



Management Discussion & Analysis

Three and Nine month periods ended September 30, 2017

(unaudited)

September 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management discussion and analysis ("MD&A") is dated November 30, 2017, 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, 2017 (the "Quarter" and "Year to Date") and the audited annual financial statements as at and for the year ended December 31, 2016 of Kaisen Energy Corp. ("Kaisen" or the "Company"). Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

DESCRIPTION OF THE BUSINESS

Kaisen is a Calgary based energy company primarily focused on heavy oil development and production in Saskatchewan and was incorporated in Alberta Canada on November 6, 2012. The Company's principal place of business is located at 400, 522 - 11th Avenue S.W. Calgary, Alberta, Canada, T2R 0C8. Kaisen operates with a total of 7 employees and 13 contract employees of which 9 reside within Kaisen's area of operations near Lloydminster, Saskatchewan.

RESULTS OF OPERATIONS

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
Financial Highlights (\$,000, except per boe amounts)	2017	2016	2017	2016
Petroleum and natural gas sales	\$5,060	\$3,836	\$15,854	\$6,568
Realized hedging gains/(losses)	\$468	(\$24)	\$380	(\$72)
Funds flow / (loss) from operations ⁽¹⁾	\$1,318	(\$361)	\$1,447	(\$1,874)
Per share – basic & diluted	\$0.03	(\$0.01)	\$0.03	(\$0.06)
Net earnings / (loss)	(\$1,634)	(\$3,518)	(\$538)	(\$6,728)
Per share – basic & diluted	(\$0.04)	(\$0.09)	(\$0.01)	(\$0.23)
Expenditures on oil & gas properties	\$2,967	\$865	\$7,847	\$2,043
Expenditures on corporate acquisition	-	\$15,580	-	\$15,580
Net surplus / (debt) (bank debt and net working)	(\$3,572)	\$2,328	(\$3,572)	\$2,328
Sales Volumes				
Heavy oil (bbl/d)	1,277	1,182	1,363	822
Natural gas liquids (bbl/d)	3	4	2	1
Natural gas (mcf per day)	91	120	99	40
Total production (boe per day)	1,295	1,206	1,381	830
Netbacks⁽¹⁾ (\$ per barrel)				
Sales price	\$42.48	\$34.57	\$42.09	\$28.89
Royalties	(\$7.26)	(\$5.83)	(\$7.26)	(\$4.58)
Saskatchewan surcharge tax	(\$0.88)	(\$0.09)	(\$0.77)	(\$0.37)
Operating expenses	(\$17.68)	(\$20.36)	(\$22.87)	(\$19.93)
Transportation expenses	(\$2.05)	(\$1.90)	(\$2.15)	(\$1.94)
Field Netbacks/(loss) (before hedging)	\$14.61	\$6.39	\$9.04	\$2.07
Realized gain/(loss) on risk management contracts	\$3.93	(\$0.21)	\$1.01	(\$0.32)
Field Netbacks (after hedging)	\$18.54	\$6.18	\$10.05	\$1.75
General & administrative expenses	(\$6.73)	(\$6.70)	(\$5.84)	(\$8.57)
Transaction expenses on corporate acquisition	-	(\$2.61)	-	(\$1.28)
Corporate Netbacks	\$11.81	(\$3.13)	\$4.21	(\$8.10)

