SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the three months and year ended December 31, 2016

The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three months and year ended December 31, 2016 contains financial highlights but does not contain the complete financial statements of the Company. It should be read in conjunction with the Company's December 31, 2016 audited financial statements and related notes thereto. Additional information is available on SEDAR at www.sedar.com. The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS"). All references to dollar amounts are in Canadian dollars. This MD&A includes events up to ***March 31, 2017****.*

Forward-Looking Statements

The matters discussed in this MD&A include certain forward-looking statements. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements. Forward-looking statements may be identified, without limitation, by the use of such words as "anticipates", "estimates", "expects", "intends", "plans", "predicts", "projects", "believes", or words or phrases of similar meaning. In addition, any statement that may be made concerning future performance, strategies or prospects and possible future corporate action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date. Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Company. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above-mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. The Company disclaims any intention or obligation to update or revise these forward-looking statements as a result of new information, future events or otherwise, except as required under applicable securities laws.

BASIS OF PRESENTATION

Certain financial measures referred to in this discussion, such as funds from (used by) operations and funds from (used by) operations per share, are not prescribed by IFRS. Funds from (used by) operations is a key measure used by management that demonstrates the ability to generate cash to fund capital expenditures. Funds from (used by) operations is calculated by taking the cash flow from (used by) operating activities as presented in the statement of cash flows and adding back the change in non-cash working capital. Funds from (used by) operations per share is calculated using the same methodology for determining net income per share. These non-IFRS financial measures may not be comparable to similar measures presented by other companies. These financial measures are not intended to represent operating profits for the period nor should they be viewed as an alternative to cash flow from (used by) operating activities, net income or other measures of financial performance calculated in accordance with IFRS.

The reconciliation between funds from (used by) operations and cash flow from (used by) operating activities for the three months and year ended December 31, 2016 and 2015 is presented in the table below:

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Cash flow used by operating activities	$ (258,097)	$ (309,840)	$ (1,002,815)	$ (1,461,439)
Change in non-cash working capital	(23,092)	(14,228)	64,044	444,679
Funds used by operations	$ (281,189)	$ (324,068)	$ (938,771)	$ (1,016,760)
Weighted average number of shares outstanding - Basic	289,684,072	289,684,072	289,684,072	289,684,072
Funds used by operations per share	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)

Management uses certain industry benchmarks such as field netback to analyze financial and operating performance. Field netback has been calculated by taking oil and natural gas sales revenue less royalties and production and operating expenses. This benchmark does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management considers field netback as an important measure to demonstrate profitability relative to commodity prices.

All barrels of oil equivalent (boe) conversions in this report are derived by converting natural gas to oil at the ratio of six thousand cubic feet (mcf) of natural gas to one barrel (bbl) of oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boe may be misleading, particularly if used in isolation. A boe conversion of six mcf to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead.

CORPORATE OVERVIEW AND PRINCIPAL BUSINESS RISKS

Sahara Energy Ltd. was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"), under the symbol 'SAH'. The Company is a junior resource exploration company engaged in the acquisition, exploration and development of natural resource properties (primarily oil and gas). The Company's business is the evaluation, exploration and development of various oil and gas properties in Saskatchewan and Alberta.

As at December 31, 2016, JF Investment (Hong Kong) Co., Limited (the "Investor") owned and controlled 69% of the Company's issued and outstanding shares.

OUTLOOK

Equipping and tie-in activities for two heavy oil development wells in the Bodo area of central Alberta were suspended in 2015 due to low commodity prices.

Sahara intends to drill new wells and complete certain perforation wells to increase the production on Sahara's existing oil and gas concessions and acquire new lands for exploration and drilling. Sahara is also actively looking for assets with considerable production volume to purchase in order to increase the cash flows of the Company and to maximize shareholder value.

The Company will proceed with its exploration, development and acquisition plans in due course.

