SAHARA ENERGY LTD.

FILING STATEMENT FOR A CHANGE OF BUSINESS

Dated as of August 26, 2021

Neither the TSX Venture Exchange Inc. nor any securities regulatory authority has in any way passed upon the merits of the Change of Business described in this filing statement.

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FORWARD LOOKING INFORMATION

This Filing Statement contains forward-looking information and forward-looking statements within the meaning of applicable securities laws (collectively, "**forward-looking information**"). Forward-looking information includes, without limitation, any information that may predict, forecast, indicate or imply future results, performance or achievements. Forward-looking information may be identified by the use of such words as "anticipates", "estimates", "expects", "intends", "plans", "predicts", "projects", "believes", "will", "shall" or words or phrases of similar meaning and similar references to future periods. In addition, any information that may be made concerning future performance, strategies or prospects and possible future corporate action, is also forward-looking information.

Except for statements of historical fact in this Filing Statement, the information contained herein constitutes forward-looking information. In particular, this Filing Statement includes forward-looking information respecting the completion of the Investments, the Projects and the anticipated outcome of the Change of Business, the future prospects of the Company in the oil and gas sector versus the investment and real estate sectors, the Company's expected investment strategy and the nature, method and type of future investments the Company may make, the future impacts of certain events (including COVID-19), the Company's anticipated funds available and principal purposes for the 12 months following closing of the COB and impact of the Investments and such Change of Business on shareholder value and the Company's overall financial position and prospects. This Filing Statement also contains forward-looking information respecting, among other things, the Company's ongoing business, operating and investment plans and their expected impact on the Company and its future profitability.

Forward-looking information is based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, costs of goods and services, equity and capital markets, and the general business and social 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 risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic, financial and other factors may prove to be incorrect at a future date. Forward-looking information is not a guarantee of future performance, and actual events could differ materially from projections or forecasts expressed or implied in any forward-looking information provided 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, changes in costs of goods and services, global equity and capital markets, business competition, technological change, changes in government relations, industry conditions, unexpected judicial or regulatory proceedings and catastrophic events. In addition, the COVID-19 pandemic has put significant strain on the global business and economy, including in the North American real estate sector, leading to significant volatility and unpredictability and there can be no assurance as to the overall or further impacts of the pandemic or any recovery therefrom. The Investments are being made in two real estate development projects. Real estate development projects are subject to their own inherent risks and the success of such Projects may be adversely impacted by, among other things: environmental risks and costs; labour costs and shortages; uncertain supply and price fluctuations in raw materials; increases in energy costs; labour disputes and work stoppages; leasing costs and the availability of equipment; heavy equipment demand and availability; contractor and subcontractor performance issues; worksite safety issues; project delays and cost overruns; extreme weather conditions; and social disruptions. As the Investments are being made in projects being developed by DMG, such Investments will also be subject to risks relating to investment concentration and reliance on DMG's ability to meet its contractual obligations and develop each of the projects underlying the Investments in the manner currently contemplated by the Company. Any material adverse change in DMG's financial position or a failure by DMG to successfully operate and finance the Projects in the manner currently contemplated, could have a corresponding material adverse change on the Investments and, by extension, the Company. In addition, the Investments will constitute a "change of business" of the Company. There are a number of risks inherent in such a change including, but not limited to, the fact that the Company has no operating history in either the real estate or the investment sector and that the success or failure of the Company's new business ventures will rely heavily on the experience, knowledge and judgement of certain key personnel and the loss of such personnel could have a material adverse effect on the Company's success.

Further details respecting the assumptions and risks relating to the matters discussed herein are described in further detail below under the heading "*Risk Factors*".

The Company stresses that the above-mentioned list of assumptions and risks is not exhaustive. The Company encourages all readers to consider these and other factors carefully before making any investment decisions and urges readers to avoid placing undue reliance on forward-looking information. The Company disclaims any intention or obligation to update or revise the forward-looking information as a result of new information, future events or otherwise, except as required under applicable securities laws.

Much of the information presented herein is based on and has been obtained from various inside and outside sources, which the Company management believes is reliable, however such sources are not guaranteed either as to accuracy or completeness.

Completion of the Investments is subject to a number of conditions, including but not limited to, TSX Venture Exchange acceptance. There can be no assurance that the Investments will be completed as proposed or at all.

Investors are cautioned that, except as disclosed in this Filing Statement in connection with the Investments, any information released or received with respect to the Investments may not be accurate or complete and should not be relied upon.

The TSX Venture Exchange Inc. has in no way passed upon the merits of the proposed Investments and has neither approved nor disapproved the contents of this Filing Statement.

GLOSSARY OF TERMS

In addition to the terms defined elsewhere herein, the following terms shall have the following meanings in this Filing Statement:

"**Affiliate**" a company is an "Affiliate" of another company if: (a) one of them is the subsidiary of the other, or (b) each of them is controlled by the same Person. A company is "controlled" by a Person if: (a) voting securities of the company are held, other than by way of security only, by or for the benefit of that Person, and (b) the voting securities, if voted, entitle the Person to elect a majority of the directors of the company. A Person beneficially owns securities that are beneficially owned by: (a) a company controlled by that Person, or (b) an Affiliate of that Person or an Affiliate of any company controlled by that Person;

"**Arm's Length Transaction**" means a transaction which is not a Related Party Transaction;

"**Associate**" when used to indicate a relationship with a Person, means (a) a company of which the Person beneficially owns or controls, directly or indirectly, voting securities entitling him to more than 10% of the voting rights attached to outstanding securities of the company, (b) any partner of the Person, (c) any trust or estate in which the Person has a substantial beneficial interest or in respect of which a Person serves as trustee or in a similar capacity, and (d) in the case of a Person, who is an individual: (i) that Person's spouse or child, or (ii) any relative of the Person or of his spouse who has the same residence as that Person; but (e) where the Exchange determines that two Persons shall, or shall not, be deemed to be associates with respect to a member firm, member corporation or holding company of a member corporation, then such determination shall be determinative of their relationships in the application of Rule D with respect to that member firm, member corporation or holding company;

"**Auden Project**" means the Auden-Buffalo Project, a student housing development project in Amherst, New York, U.S.A.;

"**Board of Directors**" or "**Board**" means the board of directors of the Company;

"**Change of Business**" or "**COB**" means a transaction or series of transactions which will redirect the Company's resources and which changes the nature of its business, and in the circumstances of the Company, such transactions are comprised of the Investments;

"**Closing**" means the closing of the Investments;

"**Company**" means Sahara Energy Ltd., a company existing pursuant to the laws of the Province of Alberta and, where the context requires, includes or refers to its Affiliates, including GC Capital;

"**Completion Date**" means the date of the Final Exchange Bulletin (which means the bulletin issued by the Exchange following the Closing and the submission of all final documents to the Exchange which evidences the final Exchange acceptance of the COB);

"**Control Person**" means any Person that holds or is one of a combination of Persons that holds a sufficient number of any of the securities of an issuer so as to affect materially the control of that issuer, or that holds more than 20% of the outstanding voting securities of an issuer except where there is evidence showing that the holder of those securities does not materially affect the control of the issuer;

"**Dakota Project**" means the Dakota-Albany Project, a multi-family mixed commercial housing development in Albany, New York, U.S.A.;

"**DMG**" means collectively DMG Investments LLC and its Affiliates, a comprehensive real estate company specializing in finance, development, operations and property management in the United States;

"**Exchange**" or "**TSX-V**" means the TSX Venture Exchange Inc.;

"**Filing Statement**" means this filing statement, together with all appendices hereto and including the summary hereof;

"**Final Exchange Bulletin**" means the bulletin which is issued by the Exchange following the Closing and the submission of all documentation required by the Exchange in connection therewith, that evidences the final Exchange acceptance of the Change of Business and any related transactions;

"**GC Capital**" means GC Capital Holdings Inc., a corporation existing pursuant to the laws of the State of Delaware and a wholly-owned subsidiary of the Company;

"**Insider**" if used in relation to an issuer, means: (a) a director or senior officer of the issuer (b) a director or senior officer of a company that is an insider or subsidiary of the issuer (c) a Person that beneficially owns or controls, directly or indirectly, voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of the issuer; or (d) the issuer itself if it holds any of its own securities;

"**Investments**" means the Company's investments, through its wholly owned subsidiary GC Capital, of (i) USD$3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in the Auden Project, and (ii) USD$2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in the Dakota Project;

"**MD&A**" means management's discussion and analysis;

"**Non-Arm's Length Party**" means in relation to a company, a promoter, officer, director, other Insider or Control Person of that company and any Associates or Affiliates of any of such Persons. In relation to an individual, means any Associate of the individual or any company of which the individual is a promoter, officer, director, Insider or Control Person;

"**Person**" includes any individual, firm, partnership, joint venture, venture capital fund, limited liability company, unlimited liability company, association, trust, trustee, executor, administrator, legal personal representative, estate, group, body corporate, corporation, unincorporated association or organization, governmental entity, syndicate or other entity, whether or not having legal status;

"**Policy 5.2**" means TSX Venture Exchange Policy 5.2 - *Changes of Business and Reverse Take-overs*;

"**Projects**" means collectively the Auden Project and the Dakota Project, and each a "**Project**"; and

"**Related Party Transaction**" has the meaning ascribed to that term in Exchange Policy 5.9 – *Protection of Minority Security Holders in Special Transactions*, and includes a related party transaction that is determined by the Exchange, to be a Related Party Transaction. The Exchange may deem a transaction to be a Related Party Transaction where the transaction involves Non-Arm's Length Parties, or other circumstances exist which may compromise the independence of the issuer with respect to the transaction.

EXCHANGE RATE INFORMATION

In this Filing Statement, all references to "$" or "CDN$" refer to Canadian dollars, all references to "US$" or "USD$" refer to U.S. dollars.

The indicative exchange rate on August 24, 2021 as reported by the Bank of Canada for the conversion of Canadian into United States dollars was: CDN$1.00 = USD$0.7931 or CDN$1.2608 = USD$1.00.

SUMMARY OF INFORMATION

The following is a summary of information relating to the Company and Change of Business transactions (assuming completion of the Investments) and should be read together with the more detailed information and financial data and statements contained elsewhere in this Filing Statement.

Change of Business

To date, the Company's business has focused almost entirely on oil and gas exploration, evaluation and development in Western Canada. Over the past number of years the value of the Company's oil and gas assets has progressively declined and the Company's rigorous attempts to sell its assets and identify new opportunities in the oil and gas sector in Alberta and Saskatchewan have yielded no viable results. The Company's market capitalization is currently valued at a significant discount to its total asset value and the Company has been in a net loss position for at least the past two years.

In addition to the existing oil and gas market failing to generate sufficient positive returns for investors, the long-term outlook for the industry, and the Company should it continue to focus its business on its oil and gas assets, is not ideal. As a result of these issues, the Company's management team concluded that it was in the best interest of the Company and its shareholders for management to explore a more diverse array of options so as to optimize the deployment of the Company's cash assets.

Given the current expertise and connections of management, management's desire to have the Company's funds deployed in relatively secure investments while still offering a return on investment for shareholders as well as management's view of the ongoing opportunities available in Alberta and Saskatchewan, the Company has determined that it is time to refocus its business in the areas of real estate and investing. In this regard, the Company identified the U.S. real estate market, particularly in the areas of student housing and multi-family residential properties, as an ideal area in which it could successfully undertake the first of its investments in the wider refocusing of its business. In order to ensure that it is diversified appropriately, the Company intends that its investments will not be limited to equity investments but may also include direct or indirect real property acquisitions, mezzanine financing, debt and distressed asset investments and other transactional structures. The Company also expects to look for opportunities in property technology or start-up ventures focusing on real estate development, sales, marketing.

As a result of the manner in which the Company anticipate completing the Change of Business, the Company has applied to the Exchange to change its status from being a Tier 2 "Oil and Gas" issuer on the Exchange to a Tier 2 "Investment" issuer. In its capacity as an "Investment" issuer, the Company intends to focus its initial investments within the real estate sector in the manner described more fully herein. As the Company's investment portfolio grows over time, the Company may expand its areas of investment to other industry and business sectors.

See "*Business Objectives and Plan*" below.

The Investments

In furtherance of the Company's proposed Change of Business, the Company entered into two equity investment agreements (the "**Investment Agreements**") with DMG, pursuant to which the Company has agreed to invest in two of DMG's real estate development projects in Amherst, New York and Albany, New York.

Pursuant to the terms of the Investment Agreements, it is currently intended that the Company, through a wholly-owned subsidiary, will make an investment of USD$3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in the Auden Project and an investment of USD$2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in the Dakota Project. DMG will also hold percentage equity interests of 25.31% and 26.48% in the Dakota Project and Auden Project respectively.

Completion of the Investments, as currently proposed, would constitute a Change of Business of the Company in accordance with Policy 5.2, as the Company currently operates as a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada and the Investments would see the Company making investments in two real estate development projects in the United States.

On January 25, 2021, the Company's shares were halted from trading on the Exchange and will remain halted until such time as determined by the Exchange, which, depending upon the policies of the Exchange may not be until the completion of the proposed Investments. The last closing price of the Company's common shares on the Exchange prior to the trading halt was CDN$0.02 per share.

See "*Change of Business Transactions*" below.

Funds Available and Principal Purposes

As at July 31, 2021, the Company had working capital and funds available in the amount of CDN$8,700,440. Due to its pending COB, the Company's historical statements are not expected to be reflective of its financial performance going forward. In the 12 months following completion of the COB, the Company is expected to use the funds available to it in furtherance of its stated business objectives.

In its expense analysis, general and administrative costs are anticipated to make up the vast majority of the Company's overall operating expenses in the first 12 months post-COB. However, the Company does expect that its general and administrative expense will remain at a level that will enhance the profitability of the Company going forward. Based on current projections, the Company's working capital is expected to meet its expenses for a minimum period of 12 months commencing immediately after the completion of the COB.

For additional information, see "*Information Concerning the Company - Funds Available and Principal Purposes*".

Notwithstanding the proposed uses of available funds discussed above and in this Filing Statement, there may be circumstances where, for sound business reasons, a reallocation of funds may be necessary. It is difficult, at this time, to definitively project the total funds necessary to affect the planned activities of the Company. For these reasons, management of the Company considers it to be in the best interests of the Company and its shareholders to afford management a reasonable degree of flexibility as to how the funds are employed among the uses identified above, or for other purposes, as the need arises. Further, the above uses of available funds should be considered estimates. See "*Forward-Looking Information*".

Selected Pro Forma Consolidated Financial Information

Summary pro forma information for the three-month period ended March 31, 2021 is below:

Total Assets	10,954,693	11,468,481
Total Liabilities	804,252	1,318,040
Total Shareholders' Equity	10,150,441	10,150,441
Total Liabilities and Shareholders' Equity	10,954,693	11,468,481
Revenue	11,523	169,771
Expenses	160,853	254,597
Loss from operating activities	(149,330)	(84,826)
Interest income	2,587	2,587
Net loss and comprehensive loss	(146,743)	(82,239)

The Company's pro forma consolidated financial statements for the three-month period ended March 31, 2021 are set out at Appendix C. There will be no changes to the share or loan capital of the Company made in connection with the Change of Business. See "*Information Concerning the Company – Description of Securities – Capitalization*".

Since the oil and gas industry is on a downward cycle, and the oil and gas wells that are owned and operated by the Company are in the low production and exit operating stage, the declining earnings trend is as expected. At the same time, the Company is undertaking a reorganization of its business and believes that the mismatch of Company net assets, market value and operating earnings does not reflect the Company's future profitability or potential profitability.

Arm's Length Transactions

DMG is an independent third party without any involvement of any related party to the Company (including no involvement of a director, officer, controlling shareholder or other Insider or any entity owned or controlled by them or with which they are involved). The proposed Investments are Arm's Length Transactions, do not involve Non-Arm's Length parties, are not Related Party Transactions and no other circumstances exist which would compromise the independence of the Company or other interested parties (in particular, the Company's directors and senior officers) with respect to the proposed Investments.

Additional Financing

No shares, or other securities, of the Company are contemplated to be issued and no additional financing is expected to be obtained by the Company in connection with the completion of the Investments.

Principals and Insiders

The Board of Directors of the Company currently consists of: Qingshou Gao, Tao Gao, Liqun Hao, Yachao Peng, Panwen (Michelle) Gao, Fei Gao, Songxian Tan, Zhaohui (John) Liang, Jennifer Li and Jinglin Yang and executive management of the Company currently consists of Panwen (Michelle) Gao (Chief Executive Officer), Yang Feng Liu (Chief Financial Officer & Corporate Secretary) and Samuel Wang (Vice President, Reserves & Resources). Given their existing experience and expertise, each of the Company's existing directors and officers will remain principals and Insiders of the Company following the Investments.

In addition to maintaining its existing leadership team, the Company will engage Ms. Shu (Fiona) Wang to act as its Vice President, Operations and Mr. Zhaohui (John) Liang to act as Investment Advisor to the Company. See "*Company Management*" as well as Appendix D below.

Other than the individuals noted above and the Company's two major shareholders, JK Investment (Hong Kong) Co., Limited and China Great United Petroleum Investment Co. Limited, the Company is not aware of any other persons that will be principals or Insiders (in each case as defined by the TSX-V) of the Company following the Closing of the Investments.

Market for Securities and Market Price

The Company's common shares are listed on the Exchange under the trading symbol "SAH" and were halted from trading on January 25, 2021 pending completion of the Change of Business. The last closing price of the Company's common shares on the Exchange prior to the trading halt was CDN$0.02 per share. It is anticipated that the Company's common shares will begin trading on the Exchange upon completion of the Change of Business.

Conflicts of Interest

Some of the individuals who will be directors or officers of the Company upon the completion of the COB are also directors, officers and/or promoters of other reporting and non-reporting issuers. As of the date of this Filing Statement and to the knowledge of the directors and officers of the Company, there are no existing conflicts of interest between the Company and any of the individuals who will be directors or officers following the completion of the COB.

Summary of Risk Factors

The proposed Investments and the Change of Business will be subject to a number of significant risk factors, and an investment in the Company will involve a high degree of risk. Investors should carefully consider each of such risks and all of the information in this Filing Statement before investing in the Company. The success of the Company will depend to a large extent on the expertise, ability, judgment, discretion, integrity and good faith of its management. The value of the common shares may fluctuate based on the value of the Company's investment portfolio and general market conditions. There can be no assurance that shareholders will realize any gains from their investment in the Company and may lose their entire investment. There is no assurance that the Company's ongoing business plan to undertake a variety of investment and real estate-driven activities including the Investments will be successful. The success of the Investments is also subject to risks associated with real estate development projects, business competitions, impact of the ongoing COVID-19 pandemic and other factors.

For a comprehensive discussion of the risk factors relating to the Company, see "*Risk Factors*".

Conditional Approval of Exchange

The Exchange has conditionally accepted the Change of Business and the Investments subject to the Company fulfilling all of the requirements of the Exchange.

Shareholder Approval

Given the nature and manner of the Investments, shareholder approval for the Investments is not required pursuant to applicable Canadian corporate or securities laws, nor is the Company subject to a cease trade order or expect to be subject to a cease trade order or suspended from trading on completion of the COB. Further, as the Investments are being undertaken on an entirely arm's length basis (see "*Arm's Length Transactions*" above) the approval of a majority of the Company's minority shareholders is not required. However, as the Company does still have sufficiently active operations, pursuant to Policy 5.2, certain shareholder approvals are required. As such, prior to closing, the Company will be seeking the written consent of the holders of at least a majority of its shares for the Investments and proposed COB. There can be no guarantee that such consents will be received.

RISK FACTORS

In addition to the other information contained in this Filing Statement, investors should give careful consideration to the following factors, which are qualified in their entirety by reference to, and must be read in conjunction with the detailed information appearing elsewhere in this Filing Statement. If any of the following events described as risks or uncertainties actually occur, the business, prospects, financial condition and operating results of the Company would likely suffer, possibly materially. In that event, the market price of the Company's shares could decline and investors could lose all or part of their investment. Additional risks and uncertainties presently unknown, or that are not believed to be material at this time, may also impair or have a material adverse effect on the Company's operations. In addition to the risks described elsewhere and the other information contained in this Filing Statement, prospective investors should carefully consider each of and the cumulative effect of all of the following risk factors. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

Conditions Precedent

The completion of the Change of Business is subject to several conditions precedent, including without limitation Exchange approval. There can be no assurance that all the conditions precedent, including regulatory and Exchange approval, will be satisfied. If any of the conditions precedent are not satisfied or waived, the Change of Business will not be completed. As the Company has spent significant time and resources pursuing the Change of Business in the manner contemplated herein, such will have been expended without result and the Company will be required to re-assess its ongoing business strategy and pursue other alternatives for the Company thereby incurring additional costs and the use of further resources, including management time and attention.

Dependence on Key Personnel

The investment and real estate industries involve a substantial degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Shareholders must rely on the ability, expertise, judgment, direction and integrity of the management of the Company, including those individuals that will form an integral part of the management team upon the completion of the Change of Business. This dependence can be expected to continue over the short and medium term as the Company's business interests expands and matures. Any loss of the services of key officers or personnel could have a material adverse effect on the business and operations of the Company, including its success as an investment company.

No Operating History as an Investment Company

The Company does not have any record of operating as an investment company. As such, upon completion of the Change of Business, the Company will be subject to all of the business risks and uncertainties associated with any new business enterprise, including the risk that the Company will not achieve its financial objectives as estimated by management or at all. Past successes of management do not guarantee future success as the Company re-focuses its business.

Potential Limitations of Future Investments and Investment Concentration

A key element of the Company's growth strategy is expected to involve negotiating and finding investments and other real-estate driven opportunities (see "**Investment Policy**"). Achieving the benefits of future investments and opportunities will depend in part on successfully identifying and capturing such opportunities in a timely and efficient manner and in structuring such arrangements to ensure a stable and growing stream of revenues. In addition to risks relating to the actual identification of opportunities or the ability to fund the same, the Company will compete with other investors, managers, corporations, institutions, developers and owners of real estate for investment opportunities in the financing and/or acquisition of assets. Certain competitors may have a higher risk tolerance, greater financial and other resources and greater operating flexibility than the Company, allowing these competitors to more aggressively pursue investment opportunities. Accordingly, the Company may be unable to acquire additional sufficient assets or investment opportunities at favourable yields or terms or at all.

The Company's ability to successfully identify, negotiate and fund investments and opportunities is not guaranteed and it could take many years for the Company to create a diversified portfolio of assets. For so long as the Company has a significant portion of its assets dedicated to a small number of properties or investments (or type of investments) for an extended period of time and one or more of properties or investments is unsuccessful or experiences a downturn in value, this could have a material adverse effect on the Company's business, results of operations and financial condition. For so long as the Investments remain the Company's sole real estate investments, the Company will be exposed to a heightened degree of risk due to the lack of investment and asset diversification.

Ability to Manage Future Growth

The Company's ability to achieve desired growth will depend on its ability to identify, evaluate and successfully negotiate and fund its investments. As the Company grows, it will also be required to hire, train, supervise and manage new employees. Failure to manage any future growth or to successfully negotiate suitable investments effectively could have a material adverse effect on the Company's business, financial condition and results of operations.

Effect of General Economic and Political Conditions

The Company's business, investments and assets are expected to be subject to the impact of changes in national and international economic conditions, including but not limited to, recessionary or inflationary trends, equity market conditions, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. These economic conditions may be further affected by political events throughout North America and elsewhere that cause disruptions in the financial markets, either directly or indirectly. Adverse economic and political developments could have a material adverse effect on the Company and its financial condition, results of operations and cash flows.

Volatility of Share Price and Access to Capital

The prices at which the Company's common shares will trade following completion of the Change of Business cannot be predicted. Securities markets throughout the world are cyclical and, over time, tend to undergo high levels of price and volume volatility. A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The market price of the Company's common shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results following the Change of Business, general economic conditions, and other factors. Increased levels of volatility and resulting market turmoil may adversely impact the price of the common shares. If the Company is required to access capital markets to carry out its business objectives, the state of domestic and international capital markets and other financial systems could affect its access to, and cost of, capital. Such capital may not be available on terms acceptable to the Company or at all, and this could have a material adverse impact on its business, financial condition, results of operations or prospects.

Distributions to Shareholders

The Company has never declared dividends on any of its securities. Following completion of the Change of Business, the Company intends to reinvest all future earnings to finance the development and growth of its business indefinitely. As a result, the Company does not currently intend to pay dividends on its securities in the foreseeable future, except as explicitly required by the rights and restrictions of such securities. Any future determination to pay dividends will be at the discretion of the Board and will depend on the Company's financial condition, operating results, capital requirements, contractual restrictions on the payment of dividends, prevailing market conditions and any other factors that the Board deems relevant.

Availability of Additional Financing

There is no guarantee that cash flow from the Company's investments will continue to be readily available or will provide the Company with sufficient funds to meet all of its ongoing financial obligations. The Company may therefore require additional equity or debt financing to meet its operational requirements. In the future, the Company may seek additional equity or debt financing to make investments in properties or undertake other opportunities to grow the Company's business to the level envisioned by its management. There can be no assurance that such financing will be available when required or available on commercially favourable terms or on terms that are otherwise satisfactory to the Company. The ability of the Company to arrange such financing in the future will depend in part upon prevailing capital market conditions as well as its business performance.

Currency Fluctuations

The Company expects to make a significant number of its investments in the United States. The Canadian dollar relative to the U.S. dollar is subject to fluctuations. Failure to adequately manage foreign exchange risk could therefore adversely affect the Company's business, financial condition, and results of operations.

Reliance on Partners and Other Third Parties

Where the Company makes its investments in joint ventures, partnerships and other entities, assets, properties or projects wherein it does not hold a controlling interest, the value of the Company's investment will depend, in part or in full, on a third party to attain its performance projections. Depending on the nature of the investment or asset, the failure of the third party to meet such projections could have an adverse effect on the investment made by the Company, which effect may be material.

Further, investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third-party not involved, including the possibility that the Company's partners, co-venturers or co-investors might become bankrupt or fail to fund their share of required capital contributions. The Company's partners, co-venturers or co-investors also may have economic or other business interests or goals that are inconsistent with the Company's business interests or goals, and may be in a position to take actions contrary to management preferences, policies or objectives. Such investments also will have the potential risk of impasses on decisions, such as a sale, because none of the Company or its partners, co-venturers or co-investors would have full control over the partnership, joint venture or investment. Disputes between the Company and its partners, co-venturers or co-investors may result in litigation or arbitration that would increase expenses and prevent the Company's officers and/or directors from focusing their time and effort exclusively on the Company's business. Consequently, actions by or disputes with the Company's partners, co-venturers or co-investors might result in subjecting properties, assets or investments owned by the partnership, joint venture or other entity to additional risk. In addition, the Company may in certain circumstances be liable for the actions of its partners, co-venturers or co-investors.

General Acquisition Risk

The acquisition on various investments entails risks that the investment will fail to perform in accordance with expectations. In undertaking its investments, the Company will incur certain risks, including the expenditure of funds, non-refundable deposits, due diligence costs and inspection fees and the devotion of management's time.

Notwithstanding pre-investment due diligence, it is not possible to fully understand an investment (including those in properties or other real estate interests) before it is owned and operated for an extended period of time and there may be undisclosed or unknown liabilities concerning the acquired properties. The Company may not be indemnified for some or all of these liabilities. For example, the Company could directly or indirectly acquire a property that contains undisclosed environmental contamination. Accordingly, in the course of acquiring a property or other interest, specific risks might not be or might not have been recognized or correctly evaluated. Thus, the Company could overlook or misjudge legal and/or economic liabilities. These circumstances could lead to additional costs and could have a material adverse effect on the Company's proceeds from its investments (including on sales and development or rental income of the relevant properties). In addition, after the acquisition of a property or another real estate interest, the market in which the acquired property is located may experience unexpected changes that materially adversely affect the property's value. For these reasons, among others, the Company's property acquisitions or investments may cause the Company to experience significant losses.

