Management Discussion & Analysis

Three and nine month periods ended September 30, 2016

(unaudited)

September 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated November 29, 2016, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three and nine month periods ended September 30, 2016 (the "Quarter" and "Year to Date" respectively) and the audited annual financial statements as at and for the year ended December 31, 2015 of Kaisen Energy Corp. ("Kaisen" or the "Company"). Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

DESCRIPTION OF THE BUSINESS

Kaisen is a Calgary based energy company primarily focused on heavy oil development and production in Saskatchewan and was incorporated in Alberta Canada on November 6, 2012. The Company's principal place of business is located at 400, 522 - 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8. Kaisen operates with a total of 6 employees and 8 contract employees of which 5 reside within Kaisen's area of operations near Lloydminster, Saskatchewan.

Results of Operations

	Three months ended September 30, *(unaudited)*		Nine months ended September 30, *(unaudited)*	
	2016	2015	**2016**	2015
Financial highlights *(Cdn$ thousands, except per share amounts)*				
Petroleum and natural gas sales	**3,836**	2,730	**6,568**	10,895
Realized hedging gains/(losses)	**(24)**	505	**(72)**	972
Funds flow/(loss) from operations	**(361)**	(144)	**(1,874)**	1,418
Per share – basic & diluted	**(0.01)**	(0.02)	**(0.06)**	$0.09
Net Earnings / (loss)	**(3,518)**	358	**(6,728)**	(1,916)
Per share – basic & diluted	**(0.09)**	(0.02)	**(0.23)**	(0.12)
Expenditures on oil & gas properties	**865**	1,519	**2,043**	2,966
Expenditures on corporate acquisition	**15,580**	-	**15,580**	-
Net Bank surplus/(debt) (including net working capital)	**2,328**	(4,930)	**2,328**	(4,930)
Common shares				
Outstanding – basic	**43,420,029**	15,420,029	**43,420,029**	15,420,029
Outstanding – diluted	**55,649,028**	18,649,028	**55,649,028**	18,649,028
Weighted average – basic & diluted	**40,376,551**	15,420,029	**29,113,460**	15,420,029
Sales Volumes				
Crude oil (bbls per day)	**1,182**	828	**822**	1,037
Natural gas liquids ("NGL") (bbls/d)	**4**	-	**1**	-
Natural gas (Mcf per day)	**120**	-	**40**	-
Total average daily production (boe/d)	**1,206**	828	**830**	1,037
Operating Netbacks (Cdn$/bbl)				
Sales price	**34.57**	35.85	**28.89**	38.48
Royalties	**(5.83)**	(6.57)	**(4.58)**	(7.76)
Saskatchewan surcharge tax	**(0.09)**	(1.92)	**(0.37)**	(1.59)
Operating expenses	**(20.36)**	(24.95)	**(19.93)**	(19.64)
Transportation expenses	**(1.90)**	(2.89)	**(1.94)**	(2.60)
Field Netbacks (before hedging)	**6.39**	(0.48)	**2.07**	6.89
Realized gain/(loss) on risk management contracts	**(0.21)**	6.63	**(0.32)**	3.43
Field Netbacks (after hedging)	**6.18**	6.15	**1.75**	10.32
General and Administrative expenses	**(6.70)**	(7.59)	**(8.57)**	(6.33)
Transaction expenses on corporate acquisition	**(2.61)**	-	**(1.28)**	-
Corporate Netback	**(3.13)**	(1.44)	**(8.10)**	3.99

(1) Cash flow from operations, net debt, operating netback and corporate netback are non-GAAP measures and additional information with respect to these measures can be found under the heading "Non-GAAP Measures" in Kaisen's MD&A.

ACQUISITION OF HAWK EXPLORATION LTD.