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



QUARTER HIGHLIGHTS

- **Third quarter production averaged 1,295 boe per day with no new production additions since Q1**
 - Production held relatively flat quarter over quarter with no new production additions since the first quarter of 2017 when the Company drilled 4.3 net wells. Kaisen commenced production of the Company's second 3-well horizontal pad at Lone Rock in the last week of September, however there was minimal impact to the production average for the quarter.
- **All-in operating costs of \$19.73**
 - Operating costs for the Quarter averaged \$17.68 per boe (\$3.85 per boe lower than the prior quarter). All-in costs averaged \$19.73 per boe (including transportation) generating approximate savings of \$0.9 million for the Quarter. Lower energy costs, water handling and workovers were the largest cost area reductions.
- **Field netbacks of \$14.61 per boe (\$18.55 per boe including hedging), 29% higher than prior quarter**
 - Field netbacks continue to claw back from lows recorded at the beginning of the year, increasing another 29% on top of the second quarter increase of 918%. Improving prices and lower operating costs are the single largest contributors.
- **Funds flow of \$1.3 million, 45% increase over prior quarter**
 - \$1.3 million in Funds flow compared to the prior quarter funds flow of \$0.9 million driven by higher prices and lower costs during the period.
- **\$2.7 million invested in drilling of 3 horizontal wells at Lone Rock – production on-stream by end of September**
 - \$2.7 million of capital investment primarily directed towards the drilling of 3 new horizontal wells at Lone Rock, the Company's second 3-well pad in 2017. Production was on stream in the last week of September.
- **Azimuth injects further \$2.5 million of equity and Bank renews \$5.5 million operating facility**
 - On July 11, 2017, Kaisen drew \$2.5 million from its remaining \$10.0 million equity line of credit arrangement with Azimuth Capital Management. Funds were used to drill 3 Lone Rock Sparky horizontal wells which were on-stream by the end of September.

FUNDS FLOW FROM OPERATIONS

For the Quarter and Year to Date, the Company recorded funds flow from operations of \$1.32 million and \$1.45 million respectively, compared to losses of \$0.36 million and \$1.87 million respectively, in the same periods of 2016. Increased funds flow in the current periods over the comparative periods is a result of increased production and pricing over the same periods.

NET EARNINGS AND COMPREHENSIVE EARNINGS

The Company recorded a net loss for the Quarter and Year to Date of \$1.63 million and \$0.54 million respectively, compared to net losses of \$3.52 million and \$6.73 million respectively in the same periods of 2016. Routine non-cash charges can have a significant impact on net earnings/losses. The most significant non-cash charges for the Quarter are depletion and depreciation of the Company's assets, share based compensation expense, and unrealized gains/losses from hedging contracts. These non-cash charges do not reflect cash costs of the Company and can therefore be misleading in measuring the financial health of operations from one period to the next. The changes in net earnings/loss are due to several factors which are discussed in greater detail below.

OIL AND GAS PRODUCTION AND PRICING (barrels per day)	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales volumes				
Crude oil (bbls per day)	1,277	1,182	1,363	822
Natural gas liquids ("NGL") (bbls/d)	3	4	2	1
Natural gas (Mcf per day)	91	120	99	42
Total average daily production (boe/d)	1,295	1,206	1,381	830
<i>Liquids as a percentage of total</i>		98%		100%
Production by area				
Lone Rock, Saskatchewan	304	278	303	241
Edam, Saskatchewan	305	434	359	423
Lloydminster, Saskatchewan	485	263	513	79
Coleville, Saskatchewan	91	73	87	31
Other	110	158	119	56
Total average daily production	1,295	1,206	1,381	830

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 1,295 boe per day compared to 1,206 boe per day for the same quarter in 2016. With no new production additions since drilling the 4.3 net wells in the first quarter, production has followed a predictable decline over the past two quarters. Due to positive results from the first 3 Lone Rock horizontal wells drilled in the first quarter, Kaisen initiated a second 3-well pad at Lone Rock in August with production on-stream in the last week of September. The positive impact to production from the third quarter drills will be realized in the fourth quarter.

Petroleum and natural gas revenue and prices	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Heavy oil	\$5,042,914	\$3,805,885	\$15,784,795	\$6,537,758
Natural gas	\$8,030	\$19,255	\$50,976	\$19,255
NGL's	\$8,599	\$10,544	\$18,567	\$10,544
Total Sales	\$5,059,453	\$3,835,684	\$15,854,338	\$6,567,557
Kaisen realized prices				
Heavy oil (\$/bbl)	\$42.91	\$34.99	\$42.46	\$29.03
Natural gas (\$/mcf)	\$0.95	\$1.74	\$1.89	\$1.74
NGLs (\$/bbl)	\$47.78	\$32.03	\$38.77	\$32.03
Corporate average realized price	\$42.48	\$34.57	\$42.09	\$28.89
Average Benchmark Prices				
WTI oil (US\$/bbl) ⁽¹⁾	\$48.21	\$44.91	\$49.47	\$41.32
WCS differential (US\$/bbl) ⁽²⁾	(\$9.94)	(\$13.50)	(\$11.88)	(\$13.68)
WCS heavy oil (US\$/bbl)	\$38.27	\$31.41	\$37.59	\$27.64
WCS differential %	21%	30%	24%	33%
AECO natural gas (CDN\$/mcf) ⁽³⁾	\$2.02	\$2.14	\$2.56	\$1.88
US/CDN exchange rate	\$1.25	\$1.30	\$1.30	\$1.32
WCS heavy oil (CDN\$/bbl)	\$47.92	\$41.00	\$49.07	\$36.52

