



Management Discussion & Analysis

Three and nine months ended September 30, 2018

(unaudited)

September 30, 2018

Management's Discussion and Analysis
For the three and nine months ended September 30, 2018

The following management discussion and analysis ("MD&A") is dated November 30, 2018, and should be read in conjunction with the accompanying unaudited condensed interim financial statements and related notes for the three and nine-month period ended September 30, 2018 (the "Quarter" and "Year to Date") and the audited annual financial statements as at and for the year ended December 31, 2017 of Kaisen Energy Corp. ("Kaisen" or the "Company"). Both statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The reporting and the measurement currency is the Canadian dollar.

Unless otherwise stated, tabular amounts herein are in Canadian dollars ("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.

THIRD QUARTER 2018 HIGHLIGHTS

- Generated an operating netback of \$12.98 per boe, an 11% decrease relative to the \$14.61 per boe generated in the prior year comparative quarter.
- Reduced general and administrative expenses by 59% in comparison to the third quarter of 2017 as a result of restructuring efforts that took place in the second quarter of 2018.
- Issued 2,000 convertible debentures for total gross and net proceeds of \$2,000,000 as part of the \$7,502,000 committed financing secured in the second quarter of 2018, of which \$3,426,000 was undrawn at quarter end.
- Achieved quarterly average production of 972 boe/d, representing a decrease of 25% from the prior year comparative quarter and an increase of 5% from the second quarter of 2018.
- Realized \$4,714,800 in petroleum and natural gas sales, a 7% decrease from the prior year comparative quarter.
- Recorded a funds flow from operations deficit of \$420,603 compared to positive funds flow of \$1,318,440 in the third quarter of 2017 which was largely driven by \$1,216,524 in realized losses on current quarter risk management contracts.
- The Company exited the quarter with net debt of \$3,121,901.

FINANCIAL AND OPERATING RESULTS SUMMARY

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Operating				
Average daily production (boe/d)	972	1,295	987	1,381
WCS heavy oil benchmark price (C\$/bbl)	61.76	47.92	57.71	49.11
Operating netback ⁽¹⁾ (\$/boe)				
Realized sales price	52.74	42.48	48.22	42.09
Royalties	(9.36)	(7.26)	(8.95)	(7.26)
Saskatchewan surcharge tax	(0.28)	(0.88)	(0.27)	(0.77)
Operating expenses	(27.40)	(17.68)	(25.48)	(22.87)
Transportation expenses	(2.72)	(2.05)	(2.40)	(2.15)
Operating netbacks prior to hedging	12.98	14.61	11.12	9.04
Realized gain (loss) on risk management contracts	(13.61)	3.93	(9.07)	1.01
Operating netbacks after hedging	(0.63)	18.54	2.05	10.05
Financial (\$'s except for per share amounts)				
Petroleum and natural gas sales	4,714,800	5,059,543	12,992,630	15,854,338
Funds flow from operations (deficit) ⁽¹⁾	(420,603)	1,318,440	(1,832,501)	1,447,019
Per share – basic and diluted	(0.01)	0.03	(0.04)	0.03
Net loss	(1,340,609)	(1,633,637)	(8,930,351)	(538,455)
Per share – basic and diluted	(0.03)	(0.04)	(0.20)	(0.01)
Expenditures on oil and gas properties	914,481	2,966,536	2,938,030	7,846,752
Net debt ⁽¹⁾ – end of period				
Net working capital ⁽²⁾	2,006,771	2,222,893	2,006,771	2,222,893
Bank loan	1,115,130	1,349,306	1,115,130	1,349,306
	3,121,901	3,572,199	3,121,901	3,572,199
Weighted average shares outstanding				
Basic and diluted	45,420,029	45,180,890	45,420,029	43,942,485
Outstanding shares – end of period				
Basic	45,420,029	45,420,029	45,420,029	43,420,029
Diluted ⁽³⁾	176,612,029	57,649,028	176,612,029	57,649,028

