



Management's Discussion & Analysis

For the three months ended March 31, 2020

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The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Kaisen Energy Corp. ("Kaisen" or the "Company") is dated June 11, 2020, and should be read in conjunction with the accompanying unaudited interim financial statements and related notes for the three months ended March 31, 2020 with comparisons to the year ended December 31, 2019. The interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

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

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

About Kaisen Energy Corp.

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

FIRST QUARTER HIGHLIGHTS

- Recorded a negative operating netback of \$11.20 per boe compared to \$9.51 per boe recorded in the same quarter of 2019.
- Produced an average of 665 boe per day, a 13% decrease from the first quarter of 2019 and 14% lower than the fourth quarter of 2019.
- Realized \$1,498,991 in petroleum and natural gas sales, a \$1,873,755 decrease from the prior year comparative quarter.
- Recorded a funds flow from operations deficit of \$1,006,558 compared to a funds flow from operations deficit of \$107,907 in the same quarter of 2019.
- \$926,000 of committed financing remains available from the Company's committed obligation debentures.
- The Company exited the quarter with net debt of \$5,806,996.
- The Company entered into a series of amending loan agreements in the current quarter and subsequent to quarter end, postponing principal payments and extending the loan redetermination period to June 30, 2020.

FINANCIAL AND OPERATING RESULTS SUMMARY

	Three months ended	
	2020	March 31, 2019
Operating		
Average daily production (boe/d)	665	764
WCS heavy oil benchmark price (C\$/bbl)	34.10	56.66
Operating netback ⁽¹⁾ (\$/boe)		
Realized sales price	24.78	49.08
Royalties	(3.11)	(7.52)
Saskatchewan resource tax	(0.25)	(0.59)
Operating expenses	(29.68)	(28.64)
Transportation expenses	(2.94)	(2.82)
Operating netback	(11.20)	9.51
Realized loss on risk management contracts	-	(7.03)
Operating netback after hedging	(11.20)	2.48
Financial (\$'s except for share amounts)		
Petroleum and natural gas sales	1,498,991	3,372,746
Funds flow from operations deficit ⁽¹⁾	(1,006,558)	(107,907)
Per share – basic and diluted	(0.02)	(0.00)
Net loss	(12,208,307)	(3,689,013)
Per share – basic and diluted	(0.27)	(0.08)
Expenditures on oil and gas properties	70,862	282,953
Net debt ⁽¹⁾ – end of period		
Working capital deficit ⁽¹⁾⁽²⁾	3,956,996	1,766,397
Bank loan	-	2,265,575
Term loan	1,850,000	-
Long-term lease liabilities	-	4,319
	5,806,996	4,036,291
Issued convertible debentures ⁽³⁾ – end of period	6,577	5,577
Weighted average shares outstanding – basic and diluted	45,420,029	45,420,029
Outstanding shares – end of period	45,420,029	45,420,029

⁽¹⁾ Refer to "Non-GAAP Measures"

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

⁽³⁾ As at March 31, 2020, the total face value of the 6,577 (December 31, 2019 - 6,577) convertible debentures plus accrued undeclared interest was \$7,392,000 (December 31, 2020 - \$7,248,000). Upon a liquidity event and at the election of each holder, they would convert to 131,540,000 (December 31, 2019 - 131,540,000) common shares and owed interest of \$815,473 (December 31, 2019 - \$670,548).

Operating Results

During the first quarter of 2020, the Company conducted minimal capital development activity, investing a total of \$70,862 in development activities as the Company remained committed to conservative cash flow management. As a result, first quarter production averaged 665 boe per day, a 13% decrease from the same quarter of 2019 and a 14% decrease from the fourth quarter of 2020.

