Management Discussion & Analysis

Three and six month periods ended June 30, 2017

(unaudited)

June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated September 7, 2017, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three and six month periods ended June 30, 2017 (the "Quarter" and "Year to Date") and the audited annual financial statements as at and for the year ended December 31, 2016 of Kaisen Energy Corp. ("Kaisen" or the "Company"). Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

DESCRIPTION OF THE BUSINESS

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

ECONOMIC ENVIRONMENT

WTI Volatility continued to be the key headline during the Quarter. In April 2017, WTI reached a high of US$54 per barrel and less than 2 months later in June 2017 WTI fell to a low of US$42 per barrel. We see no near-term end in the prolonged saga of WTI volatility with ongoing weekly gyrations driven by US rig counts and production growth reports, weekly EIA and API inventory reports and predictions of the future that differ wildly from one analyst to the next. The market impact from the devastation caused by Hurricane Harvey in late August is yet to be fully measured, however in the early days the disaster appears to be driving prices lower due to numerous refinery shut-ins along the Gulf Coast which has significantly hampered North American oil demand. Despite the ongoing uncertainty, Kaisen remains constructively positive on oil prices in the longer term. We will continue to build our inventory of opportunities and de-risk our core play areas through ongoing technical work and drill bit activity as our finances allow. Ultimately our top priority continues to be preservation of balance sheet strength, to ensure maximum optionality as we continue to navigate through these uncertain times.

RESULTS OF OPERATIONS

	Three months ended June 30, *(unaudited)*		Six months ended June 30, *(unaudited)*	
Financial Highlights *($,000, except per boe amounts)*	**2017**	**2016**	**2017**	2016
Petroleum and natural gas sales	**$5,798**	$1,747	**$10,795**	$2,732
Realized hedging gains/(losses)	**$124**	($48)	**($88)**	($48)
Funds flow / (loss) from operations[1]	**$907**	($444)	**$129**	($1,512)
Per share – basic & diluted	**$0.02**	($0.02)	**-**	($0.06)
Net earnings / (loss)	**$842**	($1,507)	**$1,095**	($3,210)
Per share – basic & diluted	**$0.03**	($0.06)	**$0.03**	($0.14)
Expenditures on oil & gas properties	**$408**	$546	**$4,880**	$1,178
Net surplus / (debt) (bank debt and net working capital)	**($4,422)**	$330	**($4,422)**	$330
Sales Volumes				
Heavy oil (bbl/d)	**1,462**	582	**1,405**	640
Natural gas liquids (bbl/d)	**1**	-	**1**	-
Natural gas *(mcf per day)*	**101**	-	**103**	-
Total production (boe per day)	**1,480**	582	**1,423**	640
Netbacks[1] *($ per barrel)*				
Sales price	**$43.06**	$32.96	**$41.90**	$23.47
Royalties	**($7.08)**	($5.80)	**($7.26)**	($3.40)
Saskatchewan surcharge tax	**($0.78)**	($0.57)	**($0.72)**	($0.64)
Operating expenses	**($21.52)**	($19.51)	**($25.28)**	($19.51)
Transportation expenses	**($2.37)**	($1.82)	**($2.20)**	($1.98)
Field Netbacks/(loss) (before hedging)	**$11.31**	$5.26	**$6.44**	($2.06)
Realized gain/(loss) on risk management contracts	**$0.92**	($0.91)	**($0.34)**	($0.41)
Field Netbacks (after hedging)	**$12.23**	$4.35	**$6.10**	($2.47)
General & administrative expenses	**($5.21)**	($12.54)	**($5.43)**	($10.36)
Corporate Netbacks	**$7.02**	($8.19)	**$0.67**	($12.83)

[1] The reader is referred to the section - "Non-IFRS Measurements".

QUARTER HIGHLIGHTS

➢ **Production averaged 1,480 boe per day, an 8% increase over the first quarter average of 1,366 boe per day.**

- Production growth is primarily a result of the 3 Sparky horizontal wells that were drilled late in the first quarter at Lone Rock, along with 2 vertical wells at Forest Bank, contributing approximately 450 boe per day towards current Quarter volumes, net of shut-ins during the Quarter of certain higher cost marginally economic wells.