⁽¹⁾ Refer to "Non-GAAP Measures"

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

⁽³⁾ Includes 81,520,000 common shares from the conversion of 4,076 convertible debentures at 0.05 cents per share

Operating Results

Operating results for the third quarter continued to benefit from higher oil prices relative to the prior year period. The Company focused its capital program on the construction phase of its Lone Rock polymer project in addition to performing a total of 3 well optimizations/recompletions. Overall third quarter 2018 production averaged 972 boe/d, a 25% decrease relative to the 1,295 boe/d produced in the third quarter of 2017 and a 5% increase relative to the 926 boe/d produced in the second quarter of 2018. The reactivation of the Edam field added 117 boe/d of incremental production to the current quarter which was offset by natural declines and non-routine maintenance downtime.

Financial Results

The Company's third quarter operating netback prior to hedging was \$12.98 per boe, as compared to \$14.61 per boe recorded in the third quarter of 2017. Realized third quarter 2018 pricing was \$52.74 per boe, 24% higher than the \$42.48 per boe received in the equivalent quarter of 2017. In comparison to the third quarter of 2017, royalty expenses per boe increased 29% based on the rising scale effect of increased commodity prices to royalty rates. Third quarter 2018 operating costs per boe increased 55% from the corresponding quarter of 2017, predominantly from decreased production over a fixed operating cost base. Transportation expenses were \$2.72 per boe in the third quarter of 2018 representing a 33% increase from the prior year comparative quarter.

The Company recorded a funds flow from operations deficit of \$420,603 (\$0.01 per basic share), compared to positive funds flow income of \$1,318,440 (\$0.03 per basic share) in the prior year comparative quarter. The decrease in funds flow was largely attributed to realized losses of \$1,216,524 on hedging contracts versus realized gains of \$467,566 recorded in the third quarter of 2017. As a result, the Company was in a loss position for the third quarter recording a net loss of \$1,340,609 (\$0.03 per basic share) compared to a net loss of \$1,633,637 (\$0.04 per basic share) recorded in the prior year comparative quarter.

Pursuant to the fully subscribed convertible debenture offering that took place in the second quarter of 2018, the Company issued 2,000 convertible debentures for total gross and net proceeds of \$2,000,000 in the current quarter. The Company exited the quarter with a cash balance of \$375, a working capital deficit (excluding hedging contracts) of \$2,006,771 and net debt of \$3,121,901 (December 31, 2017 - \$2,424,965).

At the end of the third quarter the Company had a bank loan balance of \$1,115,130. The Company was compliant with its revised borrowing base of \$2.5 million, however was in breach of its lenders working capital ratio covenant of 1.00:1.00 which allows the lender to demand repayment of the bank loan in full. In response to the breach the Company issued an additional 1,000 convertible debentures for total proceeds of \$1,000,000 in November 2018. Management plans to address any future working capital deficiencies by accessing the remaining \$2,426,000 in funding available subsequent to the November 2018 convertible debentures issuance.

ECONOMIC ENVIRONMENT

Global crude oil prices continued to strengthen in the third quarter of 2018 as West Texas Intermediate ("WTI") prices have increased 44% over the prior year comparative quarter and increased 2% from the second quarter of 2018. However, Canadian producers continue to experience heavy oil differential and basis spread volatility due to an increase in supply of western Canadian crude oil, refinery maintenance in the US and marginal increases in the use of rail transport. Western Canadian Select ("WCS") differentials averaged US\$22.25 per barrel in the third quarter of 2018 which represented a \$3.01 per barrel increase from the second quarter of 2018, and a \$12.31 per barrel increase from the US\$9.94 per barrel averaged in the third quarter of 2017. Subsequent to quarter end, continued pricing pressures have resulted in widening heavy oil differentials resulting in further underperformance of the WCS heavy oil price relative to WTI. Kaisen is committed to conservatively planning around future oil prices and continues to explore ways to mitigate and manage market risk.