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

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

(3) Represents the AECO 7a monthly index.

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Realized Pricing

Higher revenue for the Quarter and Year to Date has been supported by continued strengthening in oil prices. WCS heavy oil differentials remained narrow through the Quarter averaging US\$9.94 per boe, continuing a trend that Kaisen has benefited from for majority of the year. However recent strengthening in the Canadian dollar relative to the US dollar has partially offset the gains from stronger WCS prices.

US WTI prices for the Quarter increased by 7% over the same period in 2016 while the US WCS differential narrowed from \$13.50 per barrel to \$9.94 per barrel. During the same period, the Canadian dollar strengthened from \$1.30 in the prior year to \$1.25 in the Quarter, which when combined, these key pricing variables resulted in a 17% increase in Kaisen's average realized commodity price over the same quarter in the prior year, adding to an already encouraging 31% increase posted in the prior quarter. Year to Date, the US WTI and the US WCS differential strengthened by 20% and 13% respectively while the Canadian dollar remained relatively flat, all together driving a 34% increase in Kaisen's average realized price for 2017 of \$49.07 per boe compared to \$36.52 per barrel for the same period in the prior year.

Risk management contracts

The Company routinely enters into crude oil financial contracts to manage the volatility of commodity prices, and may from time to time also enter into foreign exchange financial contracts. Kaisen's current policy is to hedge no more than 60% of forecasted net production volumes using a combination of financial instruments including fixed swaps, swaptions and price collars, under contract terms not exceeding 24 months with only investment grade counterparties. As at September 30, 2017 the Company had the following fixed price contracts:



Type	Period	Volume (bbl/d)	Currency	Price/unit ⁽¹⁾	Index
Fixed – sell (Swap)	Jan 1, 2017 – Dec 31, 2017	100 bbl/d	CAD	\$65.00	WTI-NYMEX
Fixed WTI Swap ⁽²⁾	Jan 1, 2017 – Dec 31, 2017	100 bbl/d	CAD	\$52.40	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2017 – Dec 31, 2017	300 bbl/d	CAD	\$65.80	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2017 – Dec 31, 2017	300 bbl/d	CAD	\$75.00	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2018 – Dec 31, 2018	200 bbl/d	CAD	\$67.20	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2018 – Jun 30, 2018	100 bbl/d	CAD	\$68.50	WTI-NYMEX
Fixed WTI Swap	Jan 1, 2018 – Jun 30, 2018	200 bbl/d	CAD	\$59.85	WTI-NYMEX
Fixed WTI Swap	July 1, 2018 – Dec 31, 2018	200 bbl/d	CAD	\$63.50	WTI-NYMEX
Fixed WCS Basis Swap	Jan 1, 2018 – Mar 31, 2018	500 bbl/d	CAD	(\$16.58)	WCS-Net Energy
Fixed WCS Basis Swap	Jan 1, 2017 – Dec 31, 2017	100 bbl/d	USD	(\$15.50)	WCS-Net Energy
Sold Call Option ⁽³⁾	Jan 1, 2019 – Dec 31, 2019	400 bbl/d	USD	\$60.00	WTI-NYMEX

(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 gains and losses for the three and nine month periods ended September 30, 2017 and 2016:

	Three months ended September 30		Nine months ended September 30,	
	2017	2016	2017	2016
Realized gain/(loss)	\$467,566	(\$23,784)	380,063	(\$71,916)
\$ per barrel ⁽¹⁾	\$3.93	(\$0.21)	\$1.01	(\$0.32)
Unrealized gain/(loss)	(\$1,085,351)	(\$1,386,997)	\$3,772,807	(\$1,838,121)
Total gain/(loss) on risk management contracts	(\$617,785)	(\$1,410,781)	\$4,152,870	(\$1,910,037)

