	55,649	57,649	55,649
Weighted average – basic	45,420	43,420	44,368	32,710
Weighted average – diluted	45,420	43,420	44,368	32,710
Sales Volumes				
Crude Oil (bbls per day)	1,271	1,275	1,339	935
Natural gas liquids (bbls per day)	1	4	2	2
Natural gas (Mcf per day)	98	115	98	60
Barrels of oil equivalent (boe per day)	1,288	1,298	1,357	947
Operating Netbacks ⁽¹⁾ (\$/boe)				
Sales price	\$47.09	\$38.42	\$43.28	\$32.17
Royalties	(\$8.24)	(\$7.61)	(\$7.50)	(\$5.63)
Saskatchewan surcharge tax	(\$0.08)	(\$0.52)	(\$0.61)	(\$0.42)
Operating expenses	(\$18.15)	(\$24.83)	(\$21.74)	(\$21.62)
Transportation expenses	(\$2.06)	(\$2.44)	(\$2.13)	(\$2.12)
Field Netbacks (before hedging)	\$18.56	\$3.02	\$11.30	\$2.38
Realized gain/(loss) on risk management contracts	(\$2.16)	(\$2.53)	\$0.25	(\$1.08)
Field Netbacks (after hedging)	\$16.40	\$0.49	\$11.55	\$1.30

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

FOURTH QUARTER HIGHLIGHTS

➤ Fourth quarter production averaged 1,288 boe per day – flat over the prior quarter

- Production held relatively flat quarter over the prior quarter with no new production additions since the third quarter of 2017 when the Company drilled 3.0 net wells at Lone Rock.

➤ All-in operating costs of \$20.21 – Consistent with the prior quarter

- Operating costs for the Quarter averaged \$20.21 per boe (\$0.48 per boe higher than the prior quarter) due to ongoing cost curtailments and prudent field management initiatives.

➤ Field netbacks (before hedging) of \$18.56 per boe, 27% higher than prior quarter

- Field netbacks continue to improve from lows recorded at the beginning of the year, increasing another 27% over the prior quarter on top of 29% growth (3rd quarter) and 919% growth (2nd quarter). Improving prices and lower operating costs are the single largest contributors.

➤ Funds flow of \$1.5 million, 11% increase over prior quarter

- \$1.5 million in Funds flow compared to the prior quarter funds flow of \$1.3 million driven by higher prices and lower costs during the period.

➤ Ending net debt of \$2.4 million, 32% lower than the prior quarter

- Cashflow during the Quarter was utilized to reduce debt by 32% since September 30, 2017.

FUNDS FLOW FROM OPERATIONS

For the Quarter and Year to Date, the Company recorded funds flow from operations of \$1.46 million and \$2.91 million respectively, compared to losses of \$0.56 million and \$2.43 million respectively, in the same periods of 2016. Increased funds flow in the current periods over the comparative periods is primarily a result of improved pricing over the same periods.

NET EARNINGS AND COMPREHENSIVE EARNINGS

The Company recorded a net loss for the Quarter and Year to Date of \$1.82 million and \$2.36 million respectively, compared to net losses of \$4.57 million and \$11.30 million respectively in the same periods of 2016. Routine non-cash charges can have a significant impact on net earnings/losses. The most significant non-cash charges for the Quarter are depletion and depreciation of the Company's assets, share based compensation expense, and unrealized gains/losses from hedging contracts. 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

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 1,288 boe per day compared to 1,298 boe per day for the same quarter in 2016. With no new production additions since drilling 3.0 net wells in the third quarter at Lone Rock, production has followed a predictable decline over the current Quarter. Production for the Year averaged 1,357 boe per day, 43% higher than the prior year due to production additions from drilling activity in the first Quarter (4.2 net wells) and third quarter (3.0 net wells).