2018 THIRD QUARTER AND YEAR TO DATE FINANCIAL AND OPERATING RESULTS

Oil and Gas Production Volumes

	Three months ended		Nine months ended	
	2018	September 30, 2017	2018	September 30, 2017
Sales volumes				
Crude oil (bbls/d)	955	1,277	970	1,363
Natural gas liquids ("NGL") (bbls/d)	3	3	4	2
Natural gas (Mcf/d)	79	91	81	99
Total average daily production (boe/d)	972	1,295	987	1,381
Production by area (boe/d)				
Lone Rock, Saskatchewan	123	304	154	303
Edam, Saskatchewan	306	305	230	359
Lloydminster, Saskatchewan	353	485	407	513
Coleville, Saskatchewan	81	91	88	87
Other	109	110	108	119
Total average daily production (boe/d)	972	1,295	987	1,381

Kaisen's production for the third quarter 2018 averaged 972 boe per day representing a 25% decrease the same quarter of 2017, and a 5% increase from 926 boe per day produced in the second quarter of 2018. The Company's well optimization and Edam reactivation program in the third quarter delivered average incremental production of 171 boe per day. These gains were partially offset by natural declines, and unplanned well maintenance at the Company's D13-1-46-26W3 well at Neilburg (Lloydminster area), which averaged of 85 boe per day less production than in the second quarter of 2018. Production at Lone Rock at Lone Rock has decreased 181 boe per day from the same quarter of 2017 because of natural declines on the six horizontal wells drilled in 2017.

Oil and Gas Realized Pricing Revenues and Pricing

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Petroleum and natural gas revenues (\$)				
Crude oil	4,693,287	5,042,914	12,902,762	15,784,795
Natural gas	5,674	8,030	23,507	50,976
NGL's	15,839	8,599	66,361	18,567
	4,714,800	5,059,543	12,992,630	15,854,338
Realized prices				
Crude Oil (\$/bbl)	53.39	42.91	48.74	42.46
Natural gas (\$/mcf)	0.78	0.95	1.07	1.89
NGL's (\$/bbl)	55.77	47.78	63.63	38.77
Corporate average realized price (\$/boe)	52.74	42.48	48.22	42.09
Average benchmark prices				
WTI oil (US\$/bbl) ⁽¹⁾	69.50	48.20	66.75	49.46
WCS differential (US\$/bbl) ⁽²⁾	(22.25)	(9.94)	(21.93)	(11.87)
WCS heavy oil (US\$/bbl)	47.25	38.26	44.82	37.59
WCS differential %	32	21	33	24
AECO natural gas (CDN\$/mcf) ⁽³⁾	1.35	2.04	1.41	2.58
US\$:Cdn\$	0.77	0.80	0.78	0.77
WCS heavy oil (CDN\$/bbl)	61.76	47.92	57.71	49.11

⁽¹⁾ WTI represents posting price of West Teas 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's realized heavy oil prices of \$53.39 per barrel and \$48.74 per barrel during the three and nine months ended September 30, 2018, respectively, representing an increase of 24% and 15% from the prior year comparative periods. The increase in realized pricing over the three and nine months ended September 30, 2018 was impacted by an increase in WTI pricing and offset by a widening WCS differential.

