



Management Discussion & Analysis

Three month period ended March 31, 2018

(unaudited)

March 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated June 5, 2018, 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, 2018 (the "Quarter") and the audited annual financial statements as at and for the year ended December 31, 2017 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. As at March 31, 2018, Kaisen operated with a total of 4 employees and 13 contract employees of which 9 reside within Kaisen's area of operations near Lloydminster, Saskatchewan.

EVENTS SUBSEQUENT TO MARCH 31, 2018

Subsequent to the Quarter end, the Company closed a convertible debenture rights offering to all existing shareholders for total gross proceeds of \$7,500,000. To further streamline operations and reduce corporate overhead costs, strategic restructuring initiatives were implemented in May including the departure of the President & CEO (including his resignation from the board of directors), the Senior Vice-President & CFO, and a Senior Exploitation Engineer. John Zahary has been brought on as Managing Director of the Company and appointed to the Board of Directors.

RESULTS OF OPERATIONS

| | Three months ended March 31, <i>(unaudited)</i> | |
|--|---|---------------|
| Financial Highlights | 2018 | 2017 |
| Petroleum and natural gas sales | 3,765,179 | 4,997,180 |
| Realized hedging losses | (47,477) | (211,956) |
| Funds flow loss from operations ⁽¹⁾ | (136,585) | (778,627) |
| Per share – basic & diluted | (\$0.00) | (\$0.02) |
| Net earnings / (loss) | (3,515,714) | 252,914 |
| Per share – basic & diluted | (\$0.08) | \$0.01 |
| Expenditures on oil & gas properties | 1,392,866 | 4,472,040 |
| Net debt (bank debt and net working capital) | (\$3,956,696) | (\$4,918,494) |
| Share Capital | | |
| Outstanding – basic | 45,420,029 | 43,420,029 |
| Outstanding – diluted | 57,649,028 | 55,649,028 |
| Weighted average – basic & diluted | 45,420,029 | 43,420,029 |
| Sales Volumes | | |
| Crude oil, natural gas and liquids (boe per day) | 1,064 | 1,366 |
| Netbacks⁽¹⁾ (\$ per barrel) | | |
| Sales price | \$39.31 | \$40.64 |
| Royalties | (\$7.59) | (\$7.47) |
| Saskatchewan surcharge tax | (\$0.59) | (\$0.66) |
| Operating expenses | (\$23.06) | (\$29.39) |
| Transportation expenses | (\$2.29) | (\$2.01) |
| Field Netbacks (before hedging) | \$5.78 | \$1.11 |
| Realized loss on risk management contracts | (\$0.50) | (\$1.72) |
| Field Netbacks (after hedging) | \$5.28 | (\$0.61) |
| General & administrative expenses | (\$6.40) | (\$5.67) |
| Corporate Net Loss | (\$1.12) | (\$6.28) |

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



FIRST QUARTER HIGHLIGHTS

➤ First quarter production averaged 1,064 boe per day – 17% lower than the prior quarter

- Production was lower by 17% over the prior quarter including the late quarter addition of 1 new well at Coleville which commenced production in late February.

➤ All-in operating and transportation costs of \$25.35 – 25% higher than the prior quarter

- All-in operating costs (including transportation) for the Quarter averaged \$25.35 per boe (\$5.14 per boe higher than the prior quarter) due to increased seasonal expenditures coupled with lower production volumes.

➤ Field netbacks (before hedging) of \$5.78 per boe, compared to \$18.56 in the prior quarter

- Field netbacks decreased over the prior quarter due most significantly to lower market pricing for the Company's heavy oil production.

➤ Funds loss of \$0.14 million, compared to positive funds flow of \$1.5 million in the prior quarter

- The Company recorded a \$0.13 million funds flow loss in the Quarter compared to positive funds flow of \$1.5 million in the prior quarter driven by significantly lower market prices, a 17% decline in production coupled with seasonally higher operating costs during the winter months.

➤ Ending net debt of \$3.96 million, 63% higher than the prior quarter

- Funds flow loss during the Quarter coupled with capital investment in 1 new well during the Quarter increased net debt by 63% since December 31, 2017.

FUNDS FLOW FROM OPERATIONS

For the Quarter, the Company recorded a funds flow loss of \$0.14 million, compared to a loss of \$0.78 million in the same period of 2017. The reduced funds flow loss year over year is primarily a result of a 22% reduction in operating costs and lower realized hedging losses in the current Quarter.

