



## Management's Discussion & Analysis

For the three and twelve months ended December 31, 2020

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The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Kaisen Energy Corp. ("Kaisen" or the "Company") is dated April 8, 2021, and should be read in conjunction with the accompanying unaudited financial statements and related notes for the twelve months ended December 31, 2020 with comparisons to the year ended December 31, 2019. 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.

Unless otherwise stated, tabular amounts herein are in Canadian dollars ("Cdn\$" or "CDN\$") and amounts in text are in Canadian dollars. The Company may also reference the United States dollars ("US\$"). 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.

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.

**About Kaisen Energy Corp.**

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.

#### FOURTH QUARTER HIGHLIGHTS

- The Company averaged petroleum and natural gas sales of 96 boe/d representing an 88% decrease from the fourth quarter of 2019, and an 41% increase from the third quarter of 2020.
- Realized \$337,437 in petroleum and natural gas sales, a \$2,951,166 decrease from the prior year comparative quarter.
- Recorded a funds flow from operations deficit of \$325,117 compared to funds flow from operations deficit of \$94,906 in the same quarter of 2019.
- Issued \$345,000 in promissory notes and an additional \$240,000 subsequent to year end.
- Recorded a net loss of \$4,545,630 and exited the year with net debt of \$7,547,813.
- The Company's lender issued a formal notice of default in respect to its term loan.

#### FINANCIAL AND OPERATING RESULTS SUMMARY

	Three months ended		Twelve months ended	
	2020	December 31, 2019	2020	December 31, 2019
<b>Operating</b>				
Average daily production (boe/d)	96	773	225	777
WCS heavy oil benchmark price (C\$/bbl)	43.42	54.30	35.59	58.77
Operating netback <sup>(1)</sup> (\$/boe)				
Realized sales price	38.36	46.27	26.81	51.58
Royalties	(5.26)	(7.69)	(3.71)	(8.60)
Saskatchewan resource tax	-	(2.64)	(0.12)	(1.15)
Operating expenses	(51.29)	(26.08)	(40.12)	(28.44)
Transportation expenses	(1.64)	(2.39)	(2.70)	(2.62)
Operating netback	(19.83)	7.47	(19.84)	10.77
Realized loss on risk management contracts	-	(4.77)	-	(7.56)
Operating netback after hedging	(19.83)	2.70	(19.84)	3.21
<b>Financial (\$'s except for share amounts)</b>				
Petroleum and natural gas sales	337,437	3,288,593	2,208,976	14,630,549
Funds flow from operations (deficit) <sup>(1)</sup>	(325,117)	(94,906)	(2,620,708)	(292,013)
Per share – basic and diluted	(0.01)	(0.00)	(0.06)	(0.01)
Net income (loss)	(4,545,630)	(3,823,138)	(18,376,466)	(7,607,830)
Per share – basic and diluted	(0.10)	(0.08)	(0.40)	(0.17)
Expenditures on oil and gas properties	42,000	145,586	197,529	1,792,130
Net debt <sup>(1)</sup> – end of period				
Working capital deficit <sup>(1)(2)</sup>			4,872,813	2,879,574
Promissory notes			785,000	-
Government loan			40,000	-
Term loan			1,850,000	1,850,000
			7,547,813	4,729,574
Issued convertible debentures <sup>(3)</sup> – end of period	6,577	5,377	6,577	5,377
Weighted average shares outstanding				
Basic and diluted	45,420,029	45,420,029	45,420,029	45,420,029
Outstanding shares – end of period	45,420,029	45,420,029	45,420,029	45,420,029

<sup>(1)</sup> Refer to "Non-GAAP Measures"

<sup>(2)</sup> Working capital is defined as current assets net of current liabilities excluding risk management contracts

<sup>(3)</sup> As at December 31, 2020, the total face value of the 6,577 (December 31, 2019 - 6,577) convertible debentures plus accrued undeclared interest was \$7,849,000 (December 31, 2019 - \$7,248,000). Upon a liquidity event and at the election of each holder, they would convert to 131,540,000 (December 31, 2019 – 131,540,000) common shares and owed interest of \$1,271,992 (December 31, 2019 - \$670,548).

## Operating Results

During the fourth quarter of 2020, the Company conducted minimal capital development and operational activities as the Company produced just from its Dolcy and Coleville properties. As a result, fourth quarter production averaged 96 boe per day, an 88% decrease from the same quarter of 2019. On a year-to-date basis production averaged 225 boe per day in 2020, a 71% decrease from prior year.

## Financial Results

The impact of realized losses on risk management contracts incurred throughout 2019, combined with a collapse in global oil prices in March 2020 and ensuing production cuts, have lowered the Company's projected cash flows over the next twelve months. For more information, refer to the "Liquidity, Capital Resources and Going Concern" section of this MD&A.