Risk Management Contracts

The Company routinely enters into crude oil financial contracts to manage the volatility of commodity prices and may from time to time also enter into foreign exchange financial contracts. Kaisen's current policy is to hedge no more than 60% of forecasted net production volumes using a combination of financial instruments including fixed swaps, swaptions and price collars, under contract terms not exceeding 24 months with only investment grade counterparties. 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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Realized gain (loss)	\$ (1,216,524)	\$ 467,566	\$ (2,443,616)	\$ 380,063
Unrealized gain (loss)	616,311	(1,085,351)	(2,295,271)	3,772,807
Gain (loss) on risk management contracts	\$ (600,213)	\$ (617,785)	\$ (4,738,887)	\$ 4,152,870

The Company recorded realized losses on risk management contracts for the three and nine months ended September 30, 2018 of \$1,216,524 and \$2,443,616, respectively (2017 – gains of \$467,566 and \$380,063), resulting in realized per boe losses of \$13.61 and \$9.07 (2017 – gains of \$3.93 and \$1.01). The realized derivative losses for the three and nine-month periods were a result of higher oil prices in 2018 relative to lower fixed oil priced contract positions. For the three and nine months ended September 30, 2018, the Company recorded unrealized gains of \$616,311 and unrealized losses of \$2,295,271 on risk management contracts, respectively (2017 – loss of \$1,085,351 and gain of \$3,772,807). For further information, refer to the "Risk Management" section of this MD&A.

Crown and Freehold Royalties

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Crown	\$ 386,392	\$ 293,375	\$ 788,851	\$ 876,475
Freehold	450,385	571,003	1,621,557	1,858,924
Royalties	\$ 836,777	\$ 864,378	\$ 2,410,408	\$ 2,735,399
% of revenue	17.7	17.1	18.6	17.3

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/vintage of wells, commodity type, volume of daily production and market prices. Kaisen is currently forecasting a royalty rate of approximately 17%-22% blended for both Crown and freehold rates in the current price environment. As a percentage of revenue, royalties were 17.7% and 18.6% for the three and nine months ended September 30, 2018, respectively (2017 – 17.1% and 17.3%). The increase in the rate is reflective of higher pricing observed over the three and nine-month periods.

Operating Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Operating expenses	\$ 2,449,490	\$ 2,105,243	\$ 6,865,309	\$ 8,616,990

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

During the third quarter of 2018, operating costs averaged \$27.40 per boe, 55% higher than the third quarter of 2017 and 5% higher than the second quarter of 2018. Operating costs in the current quarter increased partly because of unplanned downhole maintenance and repair costs of \$160,000 at one of the Company's more prolific wells in the Neilburg area. Well D-13-1-46-26W3, which is typically one of the lower cost wells operated by the Company, averaged 70 boe per day of production in the current quarter compared to 155 boe per day in the second quarter 2018. On a year to date basis operating costs averaged \$25.48 per boe versus \$22.87 per boe recorded over the same period in 2017. The per boe increases from 2017 are from decreased production over a fixed operating cost base where costs have been impacted by decline of high rate oil wells, increased workover costs related to several non-routine events, and the dewatering of the Edam field.

Transportation Expenses

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Transportation expenses	\$ 243,283	\$ 244,290	\$ 647,583	\$ 810,260

Transportation expenses relates specifically to the cost of trucking produced emulsion to the sales point where it is then cleaned and blended for market. Costs related to water and sand transportation are included within operating costs. The majority of the Company's crude oil production is trucked to sales facilities near Lloydminster, Edam and Coleville Saskatchewan. Bottlenecking of trucks at sales facilities and seasonal delays may impact the cost of transportation in any given period however the Company's transportation expense has typically trended in the range of \$1.85 to \$2.50 per boe since inception. During the three and nine months ended September 30, 2018, the Company recorded transportation expenses of \$2.72 per boe and \$2.40 per boe, respectively, representing increases of 33% and 12% from the same periods in the prior year which are a result of trucking crude longer distances to receive better prices.