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

CROWN, FREEHOLD & GOR ROYALTIES	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Crown royalties	\$293,375	\$264,628	\$876,475	\$491,635
Freehold royalties	\$421,608	\$328,478	\$1,363,250	\$497,432
Gross overriding royalties	\$149,395	\$53,386	\$495,674	\$53,386
Total Royalties	\$864,378	\$646,492	\$2,735,399	\$1,042,453
\$ per barrel ⁽¹⁾	\$7.26	\$5.83	\$7.26	\$4.58
% of revenue	17%	17%	17%	16%

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

Approximately 80% of Kaisen lands are held under Crown leases with the remaining held under freehold leases. In July 2016, Kaisen acquired assets, as part of the Hawk acquisition, encumbered with gross overriding royalties ("GOR"). Conventional Crown royalty rates range from ~2% to 30% depending upon the type/vintage of wells, commodity type, volume of daily production and market prices. The Saskatchewan Government provides royalty relief incentives on wells drilled horizontally and for enhanced oil recovery schemes such as polymer floods and thermal recovery methods. Kaisen is currently forecasting a royalty rate of approximately 17%-22% blended for Crown, freehold and GOR rates in the current price environment.

OPERATING EXPENSES	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$2,105,243	\$2,258,950	\$8,616,990	\$4,530,289
\$ per barrel ⁽¹⁾	\$17.68	\$20.36	\$22.87	\$19.93
% of revenue	42%	59%	54%	69%

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

Operating Costs, excluding crude oil transportation costs, are driven by both fixed and variable costs. Kaisen's primary fixed cost drivers include contract operator wages, property taxes, freehold mineral rentals, and surface rentals, while primary variable cost drivers include emulsion treating, produced water and sand trucking and disposal, utilities, heating fuel and routine maintenance. Primary non-routine expenses include minor and major workovers. Supplier and contractor relationships are of the utmost importance to Kaisen and in the currently depressed commodity price environment the continued strength of these relationships is tantamount to the Company's success. Kaisen continually works closely with suppliers and service providers to seek out cost reductions, increased operating efficiencies and decreased labor costs.



For the Quarter and Year to Date, operating costs averaged \$17.68 per boe (13% lower than the prior year) and \$22.87 per boe (15% lower than the prior year), respectively. Significant efforts have been made during recent quarters to seek out further cost reductions. These efforts focused largely on fuel, water handling and workovers have helped in realizing meaningful cost reductions of approximately 40% since the first quarter. In addition to operational improvements, seasonally lower fuel prices helped to reduce costs in the Quarter, however as winter approaches, the related cold weather impacts to heating fuel consumption will likely bring headwinds to the Company's operating costs per boe in late fourth quarter and into the first quarter of 2018.

TRANSPORTATION EXPENSES	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	\$244,290	\$210,690	\$810,260	\$441,703
\$ per boe ⁽¹⁾	\$2.05	\$1.90	\$2.15	\$1.94
% of revenue	5%	6%	5%	7%

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

For the Quarter and Year to Date, transportation costs per boe were higher by 8% and 11%, respectively, compared to 2016. Transportation expense relates specifically to the cost of trucking produced emulsion to the sales point where it is then cleaned and blended for market. Costs related to water and sand transportation are included within operating costs. The majority of the Company's crude oil production is trucked to sales facilities near Lloydminster, Edam and Coleville Saskatchewan. Bottlenecking of trucks at sales facilities and seasonal delays may impact the cost of transportation in any given period, however the Company's transportation expense has typically trended in the range of \$1.85 to \$2.50 per boe.