The Company recorded an operating netback loss of \$174,311 in the fourth quarter 2020 compared to a positive operating netback of \$530,366 recorded in the fourth quarter of 2019. The Company has yet to bring online much of the production shut-in at the onset of the second quarter of 2020 due to continued capital restraints. Realized pricing on commodity sales for the fourth quarter were \$38.36 per boe, generating \$337,437 in revenues as reflective of improved pricing. Royalties were \$500,509 lower than the prior year comparative quarter as a result of lower realized pricing and lower volumes. Operating and transportation expenses were a combined \$1,558,135 lower than the fourth quarter of 2019 as a result of scaled back operations from the production shut-ins that occurred at the onset of the second quarter in 2020.

During the three months ended December 31, 2020, the Company recorded a funds flow from operations deficit of \$325,117 versus a deficit of \$94,906 recorded in the prior year comparative period. The quarter over quarter decrease in funds flow from operations were negatively impacted by decreases in production and crude oil pricing as a result of the impact of the COVID-19 pandemic. The Company did not incur any realized losses on risk management contracts while the prior year comparative quarter included \$339,213 in realized losses on risk management contracts. The Company recorded a net loss of \$4,545,630 in the fourth quarter of 2020 compared to a net loss of \$3,823,128 in the fourth quarter of 2019. Fourth quarter 2020 losses included impairment charges of 4,041,000 versus 2,911,000 recorded in the prior year comparative quarter.

The Company exited the quarter with a working capital deficit<sup>(1)</sup> of \$4,872,813 and net debt<sup>(1)</sup> of \$7,547,813, compared to \$2,879,574 and \$4,729,574 at the close of 2019, respectively. On September 29<sup>th</sup>, 2020 the Company and its lender entered into a seventh amending agreement with respect to its term loan, which deferred the borrowing base determination date and confirmed all outstanding amounts under the term loan to be due and payable in full on October 30, 2020. On December 2, 2020, the lender supplied the Company with a notice of default for failing to repay all outstanding amounts, which include \$1,850,000 million in principal and accrued interest, in accordance with the latest amendment. The repayment of principal is due on demand and subrogated in right of payment in full of all senior indebtedness. Year-to-date, the Company has issued \$785,000 in subordinated secured promissory notes with an additional \$240,000 issued subsequent to year end, for the purpose of funding current working capital requirements. The promissory notes are secured by the Company's present and after-acquired personal and real property, subordinate to any claims to such property by the holders of its term loan.

## Economic Environment

The onset of the COVID -19 pandemic in 2020 significantly impacted global oil demand causing a rapid and prolonged decline in oil prices. Weak oil prices and market volatility in 2020 had a very negative impact on the Company's production and cash flows during the twelve months ended December 31, 2020 and our projections into 2021. Global oil markets strengthened towards the end of 2020 influenced by OPEC+ discipline with supply cuts, and where WTI-WCS differentials have remained narrow on increasing demand for western Canadian heavy oil to the United States. The WCS oil price has continued to strengthen in 2021 to its highest levels in nearly 6 years exceeding US\$50/bbl in March 2021. With the improved economic outlook and stability on current and forecast oil prices, the Company is examining potential alternatives to finance the reactivation of idled operations. Subsequent to year end, the Company was able to successfully reactivate several oil wells increasing production to approximately 170 boe/d in March 2021, and plans to continue reactivating additional production as cash resources become available. Management continues to monitor the economic environment and cash resources and will continue to adapt our business operations in a manner that best preserves shareholder value.

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<sup>(1)</sup> Refer to "Non-GAAP Measures"

## 2020 FOURTH QUARTER AND YEAR TO DATE FINANCIAL AND OPERATING RESULTS

### Oil and Gas Production Volumes

	Three months ended		Twelve months ended	
	2020	December 31, 2019	2020	December 31, 2019
<b>Sales volumes</b>				
Crude oil (bbls/d)	91	758	215	762
Natural gas liquids ("NGL") (bbls/d)	1	3	2	2
Natural gas (Mcf/d)	22	72	45	76
<b>Total average daily production (boe/d)</b>	<b>96</b>	<b>773</b>	<b>225</b>	<b>777</b>
<b>Production by area (boe/d)</b>				
Lone Rock, Saskatchewan	-	28	5	42
Edam, Saskatchewan	-	308	71	310
Lloydminster, Saskatchewan	-	263	47	257
Coleville, Saskatchewan	53	82	35	76
Other	43	92	67	92
<b>Total average daily production (boe/d)</b>	<b>96</b>	<b>773</b>	<b>225</b>	<b>777</b>

Kaisen's production in the fourth quarter of 2020 averaged 96 boe per day, representing an 88% decrease from the prior year comparative quarter. The Company shut in all its wells with the exception of its Dolcy property effective April 1, 2020 in response to falling commodity prices. In September 2020, the Company brought back production on three wells from its Coleville property which averaged sales of 53 boe per day over the fourth quarter. During the twelve months ended December 31, 2020 Kaisen's production averaged 225 boe per day, a 71% decrease from the 777 boe per day averaged in the comparative prior year period.