Operating Netback⁽¹⁾

(\$ per boe)	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Realized sales price	52.74	42.48	48.22	42.09
Royalties	(9.36)	(7.26)	(8.95)	(7.26)
Saskatchewan surcharge tax	(0.28)	(0.88)	(0.27)	(0.77)
Operating expenses	(27.40)	(17.68)	(25.48)	(22.87)
Transportation expenses	(2.72)	(2.05)	(2.40)	(2.15)
Operating netback (before hedging)	12.98	14.61	11.12	9.04
Realized loss on risk management contracts	(13.61)	3.93	(9.07)	1.01
Operating netback (after hedging)	(0.63)	18.54	2.05	10.05

⁽¹⁾ Refer to "Non-GAAP Measures"

The Company realized an average field netback profit (before hedging) for the third quarter of 2018 of \$12.98 per boe, compared to \$14.61 per boe in the prior year. Higher netbacks for the current quarter are reflective of increased oil prices offset by higher royalties and operating expenses. Realized hedging losses of \$13.61 per boe (2017 – gain of \$3.93 per boe) reduced the current quarter operating netback to negative \$0.63 per boe (2017 – \$18.54 per boe).

For the nine months ended September 30, 2018, operating netbacks (before hedging) were \$11.12 per boe compared to \$9.04 per boe for the same period in 2017. Operating netbacks for the year, including realized losses on hedging of \$9.07 per boe (2017 - gains of \$1.01 per boe), were \$2.05 per boe compared to \$10.05 per boe in 2017.

General and Administrative (“G&A”)

	Three months ended		Nine months ended	
	2018	September 30, 2017	2018	September 30, 2017
Gross G&A expenses	\$ 419,635	\$ 904,448	\$ 1,648,094	\$ 2,526,354
Capitalized G&A expenses	(92,499)	(102,621)	(284,165)	(326,039)
Net G&A expenses	\$ 327,136	\$ 801,827	\$ 1,363,929	\$ 2,200,315

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 three and nine months ended September 30, 2018, G&A expenses were \$327,136 and \$1,363,929, respectively (2017 - \$801,827 and \$2,200,315). General and administrative expenses for both the three and nine-month periods decreased substantially from their prior year comparatives as a result of reductions in headcount and the implementation of corporate overhead cost reductions that commenced in May of 2018.

Net Finance Expenses

	Three months ended		Nine months ended	
	2018	September 30, 2017	2018	September 30, 2017
Interest expense on bank loan	\$ 33,804	\$ 32,018	\$ 95,294	\$ 73,140
Accretion on decommissioning obligations	64,917	56,666	193,603	167,358
Net finance expenses	\$ 98,721	\$ 88,684	\$ 288,897	\$ 240,498

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 our 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. 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

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 shall be fixed by the Board of Directors when such option is granted, provided that from and after the date that the common shares are listed on a stock exchange (the “Exchange”), such price shall not be less than the price permitted by such Exchange. Compensation expense is recognized as options vest. Unless otherwise determined by the Board of Directors, vesting typically occurs one third on each of the next three anniversaries of the date of the grant as recipients render continuous serve to the Company, and the share options typically expire five years from the date of the grant. The maximum number of common shares issuable on the exercise of outstanding share option sat 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.

During the three and nine months ended September 30, 2018, the Company recorded share-based compensation expenses of \$386,850 and \$1,069,950, respectively (2017 - \$488,506 and \$1,455,966). Share-based compensation expenses decreased from the prior year comparative periods as the majority of the prior year equity compensation units had fully vested by September 30, 2018 and the weighted average fair value of the July 2018 grant was significantly lower than prior year grants.

Restructuring Expenses

Kaisen underwent a restructuring in the second quarter of 2018 resulting in a reduction to the Company’s employee base and office space requirements. During the nine months ended September 30, 2018, the Company recorded \$1,167,028 in restructuring expenses (2017 - \$nil). Cash based restructuring expenses for the nine months ended September 30, 2018 comprised of severance payments of \$720,000, legal fees of \$55,888 and other costs of \$133,978. Non-cash expenses contain onerous lease charges of \$102,470, and \$154,692 relating to the impairment of the due from shareholder loan. The Company still intends on actively pursuing re-payment in full for this amount. Restructuring expenses for the three months ended September 30, 2018 and the prior year comparative quarter were \$nil.