OPERATING NETBACKS (\$ per boe) ⁽¹⁾	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Sales price	\$42.48	\$34.57	\$42.09	\$28.89
Royalties	(\$7.26)	(\$5.83)	(\$7.26)	(\$4.58)
Saskatchewan surcharge tax	(\$0.88)	(\$0.09)	(\$0.77)	(\$0.37)
Operating expenses	(\$17.68)	(\$20.36)	(\$22.87)	(\$19.93)
Transportation expenses	(\$2.05)	(\$1.90)	(\$2.15)	(\$1.94)
Netbacks (before hedging)	\$14.61	\$6.39	\$9.04	\$2.07
Realized gain/(loss) on risk	\$3.93	(\$0.21)	\$1.01	(\$0.32)
Netbacks (after hedging)	\$18.54	\$6.18	\$10.05	\$1.75

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

The Company realized an average field netback profit (before hedging) for the Quarter of \$14.61 per boe, 129% higher than the \$6.39 per boe recorded in the prior year. Higher netbacks for the Quarter is a direct reflection of oil price strengthening in 2017 year to date. Layering in realized hedging gains of \$3.93 per barrel for the Quarter further enhanced the average netback to \$18.54 per boe by contrast to a hedging loss of \$0.21 per boe for the same period in 2016 that reduced the field netback to \$6.18 per boe in the same period.

For the Year to Date, realized field netbacks (before hedging) were \$9.04 per boe compared to a \$2.07 per boe for the same period in 2016. Netbacks for the Year to Date, including realized hedging gains of \$1.01, averaged \$10.05 per boe compared to \$1.75 per boe in 2016 (net of realized hedging losses of \$0.32 per boe.)

GENERAL AND ADMINISTRATIVE ("G&A")	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Salaries, bonus and benefits	\$473,551	\$479,775	\$1,339,280	\$1,236,545
Other G&A expenses	\$430,897	\$366,755	\$1,187,074	\$1,012,012
Gross G&A expenses	\$904,448	\$846,530	\$2,526,354	\$2,248,557
Capitalized G&A expenses	(\$102,621)	(\$103,297)	(\$326,039)	(\$299,452)
Net G&A costs	\$801,827	\$743,233	\$2,200,315	\$1,949,105
\$ per boe	\$6.73	\$6.70	\$5.84	\$8.57

G&A expenses are primarily fixed costs by nature and therefore fluctuate on a per barrel basis with the rate of production. Kaisen capitalizes to property, plant and equipment, a percentage of technical staff salaries and share based compensation expense for engineering and geological work at a rate that is commensurate with the extent of work required to execute on the Company's capital program. For the Quarter, G&A per boe was unchanged from the same period in the prior year while year to date G&A costs were 32% lower than in the prior year due to January 2016 staffing additions ahead of the production additions realized from the Hawk acquisition in July 2016.

FINANCE CHARGES	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest expense	\$32,018	\$13,735	\$73,140	\$30,575
Accretion expense	\$56,666	\$51,933	\$167,358	\$127,491
Finance charges	\$88,684	\$65,668	\$240,498	\$158,066



Interest expense relates to interest charges and related service fees on the Company's banking facility. Accretion expense relates to the Company's asset retirement obligation for the future abandonment and reclamation of our lands and well sites. The estimated future asset retirement obligation is discounted at a risk-free rate in accordance with the Company's accounting policies and recorded as a liability on the Statement of Financial Position. The liability is increased monthly to account for the passage of time with the monthly increase recorded as accretion expense. Material changes in the accretion expense is typically driven by new well additions in each period, being a combination the Company's drilling program and acquisitions and/or divestitures.

SHARE-BASED COMPENSATION	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Share-based compensation	\$488,506	\$531,227	\$1,455,966	\$1,310,236

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

Performance warrants granted	#	Exercise price	Grant Date
Series 1	1,000,000	\$1.50	November 12, 2015
Series 2	1,000,000	\$1.75	November 12, 2015
Series 3	2,780,999	\$2.00	November 12, 2015
Series 4	1,000,000	\$2.25	November 12, 2015
Series 5	1,250,000	\$1.25	July 12, 2016
Series 6	1,250,000	\$1.50	July 12, 2016
Series 7	1,250,000	\$1.75	July 12, 2016
Series 8	1,250,000	\$2.00	July 12, 2016
Total	10,780,999	\$1.78	

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

The increase in share based compensation expense compared to the same periods in 2016 is due to the July 12, 2016 grant and the incremental expense associated with the modification of existing performance warrants.