	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Petroleum and natural gas sales				
Heavy oil	\$5,553,988	\$4,545,043	\$21,338,783	\$11,078,774
Natural gas	11,196	28,797	62,172	52,079
NGL's	12,989	14,139	31,556	24,683
Total sales	\$5,578,173	\$4,587,979	\$21,432,511	\$11,155,536
Kaisen realized prices				
Heavy oil (\$/bbl)	\$47.10	\$38.76	\$43.67	\$32.35
Natural gas (\$/mcf)	\$1.24	\$2.79	\$1.73	\$2.26
NGL's (\$/bbl)	\$53.46	\$36.82	\$65.89	\$34.61
Corporate average realized price	\$47.09	38.42	\$43.28	\$32.17
Average benchmark prices				
WTI oil (US\$bbl) ⁽¹⁾	\$55.40	\$49.29	\$50.95	\$43.31
WCS differential (US\$/bbl) ⁽²⁾	(\$12.26)	(\$14.32)	(\$11.97)	(\$13.84)
WCS heavy oil (US\$bbl)	\$43.14	\$34.97	\$38.98	\$29.47
WCS differential %	22.1%	29.1%	23.5%	32.0%
AECO natural gas (CDN\$/mcf) ⁽³⁾	\$1.95	\$2.79	\$2.41	\$2.03
US/CDN exchange rate	\$1.27	\$1.33	\$1.30	\$1.33
WCS heavy oil (CDN\$/bbl)	54.84	\$46.64	50.54	\$39.03

(1) WTI represents posting price of West Texas Intermediate oil.

(2) WCS refers to the average posting price for benchmark WCS heavy oil

(3) Represents the AECO 7a monthly index.

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.

Realized Pricing

For the Quarter the Company's weighted average realized commodity price before hedging was \$47.09 per boe, a 23% increase over the same period in 2016. Higher revenues in the Quarter were supported by a 12% increase in WTI coupled with a 14% narrowing of the WCS differential. This, however, was partially offset by a 5% strengthening of the Canadian dollar. For the Year, US denominated WTI and the WCS differential strengthened by 18% and 13%, respectively, along with a modest 2% strengthening of the Canadian dollar. These culminating factors resulted in an overall increase in the Company's realized commodity price before hedging of 18%. WTI prices have remained relatively strong, in a range of \$60.00-\$64.00 through the first quarter of 2018 however the WCS differential has widened significantly. Kaisen therefore anticipates a decline in the Company's realized pricing for the first quarter of 2018.

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 board approved 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 Year, the Company layered in numerous small volume hedge contracts to protect downside risk. As at December 31, 2017 the Company had the following fixed price contracts:

Type	Period	Volume	Price/unit ⁽¹⁾	Index
Swap	January 1, 2018 – December 31, 2018	200 bbl/d	CAD \$67.20	WTI-NYMEX
Swap	January 1, 2018 – June 30, 2018	100 bbl/d	CAD \$68.50	WTI-NYMEX
Swap	January 1, 2018 – June 30, 2018	200 bbl/d	CAD \$60.00	WTI-NYMEX
Swap	July 1, 2018 – December 31, 2018	200 bbl/d	CAD \$63.65	WTI-NYMEX
Call option ⁽³⁾	January 1, 2019 – December 31, 2019	400 bbl/d	USD \$60.00	WTI-NYMEX
Fixed WCS Basis Swap	January 1, 2018 – March 31, 2018	500 bbl/d	CAD -\$16.50	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, per above note on Asset Acquisition

(3) The Call Option contract provides ATB with an option (at only their election) to exercise the contract terms (on a month to month basis) throughout the term of the contract.

Subsequent to December 31, 2017, the Company entered into the following fixed price contracts

Type	Period	Volume (bbl/d)	Currency	Price/unit ⁽¹⁾	Index
Fixed WTI Swap	Feb 1, 2018 – June 30, 2018	150 bbl/d	CAD	\$78.15	WTI-NYMEX
Fixed WTI Swap	July 1, 2018 – Dec 31, 2018	200 bbl/d	CAD	\$75.50	WTI-NYMEX

The following is a summary of realized and unrealized losses for the three and twelve month periods ended December 31, 2017 and 2016:

	Three months ended	Year ended
	December 31,	December 31,

	2017	2016	2017	2016
Realized gain/(loss)	(256,044)	(\$302,071)	124,018	(\$373,987)
\$ per boe ⁽¹⁾	(2.16)	(\$2.53)	0.25	(\$1.08)
Unrealized gain/(loss)	(1,312,370)	(\$2,145,162)	2,460,437	(\$3,983,283)
Total gain/(loss) on risk management contracts	(1,568,414)	(\$2,447,233)	2,584,455	(\$4,357,270)

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

All risk management contracts are valued with respect to the future forecasted market prices and are therefore individually valued as either a future asset or liability depending on the underlying contract price of each contract. This estimated value changes monthly based upon the forecasted future market prices at that time net of the monthly reduction in outstanding contract terms (unwinding). New contracts entered into during the Year added significant WTI downside protection for the Company through 2018 on an annual average of 612 boe per day at an average WTI price floor of CAD\$67.97, representing less than 60% of our forecasted run-rate production average. For the first quarter of 2018, the Company contracted a 500 bbl per day WCS basis hedge that has provided for significant downside protection to currently widening WCS prices beyond CAD\$16.58 per bbl. At December 31, 2017, the majority of the Company's hedge contracts were valued as a liability based on current forecast market prices relative to their underlying contract prices.

