



Annual Management Discussion & Analysis

December 31, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated March 21, 2017, and should be read in conjunction with the accompanying consolidated financial statements (the "financial statements") and related notes for the three and twelve month periods ended December 31, 2016 and 2015 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.

ACQUISITION OF HAWK EXPLORATION LTD.

On July 14, 2016, the Company completed the acquisition of Hawk Exploration Ltd. ("Hawk"), a public oil and gas company with properties in west central Saskatchewan and east central Alberta, by acquiring all of the issued and outstanding shares. The acquisition of Hawk provides an additional 500 boe/d of 98% Saskatchewan heavy oil production largely within existing core areas, approximately 24 net sections (16 undeveloped net sections) of land, and a solid foothold into a new core area in the emerging Coleville heavy oil resource play. Total consideration for Hawk's 45.6 million common shares outstanding was approximately \$3.6 million along with debt assumption totaling \$11.9 million for a total acquisition cost of \$15.6 million. Pursuant to the closing, Hawk's debt was repaid and terminated. The acquisition was funded through a private equity offering on July 12, 2016 of 20.0 million common shares of the Company to Azimuth Capital Management ("Azimuth") for total gross proceeds of \$20.0 million. Prior to the equity offering, Azimuth held approximately 51% of the voting shares of Kaisen, subsequent to the offering Azimuth holds approximately 70% of the voting shares of the Company.

ECONOMIC ENVIRONMENT

The first half of 2016 was plagued by the worst commodity price environment in Kaisen's history. However, as the year progressed, supportive summer weather and the fourth quarter announcement of a 2017 Organization of Petroleum Exporting Countries ("OPEC") production curtailment agreement all provided pricing support for oil through the second half of 2016. During the fourth quarter, crude oil prices appeared to 'turn the corner' with continued positive reaction to OPEC and non-OPEC production curtailment commitments as well as from the federal government approval of the Trans Mountain pipeline expansion project and the Enbridge Line 3 replacement project where together, these two infrastructure projects, if built, will add almost a million barrels per day of much needed takeaway capacity for Western Canadian crude oil. These news events helped to boost the Canadian dollar WTI benchmark price by 17% over the same period in 2015. For most of 2017 to date, WTI has traded in a tight range between US\$52 and US\$54 per barrel, however a recent decline below US\$50 has occurred as the markets digest the impact of greater than expected US shale production growth since the beginning of the year and OPEC's impending decision to extend production cuts beyond June when the organization next meets in May.

In response to continued price volatility and the uncertain and ever-evolving forward market forecast, Kaisen will continue to take a measured and cautious approach to capital investment to ensure preservation of the Company's strong balance sheet, while at the same time balancing our prudent fiscal responsibility with low-risk projects to further the Company's core area development strategies along with production and cash flow growth to fund continued value creation beyond 2017. We view prudent risk management in the form of hedging to be critically important as we navigate forward. To this end, our existing hedging portfolio has provided the Company with meaningful downside risk price protection for 2017 with an average of 850 boe per day currently hedged for the year at an average price of CAD\$67.15 per boe, representing less than 50% of our currently forecast production. With these hedges in place, the Company has engineered a funds flow break-even price of approximately US\$40 for the entirety of 2017. From a cost perspective, in spite of inflationary pressures sure to arise in concert with a WTI price recovery, Kaisen anticipates minimal cost increases in 2017 where our focus will continue to be on seeking further operating and capital cost reductions through ongoing efficiency improvements at both the field and corporate levels where we view our efficiency and agility as a lean operator to be a key competitive advantage.

FUNDS FLOW FROM OPERATIONS

For the three months ended December 31, 2016 (the "Quarter"), the Company recorded a funds flow from operations (refer to the section - "Non-IFRS Measurements), loss of \$558,121 compared to positive funds flow of \$204,955 in the prior year. For the twelve months ended December 31, 2016, (the "Year"), the Company recorded a funds flow loss of \$2,431,654, compared to positive funds flow of \$1,622,642 in the prior year.