➢ **27% reduction in operating costs.**

- Operating costs for the Quarter averaged $21.52 per boe, lower by $7.87 per boe from the first quarter, generating an approximate savings of $1.2 million for the Quarter, compared to trends from the prior two quarters. Fuel, water handling and workovers were the largest cost area reductions. These favorable gains, were partially offset by increased costs for road lease maintenance due to record wet spring conditions and an extended spring break-up season.

➢ **Field netbacks averaged $11.31 per boe ($12.23 per boe including hedging gains), a ~900% increase from $1.11 per boe recorded in the prior quarter and the highest netbacks realized in 2 years.**

- Field netbacks increased significantly from the prior quarter due primarily to a 27% ($7.87 per boe) reduction in operating costs, a 6% ($2.42 per barrel) increase in prices and the favorable impact from the Saskatchewan royalty rate relief on our new horizontal production at Lone Rock.

➢ **Highest Quarter funds flow since the second quarter of 2015 facilitating a $0.5 million reduction in net debt.**

- $0.9 million in Funds flow compared to the prior quarter funds flow loss of $0.8 million driven by higher production and prices during the period.

➢ **Minimal capital investment of $0.3 million, with no new drills.**

- $0.3 million of capital investment (excluding $0.1 million of capitalized G&A) primarily directed towards modifications to the recently drilled Sparky horizontal wells, along with lease road upgrades due to wet spring weather.

➢ **Subsequent to the Quarter, Bank facility renewed and Azimuth injects further $2.5 million of equity.**

- On July 11, 2017, Kaisen drew $2.5 million from its remaining $10.0 million equity line of credit arrangement with Azimuth Capital Management. Funds will be used to drill 3 Lone Rock Sparky horizontal wells in August/September 2017.
- Commenced drilling of Lone Rock Pad II (3 hz wells) in late August with on-stream date scheduled for early October.

FUNDS FLOW FROM OPERATIONS

For the Quarter and Year to Date, the Company recorded funds flow from operations of $0.91 million and $0.13 million respectively, compared to losses of $0.44 million and $1.51 million respectively, in the same periods of 2016. Increased funds flow in the current periods over the comparative periods is a result of increased production and pricing over the same periods.

NET EARNINGS AND COMPREHENSIVE EARNINGS

The Company recorded net earnings for the Quarter and Year to Date of $0.84 million and $1.1 million respectively, compared to net losses of $1.51 million and $3.21 million respectively in the same periods of 2016. Routine non-cash charges can have a significant impact on net earnings/losses. The most significant non-cash charges for the Quarter to depletion and depreciation of the Company's assets, share based compensation expense, and unrealized gains/losses from hedging contracts. These non-cash charges do not reflect cash costs of the Company and can therefore be misleading in measuring the financial health of operations from one period to the next. The changes in net earnings/loss are due to several factors which are discussed in greater detail below.

OIL AND GAS PRODUCTION AND PRICING	**Three months ended June 30,**		**Six months ended June 30,**	
(barrels per day)	**2017**	2016	**2017**	2016
Sales volumes				
Crude oil *(bbls per day)*	**1,462**	582	**1,405**	640
Natural gas liquids ("NGL") *(bbls/d)*	**1**	-	**1**	-
Natural gas *(Mcf per day)*	**101**	-	**103**	-
Total average daily production *(boe/d)*	**1,480**	582	**1,423**	640
Liquids as a percentage of total		*100%*		*100%*
Production by area				
Lone Rock, Saskatchewan	**428**	175	**304**	228
Edam, Saskatchewan	**342**	407	**385**	412
Lloydminster, Saskatchewan	**475**	-	**487**	-
Coleville, Saskatchewan	**69**	-	**78**	-
Other	**166**	-	**169**	-
Total average daily production	**1,480**	582	**1,423**	640

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 1,480 boe per day compared to 582 boe per day for the same quarter in 2016. The Hawk acquisition, which closed in July 2016, accounts for 44% of the growth adding approximately 650 boe per day from the Lloydminster and Coleville areas in Saskatchewan and Dolcy Alberta (Other), combined. Further production growth came from the first quarter of 2017 where the Company drilled 3 gross/net wells at Lone Rock and 2 (1.3 net) wells at Forest Bank (Lloydminster), all of which were on-stream by the middle of March 2017.