Financial Results

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

The Company recorded negative first quarter 2020 operating netbacks of \$11.20 per boe compared to positive operating netbacks of \$9.51 per boe recorded in the first quarter of 2019. This negative variance is largely attributed to the abrupt decline in crude oil pricing in March of 2020. As a result, per boe realized pricing on commodity sales and royalties in the first quarter of 2020 were \$24.30 and \$4.41 lower, respectively, than in the same quarter of 2019. Operating and transportation expenses were a combined \$32.62 per boe in the first quarter of 2020, a 4% increase from the prior year comparative quarter. Saskatchewan resource taxes decrease \$0.34 per boe from the same quarter of 2019 due to reduced sales from Saskatchewan properties.

During the three months ended March 31, 2019, the Company recorded a funds flow from operations deficit of \$1,006,558 versus a funds flow deficit of \$107,907 recorded in the prior year comparative period. Funds flow from operations in the current year were negatively impacted by decreased crude oil pricing while prior year while the prior year was largely negatively impacted by realized losses on risk management contracts. As a result of the decline in crude oil prices, the Company did not recognize any realized losses on risk management contracts throughout the first quarter of 2020 whereas the prior year comparative period included losses of \$483,379. Impairment indicators identified at March 31, 2020 led to the Company recording a \$11,082,000 impairment write-down to property, plant, and equipment. The Company recorded a net loss of \$12,208,307 in first quarter of 2020 compared to a net loss of \$3,689,013 in the first quarter of 2019.

The Company exited the quarter with a working capital deficit⁽¹⁾ of \$3,956,996 and net debt⁽¹⁾ of \$5,806,996, compared to \$2,879,574 and \$4,729,574, respectively, at the close of 2019. Throughout the first quarter of 2020, the Company and its lender entered into a series of amending agreements whereby the scheduled borrowing base determination date and commencement of monthly principal payments were deferred until April 30, 2020. Subsequent to quarter end, a fifth amending agreement was signed which further deferred its borrowing base determination date and principal repayments to June 30, 2020. Funding of \$926,000 remains available through Obligation Debentures not yet called as at the date of this MD&A.

On April 15th, 2020, the Company issued a \$160,000 subordinated secured promissory note ("Promissory Note") to Azimuth Capital Management for the purpose of funding current working capital requirements. The Promissory Note is due on demand and bears interest at a rate of 8% per annum, accruing daily. The repayment of principal is due on demand and subrogated in right of payment in full of all senior indebtedness. The Promissory Note is secured by the Company's present and after-acquired personal and real property, subordinate to any claims to such property by the holders of its term loan.

Economic Environment

During the first quarter of 2020, significant declines and abnormal volatility in financial markets and global crude oil prices have occurred as a result of a coronavirus pandemic and a concurrent oil market share conflict. The scale and duration of these developments remain uncertain. In response, the Company shut-in all production except for its Dolcy property on April 1, 2020. Management continues to monitor the situation and economic environment and will continue to adapt our business operations in a manner that best preserves shareholder value.

⁽¹⁾ Refer to "Non-GAAP Measures"

2020 FIRST QUARTER FINANCIAL AND OPERATING RESULTS

Oil and Gas Production Volumes

	Three months ended March 31,	
	2020	2019
Sales volumes		
Crude oil (bbls/d)	647	748
Natural gas liquids ("NGL") (bbls/d)	5	2
Natural gas (Mcf/d)	77	82
Total average daily production (boe/d)	665	764
Production by area (boe/d)		
Lone Rock, Saskatchewan	20	65
Edam, Saskatchewan	284	297
Lloydminster, Saskatchewan	191	244
Coleville, Saskatchewan	80	62
Other	90	96
Total average daily production (boe/d)	665	764

Kaisen's production in the first quarter 2020 averaged 665 boe per day, representing a 13% decrease from the prior year comparative quarter and a 14% decrease from the 773 boe per day averaged in the fourth quarter of 2019. The decrease in production from year end is a result of natural declines and minimal capital investment.