On July 14, 2016, the Company closed the acquisition of Hawk Exploration Ltd. ("Hawk"), a public oil and gas company with properties in west central Saskatchewan and east central Alberta, by acquiring all of the issued and outstanding shares. The acquisition of Hawk provides an additional 500 boe/d of 98% Saskatchewan heavy oil production largely within existing core areas, approximately 24 net sections (16 undeveloped net sections) of land, and a solid foothold into a new core area in the emerging Coleville heavy oil resource play. Total consideration for Hawk's 45.6 million common shares outstanding was approximately $3.6 million along with debt assumption totaling $11.9 million for a total acquisition cost of $15.6 million. Pursuant to the closing, Hawk's debt was repaid and terminated. The acquisition was funded through a private equity offering on July 12, 2016 of 20.0 million common shares of the Company to Azimuth Capital Management ("Azimuth") for total gross proceeds of $20.0 million. Prior to the equity offering, Azimuth held approximately 51% of the voting shares of Kaisen, subsequent to the offering Azimuth holds approximately 70% of the voting shares of the Company.

ECONOMIC ENVIRONMENT

Commodity price volatility has continued to be the main theme during the Quarter, as it has been over the past eight quarters. In February 2016, WTI averaged US$30 while in October, WTI averaged US$50. Significant and seemingly unpredictable movements in weekly North American oil inventory reports have contributed to the oil price volatility as well as on-going speculation and rumours about potential OPEC policy decisions. OPEC's upcoming meeting on November 30 will very likely set a tone for future oil prices as we head into the new year, though it would seem the consensus is becoming increasingly more positive as signs of a fundamental shift in global supply have appeared under the weight of the 24 month price rout coupled with geo-political turmoil that has placed further downward pressures on global supply forecasts.

In response to continued price volatility and the uncertain and ever-evolving forward market forecast, Kaisen will continue to take a measured approach to capital investment to ensure the Company's strong balance sheet is preserved, while at the same time balancing our prudent fiscal responsibility with the need to further the Company's core area development strategies along with production and cash flow growth to fund these activities. We view prudent risk management in the form of hedging to be critically important as we navigate forward. To this end, our existing hedging portfolio has provided the Company with meaningful downside risk price protection for the entirety of 2017 where approximately 50% of our 2017 forecast production is hedged at an average price of CAD$62.88 per barrel. In addition, we will continue to focus on operating and capital cost reductions by seeking out further efficiency improvements at both the field and corporate levels where we view our efficiency and agility as a lean operator to be a key competitive advantage.

FUNDS FLOW FROM OPERATIONS

For the Quarter, the Company recorded a funds flow loss from operations of $361,249 ($0.01 per diluted share) by contrast to a funds flow loss of $144,415 ($0.02 per diluted share) recorded in the same period of the prior year. A funds flow loss of $1,873,533 ($0.06 per diluted share) was recorded for the Year to Date by contrast to positive funds flow of $1,417,686 ($0.07 per diluted share) for the same period in the prior year. Excluding the $290,049 in transaction costs related to the Hawk acquisition, the funds flow loss for the Quarter was $71,200, nearly break-even for the period, while the Year to Date funds flow loss (excluding transaction costs) was $1,583,484. Funds flow losses for the Quarter and Year to Date, are a direct result of the prolonged collapse in oil prices experienced since the summer of 2015. In the comparative year periods, Kaisen further benefited from realized hedging gains as a result of a higher priced commodity hedge (CAD$76.50) which expired at the end of 2015. For the first quarter of 2016, no hedge contracts were in place exposing the Company to continued oil price declines in January and February. In April 2016, Kaisen took advantage of rising oil prices above the Company's approximate break-even field level operating threshold, to begin the process of layering in commodity contracts to protect funds flow from the risk of renewed price declines. During the Quarter, the Company has continued to layer in hedge contracts for the remainder of 2016 and 2017 at weighted average hedge prices of CAD$58.63 and CAD$62.88, respectively. The Company intends to continue laying in additional hedges (not to exceed 60% of forecast production) as the opportunities arise.