CROWN AND FREEHOLD ROYALTIES	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Crown	301,312	\$339,265	1,177,786	\$830,899
Freehold	674,666	\$569,341	2,533,590	\$1,120,161
Total Royalties	975,978	\$908,606	3,711,376	\$1,951,060
\$ per boe ⁽¹⁾	8.24	\$7.61	7.50	\$5.63
% of revenue	18%	20%	17%	18%

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

Approximately 80% 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.

OPERATING EXPENSES	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
	2,150,478	\$2,965,240	10,767,470	\$7,495,529
\$ per boe ⁽¹⁾	18.15	\$24.83	21.74	\$21.62
% of revenue	39%	65%	50%	67%

(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 workovers. Supplier and contractor relationships are of the utmost importance to Kaisen and in the currently depressed commodity price environment the continued strength of these relationships is tantamount to the Company's success. Kaisen continually works closely with suppliers and service providers to seek out cost reductions, increased operating efficiencies and decreased labor costs. These efforts over the past 2 years have delivered significant savings for the Company during a difficult period of low prices and declining production volumes.

For the Quarter, operating costs averaged \$18.15 per boe (27% lower than the prior year) while operating costs for the Year averaged \$21.74 per boe (flat year over year). Significant efforts have been made during recent quarters to seek out further cost reductions. These efforts focused largely on fuel, water handling and workovers, all of which have helped in realizing meaningful cost reductions of approximately 38% since the first quarter.

TRANSPORTATION EXPENSES	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
	244,039	\$291,756	1,054,299	\$733,458
\$ per boe ⁽¹⁾	2.06	\$2.44	2.13	\$2.12
% of revenue	4%	6%	5%	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. The majority of the Company's crude oil production is trucked to sales facilities near Lloydminster, Edam and Coleville 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 \$1.85 to \$2.50 per boe since inception.

OPERATING NETBACKS	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
<i>(\$ per boe) ⁽¹⁾</i>				
Sales price	\$47.09	\$38.42	\$43.28	\$32.17
Royalties	(\$8.24)	(\$7.61)	(\$7.50)	(\$5.63)
Saskatchewan surcharge tax	(\$0.08)	(\$0.52)	(\$0.61)	(\$0.42)
Operating expenses	(\$18.15)	(\$24.83)	(\$21.74)	(\$21.62)
Transportation expenses	(\$2.06)	(\$2.44)	(\$2.13)	(\$2.12)
Netbacks (before hedging)	\$18.56	\$3.02	\$11.30	\$2.38
Realized gain/(loss) on risk management contracts	(\$2.16)	(\$2.53)	\$0.25	(\$1.08)
Netbacks (after hedging)	\$16.40	\$0.49	\$11.55	\$1.30

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

The Company realized an average field netback profit (before hedging) for the Quarter of \$18.56 per boe, compared to a field netback of \$3.02 per boe in the prior year. For the Year, the Company realized a field netback (before hedging) of \$11.30 per boe, compared to \$2.38 per boe in the prior year.

Substantially higher netbacks (before hedging) for the Quarter and the Year is a direct reflection of improved prices and lower operating costs per boe (particularly in the second half of 2017) due to ongoing cost reducing initiatives at the field level.

With the inclusion of a fourth quarter realized hedging loss of \$2.16 and a realized gain of \$0.25 per boe for Year (compared to realized losses of \$2.53 and \$1.08 per boe respectively in the prior year), the Company realized an average netback for the Quarter of \$16.40 per boe and \$11.55 per boe for the Year, which when compared to netbacks (after hedging) of \$0.49 and \$1.30 per boe respectively in the prior year, demonstrates the significant improvement in the commodity price environment year over year.