### Oil and Gas Realized Revenues and Pricing

	Three months ended		Twelve months ended	
	2020	December 31, 2019	2020	December 31, 2019
<b>Petroleum and natural gas revenues (\$)</b>				
Crude oil	327,875	3,261,162	2,142,553	14,557,798
Natural gas	4,611	13,664	29,617	35,926
NGL's	4,951	13,767	36,806	36,825
	<b>337,437</b>	<b>3,288,593</b>	<b>2,208,976</b>	<b>14,630,549</b>
<b>Realized prices</b>				
Crude oil (\$/bbl)	39.16	46.76	27.23	52.34
Natural gas (\$/mcf)	2.28	2.06	1.80	1.30
NGL's (\$/bbl)	53.82	49.88	50.28	50.45
<b>Corporate average realized price (\$/boe)</b>	<b>38.36</b>	<b>46.27</b>	<b>26.81</b>	<b>51.58</b>
<b>Average benchmark prices</b>				
WTI oil (US\$/bbl) <sup>(1)</sup>	42.66	56.96	39.40	57.03
WCS differential (US\$/bbl) <sup>(2)</sup>	(9.23)	(15.69)	(12.71)	(12.95)
WCS heavy oil (US\$/bbl)	33.43	41.27	26.69	44.08
WCS differential %	22	28	32	23
AECO natural gas (CDN\$/mcf) <sup>(3)</sup>	2.65	2.34	2.24	1.62
US\$:CDN\$	0.77	0.76	0.75	0.75
<b>WCS heavy oil (CDN\$/bbl)</b>	<b>43.42</b>	<b>54.30</b>	<b>35.59</b>	<b>58.77</b>

<sup>(1)</sup> WTI represents posting price of West Texas Intermediate oil.

<sup>(2)</sup> WCS refers to the average posting price for benchmark WCS heavy oil.

<sup>(3)</sup> AECO refers to the AECO arithmetic average month-ahead index price published by the Canadian Gas Price Reporter.

## Realized Pricing

The Company realized heavy oil prices of \$39.16 and \$27.23 per barrel during the three and twelve months ended December 31, 2020, respectively, representing per barrel decreases of 16% and 48% from the prior year comparative periods. Realized pricing during both the three- and twelve- month periods ended December 31, 2020 were negatively impacted by lower WTI pricing as a result of crude oil demand destruction caused by COVID-19.

## Risk Management Contracts

The Company routinely enters into crude oil financial contracts to manage the volatility of commodity prices and may, from time to time, also enter into foreign exchange financial contracts. Kaisen's current policy is to hedge no more than 60% of forecasted net production volumes using a combination of financial instruments including puts, costless collars, swaps, or fixed price contracts to limit exposure to fluctuations in commodity prices. Gains and losses on risk management contracts are composed of both realized gains or losses, representing the portion of risk management contracts that have settled in cash during the period, and unrealized gains or losses that represent the change in the mark-to-market position of those contracts throughout the period.

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Realized loss	\$ -	\$ (339,213)	\$ -	\$ (2,144,282)
Unrealized gain (loss)	1,819	153,195	724,523	(506,501)
<b>Gain (loss) on risk management contracts</b>	<b>\$ 1,819</b>	<b>\$ (186,018)</b>	<b>\$ 724,523</b>	<b>\$ (2,650,783)</b>

Kaisen recorded realized losses on risk management contracts for the three and twelve months ended December 31, 2020 of \$nil (2019 - losses of \$339,213 and \$2,144,282, respectively). The Company recorded unrealized gains of \$1,819 and \$724,523 for the three and twelve months ended December 31, 2020 (2019 – gain of \$153,195 and loss of \$506,501, respectively). The last of the Company's risk management contracts expired on December 31, 2020. For further information, refer to the "Risk Management" section of this MD&A.

## Crown and Freehold Royalties

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Crown	\$ 1,677	\$ 221,792	\$ 55,003	\$ 1,030,095
Freehold	44,565	324,959	250,792	1,409,964
<b>Royalties</b>	<b>\$ 46,242</b>	<b>\$ 546,751</b>	<b>\$ 305,795</b>	<b>\$ 2,440,059</b>
<b>\$ per Boe</b>	<b>5.26</b>	<b>7.69</b>	<b>3.71</b>	<b>8.60</b>
<b>% of revenue</b>	<b>13.7</b>	<b>16.6</b>	<b>13.8</b>	<b>16.7</b>

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 and vintage of wells, commodity type, volume of daily production, and market prices. As a percentage of revenue, royalties were 13.7% and 13.8% for the three and twelve months ended December 31, 2020, respectively (2019 – 16.6% and 16.7%). On a per dollar basis, royalties for the three and twelve months ended December 31, 2020 decreased due to lower sales volumes and realized pricing on commodity sales.

## Saskatchewan Resource Tax

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
<b>Saskatchewan resource tax</b>	<b>\$ -</b>	<b>\$ 187,835</b>	<b>\$ 9,559</b>	<b>\$ 326,016</b>
<b>\$ per Boe</b>	<b>-</b>	<b>2.64</b>	<b>0.12</b>	<b>1.15</b>

Under Saskatchewan provincial legislation, the Company is charged a resource tax based on its Saskatchewan production. The resource tax rate is 1.70% for all oil and gas wells with a finished drilling date on or after October 1, 2002, and for incremental oil related to new or expanded enhanced oil recovery projects or water flood projects having a commencement date on or after October 1, 2002. The resource tax rate for all other oil and gas wells is 3.0%. For the three and twelve months ended December 31, 2020, the Company incurred Saskatchewan resource taxes of \$nil and \$9,559, respectively (2019 - \$187,835 and \$326,016).