NET LOSS AND COMPREHENSIVE LOSS

The Company recorded a loss for the Quarter of $3,517,922 ($0.09 per diluted share) compared to earnings of $357,996 ($0.02 per diluted share) for the same period of the prior year, with a Year to Date loss of $6,727,760 ($0.23 per diluted share) compared to a net loss of $1,916,201 ($0.12 per diluted share) in the prior year. Routine non-cash charges have a significant impact on net earnings/losses. The most significant non-cash impact for the Quarter and Year to Date related to unrealized losses from the Company's hedging contracts generating non-cash losses of $1,386,997 for the Quarter and $1,838,121 Year to Date (by contrast to unrealized gains of $1,795,342 and $570,312 respectively in the prior year). Additional non-cash charges included depletion and depreciation of the Company's tangible assets amounting to $1,186,516 and $2,460,642 for the Quarter and Year to Date respectively ($907,901 and $3,314,646 respectively in the prior year), and share based compensation expense of $531,227 and $1,310,236 respectively ($159,110 and $500,307 respectively in the prior year). 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 loss are due to several factors which are discussed in greater detail below.

OIL AND GAS PRODUCTION AND PRICING

	Three months ended September 30,				Nine months ended September 30,			
	2016			2015	**2016**			2015
	Kaisen	Hawk	**Total**		Kaisen	Hawk	**Total**	
Sales volumes								
Crude oil *(bbls per day)*	712	470	**1,182**	828	664	158	**822**	1,037
Natural gas liquids ("NGL") *(bbls/d)*	-	4	**4**	-	-	1	**1**	-
Natural gas *(Mcf per day)*	-	120	**120**	-	-	42	**42**	-
Total average daily production *(boe/d)*	712	494	**1,206**	828	664	166	**830**	1,037
Liquids as a percentage of total	*100%*	*96%*	*98%*	*100%*			*100%*	*100%*
Production by area (boe per day)								
Lone Rock, Saskatchewan	278	-	**278**	291	241	-	**241**	391
Edam, Saskatchewan	434	-	**434**	537	423	-	**423**	646
Lloydminster, Saskatchewan		263	**263**	-	-	79	**79**	-
Coleville, Saskatchewan		73	**73**	-	-	31	**31**	-
Other		158	**158**	-	-	56	**56**	-
Total average daily production	712	494	**1,206**	828	664	166	**830**	1,037

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 1,206 bbl per day compared to 828 bbl per day for the same quarter in 2015. The Hawk acquisition which closed on July 14, accounts for a significant portion of this increase adding 494 boe per day to the Quarter, with new production at Lloydminster, Coleville and non-core additions in Alberta at Chauvin and gas and liquids production at Dolcy Alberta. After seven consecutive quarters of minimal investment, Kaisen kicked off an optimization program in mid June of this year in an effort to offset declines and increase production. As of the Quarter end, a total of 18 projects (9 on existing Kaisen wells and 9 on acquired Hawk wells) were completed delivering approximately 360 boe per day in September. The optimization program has exceeded our production forecast to date, while coming under budget by approximately 42% of the total $2.8 million optimization budget. There are further optimization projects which have the potential to further grow production, however with prolonged weak commodity prices, these remaining projects are being held in reserve for a later date.

Year to Date production averaged 830 boe per day, 20% lower than the prior year where the declines are attributed to the Company's strategic decision, beginning in late 2014 through to the prior quarter, to conserve balance sheet strength with a postponement of the majority of the Company's drilling and optimization projects. As discussed above, the Company's current quarter optimization program was a return to activity levels that facilitated the first organic quarterly production growth since the fourth quarter of 2014.