The Company's funds flow declines for the Year as compared to the prior year demonstrate the full weight of the impact from the continued commodity price collapse that began in 2014 and carried through to its lowest point of approximately US WTI \$27 in February 2016 with a subsequent fourth quarter partial recovery to near US WTI \$50. The prolonged price slump drove the Company's average full year realized prices lower by 11% from the prior year including a modest fourth quarter price recovery that meaningfully improved realized prices by 41% over the prior year.

Production for the Year remained relatively flat at 947 boe per day compared to 983 boe per day in the prior year. For the Quarter, production was up 58% over the same quarter in 2015 due to the volumes added from the Hawk acquisition in addition to the production optimization program that was launched in Q3 with modest production gains through the second half of the year.

Price and production movements throughout the year drove revenues for the Quarter higher by 123% to \$4,587,979 over the prior year due to the 41% increase in commodity prices coupled with a 58% increase in production, while full year revenues of \$11,155,536 were down 14% due to lower prices. Including the impact of the Company's hedges for the Quarter and the Year, net revenues were driven lower due to realized hedging losses of \$302,071 and \$373,987 respectively, a stark contrast to realized gains of \$650,659 and \$1,622,977 respectively in the same periods in the prior year.

Operating costs per boe for the Quarter and the Year increased by 10% and 7% respectively over last year due to the culminating factors of declining production volumes during the first half of the year coupled with numerous overdue field maintenance and upgrade projects carried out during the second half of the year on both existing and the newly acquired Hawk assets. G&A costs per boe for the Quarter and Year were higher by 17% and 26% respectively over last year commensurate with the increased level of corporate activity including indirect costs associated with the acquisition of Hawk (exclusive of direct transaction fees).

NET LOSS AND COMPREHENSIVE LOSS

The Company recorded a net loss for the Quarter of \$4,572,246 compared to net loss of \$1,428,936 in the same quarter of 2015. For the Year, the Company recorded a net loss of \$11,300,007 compared to a net loss of \$3,345,137 in the prior year. Routine non-cash charges often have a significant impact on net earnings/losses. The most significant non-cash charges for the Quarter and Year relate to depletion and depreciation of the Company's assets amounting to \$1,323,042 and \$3,783,685 respectively (\$813,782 and \$4,128,428 respectively in the prior year), share based compensation expense of \$491,515 and \$1,801,751, respectively (\$260,325 and \$760,632 respectively in the prior year) and unrealized losses from hedging contracts of \$2,145,162 and \$3,983,283 respectively (\$570,312 and nil 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 earnings/loss are due to several factors which are discussed in greater detail below.

Results of Operations

	Three months ended December 31, (unaudited)		Year ended December 31,	
Financial Highlights (\$,000, except per share amounts)	2016	2015	2016	2015
Petroleum and natural gas sales	\$4,588	\$2,059	\$11,156	\$12,954
Realized hedging gains/(losses)	(\$302)	\$651	(\$374)	\$1,623
Funds flow / (loss) from operations ⁽¹⁾	(\$558)	\$205	(\$2,432)	\$1,623
Per share – basic & diluted	(\$0.01)	\$0.01	(\$0.08)	\$0.10
Net Earnings / (loss)	(\$4,572)	(\$1,429)	(\$11,300)	(\$3,345)
Per share – basic	(\$0.11)	(\$0.07)	(\$0.35)	(\$0.20)
Expenditures on oil & gas properties	\$1,424	\$1,091	\$3,468	\$4,056
Net working capital surplus	\$335	\$3,022	\$335	\$3,022
Share Capital (,000)				
Outstanding – basic	43,420	23,420	43,420	23,420
Outstanding – diluted	55,649	30,649	55,649	30,649
Weighted average – basic	43,420	19,768	32,710	16,516
Weighted average – diluted	43,420	19,768	32,710	16,516
Sales Volumes				
Crude Oil (bbls per day)	1,275	822	935	983
Natural gas & NGL (bbls per day)	4	-	2	-
Natural gas (Mcf per day)	19	-	60	-
Barrels of oil equivalent (boe per day)	1,298	822	947	983
Operating Netbacks ⁽¹⁾ (\$/boe)				
Sales price	\$38.42	\$27.22	\$32.17	\$36.11
Royalties	(\$7.61)	(\$4.08)	(\$5.63)	(\$6.99)
Saskatchewan surcharge tax	(\$0.52)	(\$0.69)	(\$0.42)	(\$1.40)
Operating expenses	(\$24.83)	(\$22.50)	(\$21.62)	(\$20.24)
Transportation expenses	(\$2.44)	(\$2.79)	(\$2.12)	(\$2.64)
Field Netbacks (before hedging)	\$3.02	(\$2.84)	\$2.38	\$4.84
Realized gain/(loss) on risk management contracts	(\$2.53)	\$8.60	(\$1.08)	\$4.52
Field Netbacks (after hedging)	\$0.49	\$5.76	\$1.30	\$9.36