NET EARNINGS AND COMPREHENSIVE EARNINGS

The Company recorded a net loss for the Quarter of \$3.52 million, compared to net income of \$0.25 million in the prior year. Routine non-cash charges can have a significant impact on net earnings/losses. The most significant non-cash charges for the Quarter are depletion and depreciation of the Company's assets, share based compensation expense, and unrealized gains/losses from hedging contracts. These non-cash charges do not reflect cash costs of the Company and can therefore be misleading in measuring the financial health of operations from one period to the next. The changes in net earnings/loss are due to several factors which are discussed in greater detail below.

OIL AND GAS PRODUCTION AND PRICING

| | Three months ended March 31, | |
|---|------------------------------|--------------|
| (barrels per day) | 2018 | 2017 |
| Sales volumes | | |
| Crude oil (bbls per day) | 1,047 | 1,347 |
| Natural gas liquids ("NGL") (bbls/d) | 2 | 2 |
| Natural gas (Mcf per day) | 90 | 104 |
| Total average daily production (boe/d) | 1,064 | 1,366 |
| <i>Liquids as a percentage of total</i> | | |
| Production by area | | |
| Lone Rock, Saskatchewan | 193 | 179 |
| Edam, Saskatchewan | 194 | 429 |
| Lloydminster, Saskatchewan | 465 | 499 |
| Coleville, Saskatchewan | 108 | 86 |
| Other | 104 | 173 |
| Total average daily production | 1,064 | 1,366 |

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 1,064 boe per day compared to 1,366 boe per day for the same quarter in 2017. During the Quarter, the Company drilled 1 gross/net well, which came on-stream in late February, therefore having minimal impact on the Quarter's



production average. In the same quarter of the prior year, production was positively impacted by the results of a 5 well program at Lone Rock and Forest Bank.

| | Three months ended March 31, | |
|---|-------------------------------------|-------------|
| Petroleum and natural gas revenue and prices | 2018 | 2017 |
| Heavy oil | \$3,731,547 | \$4,968,596 |
| Natural gas | \$13,002 | \$20,911 |
| NGL's | \$20,630 | \$7,673 |
| Total Sales | \$3,765,179 | \$4,997,180 |
| Kaisen realized prices | | |
| Heavy oil (\$/bbl) | \$39.62 | \$40.99 |
| Natural gas (\$/mcf) | \$1.53 | \$2.24 |
| NGL's (\$/bbl) | \$77.14 | \$37.87 |
| Corporate average realized price | \$39.31 | \$40.64 |
| Average Benchmark Prices | | |
| WTI oil (US\$/bbl) ⁽¹⁾ | \$62.87 | \$51.92 |
| WCS differential (US\$/bbl) ⁽²⁾ | (\$24.27) | (\$14.58) |
| WCS heavy oil (US\$/bbl) | \$38.60 | \$37.34 |
| WCS differential % | 61% | 28% |
| AECO natural gas (CDN\$/mcf) ⁽³⁾ | \$1.77 | \$2.90 |
| US/CDN exchange rate | \$0.7937 | \$0.758 |
| WCS heavy oil (CDN\$/bbl) | \$48.81 | \$49.39 |

(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.

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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

US denominated WTI prices for the first quarter increased by 21% over the same period in 2017 averaging approximately US\$63.00 per barrel, the WCS differential widened from US\$14.58 per barrel to US\$24.27 per barrel and the Canadian dollar strengthened. These movements resulted in Kaisen's realized heavy oil price remaining relatively unchanged at \$39.62 per barrel.

WTI saw a significant increase in the first quarter when compared with both the same period in 2017 and the fourth quarter. Unfortunately, this did not translate in the same degree to Kaisen's overall realized price due to the significant widening of the WCS differential.