	Three months ended September 30,		Nine months ended September 30,	
Petroleum and natural gas sales	**2016**	2015	**2016**	2015
Heavy oil	**$3,805,885**	$2,729,836	**$6,537,758**	$10,895,152
Natural gas	**$19,255**	-	**$19,255**	-
NGL's	**$10,544**	-	**$10,544**	-
Total sales	**$3,835,684**	$2,729,836	**$6,567,557**	$10,895,152
Average realized price				
Heavy oil ($/bbl)	**$34.99**	$35.85	**$29.03**	$38.48
Natural gas ($/mcf)	**$1.74**	-	**$1.74**	-
NGL's ($/bbl)	**$32.03**	-	**$32.03**	-
Corporate average realized price	**$34.57**	$35.85	**$28.89**	$38.48
Average benchmark prices				
WTI oil (US$bbl)	**$44.91**	$46.40	**$41.32**	$50.98
WCS differential (US$/bbl)	**($13.50)**	($13.27)	**($13.68)**	($13.29)
WCS heavy oil (US$bbl)	**$31.41**	$33.13	**$27.64**	$37.69
WCS differential %	**30%**	29%	**33%**	26%
AECO natural gas (CDN$/mcf)	**$2.14**	$2.80	**$1.88**	$2.80
US/CDN exchange rate	**$1.30**	$1.31	**$1.32**	$1.26
WCS heavy oil (CDN$/bbl)	**$41.00**	$43.37	**$36.52**	$47.45

Realized Pricing

Throughout the Quarter, commodity prices stabilized in comparison to the second quarter. Continued concerns about worldwide over-supply of crude oil has resulted in the forward outlook on commodity prices for the last quarter of the year remaining weak. At the time of writing, 2017 WTI is forecasted to be approximately US$50-55 per barrel and the WCS differential is forecasted to be approximately US$15 per barrel. US denominated WTI prices for the third quarter decreased by 3% over the same period in 2015 and the WCS differential widened from US$13.27 per barrel to US$13.50 per barrel. These two movements resulted in Kaisen's realized heavy oil price decreasing slightly by 3% to $34.99 per boe compared to the prior year. On a year-to-date basis, US denominated WCS pricing and the Canadian dollar weakened by 27% and 5%, respectively, resulting in an overall decrease in Kaisen's heavy oil realized commodity price of 25% in 2016 to $29.03 per boe.

Risk management contracts

The Company routinely enters into crude oil financial (hedging) 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. During the Quarter, the Company layered in numerous small volume hedge contracts to protect downside risk. As at September 30, 2016 the Company had the following fixed price contracts:

Type	Period	Volume	Price/unit (1)	Index
Fixed – sell (Swap)	April 1, 2016 – December 31, 2016	100 bbl/d	CAD$56.00	WTI-NYMEX
Fixed – sell (Swap)	April 1, 2016 – December 31, 2016	100 bbl/d	CAD$56.25	WTI-NYMEX
Fixed – sell (Swap)	July 1, 2016 – December 31, 2016	100 bbl/d	CAD$65.00	WTI-NYMEX
Fixed – sell (Swap)	January 1, 2017 – March 31, 2017	100 bbl/d	CAD$60.00	WTI-NYMEX
Fixed – sell (Swap)	January 1, 2017 – December 31, 2017	100 bbl/d	CAD$65.00	WTI-NYMEX
Fixed WTI Swap	January 1, 2016 – December 31, 2016	100 bbl/d	CAD$54.55(2)	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	100 bbl/d	CAD$52.40(2)	WTI-NYMEX
Fixed WTI Swap	October 1, 2016 – March 31, 2017	100 bbl/d	CAD$64.05	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD$65.80	WTI-NYMEX
Fixed WTI Swap	January 1, 2017 – December 31, 2017	300 bbl/d	CAD$75.00	WTI-NYMEX
Call option(3)	January 1, 2018 – December 31, 2018	600 bbl/d	USD$60.00	WTI-NYMEX
Fixed WCS Basis Swap	January 1, 2017 – December 31, 2017	100 bbl/d	USD -$15.50	WCS-Net Energy

(1) Based on the weighted average price/bbl for the duration of the contract
(2) Contract acquired with acquisition of Hawk Exploration Ltd. on July 14, 2016, per above note on Asset Acquisition
(3) The Call Option contract provides ATB with an option to exercise the contract terms (on a month to month basis) throughout the term of the contract.

