



Management Discussion & Analysis

For the three months ended March 31, 2019

March 31, 2019

Management's Discussion and Analysis
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The following management discussion and analysis ("MD&A") is dated June 5, 2019, 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, 2019 (the "Quarter") and the audited annual financial statements as at and for the year ended December 31, 2018 of Kaisen Energy Corp. ("Kaisen" or the "Company"). Both financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

Unless otherwise stated, text and tabular amounts herein are in Canadian dollars ("C\$ or "CDN\$"). The Company may also reference United States dollars ("US\$"). In this MD&A, production and reserves information may be presented on a "barrel of oil equivalent" or "boe" basis with six thousand cubic feet ("mcf") of natural gas being equivalent to one barrel ("bbl") of crude oil or natural gas liquids. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

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

About Kaisen Energy Corp.

Kaisen is a Calgary-based energy company primarily focused on heavy oil development and production in Saskatchewan and was incorporated in Alberta, Canada on November 6, 2012. The Company's principal place of business is 400, 522 - 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8.

FIRST QUARTER HIGHLIGHTS

- Recorded an operating netback of \$9.51 per boe, compared to \$5.78 per boe recorded in the prior year comparative quarter.
- Realized average pricing of \$49.08 per boe as WCS differentials rebounded from historic lows observed in the fourth quarter of 2018.
- Reactivated the majority of wells shut-in during the fourth quarter of 2018, resulting in incremental operating expenses of \$151,000 or \$2.20 per boe.
- Produced an average of 764 boe per day, 28% lower than the first quarter of 2018, and 62% higher than December 2018 exit production of 473 boe per day.
- Issued 200 convertible debentures for total proceeds of \$200,000, leaving \$1,926,000 in committed financing undrawn at quarter end.
- Realized \$3,372,746 in petroleum and natural gas sales, a 10% decrease from the prior year comparative quarter.
- Recorded a funds flow from operations deficit of \$107,907 compared to a funds flow from operations deficit of \$136,585 in the first quarter of 2018.
- Exited the quarter with net debt of \$4,036,291.

FINANCIAL AND OPERATING RESULTS SUMMARY

	Three months ended March 31,	
	2019	2018
Operating		
Average daily production (boe/d)	764	1,064
WCS heavy oil benchmark price (CDN\$/bbl)	56.66	48.81
Operating netback ⁽¹⁾ (\$/boe)		
Realized sales price	49.08	39.31
Royalties	(7.52)	(7.59)
Saskatchewan surcharge tax	(0.59)	(0.59)
Operating expenses	(28.64)	(23.06)
Transportation expenses	(2.82)	(2.29)
Operating netbacks prior to hedging	9.51	5.78
Realized loss on risk management contracts	(7.03)	(0.50)
Operating netbacks after hedging	2.48	5.28
Financial (\$'s except for share amounts)		
Petroleum and natural gas sales	3,372,746	3,765,179
Funds flow from operations deficit ⁽¹⁾	(107,907)	(136,585)
Per share – basic and diluted	(0.00)	(0.00)
Net loss	(3,689,013)	(3,515,714)
Per share – basic and diluted	(0.08)	(0.08)
Expenditures on oil and gas properties	282,953	1,392,866
Net debt ⁽¹⁾ – end of period		
Adjusted working capital deficit ⁽²⁾	1,766,397	543,757
Bank loan	2,265,575	3,412,940
Long-term lease liabilities	4,319	3,412,940
	4,036,291	3,956,697
Issued convertible debentures ⁽³⁾ – end of period	5,577	-
Weighted average shares outstanding		
Basic and diluted	45,420,029	45,420,029
Outstanding shares – end of period		
Basic and diluted	45,420,029	45,420,029

⁽¹⁾ Refer to "Non-GAAP Measures"

⁽²⁾ Adjusted working capital is defined as current assets net of current liabilities excluding risk management contracts

⁽³⁾ As at March 31, 2019, the total face value of the 5,577 convertible debentures plus accrued undeclared interest was \$5,852,000. Upon a liquidity event and at the election of each holder, they would convert to 111,540,000 common shares and owed interest of \$275,000.