OVERVIEW AND SIGNIFICANT EVENTS

During the three months and year ended December 31, 2016, the Company earned net revenues of $12,738 and $47,073, respectively, and incurred net losses of $288,573 and $923,894, respectively. During 2016, the Company expensed $193,054 of exploration expenses related to exploration and evaluation assets, recognized a $174,416 gain on the disposition of development and production assets, and incurred $1,233 of capital expenditures.

As at December 31, 2016, the Company reported a cash and cash equivalents balance of $1,493,768 (2015 – $6,682,584), short-term deposits of $9,245,675 (2015 – $5,090,069) and a working capital surplus of $11,046,147 (2015 – $11,964,151).

Summary Information as at	December 31 2016	December 31 2015	December 31 2014
Working capital	$ 11,046,147	$ 11,964,151	$ 13,121,325
Exploration and evaluation assets	–	193,054	180,922
Property, plant and equipment	3,539,128	3,744,698	4,056,568
Total assets	15,060,463	16,422,115	18,727,491
Total liabilities	965,812	1,403,570	2,223,409
Total shareholders' equity	14,094,651	15,018,545	16,504,082

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Net revenue	$ 12,738	$ 24,094	$ 47,073	$ 104,160
Net loss and comprehensive loss	288,573	291,018	923,894	1,486,852
Net loss per share	(0.00)	(0.00)	(0.00)	(0.01)

HEAVY OIL – BODO, ALBERTA

Equipping and tie-in activities in the Bodo area of central Alberta will commence when it makes economic sense based on crude oil prices.

OPERATIONAL ACTIVITIES

Field netback

	Three months ended December 31		Year ended December 31	
Per boe	2016	2015	2016	2015
Revenue	$ 50.10	$ 37.81	$ 34.09	$ 40.60
Royalties	(1.44)	(2.09)	(0.96)	(2.12)
Production and operating expenses	(118.38)	(89.50)	(104.04)	(66.34)
Field netback	$ (69.72)	$ (53.78)	$ (70.91)	$ (27.86)

The decline in the Company's field netback is primarily due to an increase in operating costs per boe related to a decrease in sales volumes.

Variances in the Company's field netbacks are explained in more detail by changes in the following components:

(a) Production volumes and revenues

	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Total production				
Light-medium oil (bbls)	262	349	1,045	1,013
Heavy oil (bbls)	–	326	376	1,694
	262	675	1,421	2,707
Daily production				
Light-medium oil (bbls/day)	3	4	3	3
Heavy oil (bbls/day)	–	3	1	4
	3	7	4	7
Composition of production				
Light-medium oil	100%	52%	74%	37%
Heavy oil	–	48%	26%	63%
Revenue, before royalty				
Oil	$ 13,115	$ 25,504	$ 48,434	$ 109,897
Oil ($/bbl)	$ 50.10	$ 37.81	$ 34.09	$ 40.60

Total oil production in the three months and year ended December 31, 2016 is lower than the comparative three months and year ended December 31, 2015 due to the shut-in of heavy oil production due to low oil prices and natural declines for light-medium oil wells. The Company produced a small amount of heavy-oil in the first quarter of 2016 but shut production in for the majority of the second quarter and the entirety of the third and fourth quarters. Heavy oil production was also shut-in for the first six months of 2015, followed by the recommencement of production on two heavy oil wells in the third quarter of 2015 to generate cash flow.

Light-medium oil production was slightly lower in the year ended December 31, 2015 as certain wells were shut-in for a portion of 2015.

The combined average price of oil earned by the Company in the three months ended December 31, 2016 is higher than the 2015 comparative period as all production in the 2016 period was higher-priced light-medium oil. The combined average price of oil earned by the Company in the year ended December 31, 2016 is lower than the 2015 comparative period as the weighting of more light-medium oil production did not offset the effect of the decrease in industry prices.