The following is a summary of realized and unrealized losses for the three and nine month periods ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Realized gain/(loss)	**($23,784)**	$504,972	**($71,916)**	$972,319
$ per bbl	**($0.21)**	$6.63	**($0.32)**	$3.43
Unrealized gain/(loss)	**($1,386,997)**	$1,795,342	**($1,838,121)**	$570,312
Total gain/(loss) on risk management contracts	**($1,410,781)**	$2,300,314	**($1,910,037)**	$1,542,631

During the Quarter, Kaisen entered into additional forward price swap contracts one of which extends through to the end of 2018. All risk management contracts are valued with respect to the future forecasted market prices and are therefore individually valued as either a future asset or liability depending on the underlying contract swap price of each contract. This estimated value changes monthly based upon the forecasted future market prices at that time net of the monthly reduction in outstanding contract terms. New contracts entered into during the Quarter added significant further downside protection for the Company through 2017 on approximately 50% of our forecasted production at an average price floor of CAD$62.88, however certain of these new contracts were valued as a liability to the Company at the Quarter end based on current forecast market prices relative to their underlying contract prices, explaining the significant non-cash unrealized loss recorded during the Quarter.

CROWN AND FREEHOLD ROYALTIES	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Crown	**$264,628**	$275,142	**$491,635**	$1,280,423
Freehold	**$381,864**	$225,191	**$550,818**	$917,941
Total Royalties	**$646,492**	$500,333	**$1,042,453**	$2,198,364
$ per bbl	**$5.83**	$6.57	**$4.58**	$7.76
% of revenue	**17%**	18%	**16%**	20%

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 September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
	$2,258,950	$1,899,777	**$4,530,289**	$5,559,519
$ per bbl	**$20.36**	$24.95	**$19.93**	$19.64
% of revenue	**59%**	70%	**69%**	51%

Operating Costs, excluding crude oil transportation costs, are driven by both fixed and variable costs. Kaisen's primary fixed cost drivers include contract operator wages, property taxes, freehold mineral rentals, and surface rentals, while primary variable cost drivers include emulsion treating, produced waste water and sand trucking and disposal, utilities, heating fuel and routine maintenance. Primary non-routine expenses include minor and major workovers.

Supplier and contractor relationships continue to be of the utmost importance to Kaisen and in the currently depressed commodity price environment the continued strength of these relationships has become increasingly more important. Throughout 2015 and 2016, Kaisen has worked closely with suppliers and service providers to seek out cost reductions, increased operating efficiencies and decreased labor costs. For the Quarter, operating costs have averaged $20.36 per boe while year to date operating costs have averaged $19.93 per boe. Year to date operating costs per boe are consistent with the prior year while being 19% lower in the Quarter as compared to the same quarter in the prior year. The current quarter included extraordinary costs associate with regulatory compliance expenses associated with spill cleanup, repair and maintenance on the acquired Hawk assets, severance costs incurred from the release of certain Hawk field operators, and maintenance work at Kaisen's Edam salt water disposal facility. In aggregate these extraordinary expenditures contributed approximately $1.60 per boe of expenses in the Quarter. The Company forecasts 2016 operating costs per barrel to average in the range of $18.00-$21.00 for the balance of 2016.

TRANSPORTATION EXPENSES	Three months ended September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
	$210,690	$220,012	**$441,703**	$736,146
$ per bbl	**$1.90**	$2.89	**$1.94**	$2.60
% of revenue	**6%**	8%	**7%**	7%

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. 100% of the Company's crude oil production is trucked to sales facilities near Lloydminster and Edam 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 $2.20 per boe since inception. For the Quarter and Year to Date, transportation costs per barrel have decreased over the same periods in the prior year by 35% and 25% respectively, reflecting reductions in hauling rates from Kaisen's service providers during the period.