	Three months ended June 30,		Six months ended June 30,	
Petroleum and natural gas revenue and prices	**2017**	2016	**2017**	2016
Heavy oil	**$5,773,283**	$1,747,034	**$10,741,879**	$2,731,873
Natural gas	**$22,035**	-	**$42,946**	-
NGL's	**$2,297**	-	**$9,970**	-
Total Sales	**$5,797,615**	$1,747,034	**$10,794,795**	$2,731,873
Kaisen realized prices				
Heavy oil ($/bbl)	**$43.40**	$32.96	**$42.25**	$23.47
Natural gas ($/mcf)	**$2.39**	-	**$2.31**	-
NGL's ($/bbl)	**$23.74**	-	**$33.30**	-
Corporate average realized price	**$43.06**	$32.96	**$41.90**	$23.47
Average Benchmark Prices				
WTI oil (US$/bbl) (1)	**$48.29**	$45.59	**$50.10**	$39.52
WCS differential (US$/bbl) (2)	**($11.13)**	($13.30)	**($12.85)**	($13.77)
WCS heavy oil (US$/bbl)	**$37.16**	$32.29	**$37.25**	$25.75
WCS differential %	**23%**	29%	**26%**	35%
AECO natural gas (CDN$/mcf) (3)	**$2.78**	$1.25	**$2.79**	$1.68
US/CDN exchange rate	**1.34**	1.28	**1.33**	1.33
WCS heavy oil (CDN$bbl)	**$49.97**	$41.61	**$49.68**	$34.24

(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

Revenue for the Quarter and Year to Date has been supported partially due to the strengthening WCS heavy oil differential during the year. With both domestic and global factors at play such as the Canadian Syncrude disruption, declining Mexican and Venezuelan heavy crude supplies and the reduction in heavy oil imports from OPEC, the outlook for heavy oil differentials has appeared to shift slightly more to the positive in recent months. Presently, the second half of 2017 WCS differential is forecasted to be approximately US$11 per barrel with a further widening in the second half of 2018. US WTI prices for the Quarter increased by 6% over the same period in 2016 while the US WCS differential narrowed from $13.30 per barrel to $11.13 per barrel. In addition, the Canadian dollar weakened during the Quarter, which when combined, these factors resulted in a 31% increase in Kaisen's average realized commodity price over the same quarter in the prior year. For the Year to Date, the US WTI and the US WCS differential strengthened by 27% and 6% respectively while the Canadian dollar remained relatively flat, all together driving a 79% increase in the average realized price for 2017 of $44.90 per boe from $23.47 per barrel for the same period in the prior year.

Risk management contracts

The Company routinely enters into crude oil financial contracts to manage the volatility of commodity prices, and may from time to time also enter into foreign exchange financial contracts. Kaisen's current policy is to hedge no more than 60% of forecasted net production volumes using a combination of financial instruments including fixed swaps, swaptions and price collars, under contract terms not exceeding 24 months with only investment grade counterparties. As at June 30, 2017 the Company had the following fixed price contracts:

Type	Period	Volume (bbl/d)	Currency	Price/unit (1)	Index
Fixed – sell (Swap)	Jan 1, 2017 – Dec 31, 2017	100 bbl/d	CAD	$65.00	WTI-NYMEX
Fixed WTI Swap (2)	Jan 1, 2017 – Dec 31, 2017	100 bbl/d	CAD	$52.40	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2017 – Dec 31, 2017	300 bbl/d	CAD	$65.80	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2017 – Dec 31, 2017	300 bbl/d	CAD	$75.00	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2018 – Dec 31, 2018	200 bbl/d	CAD	$67.20	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2018 – Jun 30, 2018	100 bbl/d	CAD	$68.50	WTI-NYMEX
Sold Call Option (3)	Jan 1, 2018 – Dec 31, 2018	600 bbl/d	USD	$60.00	WTI-NYMEX
Fixed WCS Basis Swap	Jan 1, 2017 – Dec 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.