Depletion and Depreciation

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Depletion	\$ 1,091,260	\$ 1,368,233	\$ 3,294,767	\$ 4,162,268
Depreciation	6,811	9,234	14,196	28,602
Depletion and depreciation	\$ 1,098,071	\$ 1,377,467	\$ 3,308,963	\$ 4,190,870

Depletion expense is a product of depletable assets multiplied by total production divided by estimated proved and probable oil and natural gas reserves at the beginning of each period. Included within depletable assets is an estimate of future development costs of \$98.1 million (September 2017 - \$75.2 million) less total salvage value of the assets of \$2.6 million (September 2017 - \$2.6 million).

PROPERTY AND EQUIPMENT (DEVELOPMENT) EXPENDITURES

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Land	\$ 20,688	\$ 79,250	\$ 29,438	\$ 132,234
Geological and geophysical	1,360	1,220	5,360	739,437
Drilling, completions and optimizations	324,319	2,300,671	1,733,814	5,356,014
Equipment and facilities	475,615	484,985	883,327	1,311,715
Capitalized G&A	92,499	97,500	284,165	292,500
Corporate	-	2,910	1,926	14,852
Property and equipment expenditures	\$ 914,481	\$ 2,966,536	\$ 2,938,030	\$ 7,846,752

During the three and nine months ended September 30, 2018, the Company incurred \$914,481 and \$2,938,030 in property and equipment expenditures, respectively (2017 - \$2,966,536 and \$7,846,752). In the third quarter of 2018, the Company spent \$475,615 on equipment and facilities related to the construction phase of the Lone Rock Polymer EOR project and performed 3 well optimization/recompletions and 2 equipment upgrades. Other minor expenditures in the quarter included equipment purchases, surveying and land.

LIQUIDITY AND CAPITAL RESOURCES

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Net debt	\$ 3,121,901	\$ 3,785,987	\$ 3,956,697	\$ 2,424,965
Shareholders' equity	\$ 38,900,584	\$ 37,796,570	\$ 39,579,013	\$ 42,535,034

Kaisen exited the quarter in a net debt position \$3,121,901, which included a working capital deficit of \$2,006,771 (current assets net of current liabilities excluding risk management contracts), and a bank loan balance of \$1,115,130. The Company's policy is to maintain a strong capital base in order to provide flexibility in the future development of the business and to maintain the confidence of investors and lenders.

The Company periodically reviews certain quantitative measures of its capital structure to understand its position relative to industry peers but does not set certain limits or ranges with respect to these quantitative measures. The Company is not subject to any external restrictions on its capital structure, with the exception of the single working capital covenant in place with the Company's lender. As discussed below, the Company was in breach of its covenant at September 30, 2018. Management closely monitors debt leverage to ensure the Company maintains financial flexibility and balance sheet strength sufficient to manage unforeseen events and/or opportunities as they arise.

Based on currently forecasted commodity prices over the next twelve months, Kaisen's current capital resources (cash on hand, equity proceeds and available borrowing capacity) are sufficient to fund ongoing corporate obligations through to September 30, 2019. 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.

Bank Loan

Kaisen has a secured operating credit facility with a Canadian bank and in the third quarter of 2018 the Company's borrowing base was reduced from \$4.0 million to \$2.5 million. As at September 30, 2018, the Company was in breach of its lenders covenant as its working capital ratio was 0.85:1.00 which is below the 1.00:1.00 threshold. As a result, the lender can demand repayment of the bank loan in full which had a balance of \$1,115,130 owing at September 30, 2018 and is classified as a current liability on the statement of financial position. In response to the breach the Company issued an additional 1,000 convertible debentures for total proceeds of \$1,000,000 in November 2018. Management plans to address any future working capital deficiencies by accessing the remaining \$2,426,000 in funding that is available subsequent to the November 2018 convertible debentures issuance.