Oil and Gas Realized Revenues and Pricing

	Three months ended March 31,	
	2020	2019
Petroleum and natural gas revenues (\$)		
Crude oil	1,466,239	3,349,663
Natural gas	12,143	15,707
NGL's	20,609	7,376
	1,498,991	3,372,746
Realized prices		
Crude oil (\$/bbl)	24.90	49.76
Natural gas (\$/mcf)	1.73	2.14
NGL's (\$/bbl)	45.29	40.28
Corporate average realized price (\$/boe)	24.78	49.08
Average benchmark prices		
WTI oil (US\$/bbl) ⁽¹⁾	46.17	54.81
WCS differential (US\$/bbl) ⁽²⁾	(20.80)	(12.20)
WCS heavy oil (US\$/bbl)	25.37	42.61
WCS differential %	45	22
AECO natural gas (CDN\$/mcf) ⁽³⁾	2.03	2.62
US\$:CDN\$	0.74	0.75
WCS heavy oil (CDN\$/bbl)	34.10	56.66

⁽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 \$24.90 per barrel during the three ended March 31, 2020. Realized pricing for the current quarter was \$24.86 per barrel lower than the prior year comparative period. The collapse in global oil pricing that occurred late in first quarter of 2020 was the primary driver for the decline in realized pricing which saw March 2020 realized prices average only \$10.64 per barrel.

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	
	2020	March 31, 2019
Realized loss	\$ -	\$ (483,379)
Unrealized gain (loss)	709,313	(2,651,464)
Gain (loss) on risk management contracts	\$ 709,313	\$ (3,134,843)

Kaisen recorded realized losses on risk management contracts for the three months ended March 31, 2020 of \$nil (2019 - loss of \$483,379) as a result of lower oil prices relative to fixed oil priced contract positions. The Company recorded an unrealized gain of \$709,313 for the three months ended March 31, 2020 versus an unrealized loss of \$2,651,464 recorded during the first quarter of 2019. For further information, refer to the "Risk Management" section of this MD&A.

Crown and Freehold Royalties

	Three months ended	
	2020	March 31, 2019
Crown	\$ 53,051	\$ 195,301
Freehold	135,294	321,387
Royalties	\$ 188,294	\$ 516,688
\$ per Boe	3.11	7.52
% of revenue	12.6	15.3

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 10% to 15% blended for both Crown and freehold rates in the current price environment. As a percentage of revenue, royalties were 12.6% for the three months ended March 31, 2020 (2019 – 15.3%). The decrease in rates from the first quarter of 2019 is reflective of the decline in realized crude oil pricing.

Saskatchewan Resource Tax

	Three months ended	
	2020	March 31, 2019
Saskatchewan resource tax	\$ 15,000	\$ 40,520
\$ per Boe	0.25	0.59

Under Saskatchewan provincial legislation, the Company is charged a resource tax based on its Saskatchewan production. The resource tax rate is 1.70% for all oil and gas wells with a finished drilling date on or after October 1, 2002, and for incremental oil related to new or expanded enhanced oil recovery projects or water flood projects having a commencement date on or after October 1, 2002. The resource tax rate for all other oil and gas wells is 3.0%. For the three months ended March 31, 2020, the Company incurred Saskatchewan resource taxes of \$15,000 (2019 - \$40,520).

Operating Expenses

	Three months ended	
	2020	March 31, 2019
Operating expenses	\$ 1,795,417	\$ 1,968,142
\$ per Boe	29.68	28.64

Operating expenses, excluding crude oil transportation costs, are driven by both fixed and variable costs. Kaisen's primary fixed cost drivers include contract operator wages, property taxes, freehold mineral rentals, and surface rentals, while primary variable cost drivers include emulsion treating, produced wastewater and sand trucking and disposal, utilities, heating fuel, and routine maintenance. Primary non-routine expenses include minor and major workovers. Kaisen continually works closely with suppliers and service providers to seek out cost reductions, increased operating efficiencies, and decreased labour costs.

First quarter 2020 operating costs of \$1,795,417 (\$29.68 per boe) decreased 9% from the \$1,968,142 (\$28.64 per boe) recorded in the first quarter of 2019. The quarter over quarter per boe increase was attributed to the effect of decreased production over a fixed operating cost base which was slightly offset by additional operating costs incurred in the first quarter of 2019 to restore shut-in production.