DEPLETION AND DEPRECIATION	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Depletion	\$1,368,233	\$1,176,261	\$4,162,268	\$2,435,973
Depreciation	\$9,234	\$10,255	\$28,602	\$24,669
Depletion and depreciation	\$1,377,467	\$1,186,516	\$4,190,870	\$2,460,642
\$ per boe	\$11.57	\$10.69	\$11.12	\$10.82

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 \$75.2 million (\$73.7 million in the prior year) less total salvage value of the assets of \$2.55 million (\$2.50 million in the prior year).

LIQUIDITY AND CAPITAL RESOURCES

The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders.

The Company is not subject to any external restrictions on its capital structure with exception to covenants in place with the Company's lender (refer to note 6). There have been no material changes in the Company's approach to capital management during the nine months ended September 30, 2017.

The Company regularly reviews certain quantitative measures of its capital structure in order to understand its position relative to industry peers. In particular, the Company monitors debt levels based on the ratio of net debt to annualized funds from operations. The ratio represents the time period it would take to pay off the debt if no further capital expenditures were incurred and if funds flow from operations remained constant. This ratio is calculated as net debt, defined as outstanding bank debt and net working capital, divided by annualized funds from operations for the most recent quarter. The Company monitors this ratio and endeavors to maintain it at or below 1.5 to 1.0 to a maximum ratio of 2.0 to 1.0 as mandated by the covenants in place with the Company's bank debt lender. During periods of increased capital expenditures, acquisitions or during periods of low commodity prices, this ratio will increase over short-term periods.

As at September 30, 2017, the Company's net debt was \$3.57 million (bank debt plus current assets net of current liabilities excluding risk management contracts) (\$0.33 million net surplus at December 31, 2016) and was compliant with its lender covenants. Net debt at September 30, 2017 is a product of the Company's \$7.8 million capital program undertaken since the beginning of the year.

On July 11, 2017, Azimuth Capital Management converted 2.0 million Special Voting Shares of the Company into 2.0 million Common Shares of the Company for total proceeds to Kaisen of \$2.5 million in accordance with the terms of the private placement equity financing with Azimuth on November 12, 2015. Proceeds from the equity issuance will be used to fund capital activity in the second half of 2017. Subsequent to the conversion, Azimuth continues to hold 6.0 million Special Voting Shares representing a remaining \$7.5 million of equity available to Kaisen to fund future growth opportunities.

Based on currently forecasted commodity prices for the remainder of 2017 and 2018, Kaisen's current capital resources (cash on hand, undrawn equity proceeds from Azimuth Capital Management, and currently available borrowing capacity) in concert with positive cashflows, are sufficient to fund (at a minimum) ongoing corporate obligations through remainder of 2017 and 2018 along with a conservative capital investment program sufficient to maintain current production levels year over year. However, if the current economic circumstances affecting our business are to materially change, Kaisen maintains optionality to adjust its capital structure through such means as the issuance of new equity, and/or the issuance of new debt instruments in various forms tailored to the Company's specific needs, and/or by making adjustments to its operations and/or capital expenditure programs to the extent that capital expenditures are not committed.

CAPITAL INVESTMENT	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Land	\$79,250	-	\$132,234	\$4,060
Geological and geophysical	\$1,220	\$26,310	\$739,437	\$44,104
Drilling and completions	\$2,300,671	\$472,269	\$5,356,014	\$943,800
Equipment and facilities	\$484,985	\$266,287	\$1,311,715	\$660,430
Capitalized G&A	\$97,500	\$82,497	\$292,500	\$278,652
Capitalized stock based compensation	\$91,773	\$87,750	\$275,200	\$224,279
Corporate acquisitions / (divestitures)	-	\$17,728,895	-	\$17,728,895
Office furniture & equipment	\$2,910	\$18,029	\$14,851	\$112,291
Total capital additions	\$3,058,309	\$18,682,037	\$8,121,951	\$19,996,511

For the Year to Date, a total of 8 gross (7.3 net) wells have been drilled. At Lone Rock, 3 gross/net Sparky horizontal wells were drilled in the first quarter with another 3 gross/net wells drilled late in the third quarter. Another 2 gross (1.3 net) Sparky wells were drilled at Forest Bank in the first quarter. Total cash capital expenditures for the Quarter and Year to Date were \$2.97 million and \$7.8 million respectively (including capitalized general and administrative expenses of \$0.1 million and \$0.28 million respectively).