General Real Estate Investment Risk

While the Company may make investments in other industries and markets, it initial investment focus will be in the real estate sector. Real estate investments are subject to a number of risk exposures. Such investments are affected by general economic conditions, local real estate markets, demand for leased premises, competition from other vacant premises, municipal valuations and assessments, and various other factors. The value of real estate and improvements thereto may also depend on the solvency and financial stability of tenants and buyers, interest rates, the availability of financing, market demand. In addition, the real estate industry is capital intensive and market events and conditions, including disruptions affecting international and regional credit markets and other financial systems and global economic conditions that impede access to capital can have a material adverse effect on the value of real estate and investments therein.

The Company's future growth will depend in large part upon the Company's ability to successfully execute on its investment strategy. In order to diversify its portfolio, the Company may undertake its investments in a number of ways, including (among other things) through investments in real estate development projects or direct or indirect acquisitions of real estate.

Real Estate Development

The development of real estate projects is subject to certain risks including (without limitation): (a) the availability and pricing of financing on satisfactory terms or availability at all; (b) the availability and timely receipt of zoning, occupancy, land use and other regulatory and governmental approvals; (c) the ability to achieve an acceptable level of occupancy or sell the asset upon completion; (d) the skill and financial stability of the developer; (e) the potential that the developer may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (f) the potential that the developer may expend funds on and devote management time to projects which are not completed; (g) the potential that the developer will fail to use advanced funds in the requisite manner; (h) construction or redevelopment costs of a project may exceed original estimates, possibly making the project less profitable than originally estimated, or generally unprofitable; (i) the time required to complete the construction or redevelopment of a project or to lease-up or sell the completed project may be greater than originally anticipated, thereby adversely affecting cash flows and liquidity; (j) the cost and timely completion of construction may vary significantly (including based on matters outside of the developer's control, such as weather, labour conditions or material shortages); (k) shortages of skilled and experienced contractors and tradespeople, contractor and subcontractor disputes, strikes, labour disputes; (l) delays and cost over-runs may occur (including, as a result of (among others) permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions, adverse weather conditions and the availability of financing); (m) difficulties in the supply of materials, including with respect to shortages of building materials, unforeseen environmental and engineering problems, and increases in the cost of certain materials; (n) occupancy rates and rents of a completed project or the total sale price of a project may not be sufficient to make the project profitable; or (o) purchasers may fail to close on purchase transactions or tenants may fail to occupy and pay rent in accordance with lease arrangements.

Real Property Acquisitions

Where it directly or indirectly acquires real estate, the Company's failure to acquire or finance property acquisitions on favorable terms, or operate acquired properties to meet financial expectations, could adversely affect the Company. The ability to acquire real estate properties on favorable terms and successfully operate them involves the following significant risks, among others: (a) potential inability to acquire a desired property may be caused by competition from other real estate investors; (b) competition from other potential acquirers may significantly increase the purchase price and decrease expected yields; (c) potential inability to finance an acquisition on favorable terms or at all; (d) significant unexpected capital expenditures to improve or renovate acquired properties; (e) potential inability to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations; (f) market conditions may result in higher-than-expected costs and vacancy rates and lower than expected rental rates; and (g) the acquired properties themselves may be subject to liabilities but without any recourse, or with only limited recourse, to the sellers, or with liabilities that are unknown to the purchaser, such as liabilities for clean-up of undisclosed environmental contamination, claims by tenants, vendors or other persons dealing with the former owners of the properties and claims for indemnification by members, directors, officers and others indemnified by the former owners of properties.

Real Property Ownership

As part of its investment diversification strategy, the Company may add real property to its ownership portfolio from time to time. All real property investments are subject to elements of risk. Revenue properties are subject to economic and other factors affecting the real estate markets in the geographic areas where properties are owned and/or managed. These factors include government policies, demographics and employment patterns, supply and demand for leased premises, the credit and financial stability of the tenants, competition from other available premises, the affordability of rental properties, competitive leasing rates and long term interest and inflation rates. These factors may differ from those affecting the real estate markets in other regions. If real estate conditions in areas where the Company's properties are located decline relative to real estate conditions in other regions, the Company's cash flows and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

An investment in real estate is relatively illiquid. Such illiquidity may limit the ability of the Company to revise its property portfolio promptly in response to changing economic or investment conditions. In recessionary times, it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession the Company may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary to dispose of properties at lower prices in order to generate sufficient cash for operations.

Certain expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the real property is producing any income. Further, in order to retain desirable rentable space and to generate adequate revenue over the long term, properties must be maintained or, in some cases, improved to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which may not be able to be passed on to tenants. Numerous factors, including the age of the relevant building structure, the material and substances used at the time of construction, or currently unknown building code violations, could result in substantial unbudgeted costs for refurbishment or modernization. Any failure to ensure appropriate maintenance and refurbishment work is undertaken could materially adversely affect the rental income earned from such properties; for example, such a failure could entitle tenants to withhold or reduce rental payments or even terminate existing leases.

In addition, carrying costs can be significant and can result in losses or reduced margins in a poorly performing project. If there are subsequent changes in the fair value of the Company's land holdings that the Company determines is less than the carrying basis of land holdings reflected in the Company's financial statements plus estimated costs to sell, the Company may be required to take future impairment charges, which would reduce net income.

In addition to the foregoing, real property owners are subject to various federal, provincial and municipal laws relating to environmental matters. Such laws provide that property owners could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the ability of the property owner to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the owner.

Disposition of Investments

The Company intends to evaluate the potential disposition of its investments that may no longer meet investment objectives. Should the Company decide to sell an asset, the Company may encounter difficulty in finding buyers in a timely manner, particularly such asset is real estate as real estate investments generally cannot be disposed of quickly, especially when market conditions are poor. This may limit the Company's ability to vary its portfolio promptly in response to changes in economic or other conditions. In some cases, the Company may also determine that it will not recover the carrying value of an investment upon disposition and might recognize an impairment charge.

In addition, certain investments made by the Company (including the Investments) will be governed by operating, shareholder, partnership or similar joint venture agreements or arrangements, many of which will restrict the Company's ability or right to freely sell or otherwise dispose of its investment and/or that affect the timing of any such sale or other disposition. Consequently, the Company's ability to efficiently or timely dispose of or monetize one or more of its investments could be limited by such contractual arrangements, which could in turn have an adverse impact on the Company's liquidity or capital resources.

Geographic Concentration

For the foreseeable future, the Company intends to focus its investment activities in large metropolitan markets in the United States, with a particular focus in the State of New York. As a result, the value of the Company's investments will be impacted by factors specifically affecting the real estate markets in this area. These factors may differ from those affecting the real estate markets in other regions of Canada and the United States.

Due to the anticipated geographic concentration of the Company's investments, a number of its investments could experience any of the same conditions at the same time. If real estate conditions in the regions where the Company holds the majority of its investments decline relative to real estate conditions in other regions, the Company's cash flows and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios.

Competition

Each of the investment and real estate business sectors are very competitive. Numerous other companies, investors, developers, managers and owners of office, industrial and retail properties will compete with the investments, properties and assets in which the Company has invested. The existence of these competitors could have an adverse effect on the Company's or its partners' ability to acquire properties and on the rents charged or concessions granted.

Potential Losses May Not Be Covered by Insurance

The Company intends to purchase insurance covering the investments, ventures, assets and properties that will be added to the Company's portfolio. The Company's management will review insurance policy specifications to ensure insured limits are appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice. There are, however, certain types of losses, such as property damage from generally unsecured losses such as riots, wars, punitive damage awards or acts of God that may be either uninsurable or not economically insurable. Insurance policies involving large deductibles and policy limits that may not be sufficient to cover losses may result in the Company having to pay for its losses on its own. In addition, the Company may not purchase earthquake, terrorism or other insurance on some or all of its potential investments in the future if the cost of premiums from any of these policies exceeds the value of the coverage discounted for the risk of loss.

Should the Company experience a loss that is uninsured or that exceeds policy limits, the Company could lose the capital invested in the affected investments, ventures, assets or properties as well as the anticipated future cash flows from those investments, ventures, assets or properties. In addition, where the loss involves a property owned by the Company and such damaged property is subject to recourse indebtedness, the Company could continue to be liable for the indebtedness, even if the property is irreparably damaged and requires substantial expenditures to rebuild or repair.

Investments Specific Risks

The success of the Investments relies heavily upon the success of the Projects. As real estate development projects, the Projects are each also subject to the risks outlined above. In addition, as the Auden Project is focused on student housing, it will also be subject to risks relating to decreases in student enrollment at particular colleges and universities, changes in university policies related to admissions and housing and changing student demographics.

As the Investments are being made in projects being developed by DMG, such Investments will also be subject to risks relating to investment concentration and reliance on DMG's ability to meet its contractual obligations and develop each of the projects underlying the Investments in the manner currently contemplated by the Company. Any material adverse change in DMG's financial position or a failure by DMG to successfully operate and finance the projects in the manner currently contemplated, could have a corresponding material adverse change on the Investments and, by extension, the Company.

To the extent that DMG defaults under the terms of either of the Investment Agreements, the Company will have the ability to exercise its enforcement remedies in respect of the Investments; however, exercising enforcement remedies is a process that requires a significant amount of time to complete and could adversely impact the Company's cash flow. In addition, even if it undertakes enforcement proceedings against DMG, there is no assurance that the Company will be able to recover all or substantially all of the outstanding principal and interest owed to it in respect of its Investments. The Company's inability to recover all or substantially all of the principal and interest owed to it in respect of the Investments will have a material adverse effect on the Company.

COVID-19 Pandemic

The COVID-19 pandemic has put significant strain on the global business and economy, including in the North American real estate sector, leading to significant volatility and unpredictability and there can be no assurance as to the overall or further impacts of the pandemic or any recovery therefrom. Further or prolonged restrictive measures put in place by governmental authorities in order to contain further outbreaks or other adverse public health developments, in the United States, Canada, or in any other jurisdiction upon which the Company carries out its business activities may have a material and adverse effect on the Company's financial and/or operating performance. The continuing global health, social, political, and economic implications of COVID-19 could have significant impacts on the Company's business, operations, future financial performance, and the market price of the Company's common shares.

INFORMATION CONCERNING THE COMPANY

Corporate Structure

Name and Incorporation

The full name of the Company is Sahara Energy Ltd. The Company was organized under the *Business Corporations Act* (Alberta). The Company's head office is currently located at Suite 400 – 444 7th Avenue S.W., Calgary, Alberta, T2P 0X8, while the registered records office is located at Suite 900, 517 – 10th Avenue S.W., Calgary, Alberta, T2R 0A8. The Company, as it currently exists, was a result of the amalgamation of Sahara Energy Ltd. (the successor entity to Battleford Capital Inc. and Captain Energy Inc.) and Mirage Energy Ltd. on March 31, 2008. Other than the consolidation of the Company's shares on the basis of one common share for each six common shares then outstanding on November 25, 2010, the Articles of the Company have not been amended since the date of its formation by amalgamation.

General Development of the Business

History

Throughout its history, the Company has primarily engaged in oil and gas exploration, evaluation and development in Canada. The Company's current areas of focus include Lloydminster, Alberta, Western Saskatchewan, Central Alberta and Southern Alberta.

In 2014, after Guochuang (as defined below) invested in the Company and following its receipt of the research results of JingHan Geological Research Institute (Overseas) on its assets, the Company drilled two wells on its lands. However, after the completion of well testing, the results did not meet the conditions required for production. In 2015, as oil prices plummeted, a number of entities began to sell their assets in order to increase cash flow. During this period, the Company conducted research on many "low-priced" assets and determined that it would be an optimal time to acquire additional assets. The Company made attempts to purchase certain assets but no deals were ultimately completed. The Company also made moves to explore business opportunities in the United States regarding certain mining rights, but before a deal could be reached, the mining rights expired and the opportunity was lost. In 2019, the Company made further transaction efforts and commenced work intended to merge the Company with two other entities, however, for a number of reasons that potential deal also fell through.

Other than as outlined herein, the Company has undertaken no material transactions in at least the past three years. It has continued to operate its two existing oil wells in the ordinary course, has abandoned and reclaimed certain other well sites in accordance with the directives of the Alberta Energy Regulator and has otherwise made significant efforts to identify either a purchase, sale, development or other transaction within the oil and gas industry sector so as to move its oil and gas operations forward; however, to-date no appropriate transaction has been found. Given (among other things) the Company's historic inability to identify an appropriate transaction, the ongoing losses that the Company has been facing, its current trading price and volume, its available cash amounts, the current market outlook for oil and gas in Western Canada and management's existing expertise and connections, the Company determined that a "change of business" was absolutely essential to the Company's ability to grow and create value for its shareholders.

Accordingly, on January 25, 2021, the Company announced that, effective January 24, 2021, it had entered into the Investment Agreements. As noted above, pursuant to the terms of the Investment Agreements, the Company, through a wholly-owned subsidiary, will make an investment of USD$3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in a student housing development project in Amherst, New York (Auden Project) and an investment of USD$2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in a multi-family mixed commercial housing development in Albany, New York (Dakota Project).

Selected Consolidated Financial Information and Management's Discussion and Analysis

Selected Information

A summary of selected financial information of the Company for the financial years ended December 31, 2020, 2019 and 2018, is as follows:

	Fiscal Year ended December 31, 2020 (audited)	**Fiscal Year ended December 31, 2019 (audited)**	**Fiscal Year ended December 31, 2018 (audited)**
Total expenses	CDN$ 2,190,526	CDN$ 722,665	CDN$ 933,278
Amounts deferred in connection with the Change of Business[(1)]	-	-	-

Note:
(1) No amounts were deferred by the Company in connection with its Change of Business during any of the periods indicated.

Financial Statements

The financial statements for the three-month period ended March 31, 2021 and each of the financial years ended December 31, 2020, 2019 and 2018, are included at Appendix A below.

Management's Discussion and Analysis

The Company's management's discussion and analysis for the three-month period ended March 31, 2021 and each of the financial years ended December 31, 2020, 2019 and 2018, are included at Appendix B below.

Description of Securities

Securities

As of the date hereof, the authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares.

The holders of the common shares of the Company are entitled to dividends, if, as and when declared by the Board of Directors, to one vote per common share at meetings of the Company's shareholders and, upon liquidation, to share equally in such assets of the Company as are distributable to the holders of the common shares of the Company. All of the common shares of the Company to be outstanding after completion of the proposed Investments will be fully paid and non-assessable and are not subject to any pre-emptive rights, conversion or exchange rights, redemption, retraction, purchase for cancellation or surrender provisions, sinking or purchase fund provisions, provisions permitting or restricting the issuance of additional securities or provisions requiring a shareholder to contribute additional capital.

There are 289,684,072 common shares of the Company issued and outstanding as of the date hereof (on both an undiluted and fully-diluted basis). There are no other securities of the Company issued and outstanding. The market price of the common shares on the TSX-V immediately prior to the halt of trading in connection with the Change of Business announcement was CDN$0.02 per common share.

Warrants

As of the date of this Filing Statement, there are no warrants to purchase common shares of the Company issued and outstanding. Following the Change of Business, there will be no warrants issued and outstanding.

Capitalization

There will be no changes in the Company's share or loan capital as a result of the Change of Business. The following table outlines the expected share and loan capital of the Company on completion of the COB:

Designation of Security	Amount Authorized	Amount Outstanding After COB
Common Shares	Unlimited	289,684,072
TOTAL		**289,684,072**

Stock Option Plan

The Company suspended its stock option plan in November of 2017. As at the date hereof, the Company has no stock options outstanding and following the Change of Business, the Company will have no stock options outstanding.

Prior Sales

No securities of the Company have been issued in the 12 months prior to the date of this Filing Statement.

Fully Diluted Share Capital

The following table outlines the expected number and percentage of securities of the Company to be outstanding on a fully diluted basis after giving effect to the Change of Business:

	Number of the Company's Shares	Percentage of Total
Company's shares held by current Company shareholders	289,684,072	100%
Fully-Diluted after giving effect to Change of Business	289,684,072	100%

Non-Arm's Length Party Transactions

Other than as described in the Company's financial statements included at Appendix A, the Company has not acquired any assets or any services from a director or officer, principal security holder or an Associate or Affiliate of any such person in the 24 months prior to the date of this Filing Statement.

Funds Available and Principal Purposes

As at July 31, 2021, the Company had working capital and funds available in the amount of CDN$8,700,440. Due to its pending COB, the Company's historical statements are not expected to be reflective of its financial performance going forward. In the 12 months following completion of the COB, the Company is expected to use the funds available to it in furtherance of its stated business objectives.

In its expense analysis, general and administrative costs are anticipated to make up a significant majority of the Company's overall operating expenses in the first 12 months post-COB. However, the Company does expect that its general and administrative expense will remain at a level that will enhance the profitability of the Company.

The table below provides the Company's projections regarding the principal purpose of available funds in the first 12 months post-COB.

	Estimated Amount (CDN)
Sources of Funds:	
Estimated working capital as at July 31, 2021(1)	$8,700,440
Total Funds	**$8,700,440**
Uses of Funds:	
Completion of Investments	$6,050,500
Amounts Available Post-Investments	$2,649,940
General and administrative expenses for the first 12 months post-COB(2)	$567,290
Unallocated working capital	$100,000
Total Uses	$667,290
Total Amount Remaining	**$1,982,650**

Notes:

(1) Based on the estimated working capital of the Company as at July 31, 2021 in the amount of CDN$8,700,440.

(2) Consisting of an estimate for salaries (estimated at CDN$378,230 for approximately 5 employees), office expenses (estimated at CDN$56,560 for the Canadian and US offices), legal fees (estimated at CDN$37,500), shareholder matters and regulatory fees (estimated at CDN$20,000), and accounting and audit fees (estimated at CDN$75,000).

Based on current projections, the Company's working capital is expected to meet its expenses for a minimum period of 12 months commencing immediately after the completion of the COB.

The amounts set out above are estimates that are based on a number of assumptions which management believes to be reasonable as at the date hereof. However, notwithstanding the proposed uses of available funds discussed above, there may be circumstances where, for sound business reasons or as a result of an unforeseen event, a reallocation of funds or an additional expenditure of funds may be necessary. As such, the amounts projected above are subject to change. Given the nature of the Company's intended business and the fact that, as of the date hereof, no additional investments have been identified by the Company, management is unable to project what further funds will be required or used for future growth initiatives and investments. As such, the amount noted above has not taken into consideration any particular form of investment. See "*Forward-Looking Information*".

Principal Securityholders

Two shareholders collectively hold approximately 85.94% of the Company's outstanding shares - JK Investment (Hong Kong) Co., Ltd. (69.04%) and China Great United Petroleum Investment Co. Limited (16.90%). To the knowledge of the Company, after giving effect to the COB, no person will own, directly or indirectly, or exercise control or direction over, more than ten percent (10%) of the Company's shares other than these two shareholders and as indicated in the table below.

Principal Shareholders	Name and Municipality of Residence	Type or Class of Shares	Number and Percentage of Security owned after completion of COB	How Position is Held (Record; Beneficially; or both Record and Beneficially)
JK Investment (Hong Kong) Co., Ltd.[1]	Central, Hong Kong	Common Shares	200,000,000 shares 69.04%	Record
China Great United Petroleum Investment Co. Limited[2]	Wan Chai, Hong Kong	Common Shares	48,967,029 shares 16.90%	Record

Notes:

(1) Mr. Qingshou Gao, a director of the Company, has majority control or direction over the securities of JK Investment (Hong Kong) Co., Ltd.

(2) China Great United Petroleum Investment Co. Limited. has advised that Mr. Yiu Yiu Cho (Cha) is the sole controlling securityholder of China Great United Petroleum Investment Co. Limited.

Intercorporate Relationships

Upon the completion of the COB, GC Capital, a corporation existing pursuant to the laws of the State of Delaware and a wholly-owned subsidiary of the Company, will be the only subsidiary of the Company.

CHANGE OF BUSINESS TRANSACTIONS

Student housing in the north-eastern United States has historically been a relatively profitable sector of the North American real estate market. The number of college and university applicants (including international applicants) has increased substantially over the years and current and prospective students are often faced with a number of challenges when they seek accommodations. On-campus residences have typically been limited in supply and expensive, and aging properties and poor building management have led to a dearth of options and poor living conditions in many areas. As a result of these and other factors, the student and multi-family housing markets in the north-eastern United States, particularly around colleges and universities, have seen significant growth over the past number of years as students and college and university staff, look for housing that is affordable and close enough to the applicable campus to allow for a reasonably quick commute.

The target demographics for the Projects are students, young professionals, and young families who are expected to comprise the majority of the tenants of the properties. Students generally require housing that is close to campus or near transit stops, while young professionals seek accommodation close to transit stops with amenities and attractions that suit their lifestyle. Young families typically look for safe neighborhoods with reputable schools and plenty of playground and park space. These three groups also look out for affordable apartments with updated interiors and private space for their accommodations, as well as parking spaces and common areas for activities. These particular market conditions and trends have been recognized by DMG, and the Projects have been designed so as to optimize the attractiveness of the properties being developed to their target demographics.

Pursuant to the terms of the Investment Agreements the Company has agreed, subject to certain conditions, to invest in the Dakota Project and the Auden Project in exchange for a preferred equity interest in such Projects.

Dakota Project

Under the terms of the Investment Agreement respecting the Dakota Project, the Company has agreed to invest an aggregate amount of US$2,000,000 in a joint venture real estate investment as a non-managing member in exchange for a preferred equity interest representing approximately 15.56% of the total equity interest in the Dakota Project and approximately 5.34% of the overall Dakota Project costs.

The Dakota Project is a six story multi-family mixed commercial housing project situated at 1211 Western Avenue, Albany, New York, USA 12205. The site covers an area of 0.8 acres with a maximum floor area of 190,968 square feet (103,033 square feet net rentable). The Dakota Project design and development license scheme has been approved. DMG is in the process of obtaining an engineering blueprint and its Project plan have been approved by Albany's development and planning officer and submitted to the building authority for final permit approval.

DMG has advised the Company that the total investment to completion cost of the Dakota Project is anticipated to be approximately US$37.43 million (total land acquisition costs amounting to approximately US$2.46 million). The total construction cost estimate (approximately US$34.97 million) is comprised of hard costs of approximately US$26.71 million, interest reserve costs of approximately US$716,000 and soft costs of approximately US$7.53 million. Construction of the Dakota Project is expected to take approximately 16 months from the initial date of the Company's investment. In addition to the investment being made by the Company, DMG has indicated that it anticipates that the Dakota Project will be funded through a construction loan of approximately US$24.58 million and additional equity investments for the remaining amount (anticipated to be approximately US$12.85 million). DMG will act as developer for the Dakota Project, as an approved affiliate, and will be responsible for the construction, promotion, leasing and operation of the Project.

Auden Project

Under the terms of the Investment Agreement respecting the Auden Project, the Company will invest an aggregate amount of US$3,000,000 in a joint venture real estate investment as a non-managing member in exchange for a preferred equity interest representing approximately 21.27% of the total equity interest in the Auden Project and approximately 6.86% of the total Auden Project costs.

The Auden Project is a student housing project situated at 2915-2949 North Forest Road, Amherst, New York, USA 14068. The site covers an area of approximately 5.39 acres, inclusive of certain undevelopable areas, in the vicinity of the University at Buffalo campus. The Auden Project is planned to consist of 154 residential units and 481 beds, and a lower-level parking area having 283 parking spaces, together with ancillary amenities and improvements, in a four-story building containing approximately 213,438 square feet. All required approvals and building permits from the City of Amherst have been obtained for construction of the Auden Project and work on the Project has commenced.

DMG has advised the Company that the total investment to completion cost of the Auden Project is anticipated to be approximately US$43.73 million (total land acquisition cost amounting to approximately US$2.67 million). The total construction cost estimate (approximately US$41.06 million), is comprised of hard costs of approximately US$34.22 million, soft costs of approximately US$4.94 million, construction loan fees of approximately US$1.15 million and interest reserve of approximately US$750,000. Construction of the Auden Project is expected to take approximately 16 months from the initial date of the Company's investment. In addition to the investment being made by the Company, DMG has indicated that it anticipates that the Auden Project will be funded through a construction loan of approximately US$30.00 million and additional equity investments for the remaining amount (anticipated to be approximately US$13.73 million). DMG will act as developer, as an approved affiliate, for the Auden Project and will be responsible for the construction, promotion, leasing and operation of the Project.

General Terms and Conditions

The investments to be made by the Company in the Projects are each subject to, among others, the following terms and conditions:

- the Company will be guaranteed a 10% preferred return on its investment within 12 months of its initial investment, with the payment of return amounts being made at the end of the first quarter following its initial investment and at the end of the fourth quarter following initial investment;

- in the event that a material event of default by DMG occurs, the Company will be entitled to a 15% return on its investment;

- during the period of the investment there will be no dilution of the Company's preferred equity position;

- the Company will retain voting rights in relation to major actions proposed by DMG;

- the Company will retain an unconditional option to require the cash payment of its guaranteed return and the cash repurchase of all or part of its equity interest after an initial 12 month period or, in lieu of full repayment, upon the Company giving three months prior notice to DMG, the Company will continue to hold its position;

- the 10% return and repurchase option granted to the Company in connection with its investment will be guaranteed by DMG Investments LLC; and

- the Company will be granted certain exit options in the event of a material default in the Projects and upon the occurrence of a material adverse change in the condition of the guarantor.

The Projects will each be owned and operated by a Delaware limited liability company to be incorporated prior to closing. DMG's equity investment in the Auden Project is USD$6,050,643, accounting for 13.84% of the overall Auden Project costs, while DMG's equity investment in the Dakota Project is USD$5,601,374, accounting for 14.97% of the overall Dakota Project costs.

While DMG has advised the Company that it expects to raise the additional capital necessary for the completion of the Projects through construction loans and additional equity partners and, should the necessary additional capital not be raised from such sources, DMG has agreed that it will represent and warrant to the Company that it has the ability to and will fund, in a timely manner, the remaining amounts necessary to complete each Project itself.

It should also be noted that while the Company has exit strategies in place for the Projects, exit is not absolutely required. As indicated in the "*General Terms and Conditions*" above, the Company has the option to provide notice stating its intention to maintain its position in each of the Projects on or before the nine month anniversary of the effective date of their respective operating agreements. Upon providing the notice, the Company will be able to maintain the Investments in the Projects beyond the initial 12 month investment period. The Company will also ensure that it satisfies the continued listing requirements with respect to the number and percentage of the investments it must have in place whenever it chooses to execute its exit strategies in connection with Projects.

DMG

DMG is a real estate investment management and development firm headquartered in New York, New York. As a professional fiduciary, it is involved in sourcing, selecting, underwriting, acquiring, developing, and managing real estate properties which, since its inception in 2013, have varied in size from USD$20 million to over USD$500 million. DMG's business is focused primarily on student housing, condominium and multi-family properties and it typically acts as the general partner of its selected projects. DMG currently manages real estate investments of approximately USD$700 million in assets under management across projects in New York, New Jersey, Texas, Tennessee, Wisconsin, and South Carolina.

In addition to its other investments, since 2014, DMG has successfully undertaken the following real estate projects, each having a development plan and investment structure similar to that of the Projects. Each of the following projects have stabilized or entered the sale phase and the construction of each of the following projects was delivered on time and on budget.

Location	Property Type	Building Type	Square Feet	Units	Total Project Cost	DMG Role**
Albany, NY	Student Housing	Ground Up Development	203,000	106	USD$45,000,000	GP
Ithaca, NY	Student Housing	Value Add	90,000	94	USD$24,700,000	GP
Houston, TX	Student Housing	Value Add	160,000	162	USD$25,000,000	GP
Spartanburg, SC	Student Housing	Ground Up Development	221,000	170	USD$26,700,000	GP
Houston, TX	Condo	Ground Up Development	500,778	99	USD$155,000,000	LP
Cliffside, NJ	Condo	Ground Up Development	347,000	204	USD$165,000,000	100% owned
Milwaukee, WI	Multi-family	Ground Up Development	150,000	100	USD$17,000,000	GP

**"GP" denotes "General Partner" who is responsible for project ownership, management, development, operation, improvement, financing and construction. "LP" denotes "Limited Partner" who is solely a passive equity investor in the project.

BUSINESS OBJECTIVES AND PLAN

General Overview

Following the completion of the Change of Business, the business of the Company will be focused on making investments in real estate and real estate-related business activities. The Company plans to divest its oil and gas assets and to strategically build its real estate investment portfolio and business through joint venture development projects, management optimization projects, renovation projects, project financing, strategic investment services and debt financings.