## Operating Expenses

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
<b>Operating expenses</b>	\$ 451,113	\$ 1,853,679	\$ 3,305,671	\$ 8,067,144
<b>\$ per Boe</b>	<b>51.29</b>	26.08	<b>40.12</b>	28.44

Operating expenses, 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 wastewater and sand trucking and disposal, utilities, heating fuel, and routine maintenance. Primary non-routine expenses include minor and major workovers. Kaisen continually works closely with suppliers and service providers to seek out cost reductions, increased operating efficiencies, and decreased labour costs.

Fourth quarter 2020 operating costs of \$451,113 (\$51.29 per boe) decreased 76% from the \$1,853,679 (\$26.08 per boe) recorded in the fourth quarter of 2019. Current quarter fixed land costs, including surface leases and property taxes, were \$241,397, representing 45% of operating costs incurred. On a year-to-date basis, operating costs were \$3,305,671 (\$40.12 per boe) a 59% decrease from the \$8,067,144 (\$28.44 per boe) recorded in the prior year comparative quarter. The quarter over quarter and year to date per boe increases are attributed to the effect of decreased production over a fixed operating cost base, as a result of production shut-ins that occurred at the outset of the 2020 second quarter.

## Transportation Expenses

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
<b>Transportation expenses</b>	\$ 14,393	\$ 169,962	\$ 222,294	\$ 743,310
<b>\$ per boe</b>	<b>1.64</b>	2.39	<b>2.70</b>	2.62

Transportation expenses relate 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. During the three and twelve months ended December 31, 2020, the Company recorded transportation expenses of \$1.64 and \$2.70 per boe, respectively (2019 – \$2.39 and \$2.62 per boe).

## Operating Netback

The components of operating netback for the three and twelve months ended December 31, 2020 and 2019 are set forth below.

(\$ per boe)	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Realized sales price <sup>(1)</sup>	38.36	46.27	26.81	51.58
Royalties	(5.26)	(7.69)	(3.71)	(8.60)
Saskatchewan surcharge tax	-	(2.64)	(0.12)	(1.15)
Operating expenses	(51.29)	(26.08)	(40.12)	(28.44)
Transportation expenses	(1.64)	(2.39)	(2.70)	(2.62)
<b>Operating netback<sup>(2)</sup></b>	<b>(19.83)</b>	7.47	<b>(19.84)</b>	10.77
Realized loss on risk management contracts	-	(4.77)	-	(7.56)
<b>Operating netback<sup>(2)</sup> (after hedging)</b>	<b>(19.83)</b>	2.70	<b>(19.84)</b>	3.21

<sup>(1)</sup> Excludes other income

<sup>(2)</sup> Refer to "Non-GAAP Measures"

## General and Administrative ("G&A") Expenses

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Gross G&A expenses	\$ 170,443	\$ 300,748	\$ 1,095,490	\$ 1,341,125
Capitalized G&A expenses	(42,000)	(62,400)	(168,000)	(249,600)
<b>G&amp;A expenses</b>	<b>\$ 128,443</b>	\$ 238,348	<b>\$ 927,490</b>	\$ 1,091,525

G&A expenses are primarily fixed by nature and therefore fluctuate on a per barrel basis with the rate of production. Kaisen capitalizes to property, plant, and equipment a percentage of technical staff salaries and share-based compensation expense for engineering and geological work at a rate that is commensurate with the extent of work required to execute on the Company's capital program.

For the three and twelve months ended December 31, 2020, G&A expenses were \$128,443 and \$927,490 respectively (2019 – \$238,348 and \$1,091,525). IFRS 16 Leases reduced G&A expenses by \$1,500 and \$13,805 for the three and twelve months ended December 31, 2020, respectively (2019 - \$24,909 and \$98,751)

### Net Finance Expenses

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Interest expense on term and bank loan	\$ 32,306	\$ 34,625	\$ 120,817	\$ 115,957
Interest on promissory notes	12,005	-	21,302	-
Interest on taxes owed	5,735	21,022	5,735	21,002
Accretion on decommissioning obligations	35,871	66,199	189,354	259,371
Capital lease interest expense	26	454	346	3,714
<b>Net finance expenses</b>	<b>\$ 85,943</b>	<b>\$ 122,280</b>	<b>\$ 337,554</b>	<b>\$ 400,044</b>

Interest expense relates to interest charges and related service fees on the Company's banking facility and promissory notes. Interest on taxes owed relate to additional liabilities incurred from the audit of the Company's 2014 to 2018 Saskatchewan resource tax returns, and interest owing on prior year provincial sales tax returns. Accretion expense relates to the Company's decommissioning obligation for the future abandonment and reclamation of its lands and well sites. The estimated future decommissioning 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. This liability is increased monthly to account for the passage of time, with the monthly increase recorded as accretion expense. Material changes in accretion expense are typically driven by new well additions (removals) in each period due to the Company's drilling program and acquisitions (divestitures). Capital lease interest expense relates to the adoption of IFRS 16.