SELECTED QUARTERLY RESULTS AND ANALYSIS

<i>(Cdn \$,000, except per boe amounts)</i>	2017				2016			2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Petroleum and natural gas sales	\$5,060	\$5,798	\$4,997	\$4,588	\$3,836	\$1,747	\$985	\$2,059
Realized hedging gains/(losses)	\$468	\$124	(\$212)	(\$302)	(\$24)	(\$48)	-	\$651
Funds flow (loss) from operations ⁽¹⁾	\$1,318	\$907	(\$779)	(\$558)	(\$361)	(\$444)	(\$1,068)	\$205
Net earnings (loss)	(\$1,634)	\$842	\$253	(\$4,662)	(\$3,518)	(\$1,507)	(\$1,703)	(\$1,429)
Expenditures on oil & gas properties	\$2,967	\$408	\$4,472	\$1,424	\$865	\$546	\$632	\$1,091
Corporate and Asset acquisitions	-	-	-	-	\$15,580	-	-	-
Net surplus / (debt)	(\$3,572)	(\$4,422)	(\$4,918)	\$335	\$2,328	\$330	\$1,320	\$3,022
Shares outstanding – diluted (thousands)	57,649	55,649	55,649	55,649	55,649	30,649	30,649	30,649
Sales Volumes (boe per day) ⁽²⁾	1,295	1,480	1,366	1,298	1,206	582	697	822
Operating Netbacks (\$/boe)								
Sales price	\$42.48	\$43.06	\$40.64	\$38.42	\$34.57	\$32.96	\$15.53	\$27.22
Royalties	(\$7.26)	(\$7.08)	(\$7.47)	(\$7.61)	(\$5.83)	(\$5.80)	(\$1.40)	(\$4.08)
Saskatchewan surcharge tax	(\$0.88)	(\$0.78)	(\$0.66)	(\$0.52)	(\$0.09)	(\$0.57)	(\$0.71)	(\$0.69)
Operating expenses	(\$17.68)	(\$21.52)	(\$29.39)	(\$24.83)	(\$20.36)	(\$19.51)	(\$19.52)	(\$22.50)
Transportation expenses	(\$2.05)	(\$2.37)	(\$2.01)	(\$2.44)	(\$1.90)	(\$1.82)	(\$2.12)	(\$2.79)
Field netbacks (before hedging)	\$14.61	\$11.31	\$1.11	\$3.02	\$6.39	\$5.26	(\$8.22)	(\$2.84)
Realized gain/(loss) on risk mgmt contracts	\$3.93	\$0.92	(\$1.72)	(\$2.53)	(\$0.21)	(\$0.91)	-	\$8.60
Field netbacks (after hedging)	\$18.54	\$12.23	(\$0.61)	\$0.49	\$6.18	\$4.35	(\$8.22)	\$5.76
General & administration expenses	(\$6.73)	(\$5.21)	(\$5.67)	(\$5.94)	(\$6.70)	(\$12.54)	(\$8.54)	(\$5.10)
Transaction expenses	-	-	-	-	(\$2.61)	-	-	-
Corporate netback	\$11.81	\$7.02	(\$6.28)	(\$5.45)	(\$3.13)	(\$8.19)	(\$16.76)	\$0.66

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

⁽²⁾ The reader is referred to the section - "Oil, Natural Gas Liquids and Natural Gas Conversions to Boe's".