The Company intends to maintain a lean organization, with operations in its real estate business conducted through GC Capital. The Company will continue to provide capital to GC Capital in order for the Company to acquire and develop properties which will become part of the Company's portfolio.

Divestiture of Oil & Gas Assets

As of May 2020, the Company had interests in a total of 30 wells – 24 oil wells, five gas wells, one water disposal well, as well as a storage battery (collectively the "**O&G Assets**"). Of the O&G Assets, only five wells are in production and the rest are either closed or discontinued. The Company has 100% operating rights for two of the five wells in production (No. 13 and No. 14).

The Company's O&G Assets are geographically dispersed, and the daily production is low. Accordingly, in the Company's view it will be difficult to create synergies to increase the existing contribution margin from the O&G Assets. In terms of equity, the Company has 100% operating rights only for four wells (No. 11, 12, 13, 14) and the rest of the oil and gas wells have low work interest, limited negotiation space and long disposal periods.

Given the nature of the O&G Assets and the current depressed market for oil and gas assets, following a strategic review of available options, the Company intends to divest of the O&G Assets by: (i) selling wells or (ii) for wells that cannot be sold, undertaking the necessary reclamation actions to abandon the wells and forfeit the mineral and surface leases. More particularly, the Company has identified the following divestiture priorities:

- *Operating Interest Wells – 4, 5, 11, 12, 13, 14*

  Wells No.13 and No.14 are in production and generate positive cash flow for the Company. The Company has temporarily shut-in these wells due to the low oil price at present. The Company will evaluate strategic opportunities for sale after completing the divestiture of the non-operating wells.

  Wells No.11 and No. 12 have been drilled failures due to insufficient underground pressure and the location near the edge of the reservoir. The Company will seek to sell these wells. In the case of wells which cannot be sold, the Company will undertake the necessary reclamation actions to abandon the wells and forfeit the mineral lease and surface lease.

  Wells No.4 and No.5 have been completed, are in the reclamation process and are waiting for certification for forfeiture of the surface lease. The mineral lease of these wells has been farmed out to McLand Resources Ltd.

- *Producing Wells - 6, 7, 8, 9*

  Most of the Company's operating cash flow was generated by three production wells and a water disposal well. The operating rights for these wells and the associated battery belong to Jast Energy Ltd. These wells can remain operational and the Company will seek opportunities to divest of them over time, as market conditions improve.

- *Other Joint Venture Wells - 1,2,3,15,16,18 – 31*

  Wells No.17, 18, 21, 23, 25, 27 have been down for reclamation at the end of 2019 and the beginning of 2020. These wells could forfeit the mineral lease and surface lease for at least one year after they are certified.

  The operating rights for wells No.1, 2, 3, 15, 16, 19, 20, 22, 24, 26, 28, 29, 30, 31 are held by Husky Oil Operations Limited, Rife Resources Limited and Coastal Resources Limited. The Company has no right to schedule the reclamation of these wells. The Company anticipates that the timing and manner of reclamation on these wells will accord with Alberta Energy Regulator directives. Reclamation average cost is anticipated to be approximately CDN$75,000/per well. It is anticipated by the Company that its costs with respect to the reclamation of these 14 wells will be approximately CDN$360,000.

The Company's overall divesture / disposal plan for the O&G Assets is further summarized below:

Well Serial No.	No. of Wells	Priority	Disposal/Divestiture Period (Years)	Disposal Method
1, 2, 3, 15, 16, 19, 20, 22, 24, 26, 28, 29, 30, 31	14	High	5	Reclamation by operator
6, 7, 8, 9	4	Low	0.5 - 1	Transfer, exit the right to operate
4, 5, 11, 12, 13, 14	6	Low	1 - 2	Operate, strategic sale as market conditions improve or reclamation
17, 18, 21, 23, 25, 27	6	Low	1 - 2	Acquire Certification

The divestiture of assets in the oil and gas industry has its unique challenges. With respect to its performing assets, the Company does not believe it is unreasonable to expect that a sale of the Czar block (well Nos 6, 7, 8 & 9) and the Lloydminster block (well Nos 13 & 14) will be completed by the end of 2021. With respect to the Company's non-performing assets, the Company expects disposition of those assets will take a longer period to complete given, among other things, the regulatory requirements relating to abandonment and reclamation. That said, most of the Company's non-performing wells are already in different stages of the abandonment and reclamation process, and the Company anticipates that it will be able to release back to the applicable governmental or regulatory authority and/or land owner, the mineral rights and surface leases for at least six wells (nos. 17, 18, 21, 23, 25 & 27) in this regard, before the end of 2022.

Real Estate Investment Opportunities

In addition to the Projects, through management's historical relationships and the Company's investigations respecting potential business transactions, the Company has identified a number of additional potential areas for investment and, in the real estate industry in particular, has had the opportunity to establish relationships and connections with developers and other market players in the Northeast region of the United States who are involved with student housing and multi-family development and renovation projects. As a result of this, management's familiarity with the market and available investment opportunities and the overall profit potential of the sector itself, among other things, as an initial step in its overall business plan, the Company intends to acquire, develop, renovate, and manage undervalued student housing and multi-family residential projects to generate meaningful cash flow for the Company. The Company intends to focus its business solely within North America for at least the next 24 months but, while the Company will initially concentrate on the Northeast region of the United States, the Company's primary goal is to grow its operations based on value-added investments, wherever those may arise. As such, should other appropriate opportunities present themselves in other jurisdictions within North America the Company may make investments elsewhere.

The Company expects that going-forward, it will undertake its investments in a number of ways, including (without limitation), independent development projects, joint-venture development, property management, real estate brokerages, project renovation, debt and equity investments, project financing, real property acquisitions and strategic investment advising. Furthermore, where the Company acts as an investor or co-general partner, it expects that it will participate in the student housing and multi-family residential projects through local general contractors. The Company anticipates that a majority of these types of projects will be financed through a combination of equity, mezzanine loans, and construction loans.

For independent development projects, the Company currently expects that it will use a general and limited partnership framework. The Company also plans to raise funds externally, either through limited partnerships or through financial products. Financing through construction loans may be sponsored or guaranteed by the local general contractor or by the Company on a case-by-case basis. Where it makes partnership investments, the Company intends to generally act as a limited partner but will take on appropriate risks and responsibilities on a case-by-case basis.

The Company anticipates that, at least in the near term, the majority of any independent development projects it undertakes will focus on student housing. The Company estimates that the average student housing property would include at least 300 beds with an investment of USD$120,000 per bed. This amounts to approximately USD$36 million for a single student housing project. Each project would be financed by a mix of 40% equity and 60% debt. The pre-development period, which includes land purchase, zoning, rezoning, and architectural designs is estimated to require 1 to 1.5 years while the development cycle for each project will span 1 to 1.5 years. Based on available market information and management's exploration of available investments for the Company, the Company anticipates that a reasonable return on investment ("**ROI**") for an independent student housing project is roughly 15% to 24% for a ground-up development or opportunistic project and approximately 12% or more for a value-added project.

Joint Venture Development Projects

For investments in which it partners with local developers or real estate funds, the Company anticipates that it will mainly act as an investor in joint venture development projects. In this circumstance, local partners will be responsible for sourcing deals and conducting due diligence and will also prepare development plans for each project and act as guarantors for any construction or mezzanine loans. The Company anticipates that for mezzanine loan projects, a reasonable ROI would be approximately 9% to 12% for a 9 to 12-month investment period.

The Company expects that any of its joint venture development projects will be largely financed by the Company or jointly with other institutional investors. The Company believes that it is reasonable to expect the ROI for these and similar joint venture development projects to be at or above roughly 15% with a three to five-year investment horizon. For other joint venture development projects, the Company anticipates that the ROI will be roughly 12% to 20% for opportunistic projects and approximately 10% for value added projects with a 12 to 36-month investment horizon (assuming that any co-partner(s) get(s) 15% profit split upon exit).

Management Optimization Projects

The Company also expects that it may target and acquire poorly managed properties with significant upside rental potential. The Company plans to aim its property management optimization strategy at increasing the total value of such properties by raising rental income, controlling marketing costs and reducing operating expenses for utilities, redundant management staff, as well as real estate taxes and insurance costs. Acquisitions may be undertaken independently by the Company or through a joint venture or other form of partnership. The Company expects that it will then hold any such property until it increases in value and subsequently exit the investment by selling it at its increased value. For these types of management optimization investments, the Company will be targeting an ROI of 6% or greater.

Renovation Projects

With respect to renovation projects, the Company plans to target and acquire below-market value multi-family residential dwellings and/or condominiums which have deteriorated due to poor maintenance, have outdated interiors or require foundation and structural repairs. In connection with making such an acquisition, the Company will hire architects to re-design and revitalize the interior of the properties and fix foundation and structural issues in order to achieve market or above market rental rates.

Property renovations are expected to primarily focus on interior and structural transformation. Interior renovations may include items such as flooring, electrical appliances, walls, and bathrooms. Structural changes may include expanding or reducing the number of bedrooms in order to boost rental income or enhancing the overall aesthetics of the properties.

Renovation projects may be undertaken independently by the Company or through joint ventures or other forms of partnership. The Company's basic business analysis will include an assessment of demolition costs, renovation costs, and the potential sale of the property once an increase in value can be realized. The Company is of the view that an ROI for renovation projects of between 8% and 15% is achievable.

Project Financing

In undertaking project financing, the Company will assist local developers, real estate funds and large firms by providing value-added services and project financing. Financing will be provided in the form of equity, mezzanine loans or debt financing. The Company currently intends that a minimum of 2% service charge will be levied upon the completion of each project financing transaction. The value-added services currently contemplated by the Company include (among others): screening and categorizing projects; conducting preliminary due diligence; compiling project information and related market research; matching suitable projects with appropriate individual and institutional investors; delivering initial sales presentations; assisting parties with deal negotiations; and providing financial, legal and other business-related recommendations to ensure that deal parties are satisfied.

Strategic Investment Services

Where the right opportunities present themselves, the Company also expects to provide strategic investment services to overseas institutional investors in order to help them establish long-term strategic partnerships with local real estate developers or real estate funds. A fixed fee will be charged by the Company for such strategic investment services.

If and when offered, the Company expects that its strategic investment services will include (among other things): (i) helping potential investors fully understand capital requirements, future investment plans, internal rate of return expectations and long-term strategy, (ii) facilitating the investments by institutional investors in suitable local opportunities, and (iii) assisting parties in communication on construction frameworks and any related problems to achieve an agreement on an initial partnership.

Debt Investments

In addition to the foregoing, the Company may also explore the provision of student housing debt investment services to create, assist, and support student housing projects. Should the Company expand its business in this respect, the Company will charge a fixed or floating rate based on the debt term and risk factors of the debts. Such debt investment services would also include (among other things): (i) the provision of mezzanine debt for the Company's partners to make sure projects proceed smoothly, (ii) underwriting of construction loans to make sure real estate projects are completed and operated successfully, and (iii) assisting potential investors or partners solve capital needs through debt instruments while at the same time providing cash flow to the Company from those debt investments.

Business Objectives

The Company has identified the objectives listed below as key to implementing its ongoing business plans as enumerated above, should the COB proceed.

1. *Recruit Additional Staff* – The Company's core management team is in place, but as the Company executes on its new business strategy additional resources will likely be required. In particular, management expects that it will be required to recruit at least one or more full-time employees over the next 12 to 24 months following the completion of the COB, for investment analysis, investment management, site supervision, and deal sourcing, among others as the Company's investment portfolio grows.

   See "*Company Management – Executive Compensation*" for details of estimated costs associated with the proposed recruitment of the first two additional U.S. managers (Ms. (Fiona) Wang and Mr. (John) Liang).

2. *Identify and Develop Additional Strategic Business Partners* – On an ongoing basis, the Company's management team will review suitable marketing and business partners, such as other investment firms, investment advisors, real estate developers, real estate funds, architects, and real estate agents in the U.S., in order to develop long-term partnerships.

3. *Explore Future Financings* – As the Company's property portfolio grows and it identifies further investment opportunities, additional capital may be required to undertake larger scale expansions to the Company's portfolio. Should the Change of Business be successful, over the next 12 to 24 months, the Company expects that 30% to 45% of any additional equity required for future projects will be raised or provided by external capital, including through the pursuit of strategic partnerships with other real estate investment firms. For projects in which the Company has an existing investment, the Company plans to attract investors in the various stages of the project development. This approach is expected to mitigate some risk to the investors (such as approval risk during pre-development or budget overrun risk during the development stage) while the Company is rewarded with recapped value over its initial investment. For "new" projects or other opportunities requiring start-up funding, in appropriate circumstances, the Company expects that it may pitch the potential project/investment to third party investors and complete initial fundraising before the project/investment takes off. In this case, the Company intends to build into the transaction a founder's fee or profit splitting arrangement in respect of its initial start-up work.

   The Company is of the view that sourcing external financing for 30% to 45% of future major project investments and sourcing that funding at various stages of such projects has a number of benefits including that this strategy is expected to (among other things): (a) provide the Company with a more broad range of projects in which it might invest, (b) allow the Company to leverage the relationships, expertise, knowledge and other skills of its partners in the various stages of its investment, (c) allow the Company to grow its overall portfolio while also maintaining a majority control position (55% to 70%) in such future projects, (d) provide the Company with additional cash flow through the fee charge or profit split over external capital, and (e) lower the concentration risk on one particular market or project which ultimately brings more diversification. Additionally, the Company believes that a strategy of seeking external partnerships and funding for projects in which it wishes to invest will help improve the efficiency of capital use by increasing its project turnover rate, and assist in building the Company's profile and relationships with potential investors and partners.

4. *Grow Real Estate Portfolio* – Given its existing experience and interests in such markets, the Company anticipates that it will continue to look for additional investment opportunities in student housing and multi-family development projects in growth markets that may or may not be near university campuses, as potential investment with funds earmarked for pre-development and renovation post-acquisition. A detailed capital expenditure budget and return on investment analysis will be conducted on each new property prior to making a purchase or investment decision.

   Where the Company identifies property acquisition opportunities, the properties that the Company acquires may be existing income producing properties or properties under development or construction. The Company currently plans to focus on acquiring properties that can produce a consistent cash distribution at stabilization and that present opportunities for capital appreciation over an expected two to three-year holding period. These properties may include those with the potential for ground-up development, redevelopment or repositioning.

   The Company aims to become a respected real estate investment firm focused on opportunistic projects in the northeastern US. In addition to completing the Investments, the Company's goal is to complete at least one more investment in a student housing and/or multi-family housing development project by the end of 2022.

   See "*Business Objectives and Plans – Real Estate investment Opportunities*" above for estimated costs, projected timelines and ROI regarding the Company's objective to acquire or renovate a student housing property.

5. *Execute Exit Strategies for Investment Projects* – A well thought out exit strategy is of critical importance in a business such as the Company is planning to undertake. In accordance with the terms of the Investment Agreements, the Company will prepare exit strategies for the Auden Project and Dakota Project within 12 months from the date on which the Investments take place. At least in the near term, with respect to its development project investments, the Company intends to execute an exit strategy within one to three years of investment. Exit strategies may include the repurchase of investment shares, project refinancing or the sale of the property. The Company expects that where refinancing is to be undertaken, it will be conducted through local banks and lenders with whom the Company will renegotiate financing terms and debt agreements.

   Where the Company has purchased real estate it wishes to exit, the Company expects that it will rely heavily on financial advisors and/or brokers for property sales. For single assets with sale prices below USD$10 million, the Company plans to rely on brokers and online listings focused on high net worth individuals as the target buyers. For large properties, the focus will be on hiring financial advisors to identify and connect with potential institutional buyers.

   Ultimately, the Company expects that its exit strategies will be determined on a case-by-case basis having reference to each particular market situation. In normal circumstances, the Company expects that its sale/disposition strategy will be considered when the market performs normally and the sale price can justify the target return. Refinancing will more generally be considered when the Company can locate a recapitalization opportunity or when the market experiences turmoil.

Investment Policy

Upon its Change of Business, the Company will adopt a written investment policy to govern its investment activities (the "**Investment Policy**"). The Investment Policy will provide, among other things, the investment objectives and strategy based on the fundamental principles set out below. A complete copy of the proposed Investment Policy is included in this Filing Statement at Appendix F.

The Investment Policy may be amended with the approval of the Company's Board of Directors.

Investment Objective

The investment objective of the Company will be to provide investors with long-term capital growth by deploying the Company's cash assets in strategic investments and real estate business activities.

Investment Strategy

Investment Sector

While the Company's initial Change of Business transactions involve equity investments in two real estate development projects, the Company's ongoing business plan is to undertake a variety of investment and real estate-driven activities as opportunities present themselves and in accordance with the Investment Policy.

Investment Types

Initially, the Company's target investments will be focused on and encompass a variety of real estate-driven assets and ventures at all stages of development, including pre-IPO entities and/or early stage projects or enterprises with undeveloped and undervalued high-quality assets requiring start-up or development capital, as well as intermediate and senior projects or enterprises.

The Company intends to maintain a flexible position with respect to the form of investment undertaken and may employ a wide range of investment methods. Among other things, the Company may invest in equity, debt or convertible securities, which the Company intends may be acquired and held both for long-term capital appreciation and shorter-term gains. The Company may undertake its own real estate development projects, enter into partnerships or joint ventures with respect to projects of particular interest and/or it may also acquire assets or real property directly, where the same is determined to be in the best interests of the Company's investment portfolio.

Notwithstanding the foregoing, the Company's investment objective, investment strategy and investment restrictions may be amended from time to time as approved by the Board. Additionally, notwithstanding the Investment Policy, the Board may, from time to time, authorize such additional investments outside of the areas set forth in this Filing Statement as it sees fit for the benefit of the Company and its shareholders.

Implementation of Investment Policy and Management of the Company's Investments

The Company's Board of Directors will have ultimate oversight over the Investment Policy as well as ensuring that the Company's investment objectives are achieved. The officers, directors and management of the Company will work jointly and severally to uncover appropriate investment opportunities. These individuals have a broad range of business experience and their own networks of business partners, financiers, venture capitalists and finders through whom potential investments may be identified.

In furtherance of meeting its objectives, the Company will establish an investment committee ("**Investment Committee**"). It is expected that members of the Investment Committee will include directors (including independent directors) and/or officers of the Company, but the Company may also utilize, or the Board may appoint to the Investment Committee, qualified independent financial or technical consultants to assist the Investment Committee in making its investment decisions. The members of the Investment Committee will be appointed by the Board, and members of the Investment Committee may be removed or replaced by the Board.

The Investment Committee will be responsible for evaluating all potential investment opportunities. In assessing potential investments, the Investment Committee will consider whether or not such investments fit the investment and corporate objectives of the Company in accordance with the investment evaluation process below and the Investment Policy in general. The investment evaluation process may also require the Investment Committee to conduct preliminary due diligence after which a report of their findings will be presented to the Board for consideration.

The Investment Committee and designated members of the Company's management team will also monitor the Company's investment portfolio on an ongoing basis, review the status of the Company's investments and provide recommendations to the Board from time to time. The Investment Committee will conduct a quarterly review of the Company's investment portfolio in order to assess performance and market conditions. One member of the Investment Committee may be designated and authorized to handle the day-to-day trading decisions in keeping with the directions of the Board and the Investment Committee.

Investment Evaluation Process

It is anticipated that the Company's investments will be carried out according to an opportunistic and disciplined process to maximize returns while minimizing risk, taking advantage of investment opportunities identified from the industry contacts of the Board, as well as personnel and officers of the Company.

In selecting potential investments for the Company's portfolio, the Investment Committee will consider various factors in relation to any particular investment, including among others:

1. strength of management team and the extent to which there are clearly defined objectives in respect of the particular investment;
2. future capital requirements to develop the full potential of the investment and the expected ability to raise the necessary capital;
3. anticipated rate of return and the level of risk;
4. existing and anticipated market conditions;
5. financial performance; and
6. exit strategies and criteria.

Once the investment evaluation process and the required due diligence is completed, the Investment Committee will present a report of their findings on potentially viable investments to the Board for consideration. There will be no requirements for majority or supermajority decisions, instead, the final responsibility to approve or reject a proposed investment will rest with the Company's CEO, and the CEO shall determine when Board approval is also appropriate. Upon the approval of an investment, the CEO (or the Board, where full Board approval has been sought) shall designate certain members of the Investment Committee and management team to negotiate the terms of the investment and execute the deal on behalf of the Company.

Risk Management

The Company has implemented the following controls to limit and manage risk:

1. conservative and streamlined investment strategy;
2. when appropriate and subject to the Company's cash position, a syndication strategy whereby the Company invests in projects with other investors to diversify and share risks associated with a given investment;
3. detailed investment analysis which emphasizes potential returns, risk exposure, and market conditions; and
4. independent and technical appraisals of potential investments by experts, as required.

Conflicts of Interest

The Company is not averse to exploring investment opportunities that members of the Board or management may already be a part of, however, the respective individual is required to declare their interests in, and refrain from voting on, any matter in which they may have a conflict of interest. In such situations where an individual has a personal interest in a potential investment, the Investment Committee and the Board of Directors, where applicable, will ensure that there are independent and qualified officers and directors available to conduct an independent assessment.

Any potential investments where there is a material conflict of interest involving management or the Board may only proceed after receiving approval from disinterested directors of the Board. The Company is also subject to certain stock exchange policies and securities laws regarding "related party" transactions, which policies and laws will be complied with prior to the completion of any investment to which they may apply.

As of the date hereof, there are no existing or potential conflicts of interest between the Company or GC Capital and any director, officer or proposed director or officer of the Company or GC Capital.

Monitoring and Reporting

The Company's CFO shall be primarily responsible for the reporting process whereby the performance of each of the Company's investments is monitored. Quarterly financial and other progress reports shall be gathered with respect to each investment, and these shall form the basis for a quarterly review of the Company's investment portfolio by the Investment Committee. Any deviations from expectation are to be investigated by the Investment Committee, and if deemed to be significant, reported to the Board. Where such information is not publicly available, in each of its investments, the Company shall endeavour to obtain a contractual right to be provided with timely access to all books and records it considers necessary to monitor and protect its investment. A full report of the status and performance of the Company's investments is to be prepared by the Investment Committee and presented to the Board at the end of each fiscal year.

Marketing Strategies

Where the Company is not a passive investor but, rather, is taking an active part role in projects, other ventures or asset acquisitions/sales, the Company recognizes that marketing efforts must be focused on the target demographic and emphasize excellent customer service, affordability, and convenience. Initially, the Company's marketing efforts will be undertaken by Ms. Panwen (Michelle) Gao and Ms. Shu (Fiona) Wang.

The Company's general marketing strategies for managing, promoting or exiting its investments are currently expected to be as follows.

With respect to student housing property construction, development, management and ownership:

- direct marketing through the school system for off-campus housing (thereby providing an edge against competitors without these relationships) and leveraging the school's internal housing advertising system (thereby benefiting from instant visibility when students perform an online search for suitable properties);
- utilizing social media and professional networking sites such as Facebook and LinkedIn to micro target the intended audience;
- working with student organizations/unions/orientation programs/town halls to directly engage target customers;
- providing discounts and promotions for longer lease terms and early lease signing;
- developing a project-specific website to allow the target demographic to provide reviews and submit suggestions directly to the management team;
- marketing through housing sites such as Zillow/Rent.com/Apartment.com, which provides instant visibility online when searched by potential customers; and
- launching long-term housing market research in the Company's target areas to keep abreast on market trends and cycles.

With respect to multi-family property construction, development, management and ownership:

- launching long-term multi-family market research to catch up on market trends and cycles;
- building-up the Company's own brand and reputation in the target market to encourage further development or investment;
- establishing a stable and mature investment process in multi-family investment; and
- involving co-general partners in the multi-family investments to boost investments or portfolios performance.

With respect to the sale of assets within its investment portfolio:

- utilizing local real estate agents that have access to local media sources including newspapers, listing publications, and signage to market the properties;
- working with overseas real estate websites and crowdfunding platforms to approach international buyers;
- advertising in local real estate publications/blogs/ social media with the goal of gaining recognition in the market;
- advertising at institutional publishing platforms to seek for opportunities, promote the Company's projects or portfolios, and target the Company's potential partners;
- keeping abreast of market research to monitor market trends and cycles to decide and adjust strategies;
- diversifying the Company's portfolio based on cash flows, risk, maturity and other factors; and
- developing strong corporate relationships with potential local developers and general partners to invest in local markets and build up long term potential.

Competitive Conditions

The Company is of the view that real estate assets offer stable cash flow, a hedge against inflation, and high relative returns. However, that also means that real estate has long been favored by many institutions and investors as an important part of a balanced portfolio.

Within the New York real estate development market the Company expects to target, the primary competitors to the Company are expected to be real estate investment trusts, investment funds, private equity funds, and real estate developers. Real estate investment trusts can obtain abundant and inexpensive investment dollars in capital markets for project development. Investment funds also actively participate in housing projects to obtain stable cash flow and diversification in their investment portfolio. Private equity funds, in cooperation with lenders, use their resources to develop these projects because they offer a return above the market average. Real estate developers, with their construction experience and project management skills, develop student housing in collaboration with private equity, investment funds, or banks.

In addition, as real estate related to student housing has significant advantages, such as higher rental returns and more stable cash flow, which are sought after by many investors. In the United States student housing market, there are a variety of players including real estate investment trusts, venture capital, private equity, pension funds, and other institutional investors. Also, some individual investors and small investors are also actively involved in the investment and development of student housing. In the student and multi-family housing markets in particular, the relationships between the parties can be complex. Because success in developing new housing projects requires both access to significant amount of capital, and in-depth local knowledge, investors often have multiple roles. Large funds, pension funds and some real estate investment trusts, among others, who seek steady cash flow, will buy or sell existing projects that are already generating steady cash flows. The focus on existing projects by larger investors often is a result of their expertise. Many large funds have world-class resources to evaluate investment risk, but they must rely on smaller local developers for any new projects. However, larger players typically do not focus exclusively on mature properties and will develop a new project if the opportunity is available. As a result, the larger investor who is a competitor during an acquisition, may be a partner on the next new development. At the same time, local developers will partner with different large investors on different projects to obtain the needed capital. This type of complex landscape is seen across the student housing market and a partner in one project can be competition on the next.

The Company has identified a number of key potential competitors and provided a brief overview of their characteristics below.

Private Investors in Student Housing Market

Private student housing investors are individuals, or small groups of individuals, who look for discounted property within walking distance to a college campus for the purpose of renting it out to students for rental revenue. Private investors are also looking to renovate properties that have been poorly maintained or with upside opportunity. In many cases, these investors, through renovated properties, aim to increase rental revenue and the overall value of the property and focus on renting to students who wish to share rooms.

Private investors are often the parents of the students or students themselves, who focus on colleges they are familiar with. In most cases, these areas are schools they or their relatives attend or have attended.

Some potential strengths and weaknesses of private investors are identified below.

Potential Strengths:

- Knowledgeable in the properties they are investing in.
- Detailed with their appraisal and due diligence process.
- Have a supportive network - managing properties with their relatives, friends or co-habiting with the tenants or living in close proximity in the neighborhood of the properties.

Weaknesses:

- Limited scope of investments.
- Lack of expertise in managing larger properties.
- Complete a small number of deals per year.
- Do not have sufficient capital to sustain losses.
- Difficulty in managing properties remotely if they or their support network leave the neighborhood.

Private Investors for Value-added Properties

Private investors for value-added properties are individuals, or a small group of individuals, who are looking to purchase properties that have deteriorated substantially, with outdated interior or exterior décor and poor management. Such private investors tend to "flip" such properties, looking for immediate resale post-renovation.

They also tend to look for properties in up-and-coming neighborhoods with significant appreciation potential. Typically, private investors will focus on one area that they are familiar with. In many cases, they will choose properties in neighborhoods they live or work in.

Some potential strengths and weaknesses of private investors in value-added properties are identified below.

Potential strengths:

- Very familiar with the real estate they are investing in.
- Detailed with their appraisal and due diligence process.
- Located in close proximity to the investment properties so they can easily monitor the renovation process and manage the property afterwards.