Subsequent to the Quarter end, the Company entered into the following fixed price contracts:

Type	Period	Volume (bbl/d)	Currency	Price/unit (1)	Index
Fixed WCS Basis Swap	Jan 1, 2018 – Mar 31, 2018	500 bbl/d	CAD	($16.58)	WCS-Net Energy
Purchased Call Option (1)	Jan 1, 2018 – Dec 31, 2018	600 bbl/d	USD	$60.00	WTI-NYMEX
Sold Call Option (1)	Jan 1, 2019 – Dec 31, 2019	400 bbl/d	USD	$60.00	WTI-NYMEX

(1) The net result of these two contracts was to unwind the existing sold Call Option for 600 bbl/d in 2018 in exchange for a Sold Call Option in 2019 on a reduced volume (400 bbl/d) at the same call price (US$60.00), at a net nil transaction cost.

The following is a summary of realized and unrealized losses for the three and six month periods ended June 30, 2017 and 2016:

	Three months ended June 30		Six months ended June 30,	
	2017	2016	**2017**	2016
Realized gain/(loss)	**$124,453**	($48,133)	**($87,503)**	($48,133)
$ per barrel (1)	**$0.92**	($0.91)	**($0.34)**	($0.41)
Unrealized gain/(loss)	**$1,999,626**	($451,124)	**$4,858,158**	($451,124)
Total gain/(loss) on risk management contracts	**$2,124,079**	($499,257)	**$4,770,655**	($499,257)

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

CROWN, FREEHOLD & GOR ROYALTIES	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Crown royalties	**$320,392**	$179,381	**$583,099**	$227,007
Freehold royalties	**$462,723**	$128,113	**$941,642**	$168,954
Gross overriding royalties	**$169,851**	-	**$346,279**	-
Total Royalties	**$952,966**	$307,494	**$1,871,020**	$395,961
$ per barrel (1)	**$7.08**	$5.80	**$7.26**	$3.40
% of revenue	**16%**	18%	**17%**	15%

(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. In July 2016, Kaisen acquired assets, as part of the Hawk acquisition, encumbered with gross overriding royalties ("GOR"). Conventional Crown royalty rates range from ~2% to 30% depending upon the type/vintage of wells, commodity type, volume of daily production and market prices. The Saskatchewan Government provides royalty relief incentives on wells drill horizontally and for enhanced oil recovery schemes such as polymer floods and thermal recovery methods. Kaisen is currently forecasting a royalty rate of approximately 18%-22% blended for Crown, freehold and GOR rates in the current price environment.

OPERATING EXPENSES	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
	$2,897,520	$1,033,921	**$6,511,749**	$2,271,338
$ per barrel(1)	**$21.52**	$19.51	**$25.28**	$19.51
% of revenue	**50%**	59%	**60%**	83%

(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.

Significant efforts have been made during the Quarter to seek out further cost reductions. These efforts focused largely on fuel, water handling and workovers and resulted in a $7.87 per boe (27%) reduction in operating costs over the prior quarter, generating savings of approximate $1.2 million when compared to cost trends realized over the prior two quarters. The seasonal spring wet weather from winter break-up and historic rainfall levels, eroded some of these gains due to lease road maintenance and other wet weather related challenges.

For the Quarter and Year to Date, operating costs averaged $21.52 per boe (10% higher than the prior year) and $25.28 per boe (30% higher than the prior year), respectively. Slightly higher operating costs per boe for the Quarter were largely due to incremental costs associated with extreme wet weather conditions during the seasonal spring break-up period, namely increased road repair and maintenance costs. Higher costs Year to Date compared to the prior year were largely driven by high fuel costs realized during the seasonally high usage months of January and February.