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

(2)

OIL AND GAS PRODUCTION AND PRICING

	Three months ended December 31,				Year ended December 31,			
	2016			2015	2016			2015
	Kaisen	Hawk	Total		Kaisen	Hawk	Total	
Sales volumes								
Crude oil (bbls per day)	514	761	1,275	828	626	309	935	1,037
Natural gas liquids ("NGL") (bbls/d)	-	4	4	-	-	2	2	-
Natural gas (Mcf per day)	-	114	114	-	-	60	60	-
Total average daily production (boe/d)	514	784	1,298	828	626	321	947	1,037
Liquids as a percentage of total	100%	98%	99%	100%			100%	100%
Production by area (boe per day)								
Lone Rock, Saskatchewan	131	-	131	291	213	-	213	391
Edam, Saskatchewan	383	-	383	537	413	-	413	646
Lloydminster, Saskatchewan		531	531	-	-	201	201	-
Coleville, Saskatchewan		83	83	-	-	36	36	-
Other		170	170	-	-	84	84	-
Total average daily production	514	784	1,298	828	626	321	947	1,037

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 1,298 boe per day compared to 828 boe per day for the same quarter in 2015. The Hawk acquisition, which closed on July 14, accounts for a significant portion of this increase adding approximately 500 boe per day predominantly from Lloydminster and Coleville in Saskatchewan and Dolcy Alberta. After seven consecutive quarters of minimal capital investment, Kaisen kicked off an optimization program in mid June on existing Kaisen assets and on the newly acquired Hawk assets beginning in July. As at the year end, a total of 25 projects (11 on existing Kaisen wells and 14 on acquired Hawk wells) were completed adding approximately 450 boe per day to December exit production. The optimization program comfortably exceeded our production expectations adding low cost barrels at an average \$4,600 boe per day, 75% under our \$2.8 million budget.

Production for the Year averaged 947 boe per day, 9% lower than the prior year due to continued production declines in the first half of the Year resulting from the Company's strategic decision to conserve balance sheet strength with an ongoing postponement of the Company's drilling and optimization projects. As discussed above, the Company's second half of the year optimization program was a return to activity levels that facilitated quarterly production growth (the first since the fourth quarter of 2014) for the most two recently completed quarters.

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Petroleum and natural gas sales				
Heavy oil	\$4,545,043	\$2,058,562	\$11,078,774	\$12,953,714
Natural gas	28,797	-	52,079	-
NGL's	14,139	-	24,683	-
Total sales	\$4,587,979	\$2,058,562	\$11,155,536	\$12,953,714
Kaisen realized prices				
Heavy oil (\$/bbl)	\$38.76	\$27.22	\$32.35	\$36.11
Natural gas (\$/mcf)	\$2.79	-	\$2.26	-
NGL's (\$/bbl)	\$36.82	-	\$34.61	-
Corporate average realized price	38.42	\$27.22	\$32.17	\$36.11
Average benchmark prices				
WTI oil (US\$/bbl) ⁽¹⁾	\$49.29	\$42.16	\$43.31	\$48.78
WCS differential (US\$/bbl) ⁽²⁾	(\$14.32)	(\$14.49)	(\$13.84)	(\$13.59)
WCS heavy oil (US\$/bbl)	\$34.97	\$27.67	\$29.47	\$35.19
WCS differential %	29.1%	34.4%	32.0%	\$27.9%
AECO natural gas (CDN\$/mcf) ⁽³⁾	\$2.79	\$2.65	\$2.03	\$2.77
US/CDN exchange rate	\$1.33	\$1.33	\$1.33	\$1.28
WCS heavy oil (CDN\$/bbl)	\$46.64	\$36.94	\$39.03	\$44.94

(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

During the Quarter, commodity prices continued to stabilize, however, concerns about worldwide over-supply of crude oil exacerbated by the market-moving impacts from geo-political dynamics and US crude storage reports still exist and have resulted in the forward outlook on commodity prices remaining weak through 2017. At the time of writing, WTI continues to display significant volatility with near term WTI prices currently trading below US\$50. WCS differential pricing continues to trade near US\$15 per barrel.