Potential weaknesses:

- Limited scope of investments.
- Few transactions each year.
- Have insufficient capital to sustain losses.
- Limited time devoted to supervising the renovations, which often leads to project delays and affecting the return on investment.
- Incur higher construction and renovation costs due to lack of long-term relationships with contractors or construction companies.

Institutional Investors

In the real estate sector, institutional investors may include banks, hedge funds, pension funds, venture capital or private equity firms, and real estate investment trusts. Generally, institutional investors are not primarily focused on discounted properties as they are focused on purchasing properties in bulk to diversify risk.

Institutional investors may choose to invest in properties that cover a large geographical area and are generally not limited by any particular real estate segment or market. Foreign institutional investors are particularly common.

Some potential strengths and weaknesses of institutional investors are identified below.

Potential strengths:

- Substantial financial backing.
- Possess the in-house talent and expertise to properly analyze and conduct due diligence on investment properties.
- Large amounts of capital, enabling them to diversify risk over many properties.

Potential weaknesses:

- Likelihood of losing value on any individual property is higher as properties are purchased in bulk.
- Long transaction process because of their multi-level approval process.
- Tend to deal with sellers of multiple properties, which alienates individual property sellers and may lose out on valuable investment opportunities.

Impact of COVID-19

As an unprecedented and world-changing event, the COVID-19 pandemic has harmed the world economy and likely triggered a recession in the United States. For the multi-family housing sector, the epidemic has caused several dangers: shortfall in rental income, default of debt service payments, and low or zero rental growth. According to certain experts, multi-family landlords will be among the first to be hurt by the pandemic's impact. To relieve some of the impacts of COVID-19 on the multi-family market, tenants are able to pay rent with financial assistance from government funded programs, including the USD$26 billion of rental assistance earmarked in the American Rescue Plan. However, the Company expects that the near-term will remain a very difficult time for many multi-family property holders. In many cases, local governments have halted foreclosure and evictions of renters. It is difficult to predict how these polices will affect the housing market. The nationwide eviction moratorium in the United States was ended on July 31, 2021. President Biden and the Centers for Disease Control and Prevention (CDC) on August 2, 2021, released a more limited moratorium, saying that evicting people could be detrimental to public health and would interfere with efforts to slow the pandemic. The new ban will last until October 3, 2021.

Funding support and eviction moratoriums are keeping tenants in multi-family units and helping with rent collections. Those policies have assisted a lot of tenants to stay current on rent. A report from Apartment List discussed the issue of rent debt and indicated that 28% of renters are paying rent by rent debt in 2021, with 42% of those owing more than $1,000. According to news reports released earlier in 2021, the actual amount of past-due rent in the United States could be in the tens of billions of dollars.

The Real Deal also mentions that multi-family properties with more than 20 units will likely have a greater ability to survive because they have more resources to handle the financial crisis including greater cash reserves, alternative credit lines, and a greater rental income cushion. Roy Chun concurs, stating that smaller mom-and-pop borrowers with 10 to 20 units, as well as property owners of low-to moderate-income multi-family housing, may have a harder time due to liquidity issues. In 2020, about 30% of small rental property (SRP) owners reported the there is a decline in rent revenue of over 10%, according to a new study by the Terner Center for Housing Innovation at the University of California at Berkeley. Even with these challenges, the Company expects that there will continue to be investment opportunities in the real estate market, particularly because of the lower price of properties, lower development costs, and the ultimate expectation that the markets will recover.

COVID-19 Impact on the Auden Project

From the fall guidance of the State University of New York, University at Buffalo ("**Buffalo University**"), students who have been vaccinated will no longer be required to wear personal protective equipment or practice social distancing in the classroom. Also, Buffalo University has indicated that the faculty of Buffalo University will be encouraged to submit proof of vaccination and weekly surveillance testing will still be required. Apart from those policies, Buffalo University is fully returning to normal academic year after partially reopening in spring 2021 and fall 2020. The COVID-19 dashboard has indicated that recent rolling positivity rates of 3 days, 7 days and 14 days in Buffalo University campus are quite a bit lower than the overall New York State rolling positive rate of 3 days, 7 days and 14 days. Currently, Buffalo University has returned a close to normal operations as possible under the New York State health policies and guidance.

According to the Company's research, off-campus student housing apartments remain in relatively normal operational status and are expected to remain steady during the upcoming academic year. In the Auden Project's Block 20 project, 2 Bed units are now sold out and 4 Bed units are in low inventory. Also, units at Project University Village at Sweethome are sold out with a slightly rental price increase. Further, Villas project on Rensch currently has low inventory for 4 Bed units. Overall, the impact of COVID-19 on the Buffalo University student housing market has been less severe than the Company's initial estimates.

COVID-19 Impact on the Dakota Project

The State University of New York, Albany University ("**Albany University**") has announced that it plans to resume in-person instruction as the primary mode of course delivery for the fall 2021 semester. Albany University has indicated that it will require students and faculty to participate in a weekly surveillance testing program and will require them to wear a face mask and keep social distancing. A search of the COVID-19 dashboard indicates that the positivity rates are relatively low on the Albany University campus, in that there have been only five positive cases reported since May 22, 2021. In general, Albany University will return to normal academic year in fall 2021 under health guidance. The operation of the Dakota Project has generally remained in-line with expectations: 2 Bed units and 1 Bed units are all sold out, while there are some inventories in 3 Bed units and 4 Bed units. The Dakota Project's Block 75 project is also in operation. Block 75 is performing slightly under expectations with some observable inventories of fall 2021. While COVID-19 has impacted Albany University, overall, the student housing market in Albany, New York has remained relatively stable.

COMPANY MANAGEMENT

The Company is confident that each of the members of the current Board and management team has the background and experience in investment analysis, capital markets, and real estate necessary to effectively operate the Company following the Change of Business.

The Company's key personnel are highlighted below. Following the Change of Business, the Company may add additional people to the Board or management team with exceptional experience and skills in real estate to help the Company transition into a leading real estate investment firm. Further information respecting each of the existing and proposed members of management is also set out at Appendix D below.

Existing Management

Panwen (Michelle) Gao –Chief Executive Officer

Ms. Gao has accumulated years of experience in investments and the finance industry, having worked previously as a quantitative and equity research analyst. Throughout her career, she has honed her data analysis and financial modeling skills, allowing her to quickly identify profitable investments.

Currently, she serves as Director and as Chief Executive Officer of the Company. Going forward, Ms. Gao will continue serving the Company in these existing roles.

Ms. Gao holds a bachelor's degree in actuarial science from the University of Kent, a Master of Science degree in financial mathematics from Worcester Polytechnic Institute, and an Executive Master of Business Administration degree from Tsinghua University.

As Chief Executive Officer Ms. Gao will be responsible for the stewardship and general supervision of all of the business and affairs of the Company.

Yan Feng Liu – Chief Financial Officer & Corporate Secretary

Ms. Liu is the Chief Financial Officer and Corporate Secretary of the Company. Ms Liu is a CPA and has been qualified as an Internal Auditor in China. She has a wealth of experience in accounting. From 1992 to 2000, Ms Liu was the Accounting Director for Wudong Hospital in Wuhan City. From 2001 to 2013, she worked as Project Manager in several highly reputable and skilled accounting firms in Hubei Province. From 2013 to 2017, Ms. Liu served at Hubei Donghu Yijia Real Estate Development Co., Ltd. as Deputy Chief Accountant. Since 2018, Ms. Liu has worked as Chief Accountant for Shenzhen Yunfang Network Technology Co Ltd. (a real estate brokerage service provider which uses an online to offline model and provides new listing agency and housing brokerage services). Ms. Liu holds an associate degree of industrial accounting from Hubei Broadcasting and Television University and a Bachelor's Degree in investment management from Zhongnan University of Economics and Law.

Following the completion of the Change of Business, Ms. Liu will continue to be responsible for managing the Company's finance and accounting functions, ensuring the accuracy, completeness and timely filing of the Company's financial reports and overseeing the Company's overall financial health.

Samuel Quanli Wang - Vice President, Reserves and Resources

Mr. Wang has years of experience in oilfield development, including working in significant roles at China National Petroleum Corporation. He graduated from Daqing, China's Northeast Petroleum University in 1988 with a bachelor's degree in Reservoir Engineering and obtained a master's degree in Production Engineering in 1994.

Following the completion of the Change of Business, Mr. Wang will be primarily responsible for the day-to-day management of the Company's oil and gas assets as well as investigating and researching potential opportunities for the execution of the Company's plans to dispose of such assets in accordance with its proposed business plan.

Board of Directors

Qingshou Gao – Director

Mr. Qingshou Gao has been the Chairman of the Board of Directors of the publicly-listed asphalt manufacturer Hubei Guochuang Hi-tech Material Co., Ltd. ("**Guochuang**") (SHE: 002377) since May 1996. Mr. Gao obtained an Executive Masters of Business Administration degree in 2010 from Tsinghua University. Mr. Gao also holds a bachelor's degree from Zhongnan University of Economics and Law and an associate degree in electrical power and equipment from the Wuhan University of Technology. Mr. Gao is a Senior Engineer for roads and bridges as designated by the Professional Reform Office of Hubei Province.

Tao Gao – Director

Mr. Tao Gao has been a Director and General Manager of Guochuang since 2007. Prior to that time, he was a Director of Research for Guochuang from 2002 to 2005. He is a senior engineer of chemical engineering as designated by the Professional Reform Office of Hubei Province. Mr. Gao majored in Agronomy when he attended Yangtze University (Hubei Agricultural College) in 1994.

As General Manager of Guochuang, Mr. Gao led the acquisition of Q Fang (the second largest real estate brokerage firm in China) and has actively participated in numerous real estate investments made by Guochuang. Going forward, Mr. Gao will utilize his experience to assist in actualizing the Company's strategic development plan.

Liqun Hao – Director

Ms. Liqun Hao has been a Director of Guochuang since 2007, and currently serves as Chief Financial officer of Guochuang. Ms. Hao earned a bachelor's degree in money and banking from the Zhongnan University of Economics and Law in 1999. She is a senior accountant as designated by the Professional Reform Office of Hubei Province.

Ms. Hao's experience at Guochuang cuts across managing the financial activities of Guochuang, as well as overseeing Guochuang's cash flow and financial planning. Going forward, Ms. Hao will continue to utilize her experience to assist the Company in managing its financial operations.

Yachao Peng - Director and Board Chairman

Mr. Yachao Peng was Vice General Manager of Guochuang from 2011 to 2016. Mr. Peng has also served as a Director of Guochuang since February 2011. Prior to this, he worked as a Department Manager and then became the Vice-President of the Hubei Branch of the Agricultural Bank of China. Mr. Yachao obtained a Master of Business Administration degree from Wuhan University of Technology in 2007, a bachelor's degree in Finance from Zhongnan University of Economics and Law in 1999 and his Certified Public Accountant designation in 1995.

With several years of executive level leadership experience as Director and Vice General Manager at Guochuang, Mr. Peng is in a position to effectively contribute to the growth and development of the Company as a continued member of the management team.

Fei Gao – Director

Ms. Gao holds an Executive Masters of Business Administration from Tsinghua University and holds a bachelor's degree of Economics from University of Western Ontario. Mrs. Gao has over 10 years of management experience in both China and Canada. She is a partner at YongDaXing (a construction budget consulting company), which is located in Shenzhen, China. She is also the Chairman and founder of DAXiANG (Elephant) International English Education Institution established in 2017. In 2015, Ms. Gao became a founder of Surpass International Education Corp. ("**Surpass International**"), an institution dedicated to providing excellent Chinese and Canadian educational programs for high-net worth families including youth camps, innovation education workshops and after-school tutoring institutions. Surpass International is based in Ontario, Canada and operates in Canada and China. Ms. Gao worked as assistant investment adviser of the securities investment division in Royal Bank of Canada and managed a portfolio of over CDN$150 million from 2015 to 2016. Also, in 2005, Mrs. Gao worked as project manager in the international media center of Telephone Communication Limited.

Songxian Tan – Director

Mr. Tan has been an independent Board member for the Company since December 2018. Mr. Tan has years of asset management experience in global markets such as Korea, Canada, United States and China. Mr. Tan has worked with several well-known and highly regarded asset management and investment related firms including insurance companies, asset management firms and banks. He is also skilled in cross border mergers and acquisitions representing both buyers and sellers in various transactions. He also has leadership experience in many of China's M&A related transactions. Mr. Tan currently holds the position of Senior Director at JD.Com, Inc. Mr. Tan holds a bachelor's degree in finance and a Master of Business Administration with a concentration in investment management, both from the University of Iowa. Mr. Tan also holds an executive MBA from Tsinghua University.

Jinglin Yang – Director

Mr. Yang is an Accounting Manager at Zi Jin Property Management Ltd. and has held the position since 2014. Mr. Yang also worked as an Accounting Manager at YJL Construction Ltd. from 2011 to 2014. Mr. Yang holds a bachelor's degree in history and the theory of architecture from Carleton University. Mr. Yang has experience in property management and construction as accounting manager.

Zhaohui (John) Liang – Director

Mr. Liang was appointed as a director of the Company on August 25, 2021. Mr. Liang's experience within the real estate sector across multiple jurisdictions will be an invaluable resource as he serves as one of the Company's directors. See Mr. Zhaohui (John) Liang's profile under "*Company Management – New Management*" below.

Jennifer Li – Director

Jennifer Li is a CPA and the Chief Operation Officer of Horizon Vision Capital Advisors, LLC and, in that capacity, responsible for operations and risk management. Ms. Li currently serves as an independent director of Synertone Communication Corporation, a company listed on the Stock Exchange of Hong Kong Limited (1613.HK), with a market capitalization of HKD$394.14 million, and has held the position since October 2016. Ms. Li was also appointed as an independent director of Neo-Neon Holdings Limited in August 2014. Neo-Neon Holdings Limited is a company listed on the Stock Exchange of Hong Kong Limited (1868.HK) which has a market capitalization of HKD$1.005 billion. Further, Ms. Li was an independent director of Sino Gas International Holdings (OTCBB - SGAS), from March 2011 to November 2014.

In addition to the aforementioned experience, Ms. Li also served as the director of finance at Ginsburg Development Companies, LLC from January 2006 to December 2006. Prior to this, she served as a vice president at Morgan Stanley from October 2004 to January 2006. Ms. Li has also worked in both tax and audit at PricewaterhouseCoopers.

Ms. Li holds a Masters of Management and Administrative Sciences from University of Texas and a Master of Arts in Economics from Southern Methodist University. She also holds Bachelor of Arts in Economics from Fudan University.

Panwen (Michelle) Gao –Director

Panwen (Michelle) Gao, the Company's Chief Executive Officer, also serves as a director of the Company. See Ms. Gao's profile under "*Company Management – Existing Management*" above.

New Management

In addition to maintaining its existing management team and Board of Directors, the Company will engage Ms. Shu (Fiona) Wang to act as its Vice President, Operations and Mr. Zhaohui (John) Liang to act as Investment Advisor to the Company.

Ms. Shu (Fiona) Wang – Vice President-Operations

Ms. Wang is a partner and co-founder of Qian Capital, a venture capital firm focused on early stage start-up investments, Vice President of CMA Real Estate LLC, a US based real estate development firm, and has a number of years of experience in financial analysis, real estate investment and venture capital. She has extensive knowledge of capital markets, particularly in investor relations, raising capital and lending. Ms. Wang has a bachelor's of science in accounting from Purdue University.

As Vice President-Operations, Ms. Wang will handle all day-to-day operations of the Company's U.S. operations including raising capital, overseeing the purchase and sale of real estate properties, managing all departments, and assisting in driving the Company's growth.

Zhaohui (John) Liang – Investment Advisor

Mr. Liang is a U.S. Licensed Architect with over 20 years of experience across the full real estate value chain, including finance, acquisitions, asset/portfolio management, entitlements and development, with in-depth knowledge of the U.S. real estate market. Over the course of his career, among other things, as President of U.S. Operations of a Shanghai-based conglomerate, Mr. Liang facilitated international U.S. real estate investments of over USD$1 billion, acted as the Senior Director of Real Estate for a U.S. national real estate chain with over USD$10 billion in annual sales revenue, acted as Head of Acquisitions & Finance for a U.S. regional developer operating and developing retail properties in the Northeast, Mid-Atlantic and Mid-West areas of the U.S. and acted as Senior Asset Manager for a major commercial REIT in the U.S. Mr. Liang has a bachelor's degree in Architecture from the University of Arkansas and a Master of Business Administration (Dual Major in Finance & Real Estate) from The Wharton School of the University of Pennsylvania. Mr. Liang does not have any prior employment or contractor relationship with the Company nor does he have any prior relationship with DMG.

As Investment Advisor to the Company, Mr. Liang will provide advice in respect of the Company's on-going investment strategy and portfolio and help the Company evaluate existing and proposed capital structures and identify the appropriate capital structure for its investments.

Board and Management Committees

The Board has established or proposes to establish the following committees and these committees will continue to function under their respective mandates upon the completion of the COB.

Board Committee	Members (Proposed/Existing)
Existing Committee Audit Committee	**Existing Members** 1. Mr. Jinglin Yang 2. Songxian Tan 3. Mr. Yachao Peng
Proposed Committee Investment Committee	**Proposed Members** 1. Ms. Shu (Fiona) Wang 2. Yanfeng Liu 3. Ms. Panwen (Michelle) Gao 4. Liqun Hao 5. Qingshou Gao

Penalties or Sanctions

None of the principal securityholders, promoters, directors, officers or proposed officers of the Company have, within the ten years prior to the date of the Filing Statement, been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body, including a self-regulatory body, that would be likely to be considered important to a reasonable securityholder making a decision about the COB.

Corporate Cease Trade Orders or Bankruptcies

No principal securityholder, promoter, director, officer or proposed officer of the Company has, within the ten years prior to the date of the Filing Statement, been a promoter, director or executive officer of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the reporting issuer access to any statutory exemption for a period of more than 30 consecutive days or was declared bankrupt or made a voluntary assignment in bankruptcy or insolvency, made a proposal under any legislation relating to bankruptcy or been subject to or institute any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person.

Personal Bankruptcies

None of the principal securityholders, promoters, directors, officers or proposed officers of the Company have, within the ten years preceding the date of the Filing Statement, become bankrupt, made a proposal under any legislation relation to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that person.

Conflicts of Interest

From time to time potential conflicts of interest to which some of the directors and officers of the Company will be subject to in connection with the operations of the Company may arise. As of the date hereof, there are no existing or potential conflicts of interest between the Company or GC Capital and any director, officer or proposed director or officer of the Company or GC Capital.

The directors and officers of the Company are and are kept aware of the various laws and policies that govern or provide guidance in respect of dealing with conflicts of interest. It is incumbent of each director, officer and employee of the Company to keep cognizant of, and report to the Board of Directors, in respect of any conflicts of interest. Other members of the Board will also alert the Board to any potential conflicts they become aware of.

When a conflict does arise, the Company and its directors and officers intend to deal with such conflicts in the following manner:

a. The director or officer will disclose to the Company in writing the conflicting interest or duty to the other Board members (whether or not approval by the Board of the matter giving rise to the conflict arises) and where shareholder approval of the conflicts is sought, the conflict has to be disclosed to shareholders as well.

b. The director will abstain from voting at the Board level unless the contract or transaction is:

    i. an arrangement by way of security for money lent to or obligations undertaken by the director, or by a body corporate in which the director has an interest, for the benefit of the Company or an Affiliate;

    ii. a contract or transaction relating primarily to the director's remuneration as a director, officer, employee or agent of the Company or an Affiliate;

    iii. a contract or transaction for indemnity or director and officer insurance; or

    iv. a contract or transaction with an Affiliate.

c. The material contract or transaction (or proposed contract or transaction) giving rise to the conflict must be approved by a majority vote of the directors entitled to vote or a special resolution of the shareholders.

d. The contract or transaction (or proposed contract or transaction) must be reasonable and fair to the Company at the time of its approval.

Any potential investments where there is a material conflict of interest involving the directors or officers of the Company may only proceed after receiving approval from the disinterested directors of the Board.

Executive Compensation and Compensation of New Directors

Over the past three years, the Company's Named Executive Officers (within the meaning of applicable securities laws) who were not consultants were provided with extended health care, dental and insurance benefits as well as minor perquisites (such as parking), but were otherwise provided with no compensation from the Company. Details respecting the executive compensation paid over the past three years, up until the date of the most recent audited financial statements included in this Filing Statement are set out at Appendix E below.

Upon approval by its Board of Directors and the completion of the Change of Business, the Company intends to name Ms. Shu (Fiona) Wang to act as its Vice President-Operations and Mr. Zhaohu (John) Liang to act as

Investment Advisor to the Company. The final compensation terms and applicable agreements between Ms. Wang and Mr. Liang and the Company will be formalized upon the approval by the Exchange of the Change of Business. In her current role as a consultant to Sahara, Ms. Wang's annual compensation is USD$60,000, however, it is expected that such compensation will be re-assessed upon the commencement of the Company of its new business. In addition, Ms. Wang will be provided with extended health care, dental and insurance benefits as well as de minimus perquisites such as parking. In his capacity as Investment Advisor, Mr. Liang., will act as a consultant (and his affiliates, if applicable) to the Company. For his services in this regard, Mr. Liang is currently expected to receive strategy meeting fees of USD$600 to USD$1,000, as well as hourly compensation (excluding the aforementioned meetings) of between USD$150 and USD$200 per hour. Mr. Liang will also receive reimbursement of reasonable out-of-pocket travel expenses incurred in connection with attendance at meetings. The extent and manner of Mr. Liang's engagement with the Company will be overseen by the Company's independent directors and will be subject to change based on the Company's need for his services.

With respect to its newly appointment directors, the Company anticipates that it will provide such directors with certain fees in respect of their work with the Board. The fees payable will be overseen by the Company's independent directors and will be subject to change from time to time when and as agreed between the Company and the applicable director. In respect of his services as a director of the Company, the Company anticipates that it will provide Mr. Liang with director meeting fees of USD$600 to USD$1,000, as well as hourly compensation for any additional Board services provided (excluding the aforementioned meetings) of between USD$150 and USD$200 per hour. With respect to Ms. Li, the Company currently anticipates that it will pay monthly director’s fees in the amount of USD$2,800 per month in consideration for her contributions to the Board.

Management Contracts

No management functions of the Company or any subsidiary are to any substantial degree performed by a person other than the directors or senior officers of the Company or its subsidiary.

GENERAL MATTERS

Legal Proceedings

There are no legal proceedings in which the Company is, or has been, a party or of which any of its property is, or has been, the subject matter, and to the knowledge of the management of the Company, there are no such proceedings contemplated.

Indebtedness of Directors and Officers

No individual who: (a) is a director or officer of the Company or is proposed to be a director or officer of the Company after the completion of the COB; (b) at any time during the year ended December 31, 2020 for the Company was a director or officer of the Company, or (c) is an Associate of any of the foregoing, is either: (i) indebted to the Company; or (ii) indebted to another entity with such indebtedness being the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

Investor Relations Arrangements

The Company has not entered into any agreements, arrangements or understanding respecting promotional or investor relations services.

Escrowed Securities

To the knowledge of the Company, as of the date of this Filing Statement, no securities have been made subject to escrow in connection with the COB.

Transfer Agent and Registrar

The transfer agent and registrar of the Company is Computershare Investor Services Inc. located at 8th Floor, 100 University Avenue, Toronto, Ontario, Canada M5J 2Y1.

Material Contracts

Other than as disclosed in this Filing Statement and in connection with the Investments, the Company is not a party to any material contracts, except contracts entered into in the ordinary course of business.

See *"Summary of Information – Investments" and "Change of Business Transactions"* for details of the Investment Agreements listed below.

a. Equity investment agreement between Sahara Energy Ltd. and DMG Albany II LLC dated January 24, 2021, as amended by an amending agreement dated March 25, 2021, and further amended by an amending agreement dated June 1, 2021.

b. Equity investment agreement between Sahara Energy Ltd. and DMG Buffalo LLC dated January 24, 2021, as amended by an amending agreement dated March 25, 2021, and further amended by an amending agreement dated June 1, 2021.

Sponsor

The Company sought, and was granted, a waiver of the sponsorship requirements of the Exchange.

Experts

The auditor of the Company is MNP LLP, located at 1500, 640 - 5th Avenue SW, Calgary, AB, T2P 3G4.

MNP LLP, does not beneficially own, directly or indirectly, any securities; nor does it have any interest in the property of the Company. Moreover, none of the foregoing Persons or any of their respective directors, officers or employees is, or expects to be, elected, appointed or employed as a director, officer or employee of the Company or its Associates or Affiliates.

MNP LLP, as the auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed in the relevant professional bodies in Canada and any applicable legislation or regulation.

Other Material Facts

There are no other material facts about the Company or the COB that are not disclosed elsewhere in this Filing Statement.

Board Approval

The contents and sending of this Filing Statement have been approved by the Board of Directors of the Company. Where information contained in this Filing Statement rests particularly within the knowledge of a Person other than the Company, the Company has relied upon information furnished by such Person.

CERTIFICATE OF SAHARA ENERGY LTD.

The foregoing document constitutes full, true and plain disclosure of all material facts relating to the securities of Sahara Energy Ltd., assuming completion of the Change of Business (as that term is defined in the Filing Statement of Sahara Energy Ltd. dated August 26, 2021).

DATED: August 26, 2021.

(signed) "*Panwen Gao*"	(signed) "*Yan Feng Liu*"
Panwen Gao, Chief Executive Officer & Director	Yan Feng Liu, Chief Financial Officer & Corporate Secretary

ON BEHALF OF THE BOARD OF DIRECTORS OF SAHARA ENERGY LTD.

(signed) "*Quingshou Gao*"	(signed) "*Fei Gao*"
Director	Director

ACKNOWLEDGEMENT - PERSONAL INFORMATION

"Personal Information" means any information about an identifiable individual, and includes information contained in any Items in the attached filing statement that are analogous to Items 4.2, 11, 13.1, 16, 18.2, 19.2, 24, 25, 27, 32.3, 33, 34, 35, 36, 37, 38, 39, 41 and 42 of the TSX-V Form 3D2 as applicable.

The undersigned hereby acknowledges and agrees that it has obtained the express written consent of each individual to:

(a) the disclosure of Personal Information by the undersigned to the Exchange (as defined in Appendix 6B) pursuant to the TSX-V Form 3D2; and

(b) the collection, use and disclosure of Personal Information by the Exchange for the purposes described in Appendix 6B or as otherwise identified by the Exchange, from time to time.

ON BEHALF OF THE BOARD OF DIRECTORS OF SAHARA ENERGY LTD.

(signed) "*Panwen Gao*"
Panwen Gao, Chief Executive Officer & Director

APPENDIX A

ANNUAL FINANCIAL STATEMENTS

Sahara Energy Ltd.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2021

(Unaudited – Prepared by Management)

Sahara Energy Ltd.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)
(in Canadian dollars)

As at		March 31 2021		December 31 2020
Assets				
Current assets				
Cash	$	6,101,793	$	1,118,324
Term deposits		2,523,511		7,671,667
Accounts receivable (Note 3)		17,457		19,455
Prepaid expenses and deposits		673,313		685,675
		9,316,074		9,495,121
Property and equipment (Note 4)		1,638,619		1,643,314
Total Assets	$	10,954,693	$	11,138,435
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	408,067	$	445,855
Current portion of decommissioning obligation (Note 5)		36,982		36,982
		445,049		482,837
Decommissioning obligation (Note 5)		319,203		318,414
Canada Emergency Business Account loan (Note 6)		40,000		40,000
Total Liabilities		804,252		841,251
Shareholders' Equity				
Share capital		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated deficit		(11,558,762)		(11,412,019)
Total Shareholders' Equity		10,150,441		10,297,184
Total Liabilities and Shareholders' Equity	$	10,954,693	$	11,138,435

See the accompanying notes to these condensed interim consolidated financial statements.