GENERAL AND ADMINISTRATIVE ("G&A")

	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Salaries, bonus and benefits	\$97,260	\$437,500	\$1,442,790	\$1,550,000
Other G&A expenses	\$452,574	\$391,730	\$1,633,398	\$1,817,836
Gross G&A expenses	\$549,834	\$829,230	\$3,076,188	\$3,367,836
Capitalized G&A expenses and overhead recoveries	(\$100,918)	(\$120,180)	(\$426,957)	(\$419,632)
Net G&A costs	\$448,916	\$709,050	\$2,649,231	\$2,658,155
\$ per boe	\$3.79	\$5.94	\$5.35	\$7.67

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. Overhead recoveries relates to recovered overhead charges to joint venture partners for both operating and capital activities. For the Quarter and Year, G&A per boe was 36% and 30% lower, respectively, than the prior year reflecting ongoing cost minimizing initiatives at the corporate level. Lower salaries, bonus and benefits during the Quarter reflect reversals of previously accrued year end bonus estimates to employees.

FINANCE CHARGES

	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Interest expense	\$24,801	(\$3,156)	\$97,942	\$27,419
Accretion expense	\$57,428	\$54,406	\$224,786	\$181,897
Finance charges	\$82,229	\$51,250	\$322,728	\$209,316

Interest and bank fees expense relates to interest charges and related service fees on the Company's banking facility. During the Quarter and Year, the Company carried higher debt levels compared to the prior year which has resulted in an increase in interest expense for the current periods.

Accretion expense relates to the Company's asset retirement obligation for the future abandonment and reclamation of our lands and well sites. The estimated future asset retirement obligation is discounted at a risk free rate in accordance with the Company's accounting policies and recorded as a liability on the Statement of Financial Position. The liability is increased monthly to account for the passage of time with the monthly increase recorded as accretion expense. Material changes in the accretion expense is typically driven by new well additions in each period, being a combination the Company's drilling program and acquisitions and/or divestitures.

SHARE-BASED COMPENSATION

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2016	2015
Share-based compensation	\$481,263	\$491,515	\$1,937,229	\$1,801,751

On July 12, 2016 and in connection with the private equity issuance of common shares to Azimuth Capital Management on the same day, the Company granted 5,000,000 performance warrants to employees, directors and contractors serving in the capacity of employees of the Company. On November 12, 2015 and in connection with the Company's initial private equity 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	Grant Date
Series 1	1,000,000	\$1.50	November 12, 2015
Series 2	1,000,000	\$1.75	November 12, 2015
Series 3	2,780,999	\$2.00	November 12, 2015
Series 4	1,000,000	\$2.25	November 12, 2015
Series 5	1,250,000	\$1.25	July 12, 2016
Series 6	1,250,000	\$1.50	July 12, 2016
Series 7	1,250,000	\$1.75	July 12, 2016
Series 8	1,250,000	\$2.00	July 12, 2016
Total	10,780,999	\$1.74	

Concurrent with the November 12, 2015 grant of performance warrants, the Company approved the cancellation of the then 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, was 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.

DEPLETION AND DEPRECIATION

	Three months ended December 31,		Year ended December 31,	
	2017	2016	2017	2016
Depletion	\$1,432,794	\$1,312,993	\$5,595,061	\$3,748,967
Depreciation	\$8,405	\$10,049	\$37,008	\$34,718
Depletion and depreciation	\$1,441,199	\$1,323,042	\$5,632,069	\$3,783,685
\$ per boe	\$12.17	\$11.08	\$11.37	\$10.91

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 of \$98,869,400 (\$80,219,700 in the prior year) less the total salvage value of the assets of \$2,580,000 (\$2,474,000 in the prior year).

LIQUIDITY AND CAPITAL RESOURCES

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders.

The Company is not subject to any external restrictions on its capital structure with exception to covenants in place with the Company's lender (refer to note 9). There have been no material changes in the Company's approach to capital management during the year ended December 31, 2017.

Kaisen has a secured operating credit facility with a Canadian bank. Management closely monitors debt leverage against internally imposed borrowing limits to ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and/or opportunities as they arise.

As at December 31, 2017, the Company had bank debt of \$3,051,501 (nil in the prior year) and a net working capital surplus (current assets net of current liabilities excluding risk management contracts) of \$626,536 (\$334,454 net surplus in the prior year) for total net debt of \$2,424,965, with an available \$2,448,499 (\$5,500,000 in the prior year) of remaining borrowing capacity under the Company's credit facility with its lender. Subsequent to the year end on January 15, 2018, the Company's borrowing base was reduced from \$5.5 million to \$4.0 million thereby reducing the remaining borrowing capacity from \$2,448,499 to \$948,499. The annual borrowing base review has been scheduled for April 30, 2018.