Operating Results

The Company made minimal capital investments during the first quarter of 2019, as Management focused on restoring oil production that had been shut-in during the fourth quarter of 2018, when production became uneconomic due to a sharp rise in the WTI-WCS price differential. As a result, first quarter 2019 production averaged 764 boe per day, a 62% increase from December 2018 exit production of 473 boe per day. Cost reduction initiatives implemented during the first half of 2018 enabled the Company to endure the disruptive, volatile pricing experienced in the fourth quarter of 2018, and the Company will look to continue taking a low cost but technical approach to managing its asset base throughout the remainder of 2019.

Financial Results

The Company achieved positive first quarter operating netbacks prior to hedging of \$653,868 (\$9.51 per boe) compared to operating netbacks of \$552,992 (\$5.78 per boe) recorded in the first quarter of 2018. Realized pricing on commodity sales averaged \$49.08 per boe, a 25% increase from the prior year comparative quarter. The benefits of higher realized pricing were equally offset by a 28% reduction in production volumes from the same quarter of 2018. Royalties and transportation costs decreased \$211,044 and \$25,953 from the first quarter of 2018, respectively. Operating costs decreased by \$240,758 from the same quarter of 2018 as a result of decreased production, slightly offset by additional costs incurred to reactivate wells shut-in during the fourth quarter of 2018.

During the three months ended March 31, 2019 the Company recorded a funds flow from operations deficit of \$107,907, compared to a funds flow from operation deficit of \$136,585 recorded in the prior year comparative quarter. Funds flow was negatively impacted by \$483,379 in realized losses on risk management contracts versus realized losses of \$47,477 recorded in the first quarter of 2018. As a result, the Company recorded a net loss of \$3,689,013 compared to a net loss of \$3,515,714 recorded in the prior year comparative quarter.

The Company exited the quarter with an adjusted working capital deficit of \$1,766,397 (December 31, 2018 - \$1,698,511) and net debt of \$4,036,297 (December 31, 2018 - \$3,794,098). Net debt as at March 31, 2019 is inclusive of \$85,867 in lease liabilities recognized in connection with the Company's adoption of IFRS 16 during the quarter (refer to "*Changes in Accounting Policies*").

At the end of the first quarter, the Company had a bank loan balance of \$2,265,575 and was compliant with its revised borrowing base of \$2.5 million; however, the Company continued to be in breach of its lender's working capital ratio covenant of 1.00:1.00. As a result, the lender is entitled to demand repayment of the bank loan in full. As at the date of this MD&A, the Company is undergoing a borrowing base review with its lender. The Company issued 200 convertible debentures during the quarter for total proceeds of \$200,000, which was used to pay off a \$200,000 promissory note entered into on January 15, 2019. Management may address future working capital deficiencies by accessing the remaining \$1,926,000 in funding available through Obligation Debentures but not yet called as at March 31, 2019 and at the date of this MD&A.

Although realized pricing increased, Funds flow from operations remained negative in the first quarter of 2019 due to lower production and realized losses on risk management contracts. The uncharacteristically wide WTI-WCS differentials experienced during late 2018 have resulted in a significant decrease to the Company's projected cashflows over the next twelve months. For more information, please refer to the "Liquidity, Capital Resources and Going Concern" section of this MD&A.

2019 FIRST QUARTER AND FINANCIAL AND OPERATING RESULTS

Oil and Gas Production Volumes

	Three months ended March 31,	
	2019	2018
Sales volumes		
Crude oil (bbls/d)	748	1,047
Natural gas liquids ("NGL") (bbls/d)	2	2
Natural gas (Mcf/d)	82	90
Total average daily production (boe/d)	764	1,064
Production by area (boe/d)		
Lone Rock, Saskatchewan	65	193
Edam, Saskatchewan	297	194
Lloydminster, Saskatchewan	244	465
Coleville, Saskatchewan	62	108
Other	96	104
Total average daily production (boe/d)	764	1,064

Kaisen's production for the first quarter 2019 averaged 764 boe per day, representing a 28% decrease from the same quarter of 2018 and a 14% increase from the 672 boe per day produced in the fourth quarter of 2018. Quarter over quarter, production decreased at Lone Rock because of natural declines from its 2017 drilling program which the Company will look to offset using injector conversion, pressure maintenance, and polymer treatments in subsequent quarters. Lloydminster production dropped 221 boe per day from the first quarter of 2018 because of high declines on three prolific wells at Neilburg and Forest Bank, all of which have high cumulative recoveries. Prior year recompletion and optimization work performed is responsible for the 103 boe per day increase in production at Edam. Coleville production was completely shut-in during the fourth quarter of 2018 and was only partially reactivated in the first quarter of 2019 due to high costs.