Sahara Energy Ltd.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)
(in Canadian dollars)

For the three months ended March 31		2021		2020
Revenue				
Oil sales (Note 7)	$	11,864	$	8,603
Royalties		(341)		(241)
		11,523		8,362
Expenses				
Production and operating		19,980		18,121
General and administrative (Note 8)		120,045		91,631
Depletion and depreciation (Note 4)		4,695		5,600
Impairment of property and equipment		-		118,000
Accretion (Note 5)		789		2,237
Foreign exchange		15,344		-
		160,853		235,589
Loss from operating activities		(149,330)		(227,227)
Interest income		2,587		36,112
Net loss and comprehensive loss	$	(146,743)	$	(191,115)
Net loss per share - basic	$	(0.00)	$	(0.00)
Weighted average number of common shares outstanding		289,684,072		289,684,072

See the accompanying notes to these condensed interim consolidated financial statements.

Sahara Energy Ltd.
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited)
(in Canadian dollars)

For the three months ended March 31	2021	2020
Share capital		
289,684,072 common shares issued and outstanding		
Balance, beginning and end of period	$ 20,465,084	$ 20,465,084
Contributed surplus		
Balance, beginning and end of period	1,244,119	1,244,119
Accumulated deficit		
Balance, beginning of period	(11,412,019)	(9,362,308)
Net loss and comprehensive loss	(146,743)	(191,115)
Balance, end of period	(11,558,762)	(9,553,423)
Total Shareholders' Equity	$ 10,150,441	$ 12,155,780

See the accompanying notes to these condensed interim consolidated financial statements.

Sahara Energy Ltd.
Condensed Interim Consolidated Statements of Cash Flows
Unaudited
(in Canadian dollars)

For the three months ended March 31	2021	2020
Operating activities		
Net loss	$ (146,743)	$ (191,115)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 4)	4,695	5,600
Impairment of property and equipment	-	118,000
Accretion (Note 5)	789	2,237
Foreign exchange	15,344	-
Abandonment expenditures	-	(6,234)
Change in non-cash working capital		
Accounts receivable	1,998	(673)
Prepaid expenses and deposits	12,362	27,715
Trade and other payables	(37,788)	(73,518)
Cash flows used in operating activities	(149,343)	(117,988)
Investing activities		
Term deposit proceeds	5,148,156	-
Term deposit reinvestment	-	(36,112)
Cash flows provided by investing activities	5,148,156	(36,112)
Change in cash	4,998,813	(154,100)
Foreign exchange effect of cash U.S. denominated cash	(15,344)	-
Cash, beginning of period	1,118,324	635,434
Cash, end of period	$ 6,101,793	$ 481,334

See the accompanying notes to these condensed interim consolidated financial statements.

1. Nature of operations

Sahara Energy Ltd. (the "Company") was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"). The Company's registered address is 400, 444 – 7th Avenue SW, Calgary, Alberta.

In January 2021, the Company entered into two equity investment agreements (the "Investment Agreements") with affiliates of DMG Investments LLC (collectively, "DMG"), pursuant to which the Company has agreed to invest in two of DMG's real estate development projects in Amherst, New York and Albany, New York. Pursuant to the terms of the Investment Agreements, it is currently intended that the Company, through a new wholly-owned subsidiary, will make an investment of USD 3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in a student housing development project in Amherst, New York and an investment of USD 2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in a multi-family mixed commercial housing development in Albany, New York (collectively, the "Investments"). Completion of the Investments, as currently proposed, would constitute a "change of business" of the Company in accordance with TSX Venture Exchange Policy 5.2 - Changes of Business and Reverse Take-overs, as the Company currently operates as a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada and the Investments would see the Company making investments in two real estate development projects in the United States.

As a "change in business", the completion of the Investments is subject to the approval of the TSX Venture Exchange and there can be no guarantee that such approval will be obtained on terms acceptable to the parties or at all. As such, the Investments may not be completed on the terms currently contemplated by the Company or at all.

The Company incorporated a wholly-owned subsidiary, GC Capital Holdings Inc., a Delaware business corporation in the United States, on January 20, 2021.

As at March 31, 2021, JF Investment (Hong Kong) Co., Limited ("JF Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of preparation

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, GC Capital Holdings Inc., and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented. These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2020.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 31, 2021.

(in Canadian dollars)

3. Accounts receivable

		March 31 2021		December 31 2020
Goods and Services Tax	$	10,320	$	7,880
Canada Emergency Wage Subsidy (Note 8)		7,137		11,575
	$	17,457	$	19,455

4. Property and equipment

		Furniture and equipment		Development and production assets		Total
Cost						
As at December 31, 2020 and March 31, 2021	$	217,798	$	4,705,376	$	4,923,174
Accumulated depletion and depreciation						
As at December 31, 2020	$	195,940	$	3,083,920	$	3,279,860
Depletion and depreciation		1,452		3,243		4,695
As at March 31, 2021	$	197,392	$	3,087,163	$	3,284,555
Net carrying amount						
As at December 31, 2020	$	21,858	$	1,621,456	$	1,643,314
As at March 31, 2021	$	20,406	$	1,618,213	$	1,638,619

Depletion and depreciation:
The calculation of 2021 depletion and depreciation expense included an estimated $0.5 million (December 31, 2020 – $0.5 million) for future development costs associated with proved plus probable reserves.

5. Decommissioning obligation

Balance, December 31, 2020	$	355,396
Accretion		789
Balance, March 31, 2021		356,185
Current portion		(36,982)
Long-term portion	$	319,203

6. Canada Emergency Business Account (“CEBA”) Loan

The $40,000 CEBA loan matures on December 31, 2025. Interest will accrue on the outstanding balance of the CEBA loan at a rate of 5% per annum commencing January 1, 2023. The outstanding balance of the CEBA loan plus accrued interest is payable on the maturity date. 25% of the CEBA loan amount shall be forgiven if the remaining 75% of the loan is repaid on or before December 31, 2022. The Company expects to repay the loan on or before December 31, 2022.

7. Oil sales

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light-medium oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company's oil sales revenue is from the sale of light-medium oil from non-operated properties. During the three months ended March 31, 2021, $11,864 of oil sales were earned from one working interest partner (the property operator) (three months ended March 31, 2020 – $8,603) representing 100% of revenue and $nil of accounts receivable at March 31, 2021 and December 31, 2020.

8. Canada Emergency Wage Subsidy ("CEWS")

During the three months ended March 31, 2021, the Company applied for $4,252 (three months ended March 31, 2020 – $nil) in wage subsidies under the CEWS program. Amounts applied for under the CEWS program are recorded as an offset to employee compensation expense included in general and administrative expenses. As at March 31, 2021, $7,137 was included in accounts receivable (December 31, 2020 – $11,575) in respect of CEWS (Note 3).

Sahara Energy Ltd.

Financial Statements

For the years ended December 31, 2020 and 2019

Independent Auditor's Report

To the Shareholders of Sahara Energy Ltd.:

Opinion

We have audited the financial statements of Sahara Energy Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2020 and December 31, 2019, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and December 31, 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brad Frampton.

MNP LLP

Calgary, Alberta
April 15, 2021

Chartered Professional Accountants

Sahara Energy Ltd.
Statements of Financial Position
As at December 31
(in Canadian dollars)

		2020		2019
Assets				
Current assets				
Cash	$	1,118,324	$	635,434
Term deposits		7,671,667		8,483,659
Accounts receivable (Note 5)		19,455		7,786
Inventory		-		5,050
Prepaid expenses and deposits		685,675		688,085
		9,495,121		9,820,014
Property and equipment (Note 6)		1,643,314		3,541,483
Total Assets	$	11,138,435	$	13,361,497
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	445,855	$	488,001
Current portion of decommissioning obligation (Note 7)		36,982		-
		482,837		488,001
Decommissioning obligation (Note 7)		318,414		526,601
Canada Emergency Business Account loan (Note 8)		40,000		-
Total Liabilities		841,251		1,014,602
Shareholders' Equity				
Share capital (Note 9)		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated deficit		(11,412,019)		(9,362,308)
Total Shareholders' Equity		10,297,184		12,346,895
Total Liabilities and Shareholders' Equity	$	11,138,435	$	13,361,497

Subsequent event (Note 15)

Approved on behalf of the Board:

(Signed) "*Panwen Gao*", Director

(Signed) "*Songxian Tan*", Director

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Loss and Comprehensive Loss
For the years ended December 31
(in Canadian dollars)

		2020		2019
Revenue				
Oil sales (Note 10)	$	26,276	$	154,313
Royalties		(743)		(1,242)
		25,533		153,071
Expenses				
Production and operating		88,674		177,924
General and administrative (Note 11)		338,706		488,394
Depletion and depreciation (Note 6)		21,141		47,163
Impairment (Note 6)		1,733,000		-
Accretion (Note 7)		9,005		9,184
		2,190,526		722,665
Loss from operating activities		(2,164,993)		(569,594)
Interest income		115,282		119,243
Net loss and comprehensive loss	$	(2,049,711)	$	(450,351)
Net loss per share - basic	$	(0.01)	$	(0.00)
Weighted average number of common shares outstanding		289,684,072		289,684,072

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Changes in Equity
For the years ended December 31
(in Canadian dollars)

		2020		2019
Share capital				
289,684,072 common shares issued and outstanding				
Balance, beginning and end of year	$	20,465,084	$	20,465,084
Contributed surplus				
Balance, beginning and end of year		1,244,119		1,244,119
Accumulated deficit				
Balance, beginning of year		(9,362,308)		(8,911,957)
Net loss and comprehensive loss		(2,049,711)		(450,351)
Balance, end of year		(11,412,019)		(9,362,308)
Total Shareholders' Equity	$	10,297,184	$	12,346,895

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Cash Flows
For the years ended December 31
(in Canadian dollars)

	2020	2019
Operating activities		
Net loss	$ (2,049,711)	$ (450,351)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 6)	21,141	47,163
Impairment (Note 6)	1,733,000	-
Accretion (Note 7)	9,005	9,184
Abandonment expenditures (Note 7)	(36,182)	(61,687)
Change in non-cash working capital		
Accounts receivable	(11,669)	2,711
Inventory	5,050	26,670
Prepaid expenses and deposits	2,410	11,082
Trade and other payables	(42,146)	32,809
Cash flows used in operating activities	(369,102)	(382,419)
Financing activities		
Canada Emergency Business Account loan proceeds (Note 8)	40,000	-
Cash flows provided by financing activities	40,000	-
Investing activities		
Term deposit proceeds	811,992	241,292
Development and production asset expenditures (Note 6)	-	(466)
Cash flows provided by investing activities	811,992	240,826
Change in cash	482,890	(141,593)
Cash, beginning of year	635,434	777,027
Cash, end of year	$ 1,118,324	$ 635,434

See the accompanying notes to these financial statements.

1. Nature of operations

Sahara Energy Ltd. (the "Company") was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"). The Company is a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada. The Company's registered address is 400, 444 – 7th Avenue SW, Calgary, Alberta.

As at December 31, 2020, JF Investment (Hong Kong) Co., Limited ("JF Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee in effect at January 1, 2020.

These financial statements were authorized for issue by the Board of Directors on April 15, 2021.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value.

The methods used to measure fair values are discussed in Note 4.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of judgments and estimates

The preparation of 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.

In early March 2020, the World Health Organization declared the coronavirus outbreak ("COVID-19") to be a pandemic. Responses to the spread of COVID-19 have resulted in a significant disruption to business operations and a significant increase in economic uncertainty in Canada and elsewhere, with more volatile commodity prices, currency exchange rates and a marked decline in long-term interest rates. These events have resulted in a volatile and challenging economic climate which has adversely affected the Company's operational results and financial position. The current economic climate is having and may continue to have significant adverse impacts on the Company, which may include, but are not limited to:

- material reductions in revenue and cash flows due to significantly reduced commodity prices; and
- material declines in future revenue, which has resulted in impairment of property and equipment and could result in additional impairment of property and equipment.

The current situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgements made by management in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

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.

Critical judgments in applying accounting policies

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 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 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.

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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

The Company classifies its financial instruments in the following measurement categories:

- subsequently measured at fair value (either through profit or loss (“FVPTL”) or other comprehensive income (“FVOCI”); and
- subsequently measured at amortized cost.

The classification depends on the Company’s business model for managing the financial instruments and the contractual terms of the cash flows.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, term deposits, deposits, trade and other payables and the Canada Emergency Business Account loan. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at FVTPL

  Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. A financial asset is classified at FVTPL unless it is measured at amortized cost or classified as FVOCI. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses to profit or loss upon derecognition of the equity instruments.

- Financial liabilities at FVTPL

  A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

  Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

  A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

- Financial assets at FVOCI

  Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

  The Company classifies cash, term deposits, deposits, trade and other payables and the Canada Emergency Business Account loan as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

Derivative financial instruments

The Company has not entered into any financial derivative contracts.

(b) Impairment of financial instruments

The Company assesses, on a forward looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(c) Cash

Cash consists of cash deposits held in Canadian banks.

(d) Term deposits

Term deposits consist of short-term investments with maturities of greater than three months from the date of investment.

(e) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity.

(f) Jointly controlled operations and jointly controlled assets

The Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company’s assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements structured through joint venture arrangements.

(g) Property and equipment and exploration and evaluation assets

(i) Recognition and measurement

Exploration and evaluation expenditures

Pre-license costs are recognized in the statement of loss and comprehensive loss as incurred. Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be determinable when proved and/or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment. Any impairment recognized during a period, is charged as additional depletion and depreciation expense.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs.

Development and production costs

Property and equipment, which includes oil and gas development and production assets, are initially measured at cost and subsequently carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into CGUs for impairment testing.

When significant parts of an item of property and equipment, including petroleum and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the statement of loss and comprehensive loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of loss and comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of periodic servicing of property and equipment are recognized in operating expenses as incurred.

(iii) Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators, in accordance with Canadian Securities Administration National Instrument 51-101, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation of furniture and equipment is based on estimated useful lives and is calculated using the declining balance method at rates ranging from 20% - 45%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the higher of its fair value less costs of disposal and its value-in-use, using discounted cash flows.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs of disposal of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value-in-use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value-in-use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense in the statement of loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date, if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(i) Decommissioning obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

The Company's decommissioning obligation is measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date at a risk-free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, revisions to the amount of the original estimate, changes in the discount rate or risk-free rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows and other assumptions are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was established.

(j) Government assistance

In response to the COVID-19 pandemic, governments have established various programs to assist companies through this period of uncertainty. The Company recognizes government assistance when there is reasonable assurance that it will comply with the conditions required to qualify for the government assistance and that the government assistance will be received.

The Company recognizes the government assistance received under the Canada Emergency Wage Subsidy ("CEWS") program in the statement of loss and comprehensive loss in the period in which the government assistance is earned.

The Company recognizes government assistance received under the Canada Emergency Business Account ("CEBA") program as debt in the statement of financial position. A portion of the CEBA loan may be forgivable if certain criteria are met. The Company will not recognize the forgivable portion of the CEBA loan as income until reasonable assurance of forgiveness has been obtained.

(k) Revenue recognition

The Company recognizes revenue from the sale of oil when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon. Sales of oil are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location and other factors.

(l) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on the decommissioning obligation and impairment losses recognized on financial assets. Interest income is recognized as it accrues in the statement of loss and comprehensive loss, using the effective interest method.

(m) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Per share amounts

Basic per share amounts are calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as warrants and stock options granted. Anti-dilutive instruments are not included in the determination of diluted per share amounts.

(o) New and amended standards not yet adopted

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that there are no such pronouncements that may impact the Company.

(in Canadian dollars)

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment and exploration and evaluation assets

The market value of property and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(b) Cash, term deposits, deposits and trade and other payables

The fair value of cash, term deposits, deposits and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2020 and 2019, the fair value of these balances approximated their carrying value due to their short term to maturity.

(c) CEBA loan

The fair value of the CEBA loan is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2020, the fair value of the CEBA loan approximates its carrying value as the Company expects to repay the loan prior to the requirement to accrue and pay interest on the outstanding balance.

5. Accounts receivable

	2020	2019
Goods and Services Tax	$ 7,880	$ 7,786
Canada Emergency Wage Subsidy (Note 11(a))	11,575	–
	$ 19,455	$ 7,786

(in Canadian dollars)

6. Property and equipment

		Furniture and equipment		Development and production assets		Total
Cost						
As at December 31, 2018	$	217,798	$	4,719,724	$	4,937,522
Additions		–		466		466
Decommissioning revisions		–		129,214		129,214
As at December 31, 2019		217,798		4,849,404		5,067,202
Decommissioning revisions		–		(144,028)		(144,028)
As at December 31, 2020	$	217,798	$	4,705,376	$	4,923,174
Accumulated depletion and depreciation						
As at December 31, 2018	$	176,583	$	1,301,973	$	1,478,556
Depletion and depreciation		11,286		35,877		47,163
As at December 31, 2019		187,869		1,337,850		1,525,719
Depletion and depreciation		8,071		13,070		21,141
Impairment		–		1,733,000		1,733,000
As at December 31, 2020	$	195,940	$	3,083,920	$	3,279,860
Net carrying amount						
As at December 31, 2019	$	29,929	$	3,511,554	$	3,541,483
As at December 31, 2020	$	21,858	$	1,621,456	$	1,643,314

Depletion and depreciation:
The calculation of 2020 depletion and depreciation expense included an estimated $0.5 million (2019 – $0.6 million) for future development costs associated with proved plus probable reserves. The Company has not capitalized any directly attributable general and administrative expenses to development and production assets.

Impairment:

During 2020, the Company identified indicators of impairment in relation to its CGU such as a decline in forward commodity prices and a decrease in the Company's proved plus probable reserves and performed an impairment test at March 31, 2020 and December 31, 2020. Management estimated the recoverable amount of its CGU based on its value-in-use.

At March 31, 2020, the estimated recoverable amount of the CGU was determined to be $118,000 lower than the March 31, 2020 carrying amount based on 15% discounted after-tax cash flows expected to be derived from the CGU's proved plus probable reserves from the internally prepared mechanical update of the externally prepared December 31, 2019 reserve report. The mechanical update used future commodity prices based on March 31, 2020 forecasted commodity prices. Management's estimates also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities of the Company.

At December 31, 2020, the estimated recoverable amount of the CGU was determined to be $1,615,000 lower than the December 31, 2020 carrying amount based on 15% discounted after-tax cash flows expected to be derived from the CGU's proved plus probable reserves from the externally prepared December 31, 2020 reserve report.

(in Canadian dollars)

In 2020, the Company recognized $1,733,000 of impairment in the statement of loss and comprehensive loss. Impairment of property and equipment may be reversed in future periods if there are indicators of reversal, such as an improvement in commodity price forecasts.

A 1% increase in the discount rate would result in $46,000 of additional impairment. A 5% decrease in commodity prices would result in $138,000 of additional impairment.

The 2020 impairment tests used the following commodity price estimates:

	March 31, 2020	December 31, 2020
	Cdn$/bbl	Cdn$/bbl
2020 (remainder)	29.12	n/a
2021	37.65	44.20
2022	41.88	45.61
2023	45.01	46.91
2024	46.88	48.07
2025	48.77	49.31
2026	49.96	50.53
2027	51.09	51.81
2028	52.47	52.85
2029	53.74	56.92
Escalation rate thereafter	+ 2% per year	+ 2% per year

The Company did not identify any impairment indicators related to its CGU during 2019.

7. Decommissioning obligation

As at December 31, 2020, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be $414,344 (2019 – $637,569). This amount will be substantially incurred over the next 14 years (2019 – 11 years). The Company calculated the decommissioning liabilities using an average risk-free discount rate of 0.89% (2019 – 1.72%) per annum and an inflation rate of 2% (2019 – 2%) per annum.

		2020		2019
Balance, beginning of year	$	526,601	$	449,890
Accretion		9,005		9,184
Revisions		(144,028)		129,214
Expenditures		(36,182)		(61,687)
Balance, end of year		355,396		526,601
Current portion		(36,982)		–
Long-term portion	$	318,414	$	526,601

8. Canada Emergency Business Account Loan

On April 29, 2020, the Company received $40,000 of loan proceeds from a Canadian bank pursuant to the CEBA program, a Government of Canada COVID response program designed to assist companies with the payment of non-deferrable operating expenses during shutdowns and economic strain related to the COVID-19 pandemic.

The CEBA loan matures on December 31, 2025. Interest will accrue on the outstanding balance of the CEBA loan at a rate of 5% per annum commencing January 1, 2023. The outstanding balance of the CEBA loan plus accrued interest is payable on the maturity date. 25% of the CEBA loan amount shall be forgiven if the remaining 75% of the loan is repaid on or before December 31, 2022. The Company expects to repay the loan on or before December 31, 2022.

(in Canadian dollars)

9. Share capital

a) Authorized

Unlimited number of common voting shares with no par value
Unlimited number of preferred non-voting shares with no par value

b) Issued and outstanding common shares

	Number of shares		Amount
Balance, December 31, 2018, 2019 and 2020	289,684,072	$	20,465,084

10. Oil sales

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light-medium oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company's oil sales revenue is from the sale of heavy and light-medium oil from non-operated properties. Oil sales were earned from one working interest partner (the property operator) during the 2020 (2019 – two working interest partners and property operators) representing 100% of revenue for the years ended December 31, 2020 and 2019 and $nil of accounts receivable at December 31, 2020 and 2019.

Composition of oil sales revenue:

		2020		2019
Light-medium oil	$	26,276	$	41,846
Heavy oil		–		112,467
	$	26,276	$	154,313

11. Personnel expenses

(a) Canada Emergency Wage Subsidy ("CEWS")

CEWS is a Government of Canada COVID response program designed to assist companies with the re-hiring of workers and job loss prevention during shutdowns and economic strain related to the COVID-19 pandemic. During 2020, the Company applied for $55,266 in wage subsidies under the CEWS program, of which $11,575 was included in accounts receivable at December 31, 2020. Amounts applied for under the CEWS program are recorded as an offset to employee compensation expense.

(b) Employee compensation cost

The statement of loss and comprehensive loss is prepared primarily by nature of expense. During 2020, the Company incurred $163,265 (2019 – $162,521) of employee compensation cost, excluding CEWS, which is included in general and administrative expenses.

(in Canadian dollars)

(c) Key management compensation

The Company considers its directors and executives to be key management personnel. As at December 31, 2020, key management personnel included 10 individuals (2019 – 10 individuals).

Key management personnel compensation is comprised of the following:

	2020	2019
Salaries and wages	$ 106,100	$ 105,959
CEWS	(38,820)	–
Short-term employee benefits	8,334	7,777
	$ 75,614	$ 113,736

12. Taxes

The provision for deferred taxes differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

	2020	2019
Loss before income taxes	$ (2,049,711)	$ (450,351)
Combined federal and provincial statutory income tax rate	24.00%	26.50%
Expected income tax reduction	(491,931)	(119,343)
Effect of unrecognized deferred tax assets	491,931	119,343
	$ –	$ –

The reduction in the combined federal and provincial statutory income tax rate is due to a reduction in the provincial statutory tax rate from 12% to 11% on July 1, 2019, to 10% on January 1, 2020 and to 8% on July 1, 2020.

The following table summarizes the components of deferred tax:

	2020	2019
Deferred tax assets		
Non-capital loss carryforwards	$ –	$ 281,630
Deferred tax liabilities		
Property and equipment	–	(281,630)
	$ –	$ –

Deferred tax assets result from temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the benefits:

	2020	2019
Non-capital loss carryforwards	$ 16,102,933	$ 13,103,856
Property and equipment	686,926	–
Reorganization costs	71,700	77,097
Decommissioning obligation	355,396	526,601
Other	175,631	175,631
	$ 17,392,586	$ 13,883,185

As at December 31, 2020, the Company has approximately $2.5 million (2019 – $2.5 million) of tax pools available for deduction against future taxable income. The Company also has non-capital tax losses of approximately $16.1 million (2019 – $15.7 million) available for deduction against future taxable income that begin to expire in 2028.

13. Financial instruments

The Company holds various financial instruments as at December 31, 2020. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

(a) Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

(i) 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 did not enter into any oil price contracts to protect its cash flow on future sales in 2020 or 2019. A 5% change in the average commodity price earned by the Company would change oil sales revenue and net loss and comprehensive loss for 2020 by approximately $1,310 (2019 – $7,715).

(ii) Foreign currency exchange risk
Although all of the Company's oil sales are denominated in Canadian dollars, the underlying market prices for oil are impacted by the exchange rate between Canada and the United States. As at December 31, 2020 and 2019, the Company had no forward foreign exchange contracts in place.

(iii) 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.

(b) Credit risk

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. The Company had no such receivables at December 31, 2020 and 2019.

The maximum exposure to credit risk at is as follows:

	2020	2019
Cash and cash equivalents	$ 1,118,324	$ 635,434
Term deposits	7,671,667	8,483,659
Canada Emergency Wage Subsidy (Note 5)	11,575	–
	$ 8,801,566	$ 9,119,093

During 2020, the Company recognized $nil (2019 – $nil) of bad debt expense for the write-off of uncollectible trade and other receivables.

(in Canadian dollars)

(c) Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. Historically, the Company has suffered substantial operating losses. As at December 31, 2020, the Company has a working capital surplus of $9,012,284 (2019 – $9,332,013). The Company has sufficient cash resources to ensure its financial obligations, comprised of $445,855 of trade and other payables and the $40,000 CEBA loan, are met as they become due.

14. Capital disclosures

The Company considers its capital structure to include working capital and shareholders' equity. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares and/or adjusting its capital spending. The Company monitors its capital based on the current and projected ratios of net debt to cash flow. The Company's objectives in managing its capital structure are to create and maintain flexibility so that the Company can continue to meet its financial obligations; and finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

		2020		2019
Working capital	$	9,012,284	$	9,332,013
Shareholders' equity	$	10,297,184	$	12,346,895

The Company does not have any externally imposed capital requirements as at December 31, 2020.

15. Subsequent event

In January 2021, the Company entered into two equity investment agreements (the "Investment Agreements") with affiliates of DMG Investments LLC (collectively, "DMG"), pursuant to which the Company has agreed to invest in two of DMG's real estate development projects in Amherst, New York and Albany, New York. Pursuant to the terms of the Investment Agreements, it is currently intended that the Company, through a new wholly-owned subsidiary, will make an investment of USD 3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in a student housing development project in Amherst, New York and an investment of USD 2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in a multi-family mixed commercial housing development in Albany, New York (collectively, the "Investments"). Completion of the Investments, as currently proposed, would constitute a "change of business" of the Company in accordance with TSX Venture Exchange Policy 5.2 - Changes of Business and Reverse Take-overs, as the Company currently operates as a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada and the Investments would see the Company making investments in two real estate development projects in the United States.

As a "change in business", the completion of the Investments is subject to the approval of the TSX Venture Exchange and there can be no guarantee that such approval will be obtained on terms acceptable to the parties or at all. As such, the Investments may not be completed on the terms currently contemplated by the Company or at all.

Sahara Energy Ltd.

Financial Statements

For the years ended December 31, 2019 and 2018

Independent Auditor's Report

To the Shareholders of Sahara Energy Ltd.:

Opinion

We have audited the financial statements of Sahara Energy Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and December 31, 2018, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Brad Frampton.