Based on currently forecasted commodity prices through 2018, Kaisen's current capital resources (cash on hand and currently available borrowing capacity) are sufficient to fund ongoing corporate obligations through 2018. However, if the current economic circumstances affecting our business are to materially change, Kaisen maintains optionality to adjust its capital structure through such means as the issuance of new equity, and/or the issuance of new debt instruments in various forms tailored to the Company's specific needs, and/or by making adjustments to its operations and/or capital expenditure programs to the extent that capital expenditures are not committed.

CAPITAL INVESTMENT	Three months ended		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Land	-	\$32,630	\$132,234	\$36,690
Geological and geophysical	\$11,310	\$210,862	\$750,747	\$254,966
Drilling and completions	-	\$529,647	\$5,098,542	\$1,473,447
Equipment and facilities	\$201,959	\$550,667	\$1,771,147	\$1,211,097
Capitalized G&A	\$97,500	\$96,180	\$390,000	\$374,832
Capitalized stock based compensation	\$89,733	\$92,620	\$364,933	\$316,899
Corporate acquisitions	-	-	-	\$17,728,895
Office equipment	-	\$4,257	\$14,851	\$116,548
Total capital additions	\$400,502	\$1,516,863	\$8,522,454	\$21,513,374

For the Year, a total of 8 gross (7.3 net) wells were drilled. At Lone Rock, 3 gross/net Sparky horizontal wells were drilled in the first quarter with another 3 gross/net wells drilled late in the third quarter. 2 gross (1.3 net) Sparky wells were drilled at Forest Bank in the first quarter. Total cash capital expenditures for the Quarter and Year were \$0.31 million and \$8.2 million respectively (including capitalized general and administrative expenses of \$0.10 million and \$0.39 million respectively).

SELECTED QUARTERLY RESULTS AND ANALYSIS

(Cdn\$ thousands, except per share,	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas sales	\$5,578	\$5,060	\$5,798	\$4,997	\$4,588	\$3,836	\$1,747	\$985
Realized hedging gains/(losses)	(\$256)	\$468	\$124	(\$212)	(\$302)	(\$24)	(\$48)	-
Funds flow (loss) from operations ⁽¹⁾	\$1,460	\$1,318	\$907	(\$779)	(\$558)	(\$361)	(\$444)	(\$1,068)
Net earnings (loss)	(\$1,824)	(\$1,634)	\$842	\$253	(\$4,572)	(\$3,518)	(\$1,507)	(\$1,703)
Expenditures on oil & gas properties	\$311	\$2,967	\$408	\$4,472	\$1,424	\$865	\$546	\$632
Corporate and Asset acquisitions	-	-	-	-	-	\$15,580	-	-
Net surplus / (debt)	(\$2,425)	(\$3,572)	(\$4,42)	(\$4,91)	\$335	\$2,328	\$330	\$1,320
Common Shares outstanding – diluted (thousands)	57,649	57,649	55,649	55,649	55,649	55,649	30,649	30,649
Sales Volumes (boe per day) ⁽²⁾	1,288	1,295	1,480	1,366	1,298	1,206	582	697
Operating Netbacks (\$/boe)								
Sales price	\$47.09	\$42.48	\$43.06	\$40.64	\$38.42	\$34.57	\$32.96	\$15.53
Royalties	(\$8.24)	(\$7.26)	(\$7.08)	(\$7.47)	(\$7.61)	(\$5.83)	(\$5.80)	(\$1.40)
Saskatchewan surcharge tax	(\$0.08)	(\$0.88)	(\$0.78)	(\$0.66)	(\$0.52)	(\$0.09)	(\$0.57)	(\$0.71)
Operating expenses	(\$18.15)	(\$17.68)	(\$21.5)	(\$29.3)	(\$24.83)	(\$20.36)	(\$19.51)	(\$19.52)
Transportation expenses	(\$2.06)	(\$2.05)	(\$2.37)	(\$2.01)	(\$2.44)	(\$1.90)	(\$1.82)	(\$2.12)
Field netbacks (before hedging)	\$18.56	\$14.61	\$11.31	\$1.11	\$3.02	\$6.39	\$5.26	(\$8.22)
Realized gain/(loss) on risk mgmt contracts	(\$2.16)	\$3.93	\$0.92	(\$1.72)	(\$2.53)	(\$0.21)	(\$0.91)	-
Field netbacks (after hedging)	\$16.40	\$18.54	\$12.23	(\$0.61)	\$0.49	\$6.18	\$4.35	(\$8.22)
General & administration expenses	(\$3.79)	(\$6.73)	(\$5.21)	(\$5.67)	(\$5.94)	(\$6.70)	(\$12.54)	(\$8.54)
Transaction expenses	-	-	-	-	-	(\$2.61)	-	-
Corporate netback/(loss)	\$12.61	\$11.81	\$7.02	(\$6.28)	(\$5.45)	(\$3.13)	(\$8.19)	(\$16.76)

⁽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".