### Share-Based Compensation

The Company has a share option plan pursuant to which options to purchase common shares of the Company may be granted by the Board of Directors to directors, officers, employees and consultants of the Company. Pursuant to the plan, the exercise price of each option may shall be fixed by the Board of Directors when such option is granted, provided that from and after the date that the common shares are listed on a stock exchange (the "Exchange"), such price shall not be less than the price permitted by such Exchange. Compensation expense is recognized as options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous serve to the Company, and the share options typically expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10% of the issued and outstanding common shares. The Company's current share-based compensation plans consist of share options, executive incentive options, and performance warrants.

As at December 31, 2020, Kaisen had 10,100,000 share options (2019 – 11,000,000), 10,500,000 Incentive Options (2019 – 10,700,000), and 28,540,000 performance warrants outstanding (2019 – 34,250,999). During the three and twelve months ended December 31, 2020, the Company recorded share-based compensation expenses of \$53,519 and \$307,065, respectively (2019 – \$128,424 and \$602,699).

### Depletion and Depreciation

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Depletion	\$ 87,454	\$ 762,024	\$ 838,707	\$ 2,978,864
Depreciation	4,488	13,778	22,156	57,381
<b>Depletion and depreciation</b>	<b>\$ 91,942</b>	<b>\$ 775,802</b>	<b>\$ 860,863</b>	<b>\$ 3,036,245</b>

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, while also considering the estimated future development costs necessary to bring those reserves into production. Depreciation expense is recorded based on corporate assets and is calculated on a declining basis.

As at December 31, 2020, \$77.8 million in future development costs (December 31, 2019 – \$77.8 million) less total salvage values of the assets of \$2.6 million (December 31, 2019 – \$2.6 million) were included in the production asset cost bases for depletion calculation purposes. For the three and twelve months ended December 31, 2020, depletion expenses decreased by 89% and 72%, respectively, in comparison to the prior year comparative periods due to impairments recorded in the fourth quarter 2019 and lower production throughout 2020.

## Impairment of Property, Plant and Equipment

### 2020 Impairments

At December 31, 2020, the Company evaluated its property, plant, and equipment for indicators of any potential impairment or related impairment reversals. The assessment factored in reserves, change in commodity prices year over year, the health of the sector and the general economy, and near-term development plans. As a result of uncertainties regarding future strip pricing, impairment tests were conducted on all properties resulting in an impairment charge of \$4,041,000 recognized in the statement of income.

As a result of the COVID-19 pandemic, global crude oil oversupply and the resulting decrease in forecasted oil prices compared to those at December 31, 2019, indicators of impairment were identified at March 31, 2020. As a result of uncertainties regarding future strip pricing, impairment tests were conducted on all properties resulting in a non-cash impairment charge of \$11,082,000 recognized in the statement of income.

### 2019 Impairments

Based on the results of the Company's December 31, 2019 evaluation of potential impairment or related reversals, indicators were identified on all the Company's CGU's. An impairment test was conducted resulting in an impairment charge of \$2,911,000.

## PROPERTY, PLANT AND EQUIPMENT (DEVELOPMENT) EXPENDITURES

	Three months ended		Twelve months ended	
	December 31,	December 31,	December 31,	December 31,
	2020	2019	2020	2019
Land, geological and geophysical	\$ -	\$ 5,363	\$ 2,000	\$ 12,708
Drilling, completions and optimizations	-	77,823	24,937	1,498,155
Equipment and facilities	-	-	607	30,617
Capitalized G&A	42,000	62,400	168,000	249,600
Corporate	-	-	1,985	1,050
<b>Development expenditures</b>	<b>\$ 42,000</b>	<b>145,586</b>	<b>\$ 197,529</b>	<b>1,792,130</b>

During the three and twelve months ended December 31, 2020, the Company made development expenditures of \$42,000 and \$197,529 (2019 – \$145,586 and \$1,792,130). Fourth quarter and year to date capital spending was minimal due to capital restraints.

## LIQUIDITY, CAPITAL RESOURCES, AND GOING CONCERN

	December 31,	December 31,
	2020	2019
Net debt	\$ 7,547,813	\$ 4,729,574
Shareholders' equity	\$ (6,944,401)	\$ 11,076,311

Kaisen exited the quarter in a net debt position \$7,547,813, which included a working capital deficit of \$4,872,813, a term loan balance of \$1,850,000, promissory notes totaling \$785,000, and a \$40,000 loan from Canada Emergency Business Account. The Company's policy is to maintain a strong capital base to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders. The Company periodically reviews certain quantitative measures of its capital structure to understand its position relative to industry peers but does not set certain limits or ranges with respect to these quantitative measures. The Company is not subject to any external restrictions on its capital structure. Management closely monitors debt leverage to ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and opportunities as they arise.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of \$18,376,466 during the year ended December 31, 2020, and as of that date, the Company's current liabilities exceeded its current assets by \$7,507,813. The sudden collapse in global oil prices in April 2020 and subsequent production shut-ins, have lowered the Company's current and projected cash flows.