The following table provides benchmark industry pricing for the current and comparative periods:

Benchmark oil prices	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Cdn Light Sweet ($/bbl)	$ 60.76	$ 52.55	$ 52.80	$ 57.45
Cdn Heavy Hardisty ($/bbl)	$ 38.46	$ 30.89	$ 38.63	$ 40.42

(b) Royalties

	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Royalties	$ 377	$ 1,410	$ 1,361	$ 5,737
As a % of revenue	2.9%	5.5%	2.8%	5.2%
Per boe (6:1)	$ 1.44	$ 2.09	$ 0.96	$ 2.12

Royalties as a percentage of revenue are lower in the 2016 periods due to overall low production volumes and revenues for which some wells were below the crown royalty threshold.

(c) Production and operating expenses

	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Production and operating expenses	$ 30,990	$ 60,379	$ 147,818	$ 179,570
Per boe (6:1)	$ 118.38	$ 89.50	$ 104.04	$ 66.34

Operating costs per boe are higher in the three months and year ended December 31, 2016 due to the effect of allocating fixed costs over lower volumes.

General and administrative expenses

	Three months ended December 31 2016	Three months ended December 31 2015	Year ended December 31 2016	Year ended December 31 2015
Salaries and benefits	$ 83,359	$ 90,509	$ 331,722	$ 396,888
Office and general	83,016	69,117	247,224	267,531
Consulting and professional fees	81,973	82,517	202,402	202,464
Travel and business promotion	8,137	32,467	67,316	111,415
Shareholder and regulatory	10,893	5,017	18,838	23,624
Total	$ 267,378	$ 279,627	$ 867,502	$ 1,001,922

Salaries and benefits are lower in the three months and year ended December 31, 2016 due to staff reductions made in 2015.

Office and general expenses are higher in the three months ended December 31, 2016 than the comparative 2015 period due to the timing of expenditures. Overall, expenses are lower in the year ended December 31, 2016 due to efforts by management to control and reduce costs.

Consulting and professional fees incurred in the three months and year ended December 31, 2016 are comparable to expenses and fees incurred in the 2015 periods.

Travel and business promotion fees relate to travel between Canada and China for Investor and management meetings. Travel and business promotion fees are lower the three months and year ended December 31, 2016 due to fewer trips between Canada and China than in the 2015 comparative periods.

Shareholder and regulatory expenses are higher in the three months ended December 31, 2016 than the comparative 2015 period due to the timing of expenditures. These expenses are lower in the year ended December 31, 2016 due to a reduction in corporate activity.

Depletion and depreciation

	Three months ended December 31				Year ended December 31			
	2016		2015		2016		2015	
		Per boe		Per boe		Per boe		Per boe
Depletion	$ 3,045	11.63	$ 7,050	10.45	$ 16,927	11.91	$ 32,915	12.16
Depreciation	8,031		12,924		32,123		51,695	
	$ 11,076		$ 19,974		$ 49,050		$ 84,610	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is lower in the year ended December 31, 2016 period due to an increase in the estimated proved plus probable reserves at December 31, 2016 (661,000 barrels) as compared to proved plus probable reserves reported at December 31, 2015 (659,000 barrels). Depletion expense per boe is lower in the comparative three months ended December 31, 2015 due to the effect of the increase in 2015 reserves as compared to 2014 reserves which is reflected in fourth quarter depletion calculations.

Depreciation of furniture and equipment is calculated on a declining-balance basis. Depreciation expense is lower in the 2016 periods as there have been no additions in the 2016 periods to increase the depreciable base.

Share-based compensation

Share-based compensation measures the implicit cost of compensating key personnel through the issuance of stock options. During the three months and year ended December 31, 2016, the Company recognized $nil of share-based compensation expense (three months and year ended December 31, 2015 – $nil and $1,315, respectively).

Capital expenditures

	Year ended December 31	
	2016	2015
Furniture and equipment	$ –	$ 10,645
Land and lease rentals	1,233	3,266
Well equipment	–	30,233
Drilling and completion	–	84,138
	1,233	128,282
Exploration and evaluation assets	–	12,132
Total capital expenditures	$ 1,233	$ 140,414

During 2015, the Company continued drilling and completion activities on two wells in the Bodo area of central Alberta prior to halting activities due to low oil prices.