US denominated WTI prices for the Quarter increased 17% over the same period in 2015 and the WCS differential narrowed slightly from US\$14.49 per barrel to US\$14.32 per barrel. These two movements resulted in Kaisen's realized heavy oil price increasing 42% to \$38.76 per boe. For the Year, US denominated WCS pricing and the Canadian dollar weakened by 16% and 4%, respectively, resulting in an overall decrease in Kaisen's heavy oil realized commodity price of 10% to \$32.35 per boe.

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, 2016 the Company had the following fixed price 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
Fixed WTI Swap	January 1, 2016 – December 31, 2016	100 bbl/d	CAD\$54.55 ⁽²⁾	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	100 bbl/d	CAD\$52.40 ⁽²⁾	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 WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD\$75.00	WTI-NYMEX
Call option ⁽³⁾	January 1, 2018 – December 31, 2018	600 bbl/d	USD\$60.00	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, per above note on Asset Acquisition

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

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

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Realized gain/(loss)	(\$302,071)	\$650,659	(\$373,987)	\$1,622,977
\$ per boe ⁽¹⁾	(\$2.53)	\$8.60	(\$1.08)	\$4.52
Unrealized gain/(loss)	(\$2,145,162)	(\$570,312)	(\$3,983,283)	-
Total gain/(loss) on risk management contracts	(\$2,447,233)	\$80,347	(\$4,357,270)	\$1,622,977

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

During the Year, Kaisen entered into 12 forward price contracts one of which extends through to the end of 2018. 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 further downside protection for the Company through 2017 on an annual average of 850 boe per day at an average WTI price floor of CAD\$67.15, representing less than 50% of our forecasted production. At December 31, 2016, 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, explaining the significant non-cash unrealized loss recorded during the Quarter and Year.

CROWN AND FREEHOLD ROYALTIES

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Crown	\$339,265	\$156,905	\$830,899	\$1,437,328
Freehold	\$569,341	\$151,948	\$1,120,161	\$1,069,889
Total Royalties	\$908,606	\$308,853	\$1,951,060	\$2,507,217
\$ per boe ⁽¹⁾	\$7.61	\$4.08	\$5.63	\$6.99
% of revenue	20%	15%	18%	19%

⁽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 December 31,		Year ended December 31,	
	2016	2015	2016	2015
	\$2,965,240	\$1,701,489	\$7,495,529	\$7,261,008
\$ per boe ⁽¹⁾	\$24.83	\$22.50	\$21.62	\$20.24
% of revenue	65%	82%	67%	56%

⁽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 \$24.83 per boe (10% higher than the prior year) while operating costs for the Year averaged \$21.62 per boe (7% higher than the prior year). Higher operating costs per boe for the Quarter and Year were largely due to the combined factors of a full maintenance and upgrade program undertaken on the acquired Hawk assets during the Quarter to improve upon the operating and safety parameters of these assets as well as overdue repair and maintenance projects on existing Kaisen assets that had been postponed due to the price collapse. Most of this work is now completed and the Company expects to realize cost savings and improved operating efficiencies for 2017 with a forecast that is expected to average in the range of \$18.00-\$21.00.

TRANSPORTATION EXPENSES

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
	\$291,756	\$210,852	\$733,458	\$946,998
\$ per boe ⁽¹⁾	\$2.44	\$2.79	\$2.12	\$2.64
% of revenue	6%	10%	7%	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. For the Quarter and Year, transportation costs per boe have decreased over the same periods in the prior year by 13% and 20% respectively, reflecting reductions in hauling rates from Kaisen's service providers during the Year.