Management of the Company believes that the current level of financing is not sufficient to pay for expected cash expenditures over the next 12 months. Furthermore, in the fourth quarter of 2020, the Company received a notice of default from its lender for failure to repay the principal and accrued interest. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to secure adequate financing in the future or that such financing will be on terms acceptable to the Company. The recoverability of the underlying value of the Company's assets is entirely dependent on the Company's ability to obtain the necessary financing to complete the development of its assets and achieve future profitable production. As a result, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis were not appropriate for these financial statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

## Term Loan

On July 15, 2019, the Company completed an arrangement with its lender for a \$2,280,000 term loan, which discharged and replaced the \$2,500,000 revolving bank loan previously in place with the same lender. The term loan is principally secured by fixed and floating security interest over all present and after acquired assets of the Company. The term loan arrangement contains industry standard representation and warranties, positive and negative covenants and events of default, and does not contain financial covenants.

When entered, the term loan bore interest at a rate of prime plus 1.25% per annum, was payable in full on demand by the lender, and required the Company to make the monthly principal payments up until May 31, 2020, when the term loan was scheduled to be repaid in full. On December 11, 2019, the Company and its lender entered into an amending agreement whereby the scheduled borrowing base determination date was extended from November 30, 2019 to January 31, 2020, the interest rate was raised to prime plus 3.5% per annum, and it was agreed upon that the Company shall make principal payments of \$240,000 per month commencing February 29, 2020 until the term loan was repaid in full.

In 2020, the Company and its lender entered into a series of amending agreements with respect to its term loan. The latest amendment, effective September 29, 2020, deferred the borrowing base determination date and confirmed all outstanding amounts under the term loan to be due and payable in full on October 30, 2020. On December 2, 2020, the Company's lender issued a notice of default to the Company's for its failure to repay all amounts outstanding under its term loan, including the \$1,850,000 million in principal plus accrued interest. The term loan is due on demand and is currently classified under current liabilities on the statement of financial position.

## Convertible Debentures

The Company did not issue any convertible debentures 2020. Inception to date, the Company has issued 6,577 convertible debentures. On May 28, 2020, the remaining Obligation Debentures expired unexercised.

## Promissory Notes

During the year ended December 31, 2020, the Company issued \$785,000 in subordinated secured promissory notes ("Promissory Notes") to Azimuth Capital Management for the purpose of funding current working capital requirements. The Promissory Notes bear interest at a rate of 8% per annum, accruing daily and the repayment of principal is due on demand and subrogated in right of payment in full of all senior indebtedness. The Promissory Notes are secured by the Company's present and after-acquired personal and real property, subordinate to any claims to such property by the holders of its term loan. Subsequent to year end, the Company issued an additional \$240,000 in Promissory Notes.

## Government Loan

As a response to the COVID-19 global pandemic, the Government of Canada created the Canada Emergency Business Account ("CEBA") to provide interest-free loans of up to \$40,000. During the second quarter of 2020, the Company successfully applied for and received funding \$40,000 in funding from the CEBA program. The loan is interest-free and 25% of the loan is forgivable if the Company repays the loan on or before December 31, 2022. If the loan is not repaid by that date, the loan can be converted to a three-year term loan at an interest rate of 5%.

## Financial Liabilities, Liquidity Risk, and Contingencies

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objective. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company's liquidity is dependent on the Company's expected business growth and changes in its business environment.

Undiscounted cashflows relating to financial liabilities as at December 31, 2020 were as follows:

	Undiscounted amount	Less than 1 year	1 – 3 years	4 – 5 years
Accounts payable and accrued liabilities	\$ 5,230,880	\$ 5,230,880	\$ -	\$ -
Promissory notes	785,000	785,000	-	-
Government loan	40,000	-	40,000	-
Term loan	1,850,000	1,850,000	-	-
<b>Financial liabilities</b>	<b>\$ 7,905,880</b>	<b>\$ 7,865,880</b>	<b>\$ 40,000</b>	<b>\$ -</b>

The Company is in receipt of six Statements of Claim from service providers seeking payment of approximately \$612,000 on past due invoices plus additional interest charges. The overdue payables are included in accounts payable and accrued liabilities in the unaudited financial statements as at December 31, 2020. The interest portion has not been accrued at this time as the Company is still working with its legal counsel on these matters, and the probable exposure and timing of the additional interest charges cannot be determined.

## RISK MANAGEMENT

Management of cash flow variability is an integral component of the Company's business strategy. Changing business conditions are monitored regularly and, where material, reviewed with the Board of Directors to establish risk management guidelines used by Management to carry out the Company's strategic risk management program. The risk exposure inherent in the movements of the price of crude oil and fluctuations in CDN\$:US\$ exchange rates are all proactively reviewed by Kaisen and may be managed through the use of derivative contracts as considered appropriate.

The Company has elected not to apply IFRS prescribed "hedge accounting" rules. Accordingly, the fair value of financial derivative contracts is recorded at each period-end. The fair value may change substantially from period to period depending on market conditions. As a result, net earnings may fluctuate considerably based on the period ending commodity forward strip prices compared to the prices in any derivative contracts.