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, 2018 the Company had the following fixed price contracts:



| Type | Period | Volume (bbl/d) | Price/unit ⁽¹⁾ | Index |
|----------------------------|-------------------------------------|----------------|---------------------------|----------------|
| Swap | January 1, 2018 – December 31, 2018 | 200 bbl/d | CAD \$67.20 | WTI-NYMEX |
| Swap | January 1, 2018 – June 30, 2018 | 100 bbl/d | CAD \$68.50 | WTI-NYMEX |
| Swap | January 1, 2018 – June 30, 2018 | 200 bbl/d | CAD \$60.00 | WTI-NYMEX |
| Fixed WTI Swap | Feb 1, 2018 – June 30, 2018 | 150 bbl/d | CAD \$78.15 | WTI-NYMEX |
| Fixed WTI Swap | July 1, 2018 – Dec 31, 2018 | 200 bbl/d | CAD \$75.50 | WTI-NYMEX |
| Swap | July 1, 2018 – December 31, 2018 | 200 bbl/d | CAD \$63.65 | WTI-NYMEX |
| Call option ⁽²⁾ | January 1, 2019 – December 31, 2019 | 400 bbl/d | USD \$60.00 | WTI-NYMEX |
| Fixed WCS Basis Swap | January 1, 2018 – March 31, 2018 | 500 bbl/d | CAD -\$16.50 | WCS-Net Energy |

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

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

The following is a summary of realized and unrealized losses for the three month periods ended March 31, 2018 and 2017:

| | Three months ended March 31, | |
|---|------------------------------|--------------------|
| | 2018 | 2017 |
| Realized gain/(loss) | (\$47,477) | (\$211,956) |
| \$ per barrel ⁽¹⁾ | (\$0.50) | (\$1.69) |
| Unrealized gain/(loss) | (\$1,665,710) | \$2,858,532 |
| Total gain/(loss) on risk management | (\$1,713,187) | \$2,646,576 |

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

| CROWN AND FREEHOLD ROYALTIES | Three months ended March 31, | |
|------------------------------|------------------------------|------------------|
| | 2018 | 2017 |
| Crown | \$199,712 | \$262,708 |
| Freehold | \$528,020 | \$655,347 |
| Total Royalties | \$727,732 | \$918,055 |
| \$ per barrel ⁽¹⁾ | \$7.59 | \$7.47 |
| % of revenue | 19% | 18% |

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

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

| OPERATING EXPENSES | Three months ended March 31, | |
|------------------------------|------------------------------|-------------|
| | 2018 | 2017 |
| Operating expenses | \$2,208,900 | \$3,614,229 |
| \$ per barrel ⁽¹⁾ | \$23.06 | \$29.39 |
| % of revenue | 59% | 72% |

(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. 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 \$23.06 per boe (22% lower than the prior year). Lower operating costs per boe for the Quarter compared to the prior year was largely due to circumstances in the prior year relating most significantly to higher propane costs during the high demand winter season and higher water handling costs that were associated with the testing and continued optimization of several higher water cut wells at that time.

| TRANSPORTATION EXPENSES | Three months ended March 31, | |
|---------------------------|------------------------------|-----------|
| | 2018 | 2017 |
| Transportation expenses | \$219,481 | \$246,646 |
| \$ per boe ⁽¹⁾ | \$2.29 | \$2.01 |
| % of revenue | 6% | 5% |

(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 increased over the same period in the prior year by 14%.

| OPERATING NETBACKS | Three months ended March 31, | |
|--|-------------------------------------|-------------|
| <i>(\$ per boe) ⁽¹⁾</i> | 2018 | 2017 |
| Sales price | \$39.31 | \$40.64 |
| Royalties | (\$7.59) | (\$7.47) |
| Saskatchewan surcharge tax | (\$0.59) | (\$0.66) |
| Operating expenses | (\$23.06) | (\$29.39) |
| Transportation expenses | (\$2.29) | (\$2.01) |
| Netbacks <i>(before hedging)</i> | \$5.78 | \$1.11 |
| Realized loss on risk management contracts | (\$0.50) | (\$1.72) |
| Netbacks <i>(after hedging)</i> | \$5.28 | (\$0.61) |

⁽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 \$5.78 per barrel, compared to \$1.11 per barrel in the prior year. With relatively flat pricing year over year, higher netbacks for the Quarter is a direct reflection of the 22% reduction in operating costs per barrel and lower realized hedging settlement losses.

| GENERAL AND ADMINISTRATIVE ("G&A") | Three months ended March 31, | |
|---|-------------------------------------|-------------|
| | 2018 | 2017 |
| Gross G&A expenses | \$714,259 | \$815,461 |
| Capitalized G&A expenses | (\$100,827) | (\$118,235) |
| Net G&A costs | 613,432 | \$697,226 |
| \$ per boe | \$6.40 | \$5.67 |

