



Management Discussion & Analysis

Three month period ended March 31, 2017

(unaudited)

March 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated May 30, 2017, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three month period ended March 31, 2017 (the "Quarter") 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

2017 started off with a higher level of optimism on commodity prices. Weekly crude oil inventory draws are beginning to show signs of the long awaited re-balancing of market supply and demand, however optimism levels continue to be tempered by concerns of the impact from the resilient and increasing US production supply and its effect on oil inventory levels. Now as we move through the second quarter, there appears to be a renewed optimism for oil prices spurred by the OPEC/Non-OPEC production curtailment extension, further buoyed by the anticipation of increased demand through the summer driving season. Kaisen remains positive on oil prices in the longer term and we will therefore 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 will continue 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 March 31, (unaudited)	
	2017	2016
Financial Highlights (\$,000, except per share amounts)		
Petroleum and natural gas sales	4,997,180	\$984,839
Realized hedging gains/(losses)	(211,956)	-
Funds flow / (loss) from operations ⁽¹⁾	(778,627)	(\$1,068,478)
Per share – basic & diluted	(\$0.02)	(\$0.05)
Net earnings / (loss)	252,914	(\$1,702,781)
Per share – basic & diluted	\$0.01	(\$0.07)
Expenditures on oil & gas properties	4,472,040	\$631,912
Net surplus / (debt) (bank debt and net working capital)	(\$4,918,494)	\$1,320,733
Share Capital		
Outstanding – basic	43,420,029	23,420,029
Outstanding – diluted	55,649,028	30,649,028
Weighted average – basic & diluted	43,420,029	23,420,029
Sales Volumes		
Crude oil, natural gas and liquids (boe per day)	1,366	697
Netbacks⁽¹⁾ (\$ per barrel)		
Sales price	\$40.64	\$15.53
Royalties	(\$7.47)	(\$1.40)
Saskatchewan surcharge tax	(\$0.66)	(\$0.71)
Operating expenses	(\$29.39)	(\$19.52)
Transportation expenses	(\$2.01)	(\$2.12)
Field Netbacks/(loss) (before hedging)	\$1.11	(\$8.22)
Realized gain/(loss) on risk management contracts	(\$1.72)	-
Field Netbacks (after hedging)	(\$0.61)	(\$8.22)
General & administrative expenses	(\$5.67)	(\$8.54)
Corporate Netbacks	(\$6.28)	(\$16.76)

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



FIRST QUARTER HIGHLIGHTS

For the three months ended March 31, 2017 (the "Quarter"), Kaisen drilled 5 wells (4.3 net) in addition to ongoing operations initiatives, most notably our continued investment in equipment repairs on properties long overdue since the oil price collapse began in 2014. Results to date from the newly drilled wells in March have had a positive impact on production and funds flow beyond the Quarter end.

The Company realized positive field netbacks of \$1.11 per boe for the Quarter, however realized hedging losses reduced the field netback to a loss of \$0.61 per boe. At current commodity prices, the Company's hedging contracts are on the "knife's edge" between gains and losses, however, with an average hedging floor of Cdn\$67.15 on approximately 50% of our current production for the remainder of 2017, the Company has meaningful downside risk protection in the event of another price collapse. Beyond the aforementioned repair and maintenance activities, operating costs were further impacted by the significant increase in propane prices (approximately 300% since last fall) during the highest demand months of the year (January/February), and water handling costs which were higher by approximately \$3.00 per boe in the Quarter, incurred to test revenue potential for certain higher cost water cut wells from the optimization program in the fourth quarter of 2016.

Capital investment for the Quarter totaled \$4.5 million, the majority of which was incurred in February and March, driving net debt to \$4.9 million at the end of March, however with minimal capital activity planned for the second quarter, we anticipate net debt will decrease as we head into the summer.

The Company views the first quarter of 2017 as a transition quarter where significant work and investment was made to set the stage for positive funds flow growth through increased production and a lower operating cost environment moving into the balance of this year.

FUNDS FLOW FROM OPERATIONS

For the Quarter, the Company recorded a funds flow loss from operations of \$778,627, compared to a funds flow loss of \$1,068,478, in the same quarter of the prior year. Higher operating costs in the Quarter reflected the challenges that seasonal impacts can have on operating conditions. The cold winter months of January and February 2017 resulted in additional fuel costs and repair and maintenance activities. As well, the Company absorbed higher water handling costs in the Quarter on a select group of wells being tested and optimized during the period.