OPERATING NETBACKS	Three months ended September 30,		Nine months ended September 30,	
($ per bbl)	**2016**	**2015**	**2016**	**2015**
Sales price	**$34.57**	$35.85	**$28.89**	$38.48
Royalties	**($5.83)**	($6.57)	**($4.58)**	($7.76)
Saskatchewan surcharge tax	**($0.09)**	($1.92)	**($0.37)**	($1.59)
Operating expenses	**($20.36)**	($24.95)	**($19.93)**	($19.64)
Transportation expenses	**($1.90)**	($2.89)	**($1.94)**	($2.60)
Field netbacks *(before hedging)*	**$6.39**	($0.48)	**$2.07**	$6.89
Realized gain/(loss) on risk management contracts	**($0.21)**	$6.63	**($0.32)**	$3.43
Field netbacks *(after hedging)*	**$6.18**	$6.15	**$1.75**	$10.32

The Company realized an average field netback (before hedging) for the Quarter of $6.39 per boe and $2.07 per boe Year to Date, compared to a netback loss of $0.48 per boe and a positive netback of $6.89 per boe respectively for the same periods in the prior year. Improved netbacks (before hedging) for the Quarter over the prior year reflects reductions in operating and transportation costs in addition to a one-time Saskatchewan capital tax charge included in the prior year. For the Year to Date, lower netbacks are directly a result of the lower commodity prices which were lower by an average of 25% compared to the prior year.

Including a realized hedging loss of $0.21 and $0.32 per boe for the Quarter and Year to Date respectively (compared to realized gains of $6.63 and $3.43 per boe respectively for the same periods in the prior year), the Company's average field netback for the Quarter was $6.18 per boe (nearly identical to the prior year), and $1.75 per boe Year to Date ($10.32 per boe in the prior year).

GENERAL AND ADMINISTRATIVE ("G&A") AND OTHER NON CASH EXPENSES	**Three months ended September 30,**		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Salaries, bonus and benefits	**$479,775**	$394,315	**$1,236,545**	$1,174,457
Other G&A expenses	**$366,755**	$251,026	**$1,012,012**	$820,402
Gross G&A expenses	**$846,530**	$645,341	**$2,248,557**	$1,994,859
Capitalized G&A expenses	**($103,297)**	($67,497)	**($299,452)**	($202,492)
Net general and administrative costs	**$743,233**	$577,844	**$1,949,105**	$1,792,367
$ per bbl	**$6.70**	$7.59	**$8.57**	$6.33

G&A expenses are primarily fixed costs in nature and therefore fluctuate on a per boe 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. Net G&A expenses for the Quarter compared to the same quarter in the prior year have increased 31% reflecting the addition of a full time Land and Business Development Manager late in 2015, coupled with increased administrative labour and office costs commensurate with the Hawk acquisition.

Year to Date, net G&A expenses have increased 9%, once again reflecting the addition of the Company's full time Land and Business Development Manager and administrative support, as well as costs associated with the relocation of the Company's head office to a larger space in the same building. Due to the current quarter increase in production coupled with the mostly fixed nature of G&A expenses, net G&A cost per boe decreased 12% to $6.70 during the Quarter but increased 36% to $8.57 Year to Date. However, with the addition of production from the Hawk acquisition, coupled with production growth from the Company's currently underway optimization program, the Company anticipates a return to G&A expenses per boe in the range of $5.00 and $6.00 for the second half of 2016.

FINANCE CHARGES	**Three months ended September 30,**		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Interest and bank fees expense	**$13,735**	$39,924	**$30,575**	$113,929
Accretion expense	**$51,933**	$37,087	**$127,491**	$110,342
Finance charges	**$65,668**	$77,011	**$158,066**	$224,271

Interest and bank fees expense relates to interest charges and related service fees on the Company's banking facility. During the Quarter and Year to Date, the Company has carried nil bank debt by contrast to higher debt levels carried during the comparative periods in the prior year which has resulted in the elimination of interest expense for the Quarter and Year to Date, net of standby charges incurred on the unused portion of the facility, annual facility renewal fees, and other incidental banking fees.