Transportation Expenses

	Three months ended	
	2020	March 31, 2019
Transportation expenses	\$ 178,000	\$ 193,528
\$ per boe	2.94	2.82

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, 2020, the Company recorded transportation expenses of \$2.94 per boe (2019 – \$2.82 per boe).

Operating Netback

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

(\$ per boe)	Three months ended	
	2020	March 31, 2019
Realized sales price ⁽¹⁾	24.78	49.08
Royalties	(3.11)	(7.52)
Saskatchewan surcharge tax	(0.25)	(0.59)
Operating expenses	(29.68)	(28.64)
Transportation expenses	(2.94)	(2.82)
Operating netback⁽²⁾	(11.20)	9.51
Realized loss on risk management contracts	-	(7.03)
Operating netback⁽²⁾ (after hedging)	(11.20)	(2.48)

⁽¹⁾ Excludes other income

⁽²⁾ Refer to "Non-GAAP Measures"

General and Administrative ("G&A") Expenses

	Three months ended	
	2020	March 31, 2019
Gross G&A expenses	\$ 345,373	\$ 350,102
Capitalized G&A expenses	(42,000)	(92,499)
G&A expenses	\$ 303,373	\$ 257,603

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, 2020, G&A expenses were \$303,373 (2019 – \$257,603). IFRS 16 - Leases reduced G&A expenses by \$9,303 (2019 - \$24,026) for the three months ended March 31, 2020.

Net Finance Expenses

	Three months ended	
	March 31,	
	2020	2019
Interest expense on term and bank loans	\$ 33,239	\$ 27,244
Accretion on decommissioning obligations	64,355	63,336
Capital lease interest expense and other	163	1,396
Net finance expenses	\$ 97,757	\$ 91,976

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 and other relate to the adoption of IFRS 16 and interest relating to additional liabilities incurred from the audit of the Company's 2014 to 2018 Saskatchewan resource tax returns.

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 service to the Company, and the share options typically expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share options at any time is limited to 10% of the issued and outstanding common shares. The Company's current share-based compensation plans consist of share options, executive incentive options, and performance warrants.

As at March 31, 2020, Kaisen had 10,700,000 share options, 11,000,000 Incentive Options, and 34,250,999 performance warrants outstanding. During the three months ended March 31, 2020, the Company recorded share-based compensation expenses of \$125,755 (2019 – \$133,052).

Depletion and Depreciation

	Three months ended	
	March 31,	
	2020	2019
Depletion	\$ 631,000	\$ 718,339
Depreciation	7,952	14,913
Depletion and depreciation	\$ 638,952	\$ 733,252

Depletion expense is a product of depletable assets multiplied by total production divided by estimated proved and probable oil and natural gas reserves at the beginning of each period, while also considering the estimated future development costs necessary to bring those reserves into production. Depreciation expense is recorded based on corporate assets and is calculated on a declining basis.

As at March 31, 2020, \$77.8 million in future development costs (December 31, 2019 – \$77.8 million) less total salvage values of the assets of \$2.6 million (December 31, 2019 – \$2.6 million) were included in the production asset cost bases for depletion calculation purposes. For the three months ended March 31, 2020, per boe depletion expenses decreased by 12% in comparison to the prior year comparative period due to impairments recorded in the fourth quarter 2019 and lower production in the current quarter. Depreciation expenses for the three months ended March 31, 2020 were \$7,952 (2019 – \$14,913).

Impairment of Property, Plant and Equipment

At March 31, 2020, the Company assessed whether there were indicators of impairment present. The assessment factored in reserves, change in commodity prices, the health of the sector and the general economy, and near-term development plans. It was determined that the carrying amount of all CGU's exceeded their recoverable amount. The recoverable amount was calculated as the fair value of assets less costs of disposal. The fair value was determined using an after-tax discount rate of 20% and forecasted cash flows. The forecasted cash flows are based on the total proved reserves as estimated by the Company's independent reserve engineers as at December 31, 2019 and internally adjusted to reflect updated price assumptions as of March 31, 2020. An impairment write-down of \$11,082,000 was recorded for the quarter and the recoverable amount of the Company's CGU's as at March 31, 2020 was \$16.3 million (December 31, 2019 - \$28.4 million).