The Company did not engage in any drilling or related activities during 2016 and incurred only minor expenditures.

Disposition of development and production assets

During 2016, the Company sold three non-producing wells with a nominal carrying amount for cash proceeds of $22,000, which, after reversing the $152,416 related decommissioning obligation, resulted in the recognition of a $174,416 gain on disposition.

Impairment

At December 31, 2016, the Company identified certain business risks related to its CGU such as a decline in forward commodity prices. As a result, the Company tested its petroleum and natural gas CGU for impairment based on the net present value of cash flows from oil and natural gas reserves as estimated by the Company's independent reserves evaluator at a discount rate of 15%. As at December 31, 2016, the estimate of the 'fair value less costs to sell' of the Company's petroleum and natural gas assets was sufficiently in excess of the carrying value of the CGU and therefore the Company did not recognize any impairment. A 1% increase in the assumed discount rate would not result in impairment in 2016; a 5% decrease in the forward commodity price estimates would result in approximately $305,000 of impairment in 2016.

During 2015, the Company identified certain business risks related to its CGU such as a decline in forward commodity prices. As a result, the Company performed an impairment test and recognized an impairment charge of $440,000. Management estimated the recoverable amount of the Company's CGU based on the 'fair value less costs to sell' using 15% discounted cash flows expected to be derived from the CGU's proved plus probable reserves. A 1% increase in the assumed discount rate would have resulted in $18,000 of additional impairment in 2015 and a 5% decrease in the forward commodity price estimates would have resulted in $406,000 of additional impairment in 2015.

Exploration expense

During 2016, the Company recognized $193,054 of exploration expense for the cost of undeveloped land for which leases have expired.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2016, the Company had a working capital surplus of $11,046,147 compared to $11,964,151 at December 31, 2015. The decrease in working capital is due to $938,771 of funds used by operations and $1,233 of capital expenditures offset by $22,000 of disposition proceeds.

The Company's December 31, 2016 working capital surplus includes $1,493,768 of cash and cash equivalents and $9,245,675 of term deposits with terms of greater than three months, ensuring that the Company has sufficient cash resources to meet its financial obligations, comprised of trade and other payables of $475,188, on standard payment terms.

SUBSEQUENT EVENTS

There were no reportable events subsequent to December 31, 2016.

SHARE CAPITAL

Common shares

As at December 31, 2016 and 2015 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

Stock options

As at December 31, 2015, the Company had 2,400,000 stock options outstanding, all of which were exercisable at a weighted average exercise price of $0.10 per share.

In January 2016, 1,700,000 stock options expired leaving 700,000 stock options outstanding as at December 31, 2016. The remaining 700,000 stock options expired on March 12, 2017.

QUARTERLY SUMMARY

Below is a summary of the Company's financial results for the past eight quarters prepared in accordance with IFRS. This information should be read in conjunction with the unaudited quarterly and audited annual financial statements of the Company available at www.sedar.com.

	4th Quarter 2016	3rd Quarter 2016	2nd Quarter 2016	1st Quarter 2016
Net Revenue (1)	$ 12,738	$ 11,436	$ 11,550	$ 11,349
Net Loss	(288,573)	(174,749)	(226,926)	(233,646)
Loss per share				
Basic and fully diluted	(0.001)	(0.001)	(0.001)	(0.001)
Weighted Average Number of Shares In Thousands	289,684	289,684	289,684	289,684

	4th Quarter 2015	3rd Quarter 2015	2nd Quarter 2015	1st Quarter 2015
Net Revenue (1)	$ 24,094	$ 54,451	$ 15,382	$ 10,233
Net Loss	(291,018)	(260,272)	(677,247)	(258,315)
Loss per share				
Basic and fully diluted	(0.001)	(0.001)	(0.002)	(0.001)
Weighted Average Number of Shares In Thousands	289,684	289,684	289,684	289,684