OPERATING NETBACKS

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
<i>(\$ per boe) ⁽¹⁾</i>				
Sales price	\$38.42	\$27.22	\$32.17	\$36.11
Royalties	(\$7.61)	(\$4.08)	(\$5.63)	(\$6.99)
Saskatchewan surcharge tax	(\$0.52)	(\$0.69)	(\$0.42)	(\$1.40)
Operating expenses	(\$24.83)	(\$22.50)	(\$21.62)	(\$20.24)
Transportation expenses	(\$2.44)	(\$2.79)	(\$2.12)	(\$2.64)
Netbacks (before hedging)	\$3.02	(\$2.84)	\$2.38	\$4.84
Realized gain/(loss) on risk management contracts	(\$2.53)	\$8.60	(\$1.08)	\$4.52
Netbacks (after hedging)	\$0.49	\$5.76	\$1.30	\$9.36

⁽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 \$3.02 per boe, compared to a field netback loss of \$2.84 per boe in the prior year. For the Year, the Company realized a field netback profit of \$2.38 per boe, compared to a profit of \$4.84 per boe in the prior year.

Substantially higher netbacks (before hedging) for the Quarter is a direct reflection of the improved price environment late in the year, partially offset by higher operating costs per boe due to extraordinary repair and maintenance projects during the period.

With the inclusion of realized hedging losses of \$2.53 and \$1.08 per boe for the Quarter and Year respectively (compared to a realized gain of \$8.60 and \$4.52 per boe respectively for the same periods in the prior year), the Company realized an average netback for the Quarter of \$0.49 per boe and \$1.30 per boe for the Year, which when compared to netbacks (after hedging) of \$5.76 and \$9.36 per boe respectively in the prior year, demonstrates the impact of a hedging strategy to smooth financial results during periods of volatile commodity prices.

GENERAL AND ADMINISTRATIVE ("G&A")

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Salaries, bonus and benefits	\$437,500	\$282,564	\$1,550,000	\$1,332,905
Other G&A expenses	\$391,730	\$170,961	\$1,817,836	\$1,115,478
Gross G&A expenses	\$829,230	\$453,525	\$3,367,836	\$2,448,383
Capitalized G&A expenses	(\$120,180)	(\$67,497)	(\$419,632)	(\$269,989)
Net G&A costs	\$709,050	\$386,028	\$2,658,155	\$2,178,394
\$ per boe	\$5.94	\$5.10	\$7.67	\$6.07

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 and Year compared to the prior year have increased 84% (17% per boe) and 22% (26% per boe) respectively, reflecting the addition of a full time Land and Business Development Manager late in 2015, coupled with increased administrative labour and office costs associated with the Hawk acquisition in July.

With a production growth capital program already completed in the first quarter of 2017, the Company anticipates G&A expenses per boe to trend closer to \$5.00 for the first half of 2017.

FINANCE CHARGES

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Interest expense	(\$3,156)	\$27,654	\$27,419	\$141,583
Accretion expense	\$54,406	\$37,435	\$181,897	\$147,777
Finance charges	\$51,250	\$65,089	\$209,316	\$289,360

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, annual facility renewal fees, and other incidental banking fees net of earned interest.

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,	
	2016	2015	2016	2015
Share-based compensation	\$491,515	\$260,325	\$1,801,751	\$760,632

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	1,000,000	\$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	9,000,000	\$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.

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

DEPLETION AND DEPRECIATION

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Depletion	\$1,312,993	\$810,315	\$3,748,967	\$4,115,602
Depreciation	\$10,049	\$3,467	\$34,718	\$12,826
Depletion and depreciation	\$1,323,042	\$813,782	\$3,783,685	\$4,128,428
\$ per boe	\$11.08	\$10.76	\$10.91	\$11.51

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 \$80,219,700 (\$58,051,600 in the prior year) less the total salvage value of the assets of \$2,474,000 (\$1,644,000 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, 2016.