PROPERTY, PLANT AND EQUIPMENT (DEVELOPMENT) EXPENDITURES

	Three months ended	
	March 31,	March 31,
	2020	2019
Land	\$ 2,000	\$ 5,305
Drilling, completions and optimizations	24,925	171,082
Equipment and facilities	607	14,067
Capitalized G&A	42,000	92,499
Corporate	1,330	-
Development expenditures	\$ 70,862	\$ 282,953

During the three months ended March 31, 2020, the Company made development expenditures of \$70,862 (2019 – \$282,953). First quarter capital spending was minimal due to capital restraints.

LIQUIDITY, CAPITAL RESOURCES, AND GOING CONCERN

	March 31,	December 31,
	2020	2019
Net debt	\$ 5,806,996	\$ 4,729,574
Shareholders' equity	\$ (990,456)	\$ 11,076,311

Kaisen exited the quarter in a net debt position \$5,806,996, which included a working capital deficit of \$3,956,996, and a term loan balance of \$1,850,000. The Company's policy is to maintain a strong capital base to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders. The Company periodically reviews certain quantitative measures of its capital structure to understand its position relative to industry peers but does not set certain limits or ranges with respect to these quantitative measures. The Company is not subject to any external restrictions on its capital structure. Management closely monitors debt leverage to ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and opportunities as they arise.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company incurred a loss of \$12,208,307 during the three months ended March 31, 2020, and as of that date, the Company's current liabilities exceeded its current assets by \$5,822,206. The sudden collapse in global oil prices in 2020, have lowered the Company's current and projected cash flows. As at March 31, 2020 the Company still had access to \$926,000 in available financing from unissued convertible debentures.

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

Term Loan

On July 15, 2019, the Company completed an arrangement with its lender for a \$2,280,000 term loan, which discharged and replaced the \$2,500,000 revolving bank loan previously in place with the same lender. When entered, the term loan bore interest at a rate of prime plus 1.25% per annum, was payable in full on demand by the lender, and required the Company to make the monthly principal payments up until May 31, 2020, when the term loan was scheduled to be repaid in full. On December 11, 2019, the Company and its lender entered into an amending agreement whereby the scheduled borrowing base determination date was extended from November 30, 2019 to January 31, 2020, the interest rate was raised to prime plus 3.5% per annum, and it was agreed upon that the Company shall make principal payments of \$240,000 per month commencing February 29, 2020 until the term loan was repaid in full.

During the first quarter of 2020 the Company and its lender entered into a series of amending agreements with respect to its term loan, which deferred the borrowing base determination date monthly \$240,000 principal repayments to April 30, 2020. As such no principal payments were made in the quarter. Subsequent to the quarter the Company and its lender entered into an additional amending agreement further deferring the borrowing base redetermination date and deferring monthly \$240,000 principal payments to June 30, 2020. The term loan is classified as current on the statement of financial position and is principally secured by fixed and floating security interest over all present and after acquired assets of the Company. The term loan arrangement contains industry standard representation and warranties, positive and negative covenants and events of default, and does not contain financial covenants.

Convertible Debentures

The Company did not issue any convertible debentures in the first quarter of 2020. Since being introduced, the Company has issued 6,577 out of a total 7,503 convertible debentures. As at March 31, 2020, a total of 926 obligation debentures remain uncalled, representing an additional \$926,000 in funding available to the Company.

Promissory Note

On April 15, 2020 the Company issued a \$160,000 subordinated secured Promissory Note to Azimuth Capital Management for the purpose of funding current working capital requirements. The Promissory Note is due on demand and bears interest at a rate of 8% per annum, accruing daily. The repayment of principal is due on demand and subrogated in right of payment in full of all senior indebtedness. The Promissory Note is secured by the Company's present and after-acquired personal and real property, subordinate to any claims to such property by the holders of its term loan.