MNP LLP

Calgary, Alberta
April 29, 2020

Chartered Professional Accountants

Sahara Energy Ltd.
Statements of Financial Position
As at December 31
(in Canadian dollars)

As at		December 31 2019		December 31 2018
Assets				
Current assets				
Cash	$	635,434	$	777,027
Term deposits		8,483,659		8,724,951
Goods and Services Tax receivable		7,786		10,497
Inventory		5,050		31,720
Prepaid expenses and deposits		688,085		699,167
		9,820,014		10,243,362
Property and equipment (Note 5)		3,541,483		3,458,966
Total Assets	$	13,361,497	$	13,702,328
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	488,001	$	455,192
Decommissioning obligation (Note 6)		526,601		449,890
Total Liabilities		1,014,602		905,082
Shareholders' Equity				
Share capital (Note 7)		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated deficit		(9,362,308)		(8,911,957)
Total Shareholders' Equity		12,346,895		12,797,246
Total Liabilities and Shareholders' Equity	$	13,361,497	$	13,702,328

Subsequent event (Note 13)

Approved on behalf of the Board:

(Signed) "*Panwen Gao*", Director

(Signed) "*Gary Chang*", Director

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Loss and Comprehensive Loss
For the years ended December 31
(in Canadian dollars)

		2019		2018
Revenue				
Oil sales (Note 8)	$	154,313	$	162,970
Royalties		(1,242)		(4,637)
		153,071		158,333
Expenses				
Production and operating		177,924		176,304
General and administrative		488,394		653,620
Depletion and depreciation (Note 5)		47,163		54,314
Accretion (Note 6)		9,184		9,410
Bad debt expense (Note 11(b))		-		39,630
		722,665		933,278
Loss from operating activities		(569,594)		(774,945)
Interest income		119,243		105,553
Net loss and comprehensive loss	$	(450,351)	$	(669,392)
Net loss per share - basic	$	(0.00)	$	(0.00)
Weighted average number of common shares outstanding		289,684,072		289,684,072

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Changes in Equity
For the years ended December 31
(in Canadian dollars)

	2019	2018
Share capital		
289,684,072 common shares issued and outstanding		
Balance, beginning and end of year (Note 7)	$ 20,465,084	$ 20,465,084
Contributed surplus		
Balance, beginning and end of year	1,244,119	1,244,119
Accumulated deficit		
Balance, beginning of year	(8,911,957)	(8,242,565)
Net loss and comprehensive loss	(450,351)	(669,392)
Balance, end of year	(9,362,308)	(8,911,957)
Total Shareholders' Equity	$ 12,346,895	$ 12,797,246

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Cash Flows
For the years ended December 31
(in Canadian dollars)

		2019		2018
Operating activities				
Net loss	$	(450,351)	$	(669,392)
Add back (deduct) non-cash items:				
Depletion and depreciation (Note 5)		47,163		54,314
Accretion (Note 6)		9,184		9,410
Abandonment expenditures (Note 6)		(61,687)		(49,000)
Change in non-cash working capital				
Goods and Services Tax receivable		2,711		74,163
Inventory		26,670		(31,720)
Prepaid expenses and deposits		11,082		(21,829)
Trade and other payables		32,809		(13,455)
Cash flows used in operating activities		(382,419)		(647,509)
Investing activities				
Term deposit proceeds		241,292		613,198
Development and production asset expenditures (Note 5)		(466)		(746)
Cash flows provided by investing activities		240,826		612,452
Change in cash		(141,593)		(35,057)
Cash, beginning of year		777,027		812,084
Cash, end of year	$	635,434	$	777,027

See the accompanying notes to these financial statements.

1. Nature of operations

Sahara Energy Ltd. (the "Company") was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"). The Company is a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada. The Company's registered address is 400, 444 – 7th Avenue SW, Calgary, Alberta.

As at December 31, 2019, JF Investment (Hong Kong) Co., Limited ("JF Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee in effect at January 1, 2019.

These financial statements were authorized for issue by the Board of Directors on April 29, 2020.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value.

The methods used to measure fair values are discussed in Note 4.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of judgments and estimates

The preparation of 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.

Critical judgments in applying accounting policies

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 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 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.

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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

The Company classifies its financial instruments in the following measurement categories:

- subsequently measured at fair value (either through profit or loss (“FVPTL”) or other comprehensive income (“FVOCI”); and
- subsequently measured at amortized cost.

The classification depends on the Company’s business model for managing the financial instruments and the contractual terms of the cash flows.

Non-derivative financial instruments

Non-derivative financial instruments comprise cash, term deposits, deposits and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVTPL are expensed in profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at FVTPL

  Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. A financial asset is classified at FVTPL unless it is measured at amortized cost or classified as FVOCI. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses to profit or loss upon derecognition of the equity instruments.

- Financial liabilities at FVTPL

  A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

  Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

  A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

- Financial assets at FVOCI

  Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

  The Company classifies cash, term deposits, deposits and trade and other payables as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

Derivative financial instruments

The Company has not entered into any financial derivative contracts.

(b) Impairment of financial instruments

The Company assesses, on a forward looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(c) Cash

Cash consists of cash deposits held in Canadian banks.

(d) Term deposits

Term deposits consist of short-term investments with maturities of greater than three months from the date of investment.

(e) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity.

(f) Jointly controlled operations and jointly controlled assets

The Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company’s assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements structured through joint venture arrangements.

(g) Property and equipment and exploration and evaluation assets

(i) Recognition and measurement

<u>Exploration and evaluation expenditures</u>

Pre-license costs are recognized in the statement of loss and comprehensive loss as incurred. Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be determinable when proved and/or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property and equipment. Any impairment recognized during a period, is charged as additional depletion and depreciation expense.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs.

<u>Development and production costs</u>

Property and equipment, which includes oil and gas development and production assets, are initially measured at cost and subsequently carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into CGUs for impairment testing.

When significant parts of an item of property and equipment, including petroleum and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized in the statement of loss and comprehensive loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of loss and comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of periodic servicing of property and equipment are recognized in operating expenses as incurred.

(iii) Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators, in accordance with Canadian Securities Administration National Instrument 51-101, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation of furniture and equipment is based on estimated useful lives and is calculated using the declining balance method at rates ranging from 20% - 45%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(h) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs of disposal of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense in the statement of loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date, if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(i) Decommissioning obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

The Company's decommissioning obligation is measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date at a risk-free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, revisions to the amount of the original estimate, changes in the discount rate or risk-free rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows and other assumptions are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was established.

(j) Revenue recognition

The Company recognizes revenue from the sale of oil when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon. Sales of oil are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location and other factors.

(k) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on the decommissioning obligation and impairment losses recognized on financial assets. Interest income is recognized as it accrues in the statement of loss and comprehensive loss, using the effective interest method.

(l) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Per share amounts

Basic per share amounts are calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as warrants and stock options granted. Anti-dilutive instruments are not included in the determination of diluted per share amounts.

(n) Changes in accounting standards

IFRS 16 Leases

On January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained ear*nings and applies the standard prospectively.*

IFRS 16 results in almost all leases being recognized in the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right-to-use the leased item) and a financial liability are recognized.

The adoption of IFRS 16 did not have any impact on the Company's financial statements as the Company used the practical expedient of accounting for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases permitted by the standard and is not a party to any other lease agreements.

(o) New and amended standards not yet adopted

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that there are no such pronouncements that may impact the Company.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment and exploration and evaluation assets

The market value of property and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment is based on the quoted market prices for similar items.

(b) Cash, term deposits, deposits and trade and other payables

The fair value of cash, term deposits, deposits and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2019 and 2018, the fair value of these balances approximated their carrying value due to their short term to maturity.

(in Canadian dollars)

5. Property and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2017	$ 217,798	$ 4,695,538	$ 4,913,336
Additions	–	746	746
Decommissioning revisions	–	23,440	23,440
As at December 31, 2018	217,798	4,719,724	4,937,522
Additions	–	466	466
Decommissioning revisions	–	129,214	129,214
As at December 31, 2019	$ 217,798	$ 4,849,404	$ 5,067,202
Accumulated depletion and depreciation			
As at December 31, 2017	$ 160,702	$ 1,263,540	$ 1,424,242
Depletion and depreciation	15,881	38,433	54,314
As at December 31, 2018	176,583	1,301,973	1,478,556
Depletion and depreciation	11,286	35,877	47,163
As at December 31, 2019	$ 187,869	$ 1,337,850	$ 1,525,719
Net carrying amount			
As at December 31, 2018	$ 41,215	$ 3,417,751	$ 3,458,966
As at December 31, 2019	$ 29,929	$ 3,511,554	$ 3,541,483

Depletion and depreciation:
The calculation of 2019 depletion and depreciation expense included an estimated $0.6 million (2018 – $4.4 million) for future development costs associated with proved plus probable reserves. The Company has not capitalized any directly attributable general and administrative expenses to development and production assets.

Impairment:
The Company did not identify any impairment indicators related to its CGU at December 31, 2019.

At December 31, 2018, 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 at December 31, 2018 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, 2018, the estimate of the 'fair value less costs of disposal' 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 in 2018.

A 1% increase in the assumed discount rate would not have resulted in impairment in 2018; a 5% decrease in the forward commodity price estimates would not have resulted in any impairment in 2018.

(in Canadian dollars)

The December 31, 2018 impairment test used the following commodity price estimates:

	December 31, 2018	
	AB Synthetic Crude (Light) Cdn$/bbl	Western Canada Select (Heavy) Cdn$/bbl
2019	75.35	50.48
2020	74.47	55.86
2021	77.56	58.17
2022	80.76	60.57
2023	81.44	61.08
2024	82.14	61.61
2025	83.96	62.97
2026	85.83	64.37
2027	87.72	67.24
Escalation rate thereafter	+ 2% per year	+ 2% per year

6. Decommissioning obligation

As at December 31, 2019, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be $637,569 (2018 – $569,855). This amount will be substantially incurred over the next 11 years (2018 – 11 years). The Company calculated the decommissioning liabilities using an average risk-free discount rate of 1.72% (2018 – 2.07%) per annum and an inflation rate of 2% (2018 – 2%) per annum.

	2019	2018
Balance, beginning of year	$ 449,890	$ 466,040
Accretion	9,184	9,410
Revisions	129,214	23,440
Expenditures	(61,687)	(49,000)
Balance, end of year	$ 526,601	$ 449,890

7. Share capital

a) Authorized

Unlimited number of common voting shares with no par value
Unlimited number of preferred non-voting shares with no par value

b) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2017, 2018 and 2019	289,684,072	$ 20,465,084

8. Oil sales

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light-medium oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company's oil sales revenue is from the sale of heavy and light-medium oil from non-operated properties. Oil sales were earned from two working interest partners (the property operators) during the

(in Canadian dollars)

2019 (2018 – two working interest partners and property operators) representing 100% of revenue for the years ended December 31, 2019 and 2018 and $nil of accounts receivable at December 31, 2019 (December 31, 2018 – $nil).

Composition of oil sales revenue:

	2019	2018
Light-medium oil	$ 41,846	$ 47,668
Heavy oil	112,467	115,302
	$ 154,313	$ 162,970

9. Taxes

The provision for deferred taxes differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

	2019	2018
Loss before income taxes	$ (450,351)	$ (669,392)
Combined federal and provincial statutory income tax rate	26.50%	27.10%
Expected income tax reduction	$ (119,343)	$ (181,405)
Effect of unrecognized deferred tax assets	119,343	181,405
	$ –	$ –

The reduction in the combined federal and provincial statutory income tax rate is due to a reduction in the provincial statutory tax rate from 12% to 11% on July 1, 2019.

The following table summarizes the components of deferred tax:

	2019	2018
Deferred tax assets		
Non-capital loss carryforwards	$ 281,630	$ 277,216
Deferred tax liabilities		
Property and equipment	(281,630)	(277,216)
	$ –	$ –

Deferred tax assets result from temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the benefits:

	2019	2018
Non-capital loss carryforwards	$ 13,103,856	$ 12,960,209
Reorganization costs	77,097	82,900
Decommissioning obligation	526,601	449,890
Other	175,631	175,631
	$ 13,883,185	$ 13,668,630

As at December 31, 2019, the Company has approximately $2.5 million (2018 – $2.7 million) of tax pools available for deduction against future taxable income. The Company also has non-capital tax losses of approximately $15.7 million (2018 – $15.0 million) available for deduction against future taxable income that begin to expire in 2028.

10. Supplemental disclosures

a) Employee compensation cost

The statement of loss and comprehensive loss is prepared primarily by nature of expense. During 2019, the Company incurred $162,521 (2018 – $164,995) of employee compensation cost which is included in general and administrative expenses.

b) Key management compensation

The Company considers its directors and executives to be key management personnel. As at December 31, 2019, key management personnel included 10 individuals (2018 – 10 individuals).

Key management personnel compensation is comprised of the following:

		2019		2018
Salaries and wages	$	105,959	$	105,796
Short-term employee benefits		7,777		10,054
	$	113,736	$	115,850

11. Financial instruments

The Company holds various financial instruments as at December 31, 2019. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

(a) Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

(i) 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 did not enter into any oil price contracts to protect its cash flow on future sales in 2019 or 2018. A 5% change in the average commodity price earned by the Company would change oil sales revenue and net loss and comprehensive loss for 2019 by approximately $7,715 (2018 – $8,150).

(ii) Foreign currency exchange risk
Although all of the Company's oil sales are denominated in Canadian dollars, the underlying market prices for oil are impacted by the exchange rate between Canada and the United States. As at December 31, 2019 and 2018, the Company had no forward foreign exchange contracts in place.

(iii) 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.

(in Canadian dollars)

(b) Credit risk

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. The Company had no such receivables at December 31, 2019 and 2018.

The maximum exposure to credit risk at is as follows:

		2019		2018
Cash and cash equivalents	$	635,434	$	777,027
Term deposits		8,483,659		8,724,951
	$	9,119,093	$	9,501,978

During 2019, the Company recognized $nil (2018 – $39,630) of bad debt expense for the write-off of uncollectible trade and other receivables.

(c) Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. Historically, the Company has suffered substantial operating losses. As at December 31, 2019, the Company has a working capital surplus of $9,332,013 (2018 – $9,788,170). The Company has sufficient cash resources to ensure its financial obligations, comprised of trade and other payables of $488,001, are met on a current basis.

12. Capital disclosures

The Company considers its capital structure to include working capital and shareholders' equity. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares and/or adjusting its capital spending. The Company monitors its capital based on the current and projected ratios of net debt to cash flow. The Company's objectives in managing its capital structure are to create and maintain flexibility so that the Company can continue to meet its financial obligations; and finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

		2019		2018
Working capital	$	9,332,013	$	9,788,170
Shareholders' equity	$	12,346,895	$	12,797,246

The Company does not have any externally imposed capital requirements as at December 31, 2019.

13. Subsequent event

Subsequent to December 31, 2019, crude oil benchmark prices decreased substantially due to a drop in global crude oil demand triggered by the impact of the COVID-19 virus on the global economy. In March 2020, crude oil prices decreased further due to a breakdown in negotiations between OPEC and non-OPEC partners regarding proposed production cuts. A subsequent tentative agreement between these countries to reduce crude oil production failed to have a positive impact on crude oil benchmark prices. The recent volatility in the crude oil pricing environment may continue and could impact the Company's earnings and cash flows.

Sahara Energy Ltd.

Financial Statements

For the years ended December 31, 2018 and 2017

Independent Auditor's Report

To the Shareholders of Sahara Energy Ltd.:

Opinion

We have audited the financial statements of Sahara Energy Ltd. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and
  perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is James Fuerderer.

MNP LLP

Calgary, Alberta
April 26, 2019

Chartered Professional Accountants

Sahara Energy Ltd.
Statements of Financial Position
As at December 31
(in Canadian dollars)

		2018		2017
Assets				
Current assets				
Cash and cash equivalents (Note 5)	$	777,027	$	812,084
Term deposits (Note 5)		8,724,951		9,338,149
Trade and other receivables (Note 13(b))		10,497		84,660
Inventory		31,720		-
Prepaid expenses and deposits		699,167		677,338
		10,243,362		10,912,231
Property, plant and equipment (Note 6)		3,458,966		3,489,094
Total Assets	$	13,702,328	$	14,401,325
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	455,192	$	468,647
Decommissioning obligation (Note 7)		449,890		466,040
Total Liabilities		905,082		934,687
Shareholders' Equity				
Share capital (Note 8)		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated deficit		(8,911,957)		(8,242,565)
Total Shareholders' Equity		12,797,246		13,466,638
Total Liabilities and Shareholders' Equity	$	13,702,328	$	14,401,325

Commitment (Note 12)

Approved on behalf of the Board:

(Signed) "*Fan (Rose) Gong*", Director

(Signed) "*Gary Chang*", Director

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Loss and Comprehensive Loss
For the years ended December 31
(in Canadian dollars)

		2018		2017
Revenue				
Oil sales (Note 9)	$	162,970	$	51,062
Royalties		(4,637)		(1,467)
		158,333		49,595
Expenses				
Production and operating		176,304		128,294
General and administrative		653,620		618,501
Depletion and depreciation (Note 6)		54,314		34,075
Accretion (Note 7)		9,410		8,924
Bad debt expense (Note 13(b))		39,630		-
		933,278		789,794
Loss from operating activities		(774,945)		(740,199)
Interest income		105,553		112,186
Net loss and comprehensive loss	$	(669,392)	$	(628,013)
Net loss per share - basic	$	(0.00)	$	(0.00)
Basic weighted average number of common shares outstanding		289,684,072		289,684,072

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Changes in Equity
For the years ended December 31
(in Canadian dollars)

		2018		2017
Share capital				
289,684,072 common shares issued and outstanding				
Balance, beginning and end of year	$	20,465,084	$	20,465,084
Contributed surplus				
Balance, beginning and end of year		1,244,119		1,244,119
Accumulated deficit				
Balance, beginning of year		(8,242,565)		(7,614,552)
Net loss		(669,392)		(628,013)
Balance, end of year		(8,911,957)		(8,242,565)
Total Shareholders' Equity	$	12,797,246	$	13,466,638

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Statements of Cash Flows
For the years ended December 31
(in Canadian dollars)

	2018	2017
Operating activities		
Net loss	$ (669,392)	$ (628,013)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 6)	54,314	34,075
Decommissioning obligation accretion (Note 7)	9,410	8,924
Abandonment expenditures (Note 7)	(49,000)	(16,579)
Change in non-cash working capital		
Trade and other receivables	74,163	21,593
Inventory	(31,720)	-
Prepaid expenses and deposits	(21,829)	(1,699)
Trade and other payables	(13,455)	(6,541)
Cash flows used in operating activities	(647,509)	(588,240)
Investing activities		
Term deposit redemption (purchase)	613,198	(92,474)
Development and production asset expenditures (Note 6)	(746)	(970)
Cash flows provided by (used in) investing activities	612,452	(93,444)
Change in cash and cash equivalents	(35,057)	(681,684)
Cash and cash equivalents, beginning of year	812,084	1,493,768
Cash and cash equivalents, end of year	$ 777,027	$ 812,084

See the accompanying notes to these financial statements.

1. Nature of operations

Sahara Energy Ltd. (the "Company") was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"). The Company is a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada. The Company's registered address is 610, 700 – 4th Avenue SW, Calgary, Alberta.

As at December 31, 2018, JF Investment (Hong Kong) Co., Limited ("JF Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee in effect at January 1, 2018.

These financial statements were authorized for issue by the Board of Directors on April 26, 2019.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities which are measured at fair value.

The methods used to measure fair values are discussed in Note 4.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of judgments and estimates

The preparation of 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.

Critical judgments in applying accounting policies

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 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.

<u>Key Sources of Estimation Uncertainty</u>

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

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.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Financial instruments

As of January 1, 2018, the Company classifies its financial instruments in the following measurement categories:

- subsequently measured at fair value (either through profit or loss (“FVPTL”) or other comprehensive income (“FVOCI”); and
- subsequently measured at amortized cost.

The classification depends on the Company’s business model for managing the financial instruments and the contractual terms of the cash flows. There was no change in the categorization of the Company’s financial instruments upon the adoption of IFRS 9 Financial Instruments (“IFRS 9”).

Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, term deposits, trade and other receivables and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at FVTPL, any directly attributable transaction costs. Transaction costs of financial assets measured at FVPL are expensed in profit or loss. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

- Financial assets at FVTPL

  Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. A financial asset is classified at FVPL unless it is measured at amortized cost or classified as FVOCI. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVPL to present subsequent changes in FVOCI with no reclassification of realized gains or losses to profit or loss upon derecognition of the equity instruments.

- Financial liabilities at FVTPL

  A financial liability is initially classified as measured at amortized cost or FVTPL. A financial liability is classified as measured at FVTPL if it is held-for-trading, a derivative, or designated as FVTPL on initial recognition. The classification of a financial liability is irrevocable.

  Financial liabilities at FVTPL (other than financial liabilities designated at FVTPL) are measured at fair value with changes in fair value, along with any interest expense, recognized in net earnings. Other financial liabilities are initially measured at fair value less directly attributable transaction costs and are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in net earnings. Any gain or loss on derecognition is also recognized in net earnings.

  A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

- Financial assets at FVOCI

  Financial assets at FVOCI are measured at fair value, and changes therein are recognized in other comprehensive income. A financial asset is classified as FVOCI if it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Financial instruments at amortized cost

  The Company classifies cash and cash equivalents, term deposits, trade and other receivables and trade and other payables as financial instruments at amortized cost. These financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Any gain or loss arising on de-recognition is recognized directly in profit or loss. Impairment losses are presented as separate line item in the statement of profit or loss.

Derivative financial instruments

The Company has not entered into any financial derivative contracts.

(b) Impairment of financial instruments

As of January 1, 2018, the Company assesses, on a forward looking basis, the expected credit losses associated with financial instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade and other receivables, the Company applied the simplified approach permitted by IFRS 9.

The Company retrospectively adopted IFRS 9 on January 1, 2018, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy:

> A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognized in the statement of loss and comprehensive loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in the statement of loss and comprehensive loss.

(c) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognized as a reduction of equity.

(d) Jointly controlled operations and jointly controlled assets

The Company's petroleum and natural gas exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities. Joint control exists for contractual arrangements governing the Company's assets whereby the Company has less than 100 per cent working interest, all of the partners have control of the arrangement collectively, and spending on the project requires unanimous consent of all parties that collectively control the arrangement and share the associated risks. The Company does not have any joint arrangements structured through joint venture arrangements.

(e) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

<u>Exploration and evaluation expenditures</u>

Pre-license costs are recognized in the statement of loss and comprehensive loss as incurred. Exploration and evaluation costs, including the costs of acquiring undeveloped land and drilling costs are initially capitalized until the drilling of the well is complete and the results have been evaluated. The costs are accumulated in cost centres pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability is considered to be determinable when proved and/or probable reserves are determined to exist. If proved and/or probable reserves are found, the drilling costs and associated undeveloped land are transferred to property, plant and equipment. Any impairment recognized during a period, is charged as additional depletion and depreciation expense.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, exploration and evaluation assets are allocated to CGUs.

Development and production costs

Property, plant and equipment, which includes oil and gas development and production assets, are initially measured at cost and subsequently carried at cost less accumulated depletion and depreciation and accumulated impairment losses.

The cost of development and production assets includes; transfers from exploration and evaluation assets, which generally include the cost to drill the well and the cost of the associated land upon determination of technical feasibility and commercial viability; the cost to complete and tie-in the wells; facility costs; the cost of recognizing provisions for future restoration and decommissioning; geological and geophysical costs; and directly attributable overheads.

Development and production assets are grouped into CGUs for impairment testing.

When significant parts of an item of property and equipment, including petroleum and natural gas properties, have different useful lives, they are accounted for as separate items (major components). Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognized in the statement of loss and comprehensive loss.

(ii) Subsequent costs

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property, plant and equipment are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of loss and comprehensive loss as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of periodic servicing of property, plant and equipment are recognized in operating expenses as incurred.

(iii) Depletion and depreciation

The net carrying value of development and production assets is depleted using the unit of production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production and the estimated salvage value of the assets at the end of their useful lives. Future development costs are estimated taking into account the level of development required to produce the reserves.

Proved plus probable reserves are estimated annually by independent qualified reserve evaluators, in accordance with Canadian Securities Administration National Instrument 51-101, and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Depreciation of furniture and equipment is based on estimated useful lives and is calculated using the declining balance method at rates ranging from 20% - 45%. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(f) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Exploration and evaluation assets are assessed for impairment when they are transferred to property, plant and equipment, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal.

Fair value less costs of disposal is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs of disposal of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU, including any expansion prospects, and its eventual disposal, using assumptions that an independent market participant may take into account. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

Value in use is determined as the net present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use and can only take into account approved future development costs. Estimates of future cash flows used in the evaluation of impairment of assets are made using management's forecasts of commodity prices and expected production volumes. The latter takes into account assessments of field reservoir performance and includes expectations about proved and unproved volumes, which are risk-weighted utilizing geological, production, recovery and economic projections.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in depletion and depreciation expense in the statement of loss and comprehensive loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date, if facts and circumstances indicate that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation, if no impairment loss had been recognized.

(g) Decommissioning obligation

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration and capitalized in the relevant asset category.

The Company's decommissioning obligation is measured at the present value of management's best estimate of expenditure required to settle the present obligation at the balance sheet date at a risk-free rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time, revisions to the amount of the original estimate, changes in the discount rate or risk-free rate and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows and other assumptions are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent the provision was established.

(h) Revenue recognition

The Company recognizes revenue from the sale of oil when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or other transportation method agreed upon. Sales of oil are based on variable pricing based on benchmark commodity prices and other variable factors including quality, location and other factors.

(i) Finance income and expenses

Finance expense comprises interest expense on borrowings, accretion of the discount on the decommissioning obligation and impairment losses recognized on financial assets. Interest income is recognized as it accrues in the statement of loss and comprehensive loss, using the effective interest method.

(j) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in the statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(in Canadian dollars)

(k) Per share amounts

Basic per share amounts are calculated by dividing the income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted per share amounts are determined by adjusting the income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as warrants and stock options granted. Anti-dilutive instruments are not included in the determination of diluted per share amounts.

(l) Changes in accounting standards

Adoption of IFRS 9 Financial Instruments

On January 1, 2018, the Company retrospectively adopted IFRS 9 which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 29") and includes new requirements for the classification and measurement of financial assets, a new credit loss impairment model and new model to be used for hedge accounting for risk management contracts. The Company does not currently have any risk management contracts. The adoption of IFRS 9 did not have a material impact on the Company's financial statements and management applied the provision matrix practical expedient as part of the adoption of the standard.

The additional disclosures required by IFRS 9 are detailed in Note 13(b).

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI, and FVTPL. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Company's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The differences between the two standards did not impact the Company at the time of transition.

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities as at January 1, 2018.

	Measurement Category (1) (2)	
Financial instrument	IAS 39	IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Term deposits	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Trade and other payables	Amortized cost	Amortized cost

(1) There were no adjustments to the carrying amounts of financial instruments as a result of the classification change from IAS 39 to IFRS 9.
(2) The Company has no contract assets or debt investments measured at FVOCI.

Adoption of IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") using the modified retrospective method of adoption. The adoption of IFRS 15 did not have a material impact on the Company's financial statements and as a result, the Company did not apply any practical expedients as part of the adoption of IFRS 15. The additional disclosures required by IFRS 15 are detailed in Note 9.

For the comparative year, prior to the adoption of IFRS 15, the Company's revenue accounting policy was:

Revenue from the sale of crude oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time volumes are delivered to customers at contractual delivery points and rates.

(m) New and amended standards not yet adopted

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 16 Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16") 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.

IFRS 16 will result in almost all leases being recognized in the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right-to-use the leased item) and a financial liability are recognized. On initial adoption, the Company anticipates that it will elect to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

IFRS 16 is effective for periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 and the extent of the impact on its financial statements has not been determined.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment and exploration and evaluation assets

The market value of property, plant and equipment and exploration and evaluation assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of oil and natural gas interests (included in property, plant and equipment) and intangible exploration assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property, plant and equipment is based on the quoted market prices for similar items.

(in Canadian dollars)

(b) Cash and cash equivalents, term deposits, trade and other receivables, deposits and trade and other payables

The fair value of cash and cash equivalents, term deposits, trade and other receivables, deposits and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2018 and 2017, the fair value of these balances approximated their carrying value due to their short term to maturity.

(c) Fair value measurement information

The Company classifies the fair value of certain financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash and cash equivalents and term deposits are a Level 1 fair value measurement.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

5. Cash and cash equivalents and term deposits

	2018	2017
Cash and cash equivalents		
Cash in bank	$ 777,027	$ 378,556
Term deposits with maturities of three months or less	–	433,528
	$ 777,027	$ 812,084
Term deposits		
Term deposits with maturities over three months	$ 8,724,951	$ 9,338,149

(in Canadian dollars)

6. Property, plant and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2016	$ 217,798	$ 4,711,497	$ 4,929,295
Additions	–	970	970
Decommissioning revisions	–	(16,929)	(16,929)
As at December 31, 2017	217,798	4,695,538	4,913,336
Additions	–	746	746
Decommissioning revisions	–	23,440	23,440
As at December 31, 2018	$ 217,798	$ 4,719,724	$ 4,937,522
Accumulated depletion and depreciation			
As at December 31, 2016	$ 138,201	$ 1,251,966	$ 1,390,167
Depletion and depreciation	22,501	11,574	34,075
As at December 31, 2017	160,702	1,263,540	1,424,242
Depletion and depreciation	15,881	38,433	54,314
As at December 31, 2018	$ 176,583	$ 1,301,973	$ 1,478,556
Net carrying amount			
As at December 31, 2017	$ 57,096	$ 3,431,998	$ 3,489,094
As at December 31, 2018	$ 41,215	$ 3,417,751	$ 3,458,966

Depletion and depreciation:

The calculation of 2018 depletion and depreciation expense included an estimated $4.4 million (2017 – $4.5 million) for future development costs associated with proved plus probable reserves. The Company has not capitalized any directly attributable general and administrative expenses to development and production assets.