NET EARNINGS AND COMPREHENSIVE EARNINGS

The Company recorded net earnings for the Quarter of \$252,914 compared to a net loss of \$1,702,781 in the same quarter 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 amounting to \$1,290,259 (\$689,558 in the prior year), share based compensation expense of \$481,765 (\$391,814 in the prior year) and an unrealized gain from hedging contracts of \$2,858,532 for the Quarter (nil for the same quarter in 2016.) These non-cash charges do not reflect cash costs of the Company and can therefore be misleading in measuring the financial health of operations from one period to the next. The changes in net earnings/loss are due to several factors which are discussed in greater detail below.

OIL AND GAS PRODUCTION AND PRICING	Three months ended March 31,	
(barrels per day)	2017	2016
Sales volumes		
Crude oil (bbls per day)	1,347	697
Natural gas liquids ("NGL") (bbls/d)	2	-
Natural gas (Mcf per day)	104	-
Total average daily production (boe/d)	1,366	697
<i>Liquids as a percentage of total</i>		100%
Production by area		
Lone Rock, Saskatchewan	179	280
Edam, Saskatchewan	429	417
Lloydminster, Saskatchewan	499	-
Coleville, Saskatchewan	86	-
Other	173	-
Total average daily production	1,366	697

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 1,366 boe per day compared to 697 boe per day for the same quarter in 2016. The Hawk acquisition, which closed in July 2016, accounts for 55% of the growth adding 758 boe per day from the Lloydminster and Coleville areas in



Saskatchewan and Dolcy Alberta, combined. The increase in production from the Hawk assets since the initial 500 boe per day acquired in July is due to the optimization projects executed in the second half of 2016. During the Quarter, the Company drilled 5 (4.3 net) wells, all of which came on-stream by the middle of March, therefore having minimal impact on the Quarter's production average. Production results for the 5 well program have been positive to date, adding production and funds flow growth for the second quarter of 2017 and beyond.

	Three months ended March 31,	
Petroleum and natural gas revenue and prices	2017	2016
Heavy oil	\$4,968,596	\$984,839
Natural gas	\$20,911	-
NGL's	\$7,673	-
Total Sales	\$4,997,180	\$984,839
Kaisen realized prices		
Heavy oil (\$/bbl)	\$40.99	\$15.53
Natural gas (\$/mcf)	\$2.24	-
NGL's (\$/bbl)	\$37.87	-
Corporate average realized price	\$40.64	\$15.53
Average Benchmark Prices		
WTI oil (US\$/bbl) ⁽¹⁾	\$51.92	\$33.45
WCS differential (US\$/bbl) ⁽²⁾	(\$14.58)	(\$14.24)
WCS heavy oil (US\$/bbl)	\$37.34	\$19.21
WCS differential %	28%	43%
AECO natural gas (CDN\$/mcf) ⁽³⁾	\$2.90	\$2.11
US/CDN exchange rate	\$0.758	\$0.728
WCS heavy oil (CDN\$/bbl)	\$49.39	\$26.39

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

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

(3) Represents the AECO 7a monthly index.

In accordance with Canadian industry practice, production volumes, reserve volumes and revenues are reported on a Company interest basis (working interest plus royalty interest), before deduction of Crown and other royalties, unless otherwise indicated. The Company's results of operations are dependent on production volumes of heavy crude oil, natural gas and natural gas liquids and the prices received for this production. Prices for these commodities have shown significant volatility during recent years and are determined by supply and demand factors, including weather, general economic conditions and changes in the Canadian/United States ("US") currency exchange rate.

In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Realized Pricing

During the Quarter, US WTI prices traded in a narrow band between \$50.00-\$53.00 with a relatively lower level of volatility than experienced in prior quarters. US denominated WTI prices for the Quarter increased 55% over the same quarter in 2016 and the WCS differential widened slightly from US\$14.24 per barrel to US\$14.58 per barrel. These two movements resulted in Kaisen's realized heavy oil price increasing 164% to \$40.99 per boe. However, although prices have increased substantially over the prior year, ongoing concerns over the supply versus demand surplus of crude oil continues to plague the forward outlook on commodity prices for the remainder of 2017. Currently, 2017 WTI is forecasted to hold flat at US\$50.00 per barrel and the WCS differential is forecasted to widen slightly to trade near US\$13.00 per barrel, however continued volatility will be the norm for the foreseeable future.