(1) Oil and gas revenue less royalties

- The net loss for the 4th Quarter 2016 is higher than the previous quarter due to $193,054 of exploration expense and an increase in general and administrative expenses offset by the recognition of a $174,416 gain on disposition of three non-producing wells.
- The net loss for the 3rd Quarter of 2016 is lower than the previous quarter due to a decrease in general and administrative expenses.
- The net loss for the 2nd Quarter of 2016 is comparable to the net loss of the previous quarter.
- The decrease in net revenue for the 1st Quarter of 2016 is due to a decrease in production combined with a decline in commodity prices. The decrease in net loss is due to a decrease in general and administrative expenses.
- The decrease in net revenue for the 4th Quarter of 2015 is due to a decrease in production combined with a decline in commodity prices. The increase in net loss is due primarily to lower net revenues and higher general and administrative costs offset by a decrease in depletion and depreciation expense.
- The increase in net revenue for the 3rd Quarter of 2015 is due to an increase in production. The Company did not recognize any further impairment in the 3Rd Quarter which, combined with higher revenue, resulted in a lower net loss.
- The increase in net revenue for the 2nd Quarter of 2015 is due to an increase in production combined with an increase in commodity prices. The increase in net loss is due to the recognition of $440,000 of impairment offset by the increase in net revenue combined with a decrease in general and

administrative expenses.

CONTROLS AND PROCEDURES

As the Company is classified as a Venture Issuer under applicable securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certifications, which it has done for the year ended December 31, 2016. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at September 30, 2016.

BUSINESS RISKS

The Company is engaged in the exploration and development of crude oil. The Company's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

Environment risks

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a complex blend of federal, provincial, and municipal laws and regulations. Although the Company believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or materially increase the costs of production, development, and exploration activities or otherwise adversely affect the Company's financial condition, results from operations and or prospects.

Operational risks

Operational risks include competitive environmental factors, reservoir performance uncertainties and dependence upon third parties for commodity transportation and processing and a complex regulatory environment. The Company closely follows the applicable government regulations. The Company carries insurance coverage to protect itself against those potential losses that could be economically insured against.

Financial risks

Financial risks associated with the petroleum industry include fluctuation in commodity prices, interest rates, and currency exchange rates. Other financial risks include, but are not limited to, the availability of funds through equity markets and or debt to invest in capital projects to support the Company's growth.

- Commodity price risk – Due to the volatility of commodity prices, the Company is exposed to adverse consequences in the event of declining prices. The Company does not have any contracts in place to protect against commodity price changes. A 5% change in the average commodity price earned by the Company would change petroleum and natural gas revenue and net loss and comprehensive loss by approximately $2,400 (2015 – $5,500).
- Interest rate risk – The Company does not have any debt subject to floating rates and is therefore not exposed to fluctuations in the market rate of interest.
- Foreign currency exchange risk – The Company is exposed to foreign currency fluctuations as crude oil to be received are referenced in United States dollar denominated prices.

It is management's opinion that the Company is not currently exposed to commodity price risk, credit risk or interest rate risk except as described above. The Company does not use derivative instruments to reduce exposure to commodity price or foreign currency exchange risk.

Credit risk

The Company is also exposed to credit risk. Substantially all of the Company's trade and other receivables are with customers and joint venture partners in the petroleum and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The Company does not anticipate any default or non-performance with respect to its receivables. As such, a provision for doubtful accounts has not been recorded.

As at December 31, 2016 and 2015, all of the Company's trade and other receivables are less than 60 days old except for approximately $65,700 (2015 – $37,400) which are greater than 60 days old . The Company does not anticipate any default or non-performance with respect to the trade and other receivables. As such a provision for doubtful accounts has not been recorded.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, term deposits, trade and other receivables, deposits and trade and other payables. Management has utilized valuation methodologies available as at the period end and has determined that the carrying amounts of such financial instruments approximate their fair value in all cases due to the short-term maturity of these instruments.

USE OF JUDGMENTS AND ESTIMATES IN FINANCIAL STATEMENTS

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ materially from estimated amounts. Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and for any future years affected.