### Commodity Price Risk

The Company is exposed to commodity price movements as part of its operations. The Company maintains a risk management strategy to protect funds flow from operations from the volatility of commodity prices. The Company's strategy focuses on the use of puts, costless collars, swaps or fixed price contracts to limit exposure to fluctuations in commodity prices. The last of the Company's risk management contracts expired on December 31, 2020.

### SUMMARY OF QUARTERLY RESULTS

<i>(\$000's except share, per share, boe amounts)</i>	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Petroleum and natural gas sales	337	249	123	1,499	3,289	3,884	4,086	3,373
Realized gain (loss) on risk mgmt. contracts	-	-	-	-	(339)	(540)	(782)	(483)
Funds flow from operations (deficit) <sup>(1)</sup>	(325)	(556)	(733)	(1,007)	(95)	(212)	122	(108)
Net income (loss)	(4,546)	(701)	(921)	(12,208)	(3,823)	(638)	542	(3,689)
Expenditures on oil & gas properties	42	43	42	71	146	1,112	252	283
Net debt <sup>(1)</sup>	7,548	7,181	6,582	5,807	4,730	4,489	4,165	4,036
<b>Sales Volumes</b> (boe per day)	96	69	75	665	773	802	769	764
<b>Operating Netbacks</b> (\$/boe) <sup>(1)</sup>								
Realized sales price	38.36	39.60	17.99	24.78	46.27	52.61	58.38	49.08
Royalties	(5.26)	(5.89)	(4.98)	(3.11)	(7.69)	(8.88)	(10.30)	(7.52)
Saskatchewan surcharge tax	-	1.18	(0.29)	(0.25)	(2.64)	(0.62)	(0.74)	(0.59)
Operating expenses	(51.29)	(82.51)	(78.75)	(29.68)	(26.08)	(32.50)	(26.38)	(28.64)
Transportation expenses	(1.64)	(1.86)	(2.65)	(2.94)	(2.39)	(2.48)	(2.81)	(2.82)
Operating netback	(19.83)	(49.48)	(68.68)	(11.20)	7.47	8.13	18.15	9.51
Realized gain/(loss) on risk mgmt. contracts	-	-	-	-	(4.77)	(7.31)	(11.18)	(7.03)
Operating netback after hedging	(19.83)	(49.48)	(68.68)	(11.20)	2.70	0.82	6.97	2.48

<sup>(1)</sup> See "Non-GAAP Measures".

### NON-GAAP MEASURES

This MD&A contains terms commonly used in the oil and natural gas industry, including funds flow from operations per share, operating netback and net debt. These terms do not have a standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. Shareholders and investors are cautioned that these measures should not be construed as alternatives to cash provided by operating activities, net income, total liabilities, or other measures of financial performance as determined in accordance with GAAP. Management uses these non-GAAP measures for its own performance measurement and to provide stakeholders with measures to compare the Company's operations over time.

### Funds Flow from Operations

The Company calculates funds flow from operations (deficit) per share by dividing funds flow from operations by the weighted average number of common shares outstanding during the applicable period.

A reconciliation of funds flow from operations (deficit) to cash provided by (used in) operating activities is presented as follows:

	Three months ended		Twelve months ended	
	2020	December 31, 2019	2020	December 31, 2019
Cash flow from (used-in) operating activities	\$ (283,229)	\$ (239,252)	\$ (659,966)	\$ 1,095,454
Less change in non-cash working capital	(41,888)	144,346	(1,960,742)	(1,387,467)
<b>Funds flow from operations (deficit)</b>	<b>\$ (325,117)</b>	<b>\$ (94,906)</b>	<b>\$ (2,620,708)</b>	<b>\$ (292,013)</b>

## Operating Netback

The Company uses operating netback as a key performance indicator of field results. Operating netback is presented on a per barrel of oil equivalent basis and is calculated by deducting royalties, Saskatchewan resource tax, transportation expenses and operating expenses from petroleum and natural gas sales. If applicable the Company also discloses operating netback both prior to realized gains or losses on derivatives and after the impacts of derivatives are included. Realized gains or losses represent the portion of risk management contracts that have settled in cash during the period, disclosing this provides Management and investors with transparent measures that reflect how the Company's risk management program can impact netback metrics. The Company considers operating netback to be a key measure as it demonstrates Kaisen's profitability relative to current commodity prices. This measurement assists Management and investors in evaluating operating results on a per barrel of oil equivalent basis to analyze performance on a historical basis.