Kaisen has a secured operating credit facility in the amount of \$5,500,000. The Company regularly reviews certain quantitative measures of its capital structure in order to understand its position relative to industry peers. In particular, the Company monitors debt levels based on the ratio of net debt to annualized funds from operations. The ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds from operations remained constant. This ratio is calculated as net debt, defined as outstanding bank debt and net working capital, divided by annualized funds from operations for the most recent quarter. The Company monitors this ratio and endeavors to maintain it at or below 1.5 to 1.0 to a maximum ratio of 2.0 to 1.0 as mandated by the covenants in place with the Company's bank debt lender. During periods of increased capital expenditures, acquisitions or during periods of low commodity prices, this ratio will increase over short-term periods.

As at December 31, 2016, the Company had nil debt and a net working capital surplus (current assets net of current liabilities excluding risk management contracts) of \$334,454 (\$3,022,039 net surplus in the prior year), with up to an additional \$5,500,000 (\$5,500,000 in the prior year) of borrowings available under the credit facility (subject to covenant restrictions) and a remaining \$10,000,000 of unutilized equity capital from Azimuth.

Based on currently forecasted commodity prices through 2017, Kaisen's current capital resources (cash on hand and currently available borrowing capacity) are sufficient to fund (at a minimum) ongoing corporate obligations through 2017 and a conservative capital investment

program sufficient to maintain current production levels year over year. 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,	
	2016	2015	2016	2015
Land	\$32,630	\$11,604	\$36,690	\$55,327
Geological and geophysical	\$210,862	\$210	\$254,966	\$35,330
Drilling and completions	\$529,647	\$589,519	\$1,473,447	\$1,787,840
Equipment and facilities	\$550,667	\$417,741	\$1,211,097	\$1,883,539
Capitalized G&A	\$96,180	\$67,497	\$374,832	\$269,989
Capitalized stock based compensation	\$92,620	\$38,294	\$316,899	\$87,988
Corporate acquisitions	-	-	\$17,728,895	\$12,443
Office equipment	\$4,257	\$4,276	\$116,548	\$11,949
Total capital additions	\$1,516,863	\$1,129,141	\$21,513,374	\$4,144,405

In late 2014, Kaisen responded to the sudden oil price decline by indefinitely deferring all capital programs. This decision was made to ensure the continuance of a strong balance sheet moving forward into the unknown global economic shift. Throughout 2014 and 2015, the Company carried out very minimal activities sufficient only to maintain base level operations and to fulfill lease continuance obligations. For 2016, the Company remained relatively inactive in the field through the first half the year, investing time towards core area strategic planning initiatives and reviewing numerous acquisition opportunities. The efforts invested through the first half were rewarded through the second half of 2016 with the closing of the Hawk acquisition in July (adding approximately 500 boe per day or production), and the initiation of a comprehensive well optimization program which added an additional 450 boe per day of production to the December exit rate.

Late in the fourth quarter, the Company kicked off lease preparations for a five well drilling program that was completed in the first quarter of 2017.

OUTLOOK FOR 2017

Kaisen has developed a tentative 2017 capital program designed to strategically enhance the value of the Company's core areas through both production growth, proof-of-concept drilling and enhanced recovery schemes. In the first quarter of 2017 Kaisen completed a drilling and seismic program budgeted at approximately \$5 million. This program included 5 wells (3 horizontal wells at Lone Rock and 2 (1.3 net) vertical wells at Forest Bank) and a 9 section 3-D seismic acquisition program over the Company's acreage at Coleville. Initial results from the 5 wells are positive. The balance of the Company's plans for the year will remain tentative as management continues to take a conservative view of forecasted commodity prices in 2017 and the anticipated price recovery for the second half of the year. It is our hope that we will be able to execute on further capital plans beyond the first quarter, however the Company's highest priority remains to be the preservation of a strong balance sheet sufficient to weather future storms that may arise through the volatile longer-term global oil recovery. Therefore all further capital investment decisions will be made on a quarter by quarter basis, based upon the prevailing market environment at the time.