<u>Critical judgments in applying accounting policies</u>

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Cash-generating units

The Company's assets are aggregated into a single cash-generating unit ("CGU") for the purpose of calculating impairment. CGUs are based on an assessment of a unit's ability to generate independent cash inflows. The determination of the Company's CGU was based on management's judgment in regards to shared infrastructure, geographical proximity, exposure to market risk and materiality.

Joint arrangements

Judgment is required to determine when the Company has joint control over an arrangement. In establishing joint control, the Company considers whether unanimous consent is required to direct the activities that significantly affect the returns of the arrangement, such as the capital and operating activities of the arrangement.

Once joint control has been established, judgment is also required to classify as a joint arrangement. The type of joint arrangement is determined through analysis of the rights and obligations arising from the arrangement by considering its structure, legal form, and terms agreed upon by the parties sharing control. An arrangement where the controlling parties have rights to the assets and revenues and obligations for the liabilities and expenses is classified as a joint operation.

Impairment indicators

Judgments are required to assess when impairment indicators exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

Provisions

Judgments are required to assess the existence of obligations requiring a probable outflow of funds to settle the obligation and the requirement to recognize a related provision.

Deferred taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

Contingencies

Judgments are made by management to determine the existence of contingencies and the outcome of future events.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Recoverability of asset carrying values

The recoverability of development and production asset carrying values are assessed at the CGU level. Determination of what constitutes a CGU is subject to management judgments. The asset composition of a CGU can directly impact the recoverability of the assets included therein. The key estimates used in the determination of cash flows from oil and natural gas reserves include the following:

- Reserves – Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Oil and natural gas prices – Forward price estimates are used in the cash flow model. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, and economic and geopolitical factors.
- Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Depletion and depreciation

Amounts recorded for depletion and depreciation and amounts used for impairment calculations are based on estimates of total proved and probable oil and natural gas reserves and future development capital. By their nature, the estimates of reserves, including the estimates of future prices, costs and future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the financial statements in future periods could be material.

Decommissioning obligation

The amount recorded for the decommissioning obligation and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Other provisions are recognized in the period when it becomes probable that there will be a future cash outflow.

Share-based compensation

Compensation costs recognized for share based compensation plans are subject to the estimation of what the ultimate payout will be using pricing models such as the Black-Scholes pricing model which is based on significant assumptions such as volatility, dividend yield and expected term.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management must make estimates of amounts related to the outcome of future events.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 2 Share-based Payment

In June 2016, the International Accounting Standards Board ("IASB") issued amendments to IFRS 2 Share-based Payment to clarify the accounting requirements related to classification and measurement of share-based payment transactions. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of *IFRS 2* on its financial statements.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments* which replaces *IAS 39 Financial Instruments: Recognition and Measurement*. *IFRS 9* introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets and introduces a new expected credit loss model for calculating impairment of financial assets. For financial liabilities where the fair value option is applied, any change in fair value resulting from an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch. The Company anticipates that adoption of *IFRS 9* will result in changes to the classification of the Company's financial assets but will not will not change the classification of the Company's financial liabilities or result in material changes in the carrying values of the Company's financial instruments. *IFRS 9* also contains a new model to be used for hedge accounting for risk management contracts, however, the Company does not currently have any risk management contracts. *IFRS 9* is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued *IFRS 15 Revenue from Contracts with Customers* which requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. *IFRS 15* is required to be adopted retrospectively for annual periods beginning on or after January 1, 2018. The Company is currently in the process of reviewing its revenue streams and underlying contracts to determine the impact, if any, the adoption of *IFRS 15* will have on its financial statements.

IFRS 16 Leases

In January 2016, the IASB issued *IFRS 16 Leases* which replaces the previous leases standard, *IAS 17 Leases*. *IFRS 16* eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. *IFRS 16* is effective for periods beginning on or after January 1, 2019. The Company is currently assessing the impact of *IFRS 16* on its financial statements.

IAS 7 Statement of Cash Flows

Amendments to *IAS 7 Statement of Cash Flows* require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017and are not expected to have a significant impact on the Company's financial statements.