The following table calculates operating netback for the periods indicated:

	Three months ended December 31,		Twelve months ended December 31,	
	2020	2019	2020	2019
Petroleum sales	\$ 337,437	\$ 3,288,593	\$ 2,208,976	\$ 14,630,549
Royalties	(46,242)	(546,751)	(305,795)	(2,440,059)
Saskatchewan resource tax	-	(187,835)	(9,559)	(326,016)
Operating expenses	(451,113)	(1,853,679)	(3,305,671)	(8,067,144)
Transportation expenses	(14,393)	(169,962)	(222,294)	(743,310)
Operating netback	\$ (174,311)	\$ 530,366	\$ (1,634,343)	\$ 3,054,020
Production (boe's)	8,796	71,077	82,390	283,604
<b>Operating netback (\$/boe)</b>	\$ (19.83)	\$ 7.47	\$ (19.84)	\$ 10.77

## Net Debt and Working Capital

The Company uses net debt, which includes a measure of working capital, to assess its true debt and liquidity position and to manage capital and liquidity risk. Working capital subtracts current liabilities from current assets, excluding any current balances related to debt and risk management contracts. Net debt is calculated as the Company's term loan plus (less) the working capital deficit (surplus). The following table summarizes net debt for the periods indicated:

	December 31, 2020	December 31, 2019
Current assets	\$ (358,067)	\$ (1,635,171)
Accounts payable and accrued liabilities	5,230,880	4,514,745
<b>Working capital deficit</b>	<b>4,872,813</b>	<b>2,879,574</b>
Promissory notes	785,000	-
Government loan	40,000	-
Term loan	1,850,000	1,850,000
<b>Net debt</b>	<b>\$ 7,547,813</b>	<b>\$ 4,729,574</b>

## BOE CONVERSION

Within this document, petroleum and natural gas volumes are converted to a common unit of measure, referred to as a barrel of oil equivalent ("boe"), using a ratio of 6,000 cubic feet of natural gas to one barrel of oil. Use of the term boe may be misleading, particularly if used in isolation. The conversion ratio is based on an energy equivalent method and does not necessarily represent a value of equivalency at the wellhead.

## ADVISORY ON 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. Forward-looking information in this MD&A includes, but is not limited to:*

- *Future development plans;*
- *Future financing plans and goals;*
- *The ability of the Company to fund capital programs with existing working capital and cash flow from operating activities'*
- *The Company's ability to continue operating as a going concern;*
- *The Company's financial and operational response to the recent COVID-19 outbreak and the impact it will have on the Company's future operations and future petroleum pricing;*
- *The impact of adjustments to drilling and completion techniques; and*
- *General business strategies and objectives*

*Such forward-looking information is based on a number of assumptions, including: future commodity prices; royalty rates, taxes and capital, operating, general and administrative and other costs; foreign currency exchange rates and interest rates; general business, economic and market conditions; the ability of the Company to obtain the require capital to finance its exploration, development and other operations and meet its commitments and financial obligations; the ability of Kaisen to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost to carry out its activities; the ability of Kaisen to market its oil and natural gas successfully to current and new customers; the ability of Kaisen to obtain drilling success (including in respect of anticipated production volumes, reserve additions and resource recoveries) and operational improvements, efficiencies and results consistent with expectations; the timely receipt of governmental and regulatory approvals; and anticipated timelines and budgets being met in respect of drilling programs and other operations (including well completions and tie-ins and the construction, commissioning and start-up of new and expanded facilities).*

*Although Kaisen believes that the expectations reflected in such forward-looking information is reasonable, undue reliance should not be placed on them as the Company can give no assurance that such assumptions will prove to be correct. Forward-looking information is based on expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Kaisen and described in the forward-looking information. The material risks and uncertainties include, but are not limited to: fluctuations in commodity prices, foreign currency exchange rates and interest rates; estimates and projections relating to future revenue, future production, reserve additions, resource recoveries, royalty rates, taxes and costs and expenses; operational risks in exploring for, developing and producing, oil and natural gas; the ability to obtain equipment, services, supplies and personnel in a timely manner and at an acceptable cost; potential disruptions, delays or unexpected technical or other difficulties in designing, developing, expanding or operating new, expanded or existing facilities; processing and pipeline infrastructure outages, disruptions and constraints; risks and uncertainties involving the geology of oil and gas deposits; uncertainty of reserves and resources estimates; general business, economic and market conditions; changes in, or in the interpretation of, laws, regulations or policies (including environmental laws); the ability to obtain required governmental or regulatory approvals in a timely manner, and to enter into and maintain leases and licenses; the effects of weather and other factors including wildlife and environmental restrictions which affect field operations and access; the timing and cost of future abandonment and reclamation obligations and potential liabilities for environmental damage and contamination; uncertainties regarding aboriginal claims and in maintaining relationships with local populations and other stakeholders; the outcome of existing and potential lawsuits, regulatory actions, audits and assessments. and other risks and uncertainties described elsewhere in Kaisen's other filings.*

*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.*

## 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 [Rachelle Bien-Barnard \(info@kaisenenergy.com\)](mailto:info@kaisenenergy.com)

## CORPORATE INFORMATION

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Chairman

Ed Chwyl  
Victoria, British Columbia

Dave Pearce, P.Eng.  
Calgary, Alberta

Richard Ramsay, P.Eng.  
Calgary, Alberta

John Zahary, P.Eng., M.Phil.  
Calgary, Alberta

### Officers

John Zahary, P.Eng., M.Phil.  
Managing Director

Chris McGinnis, P.Eng., MBA  
Vice President, Operations & Engineering

Andy Kramchynski, P.Geol  
Vice President, Exploration

James Kidd, LL.B  
Corporate Secretary

### Auditors

Ernst & Young LLP

### Evaluation Engineers

Sroule Petroleum Consultants

### Bankers

ATB Financial

### Legal Counsel

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