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 September 30,**		**Nine months ended September 30,**	
	2016	**2015**	**2016**	**2015**
Share-based compensation	**$531,227**	$159,110	**$1,310,236**	$500,307

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

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

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

The increase in share based compensation expense compared to the same periods in 2015 is due to the new grants and the incremental expense associated with the modification of existing performance warrants.

DEPLETION AND DEPRECIATION	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Depletion	**$1,176,261**	$904,514	**$2,435,973**	$3,305,288
Depreciation	**$10,255**	$3,387	**$24,669**	$9,358
Depletion and depreciation	**$1,186,516**	$907,901	**$2,460,642**	$3,314,646
$ per bbl	**$10.69**	$11.92	**$10.82**	$11.71

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 $73.7 million ($84.5 million in 2015) less the total salvage value of the assets of $2.5 million ($1.6 million).

LIQUIDITY AND CAPITAL RESOURCES

On July 14, 2016, and pursuant to the Hawk acquisition, the Company's lendor increased revolving operating facility to $5,500,000 (previously $2,000,0000) with no changes to lending rates. A mid-year borrowing base review has been scheduled for January 2017.

At September 30, 2016, the Company had a net working capital surplus of $2,328,383 with no amounts drawn on the operating facility ($3,022,039 net surplus at December 31, 2015). The increase in the Company's net cash surplus is due to the $20,000,000 private equity placement to Azimuth Capital Management on July 12, 2016 net of the consideration paid in connection with the Hawk acquisition. Additionally, Kaisen has $10,000,000 of currently undrawn equity available under its arrangements with Azimuth Capital Management in connection with the private placement offering that closed in November 2015. With nil debt and positive working capital, coupled with available borrowing capacity up to $5.5 million and an undrawn $10.0 million equity line, Kaisen is well positioned with sufficient capital resources to execute on a comprehensive development and/or potential further acquisitions at the appropriate time.

CAPITAL INVESTMENT	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Land	**-**	$11,526	**$4,060**	$56,165
Geological and geophysical	**$26,310**	-	**$44,104**	$35,120
Drilling and completions	**$472,269**	$715,616	**$943,800**	$1,198,321
Equipment and facilities	**$266,287**	$718,586	**$660,430**	$1,465,798
Capitalized G&A	**$82,497**	$67,497	**$278,652**	$202,492
Capitalized stock based compensation (non-cash)	**$87,750**	$14,523	**$224,279**	$49,694
Corporate acquisitions / (divestitures)	**$17,728,895**	-	**$17,728,895**	-
Office equipment	**$18,029**	$5,499	**$112,291**	$7,673
Total capital additions	**$18,682,037**	$1,533,247	**$19,996,511**	$3,015,263

For the year to date, Kaisen has remained disciplined with a focus on optimizing profitability, evaluating potential acquisitions, and management of land tenure. While doing this the Company has taken strides in the improvement of field data capture systems, asset integrity, and HS&E processes for future growth. For the first half of the year, this approach saw us focusing on non-discretionary regulatory compliance and land tenure which resulted in the need to complete three well reactivations; drilling a single exploratory well at Lone Rock which was subsequently abandoned; and maintenance and workovers to maintain minimal production levels.

During the Quarter the Company completed 18 well optimization projects (9 wells on each Kaisen and Hawk assets). In total, approximately $1.2 million (42% of a $2.8 million optimization budget) has been spent ($738,556 in the Quarter) on these projects adding approximately 360 boe per day of economic oil production in September. The remaining budgeted optimization projects which have the potential to further grow production, are being held in reserve until such time as greater price stability is seen in commodity prices.