Convertible Debentures

On May 28, 2018, the Company provided all shareholders and its Managing Director the opportunity to subscribe for an aggregate of \$7,502,000 in convertible debentures and the execution of an agreement for 5,426 committed obligation debentures. During the third quarter of 2018, Kaisen issued an additional 2,000 convertible debentures for total gross and net proceeds of \$2,000,000, leaving the Company with 3,426 committed obligation debentures remaining which represent an additional \$3,426,000 in available funding. On a year to date basis, the Company has issued a total of 4,076 convertible debentures for total gross proceeds of \$4,076,000 (\$4,016,100 net of issue costs). In November 2018 the Company issued an additional 1,000 convertible debentures for total proceeds of \$1,000,000. This leaves the Company with an additional \$2,426,000 of funding available under the original subscription as at the date of this MD&A.

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 September 30, 2018 were as follows:

	Undiscounted amount	Less than 1 year	1 – 3 years	4 - 5 years
Accounts payable and accrued liabilities	\$ 4,033,663	\$ 4,033,663	\$ -	\$ -
Risk management contracts	3,818,117	3,211,866	606,251	-
Bank loan	1,115,130	1,115,130	-	-
Financial liabilities	\$ 8,966,910	\$ 8,360,659	\$ 606,251	\$ -

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 September 30, 2018:

Type	Period	Volume	Price/unit ⁽¹⁾	Index
Fixed WTI Swap	January 1, 2018 – December 31, 2018	200 bbl/d	CAD \$67.20	WTI-NYMEX
Fixed WTI Swap	July 1, 2018 – December 31, 2018	200 bbl/d	CAD \$75.50	WTI-NYMEX
Fixed WTI Swap	July 1, 2018 – December 31, 2018	200 bbl/d	CAD \$63.65	WTI-NYMEX
Call option	January 1, 2019 – December 31, 2019	400 bbl/d	USD \$60.00	WTI-NYMEX

As at September 30, 2018, the Company recorded short term and long term financial derivative liabilities of \$3,211,866 and \$606,251 related its risk management contracts, respectively (December 31, 2017 - \$887,852 and \$634,994). Subsequent to September 30, 2018, the Company amended the terms of its 2019 400bbl/d call option with its banker at no cost to the Company. The new contract period runs from January 1, 2020 to December 31, 2020, has a volume of 500 bbl/d and retains its fixed price of US\$60.00 per unit.

To further manage commodity price risk, the Company may reduce its fixed operating and administrative cost structure, reduce capital expenditures, issue new equity or seek additional sources of debt should forward commodity pricing materially decrease. The Company will continue to monitor forward commodity prices and may enter future commodity-based risk management contracts to reduce the volatility of petroleum sales and protect future development capital programs.

SUMMARY OF QUARTERLY RESULTS

<i>(\$000's expect share, per share, boe amounts)</i>	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016
Petroleum and natural gas sales	4,715	4,513	3,765	5,578	5,060	5,798	4,997	4,588
Realized gain (loss) on risk mgmt. contracts	(1,217)	(1,180)	(47)	(256)	468	124	(212)	(302)
Funds flow from operations (deficit) ⁽¹⁾	(421)	(1,275)	(137)	1,460	1,318	907	(779)	(558)
Net earnings (loss)	(1,341)	(4,074)	(3,515)	(1,824)	(1,634)	842	253	(4,572)
Expenditures on oil & gas properties	915	631	1,393	311	2,967	408	4,472	1,424
Net surplus (debt) ⁽¹⁾	(3,122)	(3,786)	(3,956)	(2,425)	(3,572)	(4,422)	(4,918)	335
Sales Volumes (boe per day)	972	926	1,064	1,288	1,295	1,480	1,366	1,298
Operating Netbacks (\$/boe) ⁽¹⁾								
Realized sales price	52.74	53.55	39.31	47.09	42.48	43.06	40.64	38.42
Royalties	(9.36)	(10.04)	(7.59)	(8.24)	(7.26)	(7.08)	(7.47)	(7.61)
Saskatchewan surcharge tax	(0.28)	0.11	(0.59)	(0.08)	(0.88)	(0.78)	(0.66)	(0.52)
Operating expenses	(27.40)	(26.19)	(23.06)	(18.15)	(17.68)	(21.52)	(29.39)	(24.83)
Transportation expenses	(2.72)	(2.19)	(2.29)	(2.06)	(2.05)	(2.37)	(2.01)	(2.44)
Operating netback prior to hedging	12.98	15.24	5.78	18.56	14.61	11.31	1.11	3.02
Realized gain/(loss) on risk mgmt. contracts	(13.61)	(14.00)	(0.50)	(2.16)	3.93	0.92	(1.72)	(2.53)
Operating netback after hedging	(0.63)	1.24	5.28	16.40	18.54	12.23	(0.61)	0.49