Impairment:

At December 31, 2018 and 2017, 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 at December 31, 2018 and 2017 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, 2018 and 2017, the estimate of the 'fair value less costs of disposal' 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 2018 or 2017; a 5% decrease in the forward commodity price estimates would not result in any impairment in 2018 (2017 – $195,000 of impairment).

(in Canadian dollars)

The December 31, 2018 and 2017 impairment test used the following commodity price estimates:

	December 31, 2018		December 31, 2017	
	AB Synthetic Crude (Light) Cdn$/bbl	Western Canada Select (Heavy) Cdn$/bbl	AB Synthetic Crude (Light) Cdn$/bbl	Western Canada Select (Heavy) Cdn$/bbl
2018	n/a	n/a	71.41	52.84
2019	75.35	50.48	76.79	56.82
2020	74.47	55.86	80.10	59.28
2021	77.56	58.17	83.12	61.51
2022	80.76	60.57	84.14	62.27
2023	81.44	61.08	87.08	64.44
2024	82.14	61.61	90.03	66.62
2025	83.96	62.97	92.97	68.80
2026	85.83	64.37	95.91	70.97
Escalation rate thereafter	+ 2% per year	+ 2% per year	+ 2% per year	+ 2% per year

7. Decommissioning obligation

As at December 31, 2018, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be $569,855 (2017 – $626,623). This amount will be substantially incurred over the next 11 years (2017 – 13 years). The Company calculated the decommissioning liabilities using an average risk-free discount rate of 2.07% (2017 – 2.10%) per annum and an inflation rate of 2% (2017 – 2%) per annum.

	2018	2017
Balance, beginning of year	$ 466,040	$ 490,624
Accretion	9,410	8,924
Revisions	23,440	(16,929)
Expenditures	(49,000)	(16,579)
Balance, end of year	$ 449,890	$ 466,040

8. Share capital

a) Authorized

Unlimited number of common voting shares with no par value
Unlimited number of preferred non-voting shares with no par value

b) Issued and outstanding common shares

	Number of shares	Amount
Balance, December 31, 2016, 2017 and 2018	289,684,072	$ 20,465,084

9. Oil sales

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light-medium oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company's oil sales revenue is from the sale of heavy and light-medium oil from non-operated properties. Oil sales were earned from two working interest partners (the property operators) during the

(in Canadian dollars)

2018 (2017 – a single working interest partner and property operator) representing 100% of revenue for the years ended December 31, 2018 and 2017 and $nil of accounts receivable at December 31, 2018 (December 31, 2017 – $1,520).

Composition of oil sales revenue:

		2018		2017
Light-medium oil	$	47,668	$	51,062
Heavy oil		115,302		–
	$	162,970	$	51,062

10. Taxes

The provision for deferred taxes differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

		2018		2017
Loss before income taxes	$	(669,392)	$	(628,013)
Combined federal and provincial statutory income tax rate		27.10%		27.10%
Expected income tax reduction	$	(181,405)	$	(170,191)
Effect of unrecognized deferred tax assets		181,405		170,191
	$	–	$	–

The following table summarizes the components of deferred tax:

		2018		2017
Deferred tax assets				
Non-capital loss carryforwards	$	277,216	$	228,382
Deferred tax liabilities				
Property, plant and equipment		(277,216)		(228,382)
	$	–	$	–

Deferred tax assets result from temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized for the following deductible temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the benefits:

		2018		2017
Non-capital loss carryforwards	$	12,960,209	$	12,427,555
Share issue costs		–		21,072
Reorganization costs		82,900		89,140
Decommissioning obligation		449,890		466,040
Other		175,631		175,631
	$	13,668,630	$	13,179,438

As at December 31, 2018, the Company has approximately $2.7 million (2017 – $2.9 million) of tax pools available for deduction against future taxable income. The Company also has non-capital tax losses of approximately $15 million (2017 – $14.3 million) available for deduction against future taxable income that begin to expire in 2028.

11. Supplemental disclosures

a) Employee compensation cost

The statement of loss and comprehensive loss is prepared primarily by nature of expense. During 2018, the Company incurred $164,995 (2017 – $212,017) of employee compensation cost which is included in general and administrative expenses.

b) Key management compensation

The Company considers its directors and executives to be key management personnel. As at December 31, 2018, key management personnel included 10 individuals (2017 – 10 individuals).

Key management personnel compensation is comprised of the following:

		2018		2017
Salaries and wages	$	105,796	$	105,434
Short-term employee benefits		10,054		11,266
	$	115,850	$	116,700

12. Commitment

The Company is committed to lease rental payments and a proportionate share of operating costs pursuant to the terms of an office lease agreement in the amount of $15,762 per month from January 1, 2019 to August 31, 2019.

13. Financial instruments

The Company holds various financial instruments as at December 31, 2018. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

(a) Market risk

Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

(i) 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 did not enter into any oil price contracts to protect its cash flow on future sales in 2018 or 2017. A 5% change in the average commodity price earned by the Company would change oil sales revenue and net loss and comprehensive loss by approximately $8,150 (2017 – $2,550).

(ii) Foreign currency exchange risk
Although all of the Company's oil sales are denominated in Canadian dollars, the underlying market

(in Canadian dollars)

prices for oil are impacted by the exchange rate between Canada and the United States. As at December 31, 2018 and 2017, the Company had no forward foreign exchange contracts in place.

(iii) 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.

(b) 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 maximum exposure to credit risk at is as follows:

		2018		2017
Cash and cash equivalents	$	777,027	$	812,084
Term deposits		8,724,951		9,338,149
Trade and other receivables		10,497		84,660
	$	9,512,475	$	10,234,893

Composition of trade and other receivables:

		2018		2017
Production revenue receivable	$	–	$	1,520
Joint venture partner and cash call receivables		–		73,237
Goods and Services Tax and other receivables		10,497		9,903
	$	10,497	$	84,660

During 2018, the Company recognized $39,630 of bad debt expense for the write-off of uncollectible trade and other receivables. As at December 31, 2018, all of the Company's trade and other receivables are all less than 60 days old (December 31, 2017 – all less than 60 days old except for $73,985 which are greater than 60 days old).

(c) Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. Historically, the Company has suffered substantial operating losses. As at December 31, 2018, the Company has a working capital surplus of $9,788,170 (2017 – $10,443,584). The Company's goal continues to be prudent capital spending while improving its credit reputation amongst its suppliers.

The Company has sufficient cash resources to ensure its financial obligations, comprised of trade and other payables of $455,192, are met on a current basis.

14. Capital disclosures

The Company considers its capital structure to include working capital and shareholders' equity. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares and/or adjusting its capital spending. The Company monitors its capital based on the current and projected ratios of net debt to cash flow. The Company's objectives in managing its capital structure are to create and maintain flexibility so that the Company can continue to meet its financial obligations; and finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

	2018	2017
Working capital	$ 9,788,170	$ 10,443,584
Shareholders' equity	$ 12,797,246	$ 13,466,638

The Company does not have any externally imposed capital requirements as at December 31, 2018.

APPENDIX B

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS

SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the three months ended March 31, 2021

*The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three months ended March 31, 2021 contains financial highlights but does not contain the complete financial statements of the Company. It should be read in conjunction with the Company's March 31, 2021 unaudited condensed interim consolidated financial statements and December 31, 2020 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 **May 31, 2021**.*

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

Funds from (used by) operations

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 ended March 31, 2021 and 2020 is presented in the table below:

	Three months ended March 31 2021	2020
Cash flow used by operating activities	$ (149,343)	$ (117,988)
Abandonment expenditures	–	6,234
Change in non-cash working capital	23,428	46,476
Funds used by operations	$ (125,915)	$ (65,278)
Weighted average number of shares outstanding - Basic	289,684,072	289,684,072
Funds used by operations per share	$ (0.00)	$ (0.00)

Field netback

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.

BOE

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.

Abbreviations

In the following discussion, the three months ended March 31, 2021 may be referred to as "Q1 2021" and the comparative three months ended March 31, 2020 may be referred to as "Q1 2020".

CORPORATE OVERVIEW, PRINCIPAL BUSINESS RISKS AND OUTLOOK

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'.

To date, Sahara's business has focused almost entirely on oil and gas exploration, evaluation and development in Western Canada. Over the past number of years, the value of Sahara's oil and gas assets has progressively declined and the Company's rigorous efforts to sell its assets and identify new opportunities in the Western Canadian oil and gas sector have yielded no viable results. The Company's market capitalization is currently valued at a significant discount to its total asset value and the Company has been in a net loss position for several years. In addition to the existing oil and gas assets and related energy sector failing to generate sufficient positive returns for Sahara's investors, the long-term outlook for the industry, and for Sahara should it continue to focus its business on its oil and gas assets, is not ideal. As a result, the Company's management team and Board of Directors concluded that it is in the best interest of the Company and its shareholders for the Company to refocus its business in the areas of real estate and investing.

In January 2021, the Company entered into two equity investment agreements (the "Investment Agreements") with affiliates of DMG Investments LLC (collectively, "DMG"), pursuant to which the Company has agreed to invest in two of DMG's real estate development projects in Amherst, New York and Albany, New York. Pursuant to the terms of the Investment Agreements, it is currently intended that the Company, through a new wholly-owned subsidiary, will make an investment of USD 3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in a student housing development project in Amherst, New York and an investment of USD 2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in a multi-family mixed commercial housing development in Albany, New York (collectively, the "Investments"). Completion of the Investments, as currently proposed, would constitute a "change of business" of the Company in accordance with TSX Venture Exchange Policy 5.2 - Changes of Business and Reverse Take-overs, as the Company currently operates as a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada and the Investments would see the Company making investments in two real estate development projects in the United States.

As a "change in business", the completion of the Investments is subject to the approval of the TSX Venture Exchange and there can be no guarantee that such approval will be obtained on terms acceptable to the parties or at all. As such, the Investments may not be completed on the terms currently contemplated by the Company or at all.

The Company incorporated a wholly-owned subsidiary, GC Capital Holdings Inc., a Delaware business corporation in the United States, on January 20, 2021. The unaudited condensed interim consolidated financial statements and this MD&A include the accounts of the Company and GC Capital Holdings Inc.

As at March 31, 2021, JF Investment (Hong Kong) Co., Limited (the "Investor") owned and controlled 69% of the Company's issued and outstanding shares.

SUMMARY INFORMATION

During Q1 2021, the Company earned oil sales revenue of $11,864 and reported a net loss of $146,743. The Company did not incur any capital expenditures during Q1 2021.

As at March 31, 2021, the Company reported a cash balance of $6,101,793 (December 31, 2020 – $1,118,324), short-term deposits of $2,523,511 (December 31, 2020 – $7,671,667) and $8,871,025 of working capital (December 31, 2020 – $9,012,284).

As at	March 31 2021	December 31 2020	December 31 2019
Working capital	$ 8,871,025	$ 9,012,284	$ 9,332,013
Property and equipment	1,638,619	1,643,314	3,541,483
Total assets	10,954,693	11,138,435	13,361,497
Total liabilities	804,252	841,251	1,014,602
Total shareholders' equity	10,150,441	10,297,184	12,346,895

	Three months ended March 31			
		2021		2020
Oil sales revenue	$	11,864	$	8,603
Net loss and comprehensive loss		(146,743)		(191,115)
Net loss per share		(0.00)		(0.00)

OPERATIONAL ACTIVITIES

Field netback

	Three months ended March 31			
Per boe		2021		2020
Revenue	$	52.67	$	36.55
Royalties		(1.51)		(1.02)
Production and operating expenses		(88.69)		(77.00)
Field netback	$	(37.53)	$	(41.47)

The Company produced lower volumes during Q1 2021 than in Q1 2020, which increased production and operating expenses per boe as discussed below.

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 March 31			
		2021		2020
Production				
Light-medium oil production (bbls)		225		235
Light-medium oil (bbls/day)		2.5		2.6
Revenue, before royalty				
Light-medium oil	$	11,864	$	8,603
Light-medium ($/bbl)	$	52.67	$	36.55
Benchmark oil price				
Cdn Light Sweet ($/bbl)	$	68.62	$	52.01

Light-medium oil production in Q1 2021 is lower than in Q1 2020 due to natural well declines.

(b) Royalties

	Three months ended March 31			
		2021		2020
Royalties	$	341	$	241
As a % of light-medium oil revenue		2.9%		2.8%
Per boe (6:1)	$	1.51	$	1.02

Royalties relate to overriding royalties as production volumes were below thresholds for crown royalty charges.

(c) Production and operating expenses

	Three months ended March 31 2021	2020
Production and operating expenses	$ 19,980	$ 18,121
Per boe (6:1)	$ 88.69	$ 77.00

The Company incurs certain fixed production and operating costs regardless of whether wells are producing or shut-in. Production and operating expenses per boe in Q1 2021 are higher than in Q1 2020 due to a decrease in light-medium oil volumes which results in higher fixed costs per boe.

General and administrative expenses

	Three months ended March 31 2021	2020
Salaries and benefits	$ 42,227	$ 42,111
Canada Emergency Wage Subsidy	(4,252)	–
Office and general	13,050	11,186
Consulting and professional fees	53,423	36,492
Travel and business promotion	450	450
Shareholder and regulatory	15,147	1,392
Total	$ 120,045	$ 91,631

Salaries and benefits for Q1 2021 are comparable to Q1 2020.

Canada Emergency Wage Subsidy ("CEWS") is a Government of Canada COVID response program that commenced in April 2020 designed to assist companies with the re-hiring of workers and job loss prevention during shutdowns and economic strain related to the COVID-19 pandemic.

Office and general expenses are higher in Q1 2021 than in Q1 2020 due to an increase in communication expenses.

Consulting and professional fees are higher in Q1 2021 than in Q1 2020 due to an increase in legal and other consulting services related to the identification and evaluation of strategic alternatives such as the Investment Agreements described in the Corporate Overview, Principal Business Risks and Outlook section of this MD&A.

Shareholder and regulatory expenses for Q1 2021 are higher than in Q1 2020 due to filing requirements related to the Investment Agreements and proposed change in business described in the Corporate Overview, Principal Business Risks and Outlook section of this MD&A.

Depletion and depreciation

	Three months ended March 31 2021		2020	
		Per boe		Per boe
Depletion	$ 3,423	14.40	$ 3,582	15.22
Depreciation	1,452		2,018	
	$ 4,695		$ 5,600	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is lower in Q1 2021 than in Q1 2020. The lower depletion rate is due to the effect of impairment expense recognized in 2020 and a reduction in the estimated future development costs which more than offset the decrease in the estimated proved plus probable reserves at December 31, 2020 (128,000 barrels) as compared to proved plus probable reserves reported at December 31, 2019 (255,000 barrels). The decrease in the Company's estimated proved plus probable reserves is primarily due to a reclassification of reserves from probable to possible, along with a related reclassification and reduction of future development costs.

Depreciation of furniture and equipment is calculated on a declining-balance basis. Depreciation expense is lower in Q1 2021 as there have been no additions to increase the depreciable base.

Impairment

As at March 31, 2021, the Company did not identify any additional or significantly changed indicators of impairment in relation to its CGU.

At March 31, 2020, the Company identified indicators of impairment in relation to its CGU such as a decline in forward commodity prices and performed an impairment test. The estimated recoverable amount of the CGU was determined to be $118,000 lower than the March 31, 2020 carrying amount based on 15% discounted after-tax cash flows expected to be derived from the CGU's proved plus probable reserves from the internally prepared mechanical update of the externally prepared December 31, 2019 reserve report. The mechanical update used future commodity prices based on March 31, 2020 forecasted commodity prices. Management's estimates also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities of the Company.

Capital expenditures

The Company has not engaged in any drilling or related activities in recent years due to low oil prices.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2021, the Company had a working capital surplus of $8,871,025 compared to $9,012,284 at December 31, 2020. The decrease in working capital is due to $125,915 of funds used by operations and $15,344 of foreign exchange losses on U.S. denominated cash balances.

The Company's March 31, 2021 working capital surplus includes $6,101,793 of cash and $2,523,511 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 $408,067, on standard payment terms.

SUBSEQUENT EVENT

The Company is awaiting TSXV approval of the "change in business" and the Investments as described in Corporate Overview, Principal Business Risks and Outlook section of this MD&A.

SHARE CAPITAL

Common shares

As at December 31, 2020, March 31, 2021 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

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.

	1st Quarter 2021	4th Quarter 2020	3rd Quarter 2020	2nd Quarter 2020
Net Revenue [(1)]	$ 11,523	$ 8,760	$ 5,870	$ 2,541
Net Loss and Comprehensive Loss	(146,743)	(1,726,538)	(65,135)	(66,923)
Net Loss per share Basic and fully diluted	(0.001)	(0.006)	(0.000)	(0.001)
Weighted Average Number of Shares	289,684,072	289,684,072	289,684,072	289,684,072

	1st Quarter 2020	4th Quarter 2019	3rd Quarter 2019	2nd Quarter 2019
Net Revenue [(1)]	$ 8,362	$ 9,913	$ 44,195	$ 50,683
Net Loss and Comprehensive Loss	(191,115)	(113,527)	(132,145)	(81,002)
Net Loss per share Basic and fully diluted	(0.000)	(0.000)	(0.000)	(0.000)
Weighted Average Number of Shares	289,684,072	289,684,072	289,684,072	289,684,072

[(1)] Oil sales revenue less royalties

- The net loss for the 1st Quarter of 2021 is lower than the previous quarter due to the effect of impairment recognized in the previous quarter.
- The net loss for the 4th Quarter of 2020 is higher than the previous quarter due to the recognition of $1,615,000 of impairment of property and equipment.
- The net loss for the 3rd Quarter of 2020 is comparable to the previous quarter. Higher revenue was offset by an increase in general and administrative expense and depletion expense.
- The net loss for the 2nd Quarter of 2020 is lower than the previous quarter due a lower revenue offset by the effect of impairment recognized in the previous quarter.
- The net loss for the 1st Quarter of 2020 is higher than the previous quarter due mainly to lower revenue and the recognition of impairment of property and equipment offset by a reduction in other expenses.
- The net loss for the 4th Quarter of 2019 is less than the previous quarter due to a decrease in production and operating expenses and depletion and depreciation expense that was greater than the decrease in net revenues.
- The net loss for the 3rd Quarter of 2019 is higher than the previous quarter due to a decrease in net revenue combined with an increase in production and operating 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 three months and year ended December 31, 2020. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at March 31, 2021.

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.
- 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 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. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners. The Company had no such receivables at March 31, 2021 and December 31, 2020.

The maximum exposure to credit risk at is as follows:

	March 31 2021	December 31 2020
Cash and cash equivalents	$ 6,101,793	$ 1,118,324
Term deposits	2,523,511	7,671,667
Canada Emergency Wage Subsidy	7,137	11,575
	$ 8,632,441	$ 8,801,566

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, term deposits, trade and other receivables, deposits, trade and other payables and the CEBA loan. 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.

Critical judgments in applying accounting policies

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.

<u>Key Sources of Estimation Uncertainty</u>

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.

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 there are no such pronouncements that are expected to impact the Company.

SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the three months and year ended December 31, 2020

The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three months and year ended December 31, 2020 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, 2020 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 ***April 15, 2021****.*

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

Funds from (used by) operations

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, 2020 and 2019 is presented in the table below:

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Cash flow used by operating activities	$ (96,795)	$ (72,606)	$ (369,102)	$ (382,419)
Abandonment expenditures	17,688	50,929	36,182	61,687
Change in non-cash working capital	(22,126)	(83,911)	46,355	(73,272)
Funds used by operations	$ (101,233)	$ (105,588)	$ (286,565)	$ (394,004)
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)

Field netback

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.

BOE

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.

Abbreviations

In the following discussion, the three months and year ended December 31, 2020 may be referred to as "Q4 2020" and "YE 2020", respectively, and the comparative three months and year ended December 31, 2019 may be referred to as "Q4 2019" and "YE 2019", respectively.

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, 2020, JF Investment (Hong Kong) Co., Limited (the "Investor") owned and controlled 69% of the Company's issued and outstanding shares.

OUTLOOK

In January 2021, the Company entered into two equity investment agreements pursuant to which the Company has agreed to invest in two real estate development projects in the United States. Completion of the investments, as currently proposed, would constitute a "change of business" of the Company as the Company currently operates as a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada and the investments would see the Company making investments in two real estate development projects in the United States. See the Subsequent Events section of this MD&A.

OVERVIEW AND SIGNIFICANT EVENTS

During Q4 2020, the Company earned oil sales revenue of $9,015, recognized $1,615,000 of impairment and reported a net loss of $1,726,538. The Company did not incur any capital expenditures during Q4 2020.

As at December 31, 2020, the Company reported a cash balance of $1,118,324 (December 31, 2019 – $635,454), short-term deposits of $7,671,667 (December 31, 2019 – $8,483,659) and $9,012,284 of working capital (December 31, 2019 – $9,332,013).

Summary Information as at	December 31 2020	December 31 2019	December 31 2018
Working capital	$ 9,012,284	$ 9,332,013	$ 9,788,170
Property and equipment	1,643,314	3,541,483	3,458,966
Total assets	11,138,435	13,361,497	13,702,328
Total liabilities	841,251	1,014,602	905,082
Total shareholders' equity	10,297,184	12,346,895	12,797,246

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Oil sales revenue	$ 9,015	$ 10,225	$ 26,276	$ 154,313
Net loss and comprehensive loss	(1,726,538)	(113,527)	(2,049,711)	(450,351)
Net loss per share	(0.01)	(0.00)	(0.01)	(0.00)

OPERATIONAL ACTIVITIES

Field netback

Per boe	Three months ended December 31 2020	2019	Year ended December 31 2020	2019
Revenue	$ 42.13	$ 53.80	$ 38.41	$ 51.49
Royalties	(1.19)	(1.55)	(1.09)	(0.41)
Production and operating expenses	(187.03)	(111.84)	(129.63)	(59.37)
Field netback	$ (146.09)	$ (59.59)	$ (92.31)	$ (8.29)

The Company produced lower volumes during Q4 2020 and YE 2020, which significantly increased production and operating expenses per boe as discussed below.

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 2020	2019	Year ended December 31 2020	2019
Total production				
Light-medium oil (bbls)	214	190	684	734
Heavy oil (bbls)	–	–	–	2,263
	214	190	684	2,997
Daily production				
Light-medium oil (bbls/day)	2	2	2	2
Heavy oil (bbls/day)	–	–	–	6
	2	2	2	8
Composition of production				
Light-medium oil	100%	100%	100%	24%
Heavy oil	0%	0%	0%	76%
Revenue, before royalty				
Light-medium oil	$ 9,015	$ 10,225	$ 26,276	$ 41,846
Heavy oil	–	–	–	112,467
	$ 9,015	$ 10,225	$ 26,276	$ 154,313
Light-medium ($/bbl)	$ 42.13	$ 53.80	$ 38.41	$ 57.01
Heavy oil ($/bbl)	–	–	–	49.70
	$ 42.13	$ 53.80	$ 38.41	$ 51.49
Benchmark oil price				
Cdn Light Sweet ($/bbl)	$ 47.19	$ 66.77	$ 45.39	$ 68.87
Heavy Hardisty ($/bbl)	$ 43.42	$ 54.29	$ 35.59	$ 58.77

Total oil production in Q4 2020 and YE 2020 is lower than in Q4 2019 and YE 2019 due to the shut-in of heavy oil production in the fourth quarter of 2019 due to decline in heavy oil prices. The Company also shut-in of two light-medium oil producing wells in Q2 2020 due to a sharp decline in oil prices in April 2020. The two light-medium oil producing wells were put back on production in July 2020.

(b) Royalties

	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Royalties	$ 255	$ 294	$ 743	$ 1,242
As a % of light-medium oil revenue	2.8%	2.9%	2.8%	3.0%
Per boe (6:1)	$ 1.19	$ 1.55	$ 1.09	$ 0.41

Royalties relate primarily to overriding royalties as production volumes were below thresholds for crown royalty charges. Royalties as a percentage of light-medium oil revenue in Q4 2020 and YE 2020 are comparable to Q4 2019 and YE 2019.

(c) Production and operating expenses

	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Production and operating expenses	$ 40,016	$ 21,256	$ 88,674	$ 177,924
Per boe (6:1)	$ 187.03	$ 111.84	$ 129.63	$ 59.37

The Company incurs certain fixed production and operating costs regardless of whether wells are producing or shut-in. Production and operating expenses per boe in Q4 2020 and YE 2020 are higher than in Q4 2019 and YE 2019 due to no heavy oil volumes and much lower light-medium oil volumes in the 2020 periods.

General and administrative expenses

	Three months ended December 31 2020	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 2019
Salaries and benefits	$ 40,274	$ 39,870	$ 163,265	$ 162,521
Canada Emergency Wage Subsidy	(37,227)	–	(55,266)	–
Office and general	8,886	10,877	49,065	169,554
Consulting and professional fees	74,011	62,113	159,816	130,607
Travel and business promotion	879	670	2,758	5,713
Shareholder and regulatory	5,934	5,983	19,068	19,999
Total	$ 92,757	$ 119,513	$ 338,706	$ 488,394

Salaries and benefits for Q4 2020 and YE 2020 are comparable to the 2019 periods.

Canada Emergency Wage Subsidy ("CEWS") is a Government of Canada COVID response program designed to assist companies with the re-hiring of workers and job loss prevention during shutdowns and economic strain related to the COVID-19 pandemic. Amounts applied for under the CEWS program are recorded as an offset to employee compensation expense.

Office and general expenses are lower in Q4 2020 and YE 2020 than in Q4 2019 and YE 2019 due to a reduction of rent expense following the expiry of the Company's office lease in Q4 2019 as well as other cost-savings efforts.

Consulting and professional fees are higher in Q4 2020 and YE 2020 than in Q4 2019 and YE 2019 due to an increase in legal and other consulting services related to the identification and evaluation of strategic alternatives.

Travel and business promotion fees relate to travel between Canada and China for Investor and management meetings. Travel and business promotion fees in Q4 2020 are comparable to Q4 2019 but lower in YE 2020 than in YE 2019 due to a lack of travel between Canada and China in 2020.

Shareholder and regulatory expenses for Q4 2020 and YE 2020 are comparable to the 2019 periods.

Depletion and depreciation

	Three months ended December 31						Year ended December 31					
		2020			2019			2020			2019	
			Per boe			Per boe			Per boe			Per boe
Depletion	$	6,022	28.15	$	2,804	14.75	$	13,070	19.11	$	35,877	11.97
Depreciation		2,017			2,821			8,071			11,286	
	$	8,039		$	5,625		$	21,141		$	47,163	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is higher in Q4 2020 and YE 2020 due to a decrease in the estimated proved plus probable reserves at December 31, 2020 (128,000 barrels) as compared to proved plus probable reserves reported at December 31, 2019 (255,000 barrels). The decrease in the Company's estimated proved plus probable reserves is primarily due to a reclassification of reserves from probable to possible, along with a related reclassification and reduction of future development costs.

Depreciation of furniture and equipment is calculated on a declining-balance basis. Depreciation expense is lower in the 2020 periods as there have been no additions to increase the depreciable base.

Impairment

During 2020, the Company identified indicators of impairment in relation to its CGU such as a decline in forward commodity prices and a decrease in the Company's proved plus probable reserves and performed an impairment test at March 31, 2020 and December 31, 2020. Management estimated the recoverable amount of its CGU based on its value-in-use.