For the balance of 2016, the Company has continued with a minimalist capital program with no wells planned for the fourth quarter. We continue to hone our plans for a comprehensive growth based drilling and exploitation program which we hope to initiate at the appropriate time when the commodity price markets stabilize.

SELECTED QUARTERLY RESULTS AND ANALYSIS

(Cdn$ thousands, expect per share, shares and per boe amounts)	**2016**			2015				2014	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Petroleum and natural gas sales	**$3,836**	$1,747	$985	$2,059	$2,730	$4,000	$4,166	$9,124	$7,593
Realized hedging gains/(losses)	**($24)**	($48)	-	$651	$505	$166	$301	$771	($335)
Funds flow (loss) from operations[1]	**($361)**	($444)	($1,068)	$205	($144)	$997	$566	$2,754	$2,510
Net earnings (loss)	**($3,518)**	($1,507)	($1,703)	($1,429)	$358	($1,667)	($607)	$403	$1,618
Expenditures on oil & gas properties	**$865**	$546	$632	$1,091	$1,519	$747	$701	$3,190	$8,487
Corporate and Asset acquisitions	**$15,580**	-	-	-	-	-	-	($679)	-
Net surplus / (debt)	**$2,328**	$330	$1,320	$3,022	($4,930)	($3,267)	($3,516	($3,382)	($3,620)
Common Shares outstanding – diluted	**55,649**	30,649	30,649	30,649	18,649	18,649	18,649	18,649	18,649
Sales Volumes *(boe per day)* [2]	**1,206**	582	697	822	828	907	1,382	1,699	1,104
Operating Netbacks ($/boe)									
Sales price	**$34.57**	$32.96	$15.53	$27.22	$35.85	$48.44	$33.48	$58.40	$74.76
Royalties	**($5.83)**	($5.80)	($1.40)	($4.08)	($6.57)	($10.61)	($6.60)	($14.82)	($19.14)
Saskatchewan surcharge tax	**($0.09)**	($0.57)	($0.71)	($0.69)	($1.92)	($0.91)	($1.84)	($2.97)	-
Operating expenses	**($20.36)**	($19.51)	($19.52)	($22.50)	($24.95)	($19.74)	($16.32	($17.03)	($19.48)
Transportation expenses	**($1.90)**	($1.82)	($2.12)	($2.79)	($2.89)	($2.84)	($2.26)	($2.28)	($2.09)
Field netbacks (before hedging)	**$6.39**	$5.26	($8.22)	($2.84)	($0.48)	$14.34	$6.46	$21.30	$34.05
Realized gain/(loss) on risk mgmt contracts	**($0.21)**	($0.91)	-	$8.60	$6.63	$2.01	$2.42	$4.94	($3.30)
Field netbacks (after hedging)	**$6.18**	$4.35	($8.22)	$5.76	$6.15	$16.35	$8.88	$26.24	$30.75
General & administration expenses	**($6.70)**	($12.54)	($8.54)	($5.10)	($7.59)	($7.35)	($4.88)	($5.32)	($4.88)
Transaction expenses	**($2.61)**								
Corporate netback	**($3.13)**	($8.19)	($16.76)	$0.66	($1.44)	$9.00	$4.00	$20.92	$25.87

(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 provides Kaisen with an additional 500 boe per day of 98% heavy oil production. The Hawk acquisition resulted in increased sales, cash flow from operations and production in the third quarter of 2016 and thereafter.

ADDITIONAL INFORMATION

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

ADVISORIES

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

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

Non-IFRS measurements

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 September 30,		Nine months ended September 30,	
	2016	**2015**	**2016**	**2015**
Cash flow from (used in) operating activities	**($15,967)**	$221,700	**($1,145,944)**	$1,028,944
Exclude the change in non-cash working capital	**($345,282)**	($366,115)	**($727,589)**	$388,742
Funds flow from operations	**($361,249)**	($144,415)	**($1,873,533)**	$1,417,686

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).

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.