Oil and Gas Realized Revenues and Pricing

	Three months ended March 31,	
	2019	2018
Petroleum and natural gas revenues (\$)		
Crude oil	3,349,663	3,731,547
Natural gas	15,707	13,002
NGL's	7,376	20,630
	3,372,746	3,765,179
Realized prices		
Crude oil (\$/bbl)	49.76	39.62
Natural gas (\$/mcf)	2.14	1.53
NGL's (\$/bbl)	40.28	77.14
Corporate average realized price (\$/boe)	49.08	39.31
Average benchmark prices		
WTI oil (US\$/bbl) ⁽¹⁾	54.81	62.87
WCS differential (US\$/bbl) ⁽²⁾	(12.20)	(24.27)
WCS heavy oil (US\$/bbl)	42.61	38.60
WCS differential %	22	39
AECO natural gas (CDN\$/mcf) ⁽³⁾	2.62	1.77
US\$:CDN\$	0.75	0.79
WCS heavy oil (CDN\$/bbl)	56.66	48.81

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

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

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

Realized Pricing

The Company realized heavy oil prices of \$49.76 per barrel during the three months ended March 31, 2019, representing an increase of \$10.14 per barrel from the first quarter of 2018 and a \$25.55 per barrel increase from the fourth quarter of 2018. Realized pricing during the three months ended March 31, 2019 was positively impacted by the narrowing of WCS differentials from 2018 year end, slightly offset by lower WTI pricing.

Risk Management Contracts

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

	Three months ended March 31,	
	2019	2018
Realized loss	\$ (483,379)	\$ (47,477)
Unrealized loss	(2,651,464)	(1,665,710)
Losses on risk management contracts	\$ (3,134,843)	\$ (1,713,187)

The Company recorded realized losses on risk management contracts for the three months ended March 31, 2019 of \$483,379 (2018 - \$44,477). Realized derivative losses for the three-month periods were a result of higher oil prices relative to lower fixed oil priced contract positions. For the three months ended March 31, 2019, the Company recorded unrealized losses of \$2,651,464 on risk management contracts (2018 - \$1,665,710). For further information, refer to the "Risk Management" section of this MD&A.

Crown and Freehold Royalties

	Three months ended March 31,	
	2019	2018
Crown	\$ 195,301	\$ 199,712
Freehold	321,387	528,020
Royalties	\$ 516,688	\$ 727,732
% of revenue	15.3	19.3

Approximately 80% of Kaisen lands are held under Crown leases with the remaining held under freehold leases. Crown royalty rates range from ~2% to 30% depending upon the type and vintage of wells, commodity type, volume of daily production, and market prices. Kaisen is currently forecasting a royalty rate of approximately 17%-20% blended for both Crown and freehold rates in the current price environment. As a percentage of revenue, royalties were 15.3% for the current quarter (2018 - 19.3%). The decrease in rates is reflective of the decline on high royalty rate wells at Neilburg and Forest Bank.

Operating Expenses

	Three months ended March 31,	
	2019	2018
Operating expenses	\$ 1,968,142	\$ 2,208,900

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

First quarter 2019 operating costs of \$1,968,142 (\$28.64 per boe) decreased 11% from the \$2,208,900 (\$23.06 per boe) recorded in the first quarter of 2018. The per boe increases from the same quarter of 2018 are primarily due to decreased production over a fixed operating cost base combined with one-time costs of \$151,000 incurred to reactivate wells shut-in during the fourth quarter of 2018.

Transportation Expenses

	Three months ended March 31,	
	2019	2018
Transportation expenses	\$ 193,528	\$ 219,481

Transportation expenses relate specifically to the cost of trucking produced emulsion to the sales point where it is then cleaned and blended for market. Costs related to water and sand transportation are included within operating costs. The majority of the Company's crude oil production is trucked to sales facilities near Lloydminster, Edam, and Coleville, Saskatchewan. Bottlenecking of trucks at sales facilities and seasonal delays may impact the cost of transportation in any given period; however, the Company's transportation expense has typically trended in the range of \$1.85 to \$2.50 per boe since inception. During the three months ended March 31, 2019, the Company recorded transportation expenses of \$2.82 per boe, representing an increase of 23% from the first quarter of 2018, which is a result of trucking crude longer distances to rail terminals to receive better prices.