Based on recent cost trends and anticipated future activity levels, the Company forecasts operating costs per barrel to trend between $22.00 - $25.00 for the remainder of the year.

TRANSPORTATION EXPENSES	**Three months ended June 30,**		**Six months ended June 30,**	
	2017	2016	**2017**	2016
	$319,324	$96,665	**$565,971**	$231,012
$ per boe[(1)]	**$2.37**	$1.82	**$2.20**	$1.98
% of revenue	**6%**	6%	**5%**	9%

(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 to Date, transportation costs per boe were higher by 30% and 11%, respectively, compared to 2016. Higher costs in the Quarter were driven by a longer than usual spring breakup and wet weather, resulting in extended road weight restrictions for heavy oil haulers.

OPERATING NETBACKS	**Three months ended June 30,**		**Six months ended June 30,**	
($ per boe) [(1)]	**2017**	2016	**2017**	2016
Sales price	**$43.06**	$32.96	**$41.90**	$23.47
Royalties	**($7.08)**	($5.80)	**($7.26)**	($3.40)
Saskatchewan surcharge tax	**($0.78)**	($0.57)	**(0.72)**	($0.64)
Operating expenses	**($21.52)**	($19.51)	**($25.28)**	($19.51)
Transportation expenses	**($2.37)**	($1.82)	**($2.20)**	($1.98)
Netbacks *(before hedging)*	**$11.31**	$5.26	**$6.44**	($2.06)
Realized gain/(loss) on risk	**$0.92**	($0.91)	**($0.34)**	($0.41)
Netbacks *(after hedging)*	**$12.23**	$4.35	**$6.10**	($2.47)

(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 $11.31 per boe, 115% higher than the $5.26 per boe recorded in the prior year. Higher netbacks for the Quarter is a direct reflection of oil price strengthening in 2017 year to date. Improvements in pricing were partially offset by higher royalties and operating costs during the same period. Layering in realized hedging gains of $0.92 per barrel for the Quarter further enhanced the average netback to $12.23 per boe by contrast to a hedging loss of $0.91 per boe for the same period in 2016 that reduced the field netback to $4.35 per boe in the same period.

For the Year to Date, realized field netbacks (before hedging) were $6.44 per boe compared to a netback loss of $2.06 for the same period in 2016. Netbacks for the Year to Date, including realized hedging losses of $0.34, averaged $6.10 per boe compared to a loss of $2.47 per boe in 2016 (net of realized hedging losses of $0.41 per boe.)

GENERAL AND ADMINISTRATIVE ("G&A")	**Three months ended June 30,**		**Six months ended June 30,**	
	2017	2016	**2017**	2016
Salaries, bonus and benefits	**$498,210**	$370,414	**$946,294**	$711,000
Other G&A expenses	**$308,236**	$403,925	**$675,613**	$691,027
Gross G&A expenses	**$806,446**	$774,339	**$1,621,907**	$1,402,027
Capitalized G&A expenses	**($105,183)**	($109,938)	**($223,418)**	($196,155)
Net G&A costs	**$701,263**	$664,401	**$1,398,488**	$1,205,872
$ per boe	**$5.21**	$12.54	**$5.43**	$10.36

G&A expenses are primarily fixed costs by nature and therefore fluctuate on a per barrel basis with the rate of production. Kaisen capitalizes to property, plant and equipment, a percentage of technical staff salaries and share based compensation expense for engineering and geological work at a rate that is commensurate with the extent of work required to execute on the Company's capital program. For the Quarter and Year to Date, G&A per boe was lower by 58% and 48% respectively, over the comparative periods, due primarily to increased production volumes.