SELECTED QUARTERLY RESULTS AND ANALYSIS

<i>(Cdn\$ thousands, except per share,</i>	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Petroleum and natural gas sales	\$4,588	\$3,836	\$1,747	\$985	\$2,059	\$2,730	\$4,000	\$4,166
Realized hedging gains/(losses)	(\$302)	(\$24)	(\$48)	-	\$651	\$505	\$166	\$301
Funds flow (loss) from operations ⁽¹⁾	(\$558)	(\$361)	(\$444)	(\$1,068)	\$205	(\$144)	\$997	\$566
Net earnings (loss)	(\$4,662)	(\$3,518)	(\$1,507)	(\$1,703)	(\$1,429)	\$358	(\$1,667)	(\$607)
Expenditures on oil & gas properties	\$1,424	\$865	\$546	\$632	\$1,091	\$1,519	\$747	\$701
Corporate and Asset acquisitions	-	\$15,580	-	-	-	-	-	-
Net surplus / (debt)	\$335	\$2,328	\$330	\$1,320	\$3,022	(\$4,930)	(\$3,267)	(\$3,516)
Common Shares outstanding – diluted (thousands)	55,649	55,649	30,649	30,649	30,649	18,649	18,649	18,649
Sales Volumes (boe per day) ⁽²⁾	1,298	1,206	582	697	822	828	907	1,382
Operating Netbacks (\$/boe)								
Sales price	\$38.42	\$34.57	\$32.96	\$15.53	\$27.22	\$35.85	\$48.44	\$33.48
Royalties	(\$7.61)	(\$5.83)	(\$5.80)	(\$1.40)	(\$4.08)	(\$6.57)	(\$10.61)	(\$6.60)
Saskatchewan surcharge tax	(\$0.52)	(\$0.09)	(\$0.57)	(\$0.71)	(\$0.69)	(\$1.92)	(\$0.91)	(\$1.84)
Operating expenses	(\$24.83)	(\$20.36)	(\$19.51)	(\$19.52)	(\$22.50)	(\$24.95)	(\$19.74)	(\$16.32)
Transportation expenses	(\$2.44)	(\$1.90)	(\$1.82)	(\$2.12)	(\$2.79)	(\$2.89)	(\$2.84)	(\$2.26)
Field netbacks (before hedging)	\$3.02	\$6.39	\$5.26	(\$8.22)	(\$2.84)	(\$0.48)	\$14.34	\$6.46
Realized gain/(loss) on risk mgmt contracts	(\$2.53)	(\$0.21)	(\$0.91)	-	\$8.60	\$6.63	\$2.01	\$2.42
Field netbacks (after hedging)	\$0.49	\$6.18	\$4.35	(\$8.22)	\$5.76	\$6.15	\$16.35	\$8.88
General & administration expenses	(\$5.94)	(\$6.70)	(\$12.54)	(\$8.54)	(\$5.10)	(\$7.59)	(\$7.35)	(\$4.88)
Transaction expenses	-	(\$2.61)	-	-	-	-	-	-
Corporate netback/(loss)	(\$5.45)	(\$3.13)	(\$8.19)	(\$16.76)	\$0.66	(\$1.44)	\$9.00	\$4.00

⁽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 (hedged) 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 in the third and fourth quarters of 2016.

Future Accounting Policy Changes

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

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

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

ADDITIONAL INFORMATION

For additional information regarding the Company and its business and operations, please contact the Company at Kaisen Energy Ltd. 400, 522 – 11th Avenue S.W., Calgary, Alberta, Canada T2R 0C8 or by e-mailing Cameron King, President and CEO (CKing@KaisenEnergy.com) or Jeff Holmgren, Senior Vice President and CFO (JHolmgren@KaisenEnergy.com)

ADVISORIES

Oil, Natural Gas Liquids ("NGL's"), and Natural Gas - Conversions to Boe's

The calculation of barrels of oil equivalent ("boe") is based on a conversion ratio of six thousand cubic feet of natural gas to one barrel of oil to estimate relative energy content and does not represent a value equivalency at the wellhead. Boe's may be misleading, particularly if used in isolation.

Non-IFRS measurements

Funds flow from operations: Readers are cautioned that this MD&A contains the term funds flow from operations which should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with IFRS as an indicator of Kaisen's performance. The reconciliation between funds flow from operations and cash provided by operating activities is as follows:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Cash flow from (used in) operating activities	\$347,173	(\$645,821)	(798,771)	\$383,124
Exclude the change in non-cash working capital	\$905,294	\$850,776	1,632,883	(\$1,239,518)
Funds flow / (loss) from operations	(\$558,121)	\$204,955	(2,431,654)	\$1,622,642

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.