Quarter over quarter fluctuations in revenue is the result of both production variability and realized sales prices. Volume fluctuations are the result of well productivity and quarterly capital activity levels. Quarterly volumes delivered to sales points can be influenced by a variety of factors including weather and transportation availability and/or constraints. Kaisen's realized sales price for approximately 98% of its production is based off of the West Texas Intermediate (WTI) less the Western Canadian Select (WCS) differential and is further adjusted for the quality differential specific to Kaisen's production. Royalty expenses are directly correlated to sales prices and productivity of each producing well. Kaisen's royalty profile changes based on Kaisen's drilling activity (crown versus freehold lands, provincial well incentive programs etc.) as well as production results on existing wells. Operating costs are impacted by weather where costs are typically higher in the winter months due to increased maintenance and energy costs. Operating costs are also impacted by routine and occasionally non-routine well and facility maintenance requirements. 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. Net income is impacted by all factors above in addition to the impact of routine and non-routine non-cash charges including depletion of the Company's assets, changes in future taxes and unrealized gains/losses from financial risk management contracts (hedges) which fluctuates from quarter to quarter based on the pricing environment at each quarter end.

On July 14, 2016 Kaisen closed the Hawk acquisition which provided Kaisen with an additional 500 boe per day of 98% heavy oil production and in the third and fourth quarters of 2016, Kaisen completed a 25 well optimization program which added approximately 450 boe per day by the end of the year. The Hawk acquisition and subsequent optimization program resulted in increased sales, cash flow from operations and production beginning in the third of 2016, further increased from the drilling of 5 gross (4.3 net) wells in the first quarter and 3 gross/net wells in the third quarter of 2017.

Future Accounting Policy Changes

In April 2016, the IASB issued its final amendments to IFRS 15 Revenue from Contracts with Customers which replaces IAS 18 Revenue and IAS 11 Construction Contracts. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The standard is required to be adopted either retrospectively or using the modified transition approach for fiscal years beginning on or after January 1, 2018, with early adoption permitted. The Company primarily enters into non-complex and routine revenue contracts with customers that require daily physical delivery of produced volumes priced at the current daily or monthly average spot price. Performance obligations are met upon delivery of the volumes at the processing facility and the transaction price is established based on the date of delivery. Kaisen will retrospectively adopt IFRS 15 on January 1, 2018. The Company has completed reviewing its various revenue streams and underlying contracts with customers. It has been concluded that the adoption of IFRS 15 will not have a material impact on the Company's net income and financial position. Kaisen will expand the disclosures in the notes to its financial statements as prescribed by IFRS 15, including disclosing the Company's disaggregated revenue streams by product type.

In July 2014, the IASB completed the final elements of IFRS 9 Financial Instruments. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39; however, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded in OCI rather than the statement of income. Kaisen has determined that the adoption of IFRS 9 will not have a material impact on the measurement and carrying values of the Company's financial assets or liabilities.

In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. Kaisen has determined that the new impairment model will not result in material changes to the valuation of its financial assets on adoption of IFRS 9. IFRS 9 also contains a new model to be applied for hedge accounting. The Company does not currently apply hedge accounting to its risk management contracts and does not currently intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9, as well as consequential amendments to IFRS.

In January 2016 the IASB issued IFRS 16 Leases which requires lessees to recognize assets and liabilities for most leases. This standard replaces IAS 17 Leases and will be effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers is also adopted. Under IFRS 16, lessees are required to recognize a lease liability reflecting future lease payments and a "right-to-use asset" for essentially all lease contracts. The Company is currently evaluating the effect of this standard.

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		Year ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Cash flow from (used in) operating activities	(110,493)	\$347,173	994,926	(798,771)
Exclude the change in non-cash working capital	(\$1,570,828)	\$905,294	(\$1,912,426)	1,632,883
Funds flow / (loss) from operations	\$1,460,335	(\$558,121)	\$2,907,352	(2,431,654)

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.