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, 2020 were as follows:

	Undiscounted amount	Less than 1 year	1 – 3 years	4 – 5 years
Accounts payable and accrued liabilities	\$ 4,751,162	\$ 4,751,162	\$ -	\$ -
Risk management contracts	15,210	15,210	-	-
Term loan	1,850,000	1,850,000	-	-
Financial liabilities	\$ 6,616,372	\$ 6,616,372	\$ -	\$ -

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, 2020:

Type	Period	Volume	Price/unit ⁽¹⁾
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, 2020, the fair value associated with these risk management contracts was a liability of \$15,210 (December 31, 2019 - \$724,523 liability), all of which is reported as a current liability reflecting contracts which will settle by December 31, 2020.

SUMMARY OF QUARTERLY RESULTS

<i>(\$000's except share, per share, boe amounts)</i>	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Petroleum and natural gas sales	1,499	3,289	3,884	4,086	3,373	1,476	4,715	4,513
Realized gain (loss) on risk mgmt. contracts	-	(339)	(540)	(782)	(483)	(485)	(1,217)	(1,180)
Funds flow from operations (deficit) ⁽¹⁾	(1,007)	(95)	(212)	122	(108)	(1,469)	(421)	(1,275)
Net income (loss)	(12,208)	(3,823)	(638)	542	(3,689)	(23,768)	(1,341)	(4,074)
Expenditures on oil & gas properties	71	146	1,112	252	283	503	915	631
Net debt ⁽¹⁾	5,807	4,730	4,489	4,165	4,036	3,794	3,122	3,786
Sales Volumes (boe per day)	665	773	802	769	764	672	972	926
Operating Netbacks (\$/boe)⁽¹⁾								
Realized sales price	24.78	46.27	52.61	58.38	49.08	23.88	52.74	53.55
Royalties	(3.11)	(7.69)	(8.88)	(10.30)	(7.52)	(4.30)	(9.36)	(10.04)
Saskatchewan surcharge tax	(0.25)	(2.64)	(0.62)	(0.74)	(0.59)	(2.01)	(0.28)	0.11
Operating expenses	(29.68)	(26.08)	(32.50)	(26.38)	(28.64)	(29.04)	(27.40)	(26.19)
Transportation expenses	(2.94)	(2.39)	(2.48)	(2.81)	(2.82)	(3.05)	(2.72)	(2.19)
Operating netback	(11.20)	7.47	8.13	18.15	9.51	(14.52)	12.98	15.24
Realized gain/(loss) on risk mgmt. contracts	-	(4.77)	(7.31)	(11.18)	(7.03)	(7.85)	(13.61)	(14.00)
Operating netback after hedging	(11.20)	2.70	0.82	6.97	2.48	(22.37)	(0.63)	1.24

⁽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	
	2020	March 31, 2019
Cash flow from (used-in) operating activities	\$ 111,802	\$ (85,390)
Less change in non-cash working capital	(1,118,360)	(22,517)
Funds flow from operations (deficit)	\$ (1,006,558)	\$ (107,907)

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	
	2020	March 31, 2019
Petroleum sales	\$ 1,498,991	\$ 3,372,746
Royalties	(188,345)	(516,688)
Saskatchewan resource tax	(15,000)	(40,520)
Operating expenses	(1,795,417)	(1,968,142)
Transportation expenses	(178,000)	(193,528)
Operating netback	\$ (677,771)	\$ 653,868
Production (boe's)	60,489	68,726
Operating netback (\$/boe)	\$ (11.20)	\$ 9.51

Net Debt and Working Capital

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

	March 31, 2020	December 31, 2019
Current assets	\$ (794,166)	\$ (1,635,171)
Accounts payable and accrued liabilities	4,751,162	4,514,745
Working capital deficit	3,956,996	2,879,574
Term loan	1,850,000	1,850,000
Net debt	\$ 5,806,996	\$ 4,729,574

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 Rachele Bien-Barnard (info@kaisenenergy.com)

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