Quarter over quarter fluctuations in revenue is the result of both production variability and realized sales prices. Volume fluctuations are the result of well productivity and quarterly capital activity levels. Quarterly volumes delivered to sales points can be influenced by a variety of factors including weather and transportation availability and/or constraints. Kaisen's realized sales price for approximately 98% of its production is based off of the West Texas Intermediate (WTI) less the Western Canadian Select (WCS) differential and is further adjusted for the quality differential specific to Kaisen's production. Royalty expenses are directly correlated to sales prices and productivity of each producing well. Kaisen's royalty profile changes based on Kaisen's drilling activity (crown versus freehold lands, provincial well incentive programs etc.) as well as production results on existing wells. Operating costs are impacted by weather where costs are typically higher in the winter months due to increased maintenance and energy costs. Operating costs are also impacted by routine and occasionally non-routine well and facility maintenance requirements. G&A expenses by its very nature is comprised of a high ratio of fixed to variable costs (i.e. salaries, rent, operating licenses and subscriptions), as such, G&A expenses per boe will fluctuate conversely in close correlation with the rate of production in any given quarter. Net income is impacted by all factors above in addition to the impact of routine and non-routine non-cash charges including depletion of the Company's assets, changes in future taxes and unrealized gains/losses from financial risk management contracts (hedges) which fluctuates from quarter to quarter based on the pricing environment at each quarter end.

On July 14, 2016 Kaisen closed the Hawk acquisition which provided Kaisen with an additional 500 boe per day of 98% heavy oil production and in the third and fourth quarters of 2016, Kaisen completed a 25 well optimization program which added approximately 450 boe per day by the end of the year. The Hawk acquisition and subsequent optimization program resulted in increased sales, cash flow from operations and production beginning in the third of 2016, further increased from the drilling of 5 gross (4.3 net) wells in the first quarter and 3 gross/net wells in the third quarter of 2017.

ADDITIONAL INFORMATION

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



ADVISORIES

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

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

Non-IFRS measurements:

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Cash flow from (used in) operating activities	\$1,877,486	(\$15,967)	\$1,058,716	(\$1,145,944)
Exclude the change in non-cash working capital	(\$569,046)	(\$345,282)	\$338,303	(\$727,589)
Funds flow / (loss) from operations	\$1,318,440	(\$361,249)	\$1,447,019	(\$1,873,533)

Kaisen also presents funds flow from operations per share, whereby funds flow from operations is divided by the weighted average number of shares outstanding to determine per share amounts. Netbacks are also presented, which represents Kaisen's revenue per boe, less per boe royalties, operating expenses and transportation expenses, in order to determine the amount of funds generated by each boe produced. Kaisen calculates net debt as current liabilities less current assets, excluding the current portion of future tax assets (if applicable).

Operating and Corporate Netbacks: Operating netbacks are presented both before and after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties and operating costs. Corporate netbacks are presented after taking into account the effects of hedging and are calculated based on the amount of revenues received on a per unit of production basis after royalties, operating costs, general and administrative expenses, interest and foreign exchange gain or loss.

Forward-looking statements

In the interest of providing Kaisen shareholders and potential investors with information regarding the Company, including management's assessment of Kaisen's future plans and operations, certain statements contained in this MD&A constitute forward-looking statements or information (collectively referred to herein as "forward-looking statements") within the meaning of the "safe harbor" provisions of applicable securities legislation. Forward-looking statements are typically identified by words such as "anticipate", "believe", "expect", "plan", "intend", "forecast", "target", "project" or similar words suggesting future outcomes or statements regarding an outlook.

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur, which may cause Kaisen's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements.

These risks and uncertainties include, among other things: volatility of and assumptions regarding oil and gas prices; fluctuations in currency and interest rates; product supply and demand; market competition; risks inherent in Kaisen's marketing operations, including credit risks; imprecision of reserve estimates and estimates of recoverable quantities of oil, natural gas and liquids; Kaisen's ability to replace and expand oil and gas reserves; risks associated with technology; its ability to generate sufficient cash from operations to meet its current and future obligations; Kaisen's ability to access external sources of debt and equity capital; the timing and the costs of well and pipeline construction; Kaisen's ability to secure adequate product transportation; changes in environmental and other regulations or the interpretations of such regulations; political and economic conditions; terrorist threats; risks associated with potential future lawsuits and regulatory actions made against Kaisen; Kaisen's ability to utilize all of its tax pools and investment tax credits; other risks and uncertainties described from time to time in the reports and filings made with securities regulatory authorities by Kaisen disclosure intentions with respect to strategic alternative review process and; the outcome of the Company's strategic alternatives process.

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