G&A expenses are primarily fixed costs by nature and therefore fluctuate on a per barrel basis with the rate of production. Kaisen capitalizes to property, plant and equipment, a percentage of technical staff salaries and share based compensation expense for engineering and geological work at a rate that is commensurate with the extent of work required to execute on the Company's capital program. For the Quarter G&A per boe is higher by 13% due to lower production volumes and one-time costs.

| FINANCE CHARGES | Three months ended March 31, | |
|------------------------|-------------------------------------|-------------|
| | 2018 | 2017 |
| Interest expense | \$28,668 | \$2,332 |
| Accretion expense | \$64,127 | \$54,967 |
| Finance charges | \$92,795 | \$57,299 |

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, | |
|---------------------------------|-------------------------------------|-------------|
| | 2018 | 2017 |
| Share-based compensation | \$471,737 | \$481,765 |

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



| Performance warrants granted | # | Exercise price | Grant Date |
|------------------------------|-------------------|----------------|-------------------|
| Series 1 | 1,000,000 | \$1.50 | November 12, 2015 |
| Series 2 | 1,000,000 | \$1.75 | November 12, 2015 |
| Series 3 | 2,780,999 | \$2.00 | November 12, 2015 |
| Series 4 | 1,000,000 | \$2.25 | November 12, 2015 |
| Series 5 | 1,250,000 | \$1.25 | July 12, 2016 |
| Series 6 | 1,250,000 | \$1.50 | July 12, 2016 |
| Series 7 | 1,250,000 | \$1.75 | July 12, 2016 |
| Series 8 | 1,250,000 | \$2.00 | July 12, 2016 |
| Total | 10,780,999 | \$1.74 | |

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

| DEPLETION AND DEPRECIATION | Three months ended March 31, | |
|-----------------------------------|------------------------------|--------------------|
| | 2018 | 2017 |
| Depletion | \$1,170,170 | \$1,280,701 |
| Depreciation | \$7,385 | \$9,558 |
| Depletion and depreciation | \$1,177,555 | \$1,290,259 |
| \$ per boe | \$12.29 | \$10.49 |

Depletion expense is a product of depletable assets multiplied by total production divided by estimated proved and probable oil and natural gas reserves at the beginning of each period. Included within depletable assets is an estimate of future development costs of \$98.1 million (\$77.3 million in the prior year) less total salvage value of the assets of \$2.6 million (\$2.5 million 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 periodically reviews certain quantitative measures of its capital structure in order to understand its position relative to industry peers. The Company 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 with exception to the single covenant 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, 2018.

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

During the Quarter on January 15, 2018, the Company's borrowing base was reduced from \$5.5 million to \$4.0 million. As at March 31, 2018, the Company had bank debt of \$3,412,940 (\$3,051,501 in the prior year) and total net debt (including a working capital deficit) of \$3,956,697.

Subsequent to the Quarter end, the Company closed a convertible debenture rights offering to all existing shareholders for total gross proceeds of \$7,500,000, refer to Note 15 – Subsequent Events. Based on currently forecasted commodity prices through 2018, Kaisen's current capital resources (cash on hand, equity proceeds and available borrowing capacity) are sufficient to fund ongoing corporate obligations through 2018. However, if the current economic circumstances affecting our business are to materially change, Kaisen maintains optionality to adjust its capital structure through such means as the issuance of new equity, and/or the issuance of new debt instruments in various forms tailored to the Company's specific needs, and/or by making adjustments to its operations and/or capital expenditure programs to the extent that capital expenditures are not committed.

| CAPITAL INVESTMENT | Three months ended March 31, | |
|---|------------------------------|--------------------|
| | 2018 | 2017 |
| Land | \$8,750 | \$51,339 |
| Geological and geophysical | - | \$724,805 |
| Drilling, completions and optimizations | \$1,028,641 | \$2,413,634 |
| Equipment and facilities | \$257,712 | \$1,180,250 |
| Capitalized G&A | \$97,500 | \$97,500 |
| Capitalized stock based compensation | \$87,956 | \$90,781 |
| Office | \$263 | \$4,512 |
| Total capital additions | \$1,480,822 | \$4,562,821 |



In total, 1 gross/net horizontal well was drilled in the Coleville during the Quarter for total cost of approximately \$0.87 million (5 gross (4.3 net wells drilled in the same period of the prior year.) A further \$0.26 million was invested in the purchase of long lead equipment for the planned polymer flood injection program at Lone Rock and \$0.13 million in optimization capital to fund operating cost reductions on propane fuel, including the electrification of 4 wells at Coleville, and the installation of casing gas compression at the Lone Rock 16-6 HZ padsite.