Operating Netback⁽¹⁾

(\$ per boe)	Three months ended March 31,	
	2019	2018
Realized sales price	49.08	39.31
Royalties	(7.52)	(7.60)
Saskatchewan surcharge tax	(0.59)	(0.59)
Operating expenses	(28.64)	(23.06)
Transportation expenses	(2.82)	(2.29)
Operating netback (before hedging)	9.51	5.78
Realized loss on risk management contracts	(7.03)	(0.50)
Operating netback (after hedging)	2.48	5.28

⁽¹⁾ Refer to "Non-GAAP Measures"

The Company realized an average field netback (before hedging) for the first quarter of 2019 of \$9.51 per boe, compared to \$5.78 per boe in the prior year comparative quarter. Current quarter operating netbacks have improved as the narrower WCS differentials more than offset the impact of lower WTI pricing. Decreased production and the reactivation of shut-in wells during the first quarter of 2019 contributed to an increase in per boe operating costs, while royalties remained consistent with the prior year comparative quarter. Realized hedging losses of \$7.03 per boe (2018 – \$0.50 per boe) reduced current quarter operating netbacks to \$2.48 per boe (2018 – \$5.28 per boe).

General and Administrative ("G&A")

	Three months ended March 31,	
	2019	2018
Gross G&A expenses	\$ 350,102	\$ 710,932
Capitalized G&A expenses	(92,499)	(97,500)
Net G&A expenses	\$ 257,603	\$ 613,432

G&A expenses are primarily fixed by nature and therefore fluctuate on a per barrel basis with the rate of production. Kaisen capitalizes to property, plant, and equipment a percentage of technical staff salaries and share-based compensation expense for engineering and geological work at a rate that is commensurate with the extent of work required to execute on the Company's capital program. For the three months ended March 31, 2019, G&A expenses were \$257,603 (2018 - \$613,432). Compared to the prior year comparative quarter, G&A expenses were lower due to reductions in staffing and the implementation of corporate overhead cost reductions, which commenced in May 2018. As a result of the adoption of IFRS 16 (refer to "Changes in Accounting Policies"), G&A expenses were reduced by \$24,026 for the three months ended March 31, 2019.

Net Finance Expenses

	Three months ended March 31,	
	2019	2018
Interest expense on bank loan	\$ 27,244	\$ 28,668
Accretion on decommissioning obligations	63,336	64,127
Capital lease interest expense	1,396	-
Net finance expenses	\$ 91,976	\$ 92,795

Interest expense relates to interest charges and related service fees on the Company's banking facility. Accretion expense relates to the Company's decommissioning obligation for the future abandonment and reclamation of its lands and well sites. The estimated future decommissioning obligation is discounted at a risk-free rate in accordance with the Company's accounting policies and recorded as a liability on the Statement of Financial Position. This liability is increased monthly to account for the passage of time, with the monthly increase recorded as accretion expense. Material changes in accretion expense are typically driven by new well additions (removals) in each period due to the Company's drilling program and acquisitions (divestitures). Capital lease interest expense was recognized as a result of adopting IFRS 16 (refer to "Changes in Accounting Policies").

Share-Based Compensation

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

At March 31, 2019, Kaisen had 10,931,000 share options, 4,500,000 executive incentive share options, and 33,480,999 performance warrants outstanding. During the three months ended March 31, 2019, the Company recorded share-based compensation expenses of \$133,052 (2018 – \$471,737).

Depletion and Depreciation

	Three months ended March 31,	
	2019	2018
Depletion	\$ 718,339	\$ 1,170,170
Depreciation	14,913	7,385
Depletion and depreciation	\$ 733,252	\$ 1,177,555

Depletion expense is a product of depletable assets multiplied by total production divided by estimated proved and probable oil and natural gas reserves at the beginning of each period, while also considering the estimated future development costs necessary to bring those reserves into production. Depreciation expense is recorded based on corporate assets and is calculated on a declining basis. The right-of-use (“ROU”) assets recognized upon the Company’s adoption of IFRS 16 are depreciated over their estimated useful lives on a straight-line basis (refer to “Changes in Accounting Policies”).