⁽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.

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

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 September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Petroleum sales	\$ 4,714,800	\$ 5,059,543	\$ 12,992,630	\$ 15,854,338
Royalties	(836,777)	(864,378)	(2,410,408)	(2,735,399)
Saskatchewan resource tax	(24,931)	(105,000)	(72,090)	(290,851)
Operating expenses	(2,449,490)	(2,105,243)	(6,865,309)	(8,616,990)
Transportation expenses	(243,283)	(244,290)	(647,583)	(810,260)
Operating netback	1,160,319	1,740,632	2,997,240	3,400,838
Production (boe's)	89,397	119,140	269,458	377,013
Operating netback (\$/boe)	\$ 12.98	\$ 14.61	\$ 11.12	\$ 9.04

Net debt is calculated by summing the Company's net working capital (exclusive of risk management contracts) and the Company's bank loan. The Company uses this information to assess its true debt and liquidity position and to manage capital and liquidity risk.

The following table summarizes net debt for the periods indicated:

	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
Current assets	\$ (2,026,892)	\$ (1,983,147)	\$ (2,073,738)	\$ (2,946,265)
Accounts payable and accrued liabilities	4,033,663	2,997,406	2,617,495	2,319,729
Bank loan	1,115,130	2,771,728	3,412,940	3,051,501
Net debt	\$ 3,121,901	\$ 3,785,987	\$ 3,956,697	\$ 2,424,965

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Cash flow from (used in) operating activities	\$ 581,780	\$ 1,887,486	\$ 74,421	\$ 1,058,716
Less change in non-cash working capital	(1,002,383)	(569,046)	(1,906,922)	388,303
Funds flow from operations (deficit)	\$ (420,603)	\$ 1,318,440	\$ (1,832,501)	\$ 1,447,019

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.

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.

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)

Corporate Information

Directors

Evan Hazell, P.Eng., MBA
Calgary, Alberta
Chairman

Ed Chwyl
Victoria, British Columbia

Chris Hooper, CFA
Calgary, Alberta

Dave Pearce, P.Eng.
Calgary, Alberta

Richard Ramsay, P.Eng.
Calgary, Alberta

John Zahary, P.Eng., M.Phil.
Calgary, Alberta

Officers

John Zahary, P.Eng., M.Phil.
Managing Director

Chris McGinnis, P.Eng., MBA
Vice President, Operations & Engineering

Andy Kramchynski, P.Geol
Vice President, Exploration

James Kidd, LL.B
Corporate Secretary

Auditors

Ernst & Young LLP

Evaluation Engineers

Sroule Petroleum Consultants

Bankers

ATB Financial

Legal Counsel

Burnet, Duckworth and Palmer LLP

Corporate Office

400, 522 – 11th Avenue SW
Calgary, Alberta T2R 0C8
Phone: (587) 350-5760
Fax: (587) 350-5770

Website: www.kaisenergy.com

Contact: Rachelle Barnard
Email: info@kaisenergy.com