FINANCE CHARGES	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Interest expense	**$38,791**	$10,226	**$41,123**	$16,840
Accretion expense	**$55,725**	$37,884	**$110,692**	$75,558
Finance charges	**$94,516**	$48,110	**$151,815**	$92,398

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

SHARE-BASED COMPENSATION	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Share-based compensation	**$485,695**	$387,195	**$967,460**	$779,009

On July 12, 2016 and in connection with the private equity issuance of common shares to Azimuth Capital Management on the same day, the Company granted 5,000,000 performance warrants to employees, directors and contractors serving in the capacity of employees of the Company. On November 12, 2015 and in connection with the Company's initial private equity offering to Azimuth Capital Management, the Company granted 4,000,000 performance warrants to employees, directors and contractors serving in the capacity of employees of the Company. These performance warrants vest upon a qualifying liquidity event, expire in 5 years and have exercise prices as follows:

Performance warrants granted	#	Exercise price	Grant Date
Series 1	1,000,000	$1.50	November 12, 2015
Series 2	1,000,000	$1.75	November 12, 2015
Series 3	2,780,999	$2.00	November 12, 2015
Series 4	1,000,000	$2.25	November 12, 2015
Series 5	1,250,000	$1.25	July 12, 2016
Series 6	1,250,000	$1.50	July 12, 2016
Series 7	1,250,000	$1.75	July 12, 2016
Series 8	1,250,000	$2.00	July 12, 2016
Total	10,789,999	$1.78	

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 2016 is due to the July 12, 2016 grant and the incremental expense associated with the modification of existing performance warrants.

DEPLETION AND DEPRECIATION	Three months ended June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Depletion	**$1,513,334**	$575,459	**$2,794,035**	$1,259,713
Depreciation	**$9,810**	$9,110	**$19,368**	$14,413
Depletion and depreciation	**$1,523,144**	$584,569	**$2,813,403**	$1,274,126
$ per boe	**$11.31**	$11.03	**$10.92**	$10.95

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 $77,319,700 ($58,051,600 in the prior year) less total salvage value of the assets of $2,524,000 ($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 6). There have been no material changes in the Company's approach to capital management during the six months ended June 30, 2017.

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 flow 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 June 30, 2017, the Company's net debt was $4.42 million (bank debt plus current assets net of current liabilities excluding risk management contracts) ($0.33 million net surplus at December 31, 2016) and was compliant with its lender covenants. Net debt at June 30, 2017 is a product of the Company's $4.5 million capital program which was fully executed and completed in the first quarter of 2017.

Subsequent to the Quarter end, on July 11, 2017, Azimuth Capital Management converted 2.0 million Special Voting Shares of the Company into 2.0 million Common Shares of the Company for total proceeds to Kaisen of $2.5 million in accordance with the terms of the private placement equity financing with Azimuth on November 12, 2015. Proceeds from the equity issuance will be used to fund capital activity in the second half of 2017. Subsequent to the conversion, Azimuth continues to hold 6.0 million Special Voting Shares representing a remaining $7.5 million of equity available to Kaisen to fund future growth opportunities.

Based on currently forecasted commodity prices for the remainder of 2017 and 2018, Kaisen's current capital resources (cash on hand, undrawn equity proceeds from Azimuth Capital Management, and currently available borrowing capacity) in concert with positive cashflows, are sufficient to fund (at a minimum) ongoing corporate obligations through remainder of 2017 and 2018 along with 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 June 30,**		**Six months ended June 30,**	
	2017	2016	**2017**	2016
Land	**$1,645**	-	**$52,984**	$4,060
Geological and geophysical	**$13,412**	-	**$738,217**	$17,794
Drilling and completions	**$115,035**	$193,929	**$2,528,670**	$471,531
Equipment and facilities	**$173,154**	$195,254	**$1,353,404**	$394,143
Capitalized G&A	**$97,500**	$109,937	**$195,000**	$196,155
Capitalized stock based compensation	**$92,646**	$68,518	**$183,427**	$136,529
Office	**$7,429**	$46,911	**$11,941**	$94,262
Total capital additions	**$500,822**	$614,549	**$5,063,643**	$1,314,474