SELECTED QUARTERLY RESULTS AND ANALYSIS

| <i>(Cdn\$ thousands, except per share, shares and per boe amounts)</i> | 2018 | | 2017 | | | 2016 | | |
|--|---------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 |
| Petroleum and natural gas sales | \$3,765 | \$5,578 | \$5,060 | \$5,798 | \$4,997 | \$4,588 | \$3,836 | \$1,747 |
| Realized hedging gains/(losses) | (\$47) | (\$256) | \$468 | \$124 | (\$212) | (\$302) | (\$24) | (\$48) |
| Funds flow (loss) from operations ⁽¹⁾ | (\$137) | \$1,460 | \$1,318 | \$907 | (\$779) | (\$558) | (\$361) | (\$444) |
| Net earnings (loss) | (\$3,515) | (\$1,824) | (\$1,634) | \$842 | \$253 | (\$4,572) | (\$3,518) | (\$1,507) |
| Expenditures on oil & gas properties | \$1,393 | \$311 | \$2,967 | \$408 | \$4,472 | \$1,424 | \$865 | \$546 |
| Corporate and Asset acquisitions | - | - | - | - | - | - | \$15,580 | - |
| Net surplus / (debt) | (\$3,956) | (\$2,425) | (\$3,572) | (\$4,422) | (\$4,918) | \$335 | \$2,328 | \$330 |
| Shares outstanding – diluted (thousands) | 57,649 | 57,649 | 57,649 | 55,649 | 55,649 | 55,649 | 55,649 | 30,649 |
| Sales Volumes (boe per day) ⁽²⁾ | 1,064 | 1,288 | 1,295 | 1,480 | 1,366 | 1,298 | 1,206 | 582 |
| Operating Netbacks (\$/boe) | | | | | | | | |
| Sales price | \$39.31 | \$47.09 | \$42.48 | \$43.06 | \$40.64 | \$38.42 | \$34.57 | \$32.96 |
| Royalties | (\$7.59) | (\$8.24) | (\$7.26) | (\$7.08) | (\$7.47) | (\$7.61) | (\$5.83) | (\$5.80) |
| Saskatchewan surcharge tax | (\$0.59) | (\$0.08) | (\$0.88) | (\$0.78) | (\$0.66) | (\$0.52) | (\$0.09) | (\$0.57) |
| Operating expenses | (\$23.06) | (\$18.15) | (\$17.68) | (\$21.52) | (\$29.39) | (\$24.83) | (\$20.36) | (\$19.51) |
| Transportation expenses | (\$2.29) | (\$2.06) | (\$2.05) | (\$2.37) | (\$2.01) | (\$2.44) | (\$1.90) | (\$1.82) |
| Field netbacks (before hedging) | \$5.78 | \$18.56 | \$14.61 | \$11.31 | \$1.11 | \$3.02 | \$6.39 | \$5.26 |
| Realized gain/(loss) on risk mgmt contracts | (\$0.50) | (\$2.16) | \$3.93 | \$0.92 | (\$1.72) | (\$2.53) | (\$0.21) | (\$0.91) |
| Field netbacks (after hedging) | \$5.28 | \$16.40 | \$18.54 | \$12.23 | (\$0.61) | \$0.49 | \$6.18 | \$4.35 |
| General & administration expenses | (\$6.40) | (\$3.79) | (\$6.73) | (\$5.21) | (\$5.67) | (\$5.94) | (\$6.70) | (\$12.54) |
| Transaction expenses | - | - | - | - | - | - | (\$2.61) | - |
| Corporate netback / (netback loss) | (\$1.12) | \$12.61 | \$11.81 | \$7.02 | (\$6.28) | (\$5.45) | (\$3.13) | (\$8.19) |

⁽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 (4.3 net) wells in the first quarter, 3 gross/net wells in the third quarter of 2017 and 1 gross/net well in the first quarter of 2018.

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** (rbarnard@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, | |
|--|------------------------------|---------------|
| | 2018 | 2017 |
| Cash flow from (used in) operating activities | \$874,284 | (\$1,219,732) |
| Exclude the change in non-cash working capital | \$1,010,869 | (\$441,105) |
| Funds flow loss | (\$136,585) | (\$778,627) |

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.