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 March 31, 2017 the Company had the following fixed price contracts:



Type	Period	Volume (bbl/d)	Currency	Price/unit ⁽¹⁾	Index
Fixed – sell (Swap)	January 1, 2017 – March 31, 2017	100 bbl/d	CAD	\$60.00	WTI-NYMEX
Fixed – sell (Swap)	January 1, 2017 – December 31, 2017	100 bbl/d	CAD	\$65.00	WTI-NYMEX
Fixed WTI Swap ⁽²⁾	January 1, 2017 – December 31, 2017	100 bbl/d	CAD	\$52.40	WTI-NYMEX
Fixed WTI Swap	October 1, 2016 – March 31, 2017	100 bbl/d	CAD	\$64.05	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD	\$65.80	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD	\$75.00	WTI-NYMEX
Call Option ⁽³⁾	January 1, 2018 – December 31, 2018	600 bbl/d	USD	\$60.00	WTI-NYMEX
Fixed WCS Basis Swap	January 1, 2017 – December 31, 2017	100 bbl/d	USD	(\$15.50)	WCS-Net Energy

(1) Based on the weighted average price/bbl for the duration of the contract

(2) Contract acquired with acquisition of Hawk Exploration Ltd. on July 14, 2016, per above note on Asset Acquisition

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

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 WTI Swap	January 1, 2018 – December 31, 2018	200 bbl/d	CAD	\$67.20	WTI-NYMEX
Fixed WTI Swap	January 1, 2018 – June 30, 2018	100 bbl/d	CAD	\$68.50	WTI-NYMEX

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

	Three months ended March 31,	
	2017	2016
Realized gain/(loss)	(\$211,956)	-
\$ per barrel ⁽¹⁾	(\$1.69)	-
Unrealized gain/(loss)	\$2,858,532	-
Total gain/(loss) on risk management	\$2,646,576	-

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

CROWN AND FREEHOLD ROYALTIES	Three months ended March 31,	
	2017	2016
Crown	\$262,708	\$47,626
Freehold	\$655,347	\$40,841
Total Royalties	\$918,055	\$88,467
\$ per barrel ⁽¹⁾	\$7.47	\$1.40
% of revenue	18%	9%

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

Approximately 80% of Kaisen lands are held under Crown leases with the remaining held under freehold leases. Crown royalty rates range from ~2% to 30% depending upon the type/vintage of wells, commodity type, volume of daily production and market prices. Kaisen is currently forecasting a royalty rate of approximately 18%-22% blended for both Crown and freehold rates in the current price environment.

OPERATING EXPENSES	Three months ended March 31,	
	2017	2016
	\$3,614,229	\$1,237,417
\$ per barrel ⁽¹⁾	\$29.39	\$19.52
% of revenue	72%	126%

(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.

For the Quarter, operating costs averaged \$29.39 per boe (51% higher than the prior year). Higher operating costs per boe for the Quarter were largely due to the three combined factors of ongoing repair and maintenance work that was carried over from the fourth quarter, a significant increase in propane costs during the high demand season through the cold winter months of January and February, and higher



water handling costs associated with the testing and continued optimization of several higher water cut wells. Based on cost trends for March and April, the Company forecasts operating costs per barrel to trend between \$20.00 - \$24.00 for the remainder of the year.

TRANSPORTATION EXPENSES	Three months ended March 31,	
	2017	2016
	\$246,646	\$134,348
\$ per boe ⁽¹⁾	\$2.01	\$2.12
% of revenue	5%	14%

⁽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, transportation costs per boe have decreased over the same period in the prior year by 5%.