At March 31, 2019, \$93.3 million in future development costs (December 31, 2018 – \$93.3 million) less total salvage values of the assets of \$2.6 million (December 31, 2018 – \$2.6 million) were included in the production asset cost bases for depletion calculation purposes. For the three months ended March 31, 2019, per boe depletion expenses decreased by 14% in comparison to the prior year comparative quarter due to impairments recorded in the fourth quarter 2018 and lower production in 2019. Depreciation expenses in the first quarter of 2019 included \$9,604 relating to the adoption of IFRS 16, which increased the Company’s property and equipment balance by ROU assets totaling \$46,586 on January 1, 2019.

PROPERTY AND EQUIPMENT (DEVELOPMENT) EXPENDITURES

	Three months ended March 31,	
	2019	2018
Land	\$ 5,305	\$ 8,750
Geological and geophysical	-	-
Drilling, completions and optimizations	171,082	1,028,641
Equipment and facilities	14,067	257,712
Capitalized G&A	92,499	97,500
Corporate	-	263
Property and equipment expenditures	\$ 282,953	\$ 1,392,866

During the three months ended March 31, 2019, the Company made \$282,953 in capital investments (2018 – \$1,392,866). Approximately \$90,000 was spent reactivating two suspended wells with pending crown expiry notices, which resulted in the continuance of one section of land at Edam and Carruthers-Soda Lake. Overall, minimal capital was spent in the quarter as the Company’s focus was on restoring oil production that was intentionally reduced in the fourth quarter of 2018.

LIQUIDITY, CAPITAL RESOURCES, AND ASSUMPTION OF GOING CONCERN

	March 31,	December 31,
	2019	2018
Net debt	\$ 4,036,291	\$ 3,794,098
Shareholders’ equity	\$ 13,438,309	\$ 16,765,669

Kaisen exited the quarter in a net debt position \$4,036,291, which included an adjusted working capital deficit of \$1,766,397, a bank loan balance of \$2,265,575, and long-term leases liabilities of \$4,319. The Company’s policy is to maintain a strong capital base to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders. The Company periodically reviews certain quantitative measures of its capital structure to understand its position relative to industry peers but does not set certain limits or ranges with respect to these quantitative measures. The Company is not subject to any external restrictions on its capital structure, with the exception of the single working capital covenant in place with the Company’s lender. As discussed below, the Company was in breach of its covenant at March 31, 2019. Management closely monitors debt leverage to ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and opportunities as they arise.

The first quarter 2019 condensed interim financial statements were prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of \$3,689,013 during the three months ended March 31, 2019, and as of that date, the Company’s current liabilities exceeded its current assets by \$5,917,250. Sustained low commodity prices in the fourth quarter of 2018 put pressure on the Company’s cash flows which adversely affected working capital balances entering the first quarter of 2019. As at March 31, 2019 the Company still had access to \$1,926,000 in available financing from unissued convertible debentures.

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

Bank Loan

Kaisen has a \$2.5 million secured operating credit facility with a Canadian bank. As at March 31, 2019, the Company was in breach of its lenders covenant working capital ratio of 1.00:1.00. As a result, the lender can demand repayment of the bank loan in full which had a balance of \$2,265,575 owing at March 31, 2019, and the bank loan continues to be classified as a current liability on the statement of financial position. Management plans to address any future working capital deficiencies by accessing the remaining \$1,926,000 in funding that is available as at year end and by using future cash flows in excess of capital spending to improve its working capital position. As at the date of this MD&A, Management is currently undergoing its borrowing base review with its lender. Because of the adoption of IFRS 16, the current portion of lease liabilities which is classified under accounts payable and accrued liabilities is included in the computation of the bank loan covenant working capital ratio (refer to "Changes in Accounting Policies").

Convertible Debentures

During the first quarter of 2019, the Company issued an additional 200 convertible debentures for total gross and net proceeds of \$200,000. Since being introduced, the Company has issued 5,577 out of a total 7,503 convertible debentures. As at March 31, 2019, 1,926 in committed obligation debentures remaining which represent an additional \$1,926,000 in available funding.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when due, under both normal and unusual conditions without incurring unacceptable losses or jeopardizing the Company's business objective. The Company manages this risk by preparing cash flow forecasts to assess whether additional funds are required. The Company's liquidity is dependent on the Company's expected business growth and changes in its business environment. Undiscounted cashflows relating to financial liabilities as at March 31, 2019 were as follows:

	Undiscounted amount	Less than 1 year	1 – 3 years	4 - 5 years
Accounts payable and accrued liabilities	\$ 3,188,561	\$ 3,188,561	\$ -	\$ -
Risk management contracts	2,869,486	1,885,278	984,208	-
Bank loan	2,265,575	2,265,575	-	-
Lease leases	88,530	84,029	4,319	-
Financial liabilities	\$ 8,412,152	\$ 7,423,443	\$ 988,527	\$ -

RISK MANAGEMENT

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

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

Commodity Price Risk

The Company is exposed to commodity price movements as part of its operations, particularly in relation to prices received for its oil production. Commodity prices for oil are impacted by the world and continental/regional economy and other events that dictate the levels of supply and demand. Consequently, these changes could also affect the value of the Company's properties, the level of spending for exploration and development and the ability to meet obligations as they come due.

The following is a summary of all risk management contracts in place at March 31, 2019:

Type	Period	Volume	Price/unit ⁽¹⁾
WCS – WTI differential Basis Swap	January 1, 2019 – December 31, 2019	300 bbl/d	US\$20.80
WCS – WTI differential Basis Swap	February 1, 2019 – December 31, 2019	200 bbl/d	US\$17.55
WTI - Fixed Swap	January 1, 2019 – December 31, 2019	300 bbl/d	C\$71.00
WTI - Call option ⁽²⁾	January 1, 2020 – December 31, 2020	500 bbl/d	US\$60.00

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

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

As at March 31, 2019, the fair value associated with these risk management contracts was a net liability of \$2,869,486 (December 31, 2018 - \$218,022 liability), of which \$1,885,278 is reported as a current liability reflecting contracts which will settle by March 31, 2020, and \$984,208 reported as a long-term liability for contracts that will settle after March 31, 2020.

Changes to Accounting Policies

The Company adopted IFRS 16 on January 1, 2019 which requires the recognition of a ROU asset and associated lease liability for most leasing arrangements where the Company is acting as the lessee. Prior to the adoption of this standard, when the Company was a lessee, leases were categorized as either operating or finance lease, and operating lease were not subject to recognition on the statements of financial position. The Company elected to apply IFRS using the modified retrospective approach which does not require the restatement of prior period information. The modified retrospective approach recognizes the cumulative effect of IFRS 16 as an adjustment to opening accumulated deficit at January 1, 2019 and applies the standard prospectively.

On adoption of IFRS 16, the Company recognized lease liabilities in relation to leases under the principles of the new standard measured at the present value of the remaining lease payments, discounted using the interest rate implicit in the lease or the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets were measured at the amount equal to the lease liability on January 1, 2019 less any amount previously recognized for onerous office leases, with no impact on opening retained earnings.

The Company identified ROU lease assets and liabilities related to head office space. The impact on the consolidated statement of financial position as at January 1, 2019 was as follows:

	January 1, 2019
ROU asset (included in property plant and equipment)	\$ 46,586
Increase in total assets	\$ 46,586
Short-term portion of lease liability (included in accounts payable and accrued liabilities)	\$ 95,038
Onerous leases	(61,911)
Other long-term liabilities	13,459
Increase in total liabilities and shareholder's equity	\$ 46,586

Certain of the Company's performance measures including funds flow from operations and net debt, are impacted by the adoption of IFRS 16. Where lease payments for certain arrangements were previously in G&A expense, these payments are now reflected as payments of interest and lease obligations, which increase total funds flow from operations. In addition, lease liabilities are now recognized in the determination of net debt. As of March 31, 2019, lease liability amounts are now included in the Company's quarterly calculated bank loan working capital ratio covenant (See "Liquidity, Capital Resources and Going Concern – Bank loan"). Further information regarding the adoption of IFRS 16 is included in Note 3 "Changes in Accounting Policies" of the Company's March 31, 2019 unaudited condensed interim financial statements.