For the Year to Date, a total of 5 gross (4.3 net) wells have been drilled. 3 gross/net Sparky horizontal wells were drilled at Lone Rock and 2 gross (1.3 net) Sparky wells at Forest Bank. The 3 Lone Rock Sparky wells (spud late February and on-stream by the middle of March) are the first wells of a planned multi-well Sparky polymer flood which we hope to implement once sufficient voidage is created within the reservoir. The 2 (1.3 net) Forest bank Sparky wells were spud in February and were also on-stream in mid March. Total cash capital expenditures for the Quarter and Year to Date were $0.41 million and $4.9 million respectively (including capitalized general and administrative expenses of $0.1 million and $0.2 million respectively). Investments during the Quarter included minor lease road upgrades on account of the spring wet weather, further modifications to the Lone Rock Spark wells drilled in the first quarter, and facility pre-engineering work for the planned polymer flood injection of Lone Rock Pad I scheduled for late 2017.

SELECTED QUARTERLY RESULTS AND ANALYSIS

(Cdn $,000, except per boe amounts)	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**$5,798**	$4,997	$4,588	$3,836	$1,747	$985	$2,059	$2,730
Realized hedging gains/(losses)	**$124**	($212)	($302)	($24)	($48)	-	$651	$505
Funds flow (loss) from operations[1]	**$907**	($779)	($558)	($361)	($444)	($1,068)	$205	($144)
Net earnings (loss)	**$842**	$253	($4,662)	($3,518)	($1,507)	($1,703)	($1,429)	$358
Expenditures on oil & gas properties	**$408**	$4,472	$1,424	$865	$546	$632	$1,091	$1,519
Corporate and Asset acquisitions	**-**	-	-	$15,580	-	-	-	-
Net surplus / (debt)	**($4,422)**	($4,918)	$335	$2,328	$330	$1,320	$3,022	($4,930)
Shares outstanding – diluted *(thousands)*	**55,649**	55,649	55,649	55,649	30,649	30,649	30,649	18,649
Sales Volumes *(boe per day)* [2]	**1,480**	1,366	1,298	1,206	582	697	822	828
Operating Netbacks ($/boe)								
Sales price	**$43.06**	$40.64	$38.42	$34.57	$32.96	$15.53	$27.22	$35.85
Royalties	**($7.08)**	($7.47)	($7.61)	($5.83)	($5.80)	($1.40)	($4.08)	($6.57)
Saskatchewan surcharge tax	**($0.78)**	($0.66)	($0.52)	($0.09)	($0.57)	($0.71)	($0.69)	($1.92)
Operating expenses	**($21.52)**	($29.39)	($24.83)	($20.36)	($19.51)	($19.52)	($22.50)	($24.95)
Transportation expenses	**($2.37)**	($2.01)	($2.44)	($1.90)	($1.82)	($2.12)	($2.79)	($2.89)
Field netbacks (before hedging)	**$11.31**	$1.11	$3.02	$6.39	$5.26	($8.22)	($2.84)	($0.48)
Realized gain/(loss) on risk mgmt contracts	**$0.92**	($1.72)	($2.53)	($0.21)	($0.91)	-	$8.60	$6.63
Field netbacks (after hedging)	**$12.23**	($0.61)	$0.49	$6.18	$4.35	($8.22)	$5.76	$6.15
General & administration expenses	**($5.21)**	($5.67)	($5.94)	($6.70)	($12.54)	($8.54)	($5.10)	($7.59)
Transaction expenses	**-**	-	-	($2.61)	-	-	-	-
Corporate netback	**$7.02**	($6.28)	($5.45)	($3.13)	($8.19)	($16.76)	$0.66	($1.44)

(1) The reader is referred to the section - "Non-IFRS Measurements".
(2) The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's".

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

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

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 June 30,		Six months ended June 30,	
	2017	2016	**2017**	2016
Cash flow from (used in) operating activities	**($3,576,814)**	($642,247)	**($1,816,866)**	($1,129,976)
Exclude the change in non-cash working capital	**$4,484,019**	$198,442)	**$1,945,443**	($382,307)
Funds flow / (loss) from operations	**$907,205**	$443,805	**$128,577**	($1,512,283)

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.