OPERATING NETBACKS	Three months ended March 31,	
	2017	2016
<i>(\$ per boe)</i> ⁽¹⁾		
Sales price	\$40.64	\$15.53
Royalties	(\$7.47)	(\$1.40)
Saskatchewan surcharge tax	(\$0.66)	(\$0.71)
Operating expenses	(\$29.39)	(\$19.52)
Transportation expenses	(\$2.01)	(\$2.12)
Netbacks (before hedging)	\$1.11	(\$8.22)
Realized gain/(loss) on risk	(\$1.72)	-
Netbacks (after hedging)	(\$0.61)	(\$8.22)

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

The Company realized an average field netback profit for the Quarter of \$1.11 per barrel, compared to a field netback loss (before hedging) of \$8.22 per barrel for the same period in the prior year. Higher netbacks for the Quarter is a direct reflection of the oil price recovery during 2016 and 2017 year to date. Improvements in pricing were partially offset by higher royalties as well as higher operating costs.

GENERAL AND ADMINISTRATIVE ("G&A")	Three months ended March 31,	
	2017	2016
Salaries, bonus and benefits	\$427,063	\$334,789
Other G&A expenses	\$388,398	\$292,899
Gross G&A expenses	\$815,461	\$627,688
Capitalized G&A expenses	(\$118,235)	(\$86,217)
Net G&A costs	\$697,226	\$541,471
\$ per boe	\$5.67	\$8.54

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 G&A per boe is lower by 34% due to increased production volumes.

FINANCE CHARGES	Three months ended March 31,	
	2017	2016
Interest expense	\$2,332	\$6,614
Accretion expense	\$54,967	\$37,675
Finance charges	\$57,299	\$44,288

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 March 31,	
	2017	2016
Share-based compensation	\$481,765	\$391,814



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

Performance warrants granted	#	Exercise price	Grant Date
Series 1	1,000,000	\$1.50	November 12, 2015
Series 2	1,000,000	\$1.75	November 12, 2015
Series 3	1,000,000	\$2.00	November 12, 2015
Series 4	1,000,000	\$2.25	November 12, 2015
Series 5	1,250,000	\$1.25	July 12, 2016
Series 6	1,250,000	\$1.50	July 12, 2016
Series 7	1,250,000	\$1.75	July 12, 2016
Series 8	1,250,000	\$2.00	July 12, 2016
Total	9,000,000	\$1.74	

Concurrent with the November 12, 2015 grant of performance warrants, the Company approved the cancellation of the then outstanding 1,780,999 performance warrants and re-issued the same number of performance warrants under the new performance warrants plan, retaining the same exercise price (\$2.00) with revised vesting and expiry terms consistent with the terms of the new performance warrants granted. The cancellation of these warrants and the re-granting of the same number of performance warrants under revised terms, was accounted for as a modification of incentive units in accordance with IFRS 2. The incremental expense attributed to the modified performance warrants is being amortized to share based compensation expense over the expiry period of the new performance warrants granted.

The increase in share based compensation expense compared to the same periods in 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 March 31,	
	2017	2016
Depletion	\$1,280,701	\$684,254
Depreciation	\$9,558	\$5,304
Depletion and depreciation	\$1,290,259	\$689,558
\$ per boe	\$10.49	\$10.88

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 three months ended March 31, 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 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 March 31, 2017, the Company's net debt was \$4,918,494 (bank debt plus current assets net of current liabilities excluding risk management contracts) (\$334,454 net surplus at December 31, 2016). Higher net debt at March 31, 2017 is a product of the Company's \$4.5 million capital program which was fully executed and completed in the Quarter in addition to negative cashflow during the same period. Due to the negative cashflow reported for the Quarter, the Company was in breach of the net debt to trailing cashflow ratio covenant with our lender. The Company's lender has provided a waiver to this breach as at March 31, 2017 and concurrently extended the annual credit facility renewal 30 days to June 30, 2017.

Based on currently forecasted commodity prices through 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 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 March 31,	
	2017	2016
Land	\$51,339	\$4,060
Geological and geophysical	\$724,805	\$17,794
Drilling and completions	\$2,413,634	\$277,602
Equipment and facilities	\$1,180,250	\$198,889
Capitalized G&A	\$97,500	\$86,217
Capitalized stock based compensation	\$90,781	\$68,011
Office	\$4,512	\$47,351
Total capital additions	\$4,562,821	\$699,924

In total, 5 gross ((4.3 net) wells were drilled during the Quarter. 3 gross/net horizontal wells were drilled at Lone Rock and 2 gross (1.3 net) wells at Forest Bank. The 3 Lone Rock wells (spud late February and on-stream by the middle of March) are the first wells of a multi-well Sparky polymer flood implementation in the Lone Rock area scheduled for first injection later in the year. The 2 (1.3 net) Forest bank wells were spud in February and were also on-stream in mid March. All 5 wells have delivered positive results to date. Total cash capital expenditures for the Quarter were \$4,472,040 (excluding non-cash capitalized stock based compensation), generating a capital efficiency rate under \$10,000 per boe.