SUMMARY OF QUARTERLY RESULTS

(\$000's expect share, per share, boe amounts)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Petroleum and natural gas sales	3,373	1,476	4,715	4,513	3,765	5,578	5,060	5,798
Realized gain (loss) on risk mgmt. contracts	(483)	(485)	(1,217)	(1,180)	(47)	(256)	468	124
Funds flow from operations (deficit) ⁽¹⁾	(108)	(1,469)	(421)	(1,275)	(137)	1,460	1,318	907
Net earnings (loss)	(3,689)	(23,768)	(1,341)	(4,074)	(3,515)	(1,743)	(1,634)	842
Expenditures on oil & gas properties	283	503	915	631	1,393	311	2,967	408
Net debt ⁽¹⁾	(4,036)	(3,794)	(3,122)	(3,786)	(3,956)	(2,425)	(3,572)	(4,422)
Sales Volumes (boe per day)	764	672	972	926	1,064	1,288	1,295	1,480
Operating Netbacks (\$/boe)⁽¹⁾								
Realized sales price	49.08	23.88	52.74	53.55	39.31	47.09	42.48	43.06
Royalties	(7.52)	(4.30)	(9.36)	(10.04)	(7.60)	(8.24)	(7.26)	(7.08)
Saskatchewan surcharge tax	(0.59)	(2.01)	(0.28)	0.11	(0.59)	(0.08)	(0.88)	(0.78)
Operating expenses	(28.64)	(29.04)	(27.40)	(26.19)	(23.06)	(18.15)	(17.68)	(21.52)
Transportation expenses	(2.82)	(3.05)	(2.72)	(2.19)	(2.29)	(2.06)	(2.05)	(2.37)
Operating netback prior to hedging	9.51	(14.52)	12.98	15.24	5.78	18.56	14.61	11.31
Realized gain/(loss) on risk mgmt. contracts	(7.03)	(7.85)	(13.61)	(14.00)	(0.50)	(2.16)	3.93	0.92
Operating netback after hedging	2.48	(22.37)	(0.63)	1.24	5.28	16.40	18.54	12.23

⁽¹⁾ See "Non-GAAP Measures".

NON-GAAP MEASURES

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

Funds Flow from Operations

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

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

	Three months ended March 31,	
	2019	2018
Cash flow from (used in) operating activities	\$ (85,390)	\$ 874,284
Less change in non-cash working capital	(22,517)	(1,010,869)
Funds flow from operations (deficit)	\$ (107,907)	\$ (136,585)

Operating Netback

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

	Three months ended March 31,	
	2019	2018
Petroleum sales	\$ 3,372,746	\$ 3,765,179
Royalties	(516,688)	(727,732)
Saskatchewan resource tax	(40,520)	(56,074)
Operating expenses	(1,968,142)	(2,208,900)
Transportation expenses	(193,528)	(219,481)
Operating netback	\$ 653,868	\$ 552,992
Production (boe's)	68,726	95,792
Operating netback (\$/boe)	\$ 9.51	\$ 5.28

Net Debt and Adjusted Working Capital

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

	March 31, 2019	December 31, 2018
Current assets	\$ (1,422,164)	\$ (911,929)
Add back risk management contracts (if in an asset position)	-	484,417
Accounts payable and accrued liabilities	3,188,561	2,126,023
Adjusted working capital deficit (surplus)	1,766,397	1,698,511
Bank loan	2,265,575	2,095,587
Long-term lease liabilities	4,319	-
Net debt	\$ 4,036,291	\$ 3,794,098

Following the adoption of IFRS 16, the Company now recognizes lease liabilities in its determination of net debt. Lease liabilities are affected by the amount of future lease payments, anticipated lease terms, and the Company's estimated incremental borrowing rate for a specific lease arrangement. Changes to the Company's lease obligations could have a material impact on the Company's net debt (refer to "Changes in Accounting Policies").

BOE CONVERSION

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

ADVISORY ON FORWARD LOOKING STATEMENTS

In the interest of providing Kaisen shareholders and potential investors with information regarding the Company, including Management's assessment of Kaisen's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook. Forward-looking information in this MD&A includes, but is not limited to:

- *Future development plans;*
- *Future financing plans and goals;*
- *The ability of the Company to fund capital programs with existing working capital and cash flow from operating activities*
- *The Company continuing as a going concern*
- *The impact of adjustments to drilling and completion techniques; and*
- *General business strategies and objectives*

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

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

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described exist in the quantities predicted or estimated, and can be profitably produced in the future. Although Kaisen believes that the expectations represented by such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Readers are cautioned that the foregoing list of important factors is not exhaustive. Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A, and Kaisen does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

ADDITIONAL INFORMATION

For additional information regarding the Company and its business and operations, please contact the Company at Kaisen Energy Ltd. 400, 522 – 11th Avenue S.W., Calgary, Alberta, Canada T2R 0C8 or by e-mailing [Rachelle Bien-Barnard \(info@kaisenenergy.com\)](mailto:info@kaisenenergy.com)

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