SELECTED QUARTERLY RESULTS AND ANALYSIS

(Cdn\$ thousands, except per share, shares and per boe amounts)	2017		2016			2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Petroleum and natural gas sales	\$4,997	\$4,588	\$3,836	\$1,747	\$985	\$2,059	\$2,730	\$4,000
Realized hedging gains/(losses)	(\$212)	(\$302)	(\$24)	(\$48)	-	\$651	\$505	\$166
Funds flow (loss) from operations ⁽¹⁾	(\$779)	(\$558)	(\$361)	(\$444)	(\$1,068)	\$205	(\$144)	\$997
Net earnings (loss)	\$253	(\$4,662)	(\$3,518)	(\$1,507)	(\$1,703)	(\$1,429)	\$358	(\$1,667)
Expenditures on oil & gas properties	\$4,472	\$1,424	\$865	\$546	\$632	\$1,091	\$1,519	\$747
Corporate and Asset acquisitions	-	-	\$15,580	-	-	-	-	-
Net surplus / (debt)	(\$4,918)	\$335	\$2,328	\$330	\$1,320	\$3,022	(\$4,930)	(\$3,267)
Shares outstanding – diluted (thousands)	55,649	55,649	55,649	30,649	30,649	30,649	18,649	18,649
Sales Volumes (boe per day) ⁽²⁾	1,366	1,298	1,206	582	697	822	828	907
Operating Netbacks (\$/boe)								
Sales price	\$40.64	\$38.42	\$34.57	\$32.96	\$15.53	\$27.22	\$35.85	\$48.44
Royalties	(\$7.47)	(\$7.61)	(\$5.83)	(\$5.80)	(\$1.40)	(\$4.08)	(\$6.57)	(\$10.61)
Saskatchewan surcharge tax	(\$0.66)	(\$0.52)	(\$0.09)	(\$0.57)	(\$0.71)	(\$0.69)	(\$1.92)	(\$0.91)
Operating expenses	(\$29.39)	(\$24.83)	(\$20.36)	(\$19.51)	(\$19.52)	(\$22.50)	(\$24.95)	(\$19.74)
Transportation expenses	(\$2.01)	(\$2.44)	(\$1.90)	(\$1.82)	(\$2.12)	(\$2.79)	(\$2.89)	(\$2.84)
Field netbacks (before hedging)	\$1.11	\$3.02	\$6.39	\$5.26	(\$8.22)	(\$2.84)	(\$0.48)	\$14.34
Realized gain/(loss) on risk mgmt contracts	(\$1.72)	(\$2.53)	(\$0.21)	(\$0.91)	-	\$8.60	\$6.63	\$2.01
Field netbacks (after hedging)	(\$0.61)	\$0.49	\$6.18	\$4.35	(\$8.22)	\$5.76	\$6.15	\$16.35
General & administration expenses	(\$5.67)	(\$5.94)	(\$6.70)	(\$12.54)	(\$8.54)	(\$5.10)	(\$7.59)	(\$7.35)
Transaction expenses	-	-	(\$2.61)	-	-	-	-	-
Corporate netback	(\$6.28)	(\$5.45)	(\$3.13)	(\$8.19)	(\$16.76)	\$0.66	(\$1.44)	\$9.00

⁽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.

ADDITIONAL INFORMATION

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



ADVISORIES

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

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

Non-IFRS measurements:

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

	Three months ended March 31,	
	2017	2016
Cash flow from (used in) operating activities	(\$1,219,732)	(\$487,730)
Exclude the change in non-cash working capital	(\$441,105)	(\$580,748)
Funds flow / (loss) from operations	(\$778,627)	(\$1,068,478)

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.