At March 31, 2020, the estimated recoverable amount of the CGU was determined to be $118,000 lower than the March 31, 2020 carrying amount based on 15% discounted after-tax cash flows expected to be derived from the CGU's proved plus probable reserves from the internally prepared mechanical update of the externally prepared December 31, 2019 reserve report. The mechanical update used future commodity prices based on March 31, 2020 forecasted commodity prices. Management's estimates also include financial assumptions regarding royalty rates, operating costs, and future development capital that can significantly impact the recoverable amount which are assigned based on historic rates and future anticipated activities of the Company.

At December 31, 2020, the estimated recoverable amount of the CGU was determined to be $1,615,000 lower than the December 31, 2020 carrying amount based on 15% discounted after-tax cash flows expected to be derived from the CGU's proved plus probable reserves from the externally prepared December 31, 2020 reserve report.

In Q4 2020 and YE 2020, the Company recognized $1,615,000 and $1,733,000, respectively, of impairment in the statement of loss and comprehensive loss. Impairment of property and equipment may be reversed in future periods if there are indicators of reversal, such as an improvement in commodity price forecasts.

Capital expenditures

The Company has not engaged in any drilling or related activities in recent years due to low oil prices.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2020, the Company had a working capital surplus of $9,012,284 compared to $9,332,013 at December 31, 2019. The decrease in working capital is due to $286,565 of funds used by operations, $36,182 of decommissioning expenditures and $36,982 of decommissioning obligation classified as current offset by $40,000 of Canada Emergency Business Account loan proceeds.

On April 29, 2020, the Company received $40,000 of loan proceeds from a Canadian bank pursuant to the Canada Emergency Business Account ("CEBA") program, a Government of Canada COVID response program designed to assist companies with the payment of non-deferrable operating expenses during shutdowns and economic strain related to the COVID-19 pandemic.

The CEBA loan matures on December 31, 2025. Interest will accrue on the outstanding balance of the CEBA loan at a rate of 5% per annum commencing January 1, 2023. The outstanding balance of the CEBA loan plus accrued interest is payable on the maturity date. 25% of the CEBA loan amount shall be forgiven if the remaining 75% of the loan is repaid on or before December 31, 2022. The Company expects to repay the loan on or before December 31, 2022.

The Company's December 31, 2020 working capital surplus includes $1,118,324 of cash and $7,671,667 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 $445,855, on standard payment terms.

SUBSEQUENT EVENT

In January 2021, the Company entered into two equity investment agreements (the "Investment Agreements") with affiliates of DMG Investments LLC (collectively, "DMG"), pursuant to which the Company has agreed to invest in two of DMG's real estate development projects in Amherst, New York and Albany, New York. Pursuant to the terms of the Investment Agreements, it is currently intended that the Company, through a new wholly-owned subsidiary, will make an investment of USD 3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in a student housing development project in Amherst, New York and an investment of USD 2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in a multi-family mixed commercial housing development in Albany, New York (collectively, the "Investments"). Completion of the Investments, as currently proposed, would constitute a "change of business" of the Company in accordance with TSX Venture Exchange Policy 5.2 - Changes of Business and Reverse Take-overs, as the Company currently operates as a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada and the Investments would see the Company making investments in two real estate development projects in the United States.

As a "change in business", the completion of the Investments is subject to the approval of the TSX Venture Exchange and there can be no guarantee that such approval will be obtained on terms acceptable to the parties or at all. As such, the Investments may not be completed on the terms currently contemplated by the Company or at all.

SHARE CAPITAL

Common shares

As at December 31, 2019 and 2020 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

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 2020	3rd Quarter 2020	2nd Quarter 2020	1st Quarter 2020
Net Revenue (1)	$ 8,760	$ 5,870	$ 2,541	$ 8,362
Net Loss and Comprehensive Loss	(1,726,538)	(65,135)	(66,923)	(191,115)
Net Loss per share Basic and fully diluted	(0.006)	(0.000)	(0.001)	(0.000)
Weighted Average Number of Shares	289,684,072	289,684,072	289,684,072	289,684,072

	4th Quarter 2019	3rd Quarter 2019	2nd Quarter 2019	1st Quarter 2019
Net Revenue (1)	$ 9,913	$ 44,195	$ 50,683	$ 48,262
Net Loss and Comprehensive Loss	(113,527)	(132,145)	(81,002)	(123,677)
Net Loss per share Basic and fully diluted	(0.000)	(0.000)	(0.000)	(0.001)
Weighted Average Number of Shares	289,684,072	289,684,072	289,684,072	289,684,072

(1) Oil sales revenue less royalties

- The net loss for the 4th Quarter of 2020 is higher than the previous quarter due to the recognition of $1,615,000 of impairment of property and equipment.
- The net loss for the 3rd Quarter of 2020 is comparable to the previous quarter. Higher revenue was offset by an increase in general and administrative expense and depletion expense.
- The net loss for the 2nd Quarter of 2020 is lower than the previous quarter due a lower revenue offset by the effect of impairment recognized in the previous quarter.
- The net loss for the 1st Quarter of 2020 is higher than the previous quarter due mainly to lower revenue and the recognition of impairment of property and equipment offset by a reduction in other expenses.
- The net loss for the 4th Quarter of 2019 is less than the previous quarter due to a decrease in production and operating expenses and depletion and depreciation expense that was greater than the decrease in net revenues.
- The net loss for the 3rd Quarter of 2019 is higher than the previous quarter due to a decrease in net revenue combined with an increase in production and operating expenses.
- The net loss for the 2nd Quarter of 2019 is lower than the previous quarter due to a decrease in production and operating expenses and 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 three months and year ended December 31, 2020. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at December 31, 2020.

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.
- 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 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. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners. The Company had no such receivables at December 31, 2020 and 2019.

The maximum exposure to credit risk at is as follows:

		December 31 2020		December 31 2019
Cash	$	1,118,324	$	635,434
Term deposits		7,671,667		8,483,659
Canada Emergency Wage Subsidy		11,575		–
	$	8,801,566	$	9,119,093

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, term deposits, trade and other receivables, deposits, trade and other payables and the CEBA loan. 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.

Critical judgments in applying accounting policies

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.

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 there are no such pronouncements that are expected to impact the Company.

SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the three months and year ended December 31, 2019

*The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three months and year ended December 31, 2019 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, 2018 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 **April 29, 2020**.*

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, 2019 and 2018 is presented in the table below:

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Cash flow used by operating activities	$ (72,606)	$ (142,447)	$ (382,419)	$ (647,509)
Abandonment expenditures	50,929	–	61,687	49,000
Change in non-cash working capital	(83,911)	(27,091)	(73,272)	(7,159)
Funds used by operations	$ (105,588)	$ (169,538)	$ (394,004)	$ (605,668)
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, 2019, 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, 2019, the Company earned net revenues of $9,931 and $153,071, respectively, and incurred net losses of $113,527 and $450,351, respectively. During 2019, the Company incurred $466 of capital expenditures.

As at December 31, 2019, the Company reported a cash balance of $635,434 (2018 – $777,027), short-term deposits of $8,483,659 (2018 – $8,724,951) and a working capital surplus of $9,332,013 (2018 – $9,788,170).

Summary Information as at	December 31 2019	December 31 2018	December 31 2017
Working capital	$ 9,332,013	$ 9,788,170	$ 10,443,584
Property, plant and equipment	3,541,483	3,458,966	3,489,094
Total assets	13,361,497	13,702,328	14,401,325
Total liabilities	1,014,602	905,082	934,687
Total shareholders' equity	12,346,895	12,797,246	13,466,638

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Net revenue	$ 9,931	$ 21,277	$ 153,071	$ 158,333
Net loss and comprehensive loss	113,527	182,997	450,351	669,392
Net loss per share	(0.00)	(0.00)	(0.00)	(0.00)

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	2019	2018	2019	2018
Revenue	$ 53.80	$ 34.75	$ 51.49	$ 49.00
Royalties	(1.55)	(1.01)	(0.41)	(1.39)
Production and operating expenses	(111.84)	(63.82)	(59.37)	(53.01)
Field netback	$ (59.59)	$ (30.08)	$ (8.29)	$ (5.40)

The Company produced lower volumes during the 2019 periods, which increased production and operating expenses per boe as discussed below.

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 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Total production				
Light-medium oil (bbls)	190	242	734	907
Heavy oil (bbls)	–	388	2,263	2,419
	190	630	2,997	3,326
Daily production				
Light-medium oil (bbls/day)	2	3	2	2
Heavy oil (bbls/day)	–	4	6	7
	2	7	8	9
Composition of production				
Light-medium oil	100%	38%	24%	27%
Heavy oil	0%	62%	76%	73%
Revenue, before royalty				
Light-medium oil	$ 10,225	$ 6,104	$ 41,846	$ 47,668
Heavy oil	–	15,809	112,467	115,302
	10,225	21,913	154,313	162,970
Light-medium ($/bbl)	$ 53.80	$ 25.20	$ 57.01	$ 52.53
Heavy oil ($/bbl)	–	40.72	49.70	47.68
	53.80	34.75	51.49	49.00
Benchmark oil price				
Cdn Light Sweet ($/bbl)	$ 66.77	$ 48.27	$ 68.87	$ 68.49
Heavy Hardisty ($/bbl)	54.29	36.01	58.77	52.34

Total oil production in the three months and year ended December 31, 2019 is lower than the comparative 2018 periods due to the shut-in of heavy oil production in the fourth quarter of 2019 due to a temporary improvement in heavy oil prices.

Royalties

	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Royalties	$ 294	$ 636	$ 1,242	$ 4,637
As a % of revenue	2.9%	2.9%	0.8%	2.8%
Per boe (6:1)	$ 1.55	$ 1.01	$ 0.41	$ 1.39

Royalties as a percentage of revenue in the three months ended December 31, 2019 is comparable to the three months ended December 31, 2018. Royalties as a percentage of revenue for the year ended December 31, 2019 are lower than the 2018 year as 2019 royalties relate primarily to overriding royalties as 2019 production volumes were below thresholds for crown royalty charges.

(b) Production and operating expenses

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Production and operating expenses	$ 21,256	$ 40,238	$ 177,924	$ 176,304
Per boe (6:1)	$ 111.84	$ 63.82	$ 59.37	$ 53.01

The Company incurs certain fixed production and operating costs regardless of whether wells are producing or shut-in. Production and operating expenses per boe are higher in the three months and year ended December 31, 2019 due to lower production volumes due mainly to the shut-in of heavy oil production in the fourth quarter of 2019.

General and administrative expenses

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Salaries and benefits	$ 39,870	$ 39,350	$ 162,521	$ 164,995
Office and general	10,877	52,346	169,554	223,861
Consulting and professional fees	62,113	85,422	130,607	231,633
Travel and business promotion	670	684	5,713	6,268
Shareholder and regulatory	5,983	11,707	19,999	26,863
Total	$ 119,513	$ 189,509	$ 488,394	$ 653,620

Salaries and benefits in the 2019 periods are comparable to the 2018 periods.

Office and general expenses are lower in the 2019 periods than the 2018 periods due mainly to the non-renewal of the Company's office lease following its expiry on August 31, 2019.

Consulting and professional fees are lower in the 2019 periods than the 2018 periods due to a decrease in legal and other professional services.

Travel and business promotion fees relate to travel between Canada and China for Investor and management meetings. Travel and business promotion fees are lower in the 2019 periods due to a decrease in travel between Canada and China in the period.

Shareholder and regulatory expenses are lower in the 2019 periods due to the timing of expenses and a decrease in shareholder reporting costs.

Depletion and depreciation

	Three months ended December 31				Year ended December 31			
	2019		2018		2019		2018	
		Per boe		Per boe		Per boe		Per boe
Depletion	$ 2,804	14.75	$ 7,148	11.77	$ 35,877	11.97	$ 38,433	11.56
Depreciation	2,821		3,970		11,286		15,881	
	$ 5,625		$ 11,118		$ 47,163		$ 54,314	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is higher in the 2019 periods due to a decrease in the estimated proved plus probable reserves at December 31, 2019 (255,000 barrels) as compared to proved plus probable reserves reported at December 31, 2018 (643,000 barrels). The decrease in the Company's estimated proved plus probable reserves is primarily due to a reclassification of reserves from probable to possible, along with a related reclassification of future development costs.

Depreciation of furniture and equipment is calculated on a declining-balance basis. Depreciation expense is lower in the 2019 periods as there have been no additions in the 2019 periods to increase the depreciable base.

Bad debt expense

During the, 2018, the Company recognized $39,630 of bad debt expense for the write-off of uncollectible trade and other receivables.

Capital expenditures

The Company did not engage in any drilling or related activities during 2019 or 2018 and incurred only minor expenditures.

Impairment

At December 31, 2019 and 2018, 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 at December 31, 2019 and 2018 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, 2019 and 2018, the estimate of the 'fair value less costs of disposal' 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.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2019, the Company had a working capital surplus of $9,332,013 compared to $9,788,170 at December 31, 2018. The decrease in working capital is due to $394,004 of funds used by operations, $61,687 of abandonment expenditures and $466 of capital expenditures.

The Company's December 31, 2019 working capital surplus includes $635,434 of cash and $8,483,659 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 $488,001, on standard payment terms.

SUBSEQUENT EVENTS

Subsequent to December 31, 2019, crude oil benchmark prices decreased substantially due to a drop in global crude oil demand triggered by the impact of the COVID-19 virus on the global economy. In March 2020, crude oil prices decreased further due to a breakdown in negotiations between OPEC and non-OPEC partners regarding proposed production cuts. A subsequent tentative agreement between these countries to reduce crude oil production failed to have a positive impact on crude oil benchmark prices. The recent volatility in the crude oil pricing environment may continue and could impact the Company's earnings and cash flows.

SHARE CAPITAL

Common shares

As at December 31, 2019 and 2018 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

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 2019	3rd Quarter 2019	2nd Quarter 2019	1st Quarter 2019
Net Revenue (1)	$ 9,913	$ 44,195	$ 50,683	$ 48,262
Net Loss and Comprehensive Loss	(113,527)	(132,145)	(81,002)	(123,677)
Net Loss per share				
Basic and fully diluted	(0.000)	(0.000)	(0.000)	(0.000)
Weighted Average Number of Shares In Thousands	289,684	289,684	289,684	289,684

	4th Quarter 2018	3rd Quarter 2018	2nd Quarter 2018	1st Quarter 2018
Net Revenue (1)	$ 21,277	$ 59,275	$ 65,442	$12,339
Net Loss and Comprehensive Loss	(182,997)	(136,300)	(130,231)	(219,864)
Net Loss per share				
Basic and fully diluted	(0.001)	(0.000)	(0.000)	(0.001)
Weighted Average Number of Shares In Thousands	289,684	289,684	289,684	289,684

(1) Oil sales revenue less royalties

- The net loss for the 4th Quarter of 2019 is less than the previous quarter due to a decrease in production and operating expenses and depletion and depreciation expense that was greater than the decrease in net revenues.
- The net loss for the 3rd Quarter of 2019 is higher than the previous quarter due to a decrease in net revenue combined with an increase in production and operating expenses.
- The net loss for the 2nd Quarter of 2019 is lower than the previous quarter due to a decrease in production and operating expenses and general and administrative expenses.
- The net loss for the 1st Quarter of 2019 is lower than the previous quarter due to an increase in net revenue related to higher production volumes and also to a decrease in expenses.
- The net loss for the 4th Quarter of 2018 is higher than the previous quarter due to a decrease in net revenue related to lower production volumes and lower oil prices.
- The net loss for the 3rd Quarter of 2018 is higher than the previous quarter due to a decrease in net revenue related to lower production volumes offset by slightly higher oil prices.
- The net loss for the 2nd Quarter of 2018 is lower than the previous quarter due primarily to an increase in net revenue related to sales of heavy oil from wells that were put back on production in the quarter.

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, 2019. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at December 31, 2019.

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 $7,715 (2018 – $8,150).
- 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 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. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners. The Company had no such receivables at December 31, 2019 and 2018.

The maximum exposure to credit risk at is as follows:

		2019		2018
Cash and cash equivalents	$	635,434	$	777,027
Term deposits		8,483,659		8,724,951
	$	9,119,093	$	9,501,978

During 2019, the Company recognized $nil (2018 – $39,630) of bad debt expense for the write-off of uncollectible trade and other receivables.

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, term deposits, 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.

Critical judgments in applying accounting policies

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.

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.

CHANGES IN ACCOUNTING STANDARDS

IFRS 16 Leases

On January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach which does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

IFRS 16 results in almost all leases being recognized in the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right-to-use the leased item) and a financial liability are recognized.

The adoption of IFRS 16 did not have any impact on the Company's financial statements as the Company used the practical expedient of accounting for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases permitted by the standard and is not a party to any lease agreements.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and amended accounting pronouncements that have been issued but are not yet effective and determined that there are no such pronouncements that may impact the Company.

SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the three months and year ended December 31, 2018

The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three months and year ended December 31, 2018 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, 2018 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 ***April 26, 2019****.*

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, 2018 and 2017 is presented in the table below:

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Cash flow used by operating activities	$ (142,447)	$ (127,725)	$ (647,509)	$ (588,240)
Abandonment expenditures	–	16,579	49,000	16,579
Change in non-cash working capital	(27,091)	(66,034)	(7,159)	(13,353)
Funds used by operations	$ (169,538)	$ (177,180)	$ (605,668)	$ (585,014)
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, 2018, 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, 2018, the Company earned net revenues of $21,277 and $158,333, respectively, and incurred net losses of $182,997 and $669,392, respectively. During 2018, the Company incurred $746 of capital expenditures.

As at December 31, 2018, the Company reported a cash and cash equivalents balance of $777,027 (2017 – $812,084), short-term deposits of $8,724,951 (2017 – $9,338,149) and a working capital surplus of $9,788,170 (2017 – $10,443,584).

Summary Information as at	December 31 2018	December 31 2017	December 31 2016
Working capital	$ 9,788,170	$ 10,443,584	$ 11,046,147
Property, plant and equipment	3,458,966	3,489,094	3,539,128
Total assets	13,702,328	14,401,325	15,060,463
Total liabilities	905,082	934,687	965,812
Total shareholders' equity	12,797,246	13,466,638	14,094,651

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Net revenue	$ 21,277	$ 13,253	$ 158,333	$ 49,595
Net loss and comprehensive loss	182,997	187,894	669,392	628,013
Net loss per share	(0.00)	(0.00)	(0.00)	(0.00)

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	2018	2017	2018	2017
Revenue	$ 34.75	$ 55.18	$ 49.00	$ 51.16
Royalties	(1.01)	(1.59)	(1.39)	(1.47)
Production and operating expenses	(63.82)	(195.26)	(53.01)	(128.54)
Field netback	$ (30.08)	$ (141.67)	$ (5.40)	$ (78.85)

The Company produced higher volumes during the 2018, which reduced production and operating expenses per boe as discussed below.

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		Year ended December 31	
	2018	2017	2018	2017
Total production				
Light-medium oil (bbls)	242	247	907	998
Heavy oil (bbls)	388	–	2,419	–
	630	247	3,326	998
Daily production				
Light-medium oil (bbls/day)	3	3	2	3
Heavy oil (bbls/day)	4	–	7	–
	7	3	9	3
Composition of production				
Light-medium oil	38%	100%	27%	100%
Heavy oil	62%	–	73%	–
Revenue, before royalty				
Light-medium oil	$ 6,104	$ 13,646	$ 47,668	$ 51,062
Heavy oil	15,809	–	115,302	–
	21,913	13,646	162,970	51,062
Light-medium ($/bbl)	$ 25.20	$ 55.18	$ 52.53	$ 51.16
Heavy oil ($/bbl)	40.72	–	47.68	–
	34.75	55.18	49.00	51.16
Benchmark oil price				
Cdn Light Sweet ($/bbl)	$ 48.27	$ 65.68	$ 68.49	$ 61.84
Heavy Hardisty ($/bbl)	36.01	46.45	52.34	45.59

Total oil production in the three months and year ended December 31, 2018 is higher than the comparative 2017 periods due to recommencement of heavy oil production in the second quarter of 2018 due to a temporary improvement in heavy oil prices.

(b) Royalties

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Royalties	$ 636	$ 393	$ 4,637	$ 1,467
As a % of revenue	2.9%	2.9%	2.8%	2.9%
Per boe (6:1)	$ 1.01	$ 1.59	$ 1.39	$ 1.47

Royalties as a percentage of revenue in the 2018 periods are comparable to the 2017 periods.

(c) Production and operating expenses

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Production and operating expenses	$ 40,238	$ 48,290	$ 176,304	$ 128,294
Per boe (6:1)	$ 63.82	$ 195.26	$ 53.01	$ 128.54

The Company incurs certain fixed production and operating costs regardless of whether wells are producing or shut-in. Production and operating expenses per boe are lower in the three months and year ended December 31, 2018 due to higher production volumes related to production from heavy oil wells for a portion of 2018. During the first quarter of 2018, the Company incurred approximately $24,000 of repair and maintenance expenditures on two of the Company's heavy oil wells that were placed back on production in the second quarter.

General and administrative expenses

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Salaries and benefits	$ 39,350	$ 41,669	$ 164,995	$ 212,017
Office and general	52,346	57,685	223,861	199,536
Consulting and professional fees	85,422	63,399	231,633	191,930
Travel and business promotion	684	450	6,268	2,808
Shareholder and regulatory	11,707	2,946	26,863	12,210
Total	$ 189,509	$ 166,149	$ 653,620	$ 618,501

Salaries and benefits are lower in the 2018 periods due a reduction in management and office staff offset by an increase in the use of consultants and other professionals.

Office and general expenses for the three months ended December 31, 2018 are lower than the 2017 comparative period due to the timing of expenses. Office and general expenses for the year ended December 31, 2018 are lower than the 2017 comparative period due to an increase in rent and insurance costs.

Consulting and professional fees are higher in the 2018 periods than the 2017 comparative periods due to an increase in geological consulting and legal services related to research and evaluation of opportunities business strategies.

Travel and business promotion fees relate to travel between Canada and China for Investor and management meetings. Travel and business promotion fees are higher in the 2018 periods than the 2017 comparative periods due to an increase in travel between Canada and China.

Shareholder and regulatory expenses are higher in the year ended December 31, 2018 due to the timing of expenses and an increase in shareholder reporting costs. These expenses are lower in 2017 due to a refund received in the early in the year for charges related to the Company's annual general meeting held in December 2016.

Depletion and depreciation

	Three months ended December 31						Year ended December 31					
		2018			2017			2018			2017	
			Per boe			Per boe			Per boe			Per boe
Depletion	$	7,148	11.77	$	2,842	11.49	$	38,433	11.56	$	11,574	11.60
Depreciation		3,970			5,625			15,881			22,501	
	$	11,118		$	8,467		$	54,314		$	34,075	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is higher in the three months ended December 31, 2018 due to a decrease in the estimated proved plus probable reserves at December 31, 2018 (643,000 barrels) as compared to proved plus probable reserves reported at December 31, 2017 (664,000 barrels).

Depreciation of furniture and equipment is calculated on a declining-balance basis. Depreciation expense is lower in the 2018 periods as there have been no additions in the 2018 periods to increase the depreciable base.

Bad debt expense

During the, 2018, the Company recognized $39,630 of bad debt expense for the write-off of uncollectible trade and other receivables.

Capital expenditures

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 2018 or 2017 and incurred only minor expenditures.

Impairment

At December 31, 2018 and 2017, 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 at December 31, 2018 and 2017 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, 2018 and 2017, the estimate of the 'fair value less costs of disposal' 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.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2018, the Company had a working capital surplus of $9,788,170 compared to $10,443,584 at December 31, 2017. The decrease in working capital is due to $605,668 of funds used by operations, $49,000 of abandonment expenditures and $746 of capital expenditures.

The Company's December 31, 2018 working capital surplus includes $777,027 of cash and cash equivalents and $8,724,951 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 $455,192, on standard payment terms.

SUBSEQUENT EVENTS

There were no reportable events subsequent to December 31, 2018.

SHARE CAPITAL

Common shares

As at December 31, 2018 and 2017 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

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 2018	3rd Quarter 2018	2nd Quarter 2018	1st Quarter 2018
Net Revenue [(1)]	$ 21,277	$ 59,275	$ 65,442	$12,339
Net Loss and Comprehensive Loss	(182,997)	(136,300)	(130,231)	(219,864)
Net Loss per share				
Basic and fully diluted	(0.001)	(0.000)	(0.000)	(0.001)
Weighted Average Number of Shares In Thousands	289,684	289,684	289,684	289,684

	4th Quarter 2017	3rd Quarter 2017	2nd Quarter 2017	1st Quarter 2017
Net Revenue [(1)]	$ 13,253	$ 11,379	$ 12,320	$ 12,643
Net Loss and Comprehensive Loss	(187,894)	(131,369)	(178,655)	(130,095)
Net Loss per share				
Basic and fully diluted	(0.001)	(0.000)	(0.001)	(0.000)
Weighted Average Number of Shares In Thousands	289,684	289,684	289,684	289,684

[(1)] Oil sales revenue less royalties

- The net loss for the 4th Quarter of 2018 is higher than the previous quarter due to a decrease in net revenue related to lower production volumes and lower oil prices.
- The net loss for the 3rd Quarter of 2018 is higher than the previous quarter due to a decrease in net revenue related to lower production volumes offset by slightly higher oil prices.
- The net loss for the 2nd Quarter of 2018 is lower than the previous quarter due primarily to an increase in net revenue related to sales of heavy oil from wells that were put back on production in the quarter.
- The net loss for the 1st Quarter of 2018 is higher than the previous quarter due to an increase in general and administrative expenses and the recognition of an allowance for credit losses offset by a decrease in depletion and depreciation expense.

- The net loss for the 4th Quarter of 2017 is higher than the previous quarter due to an increase in production and operating expenses and general and administrative expenses.
- The net loss for the 3rd Quarter of 2017 is lower than the previous quarter due to a decrease in production and operating expenses and general and administration expenses.
- The net loss for the 2nd Quarter of 2017 is higher than the previous quarter due to an increase in production and operating expenses for property taxes and lease rentals and an increase in general and administrative expenses related to consulting and professional fees.

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, 2018. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at December 31, 2018.

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.

<u>Environment risks</u>

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.

<u>Operational risks</u>

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.

<u>Financial risks</u>

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 $8,150 (2017 – $2,550).
- 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 maximum exposure to credit risk related to trade and other receivables at December 31, 2018 is $10,497 (December 31, 2017 – $84,660). Oil sales were earned from two working interest partners (the property operators) during the 2018 (2017 – a single working interest partner and property operator) representing 100% of revenue for the years ended December 31, 2018 and 2017 and $nil of accounts receivable at December 31, 2018 (December 31, 2017 – $1,520).

Composition of trade and other receivables at December 31:

		2018		2017
Production revenue receivable	$	–	$	1,520
Joint venture partner and cash call receivables		–		73,237
Goods and Services Tax and other receivables		10,497		9,903
	$	10,497	$	84,660

During 2018, the Company recognized $39,630 of bad debt expense for the write-off of uncollectible trade and other receivables. As at December 31, 2018, all of the Company's trade and other receivables are all less than 60 days old.

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.

Critical judgments in applying accounting policies

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.

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.

CHANGES IN ACCOUNTING STANDARDS

Adoption of IFRS 9 Financial Instruments

On January 1, 2018, the Company retrospectively adopted IFRS 9 Financial Instruments ("IFRS 9") which replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 29") and includes new requirements for the classification and measurement of financial assets, a new credit loss impairment model and new model to be used for hedge accounting for risk management contracts. The Company does not currently have any risk management contracts. The adoption of IFRS 9 did not have a material impact on the Company's financial statements and management applied the provision matrix practical expedient as part of the adoption of the standard.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI, and FVTPL. The previous IAS 39 categories of held to maturity, loans and receivables and available for sale are eliminated. IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the Company's business model for managing the financial asset. Additionally, embedded derivatives are not separated if the host contract is a financial asset within the scope of IFRS 9. Instead, the entire hybrid contract is assessed for classification and measurement. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. The differences between the two standards did not impact the Company at the time of transition.

Adoption of IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") using the modified retrospective method of adoption. The adoption of IFRS 15 did not have a material impact on the Company's financial statements and as a result, the Company did not apply any practical expedients as part of the adoption of IFRS 15. The additional disclosures required by IFRS 15 are detailed in Note 9.

For the comparative year, prior to the adoption of IFRS 15, the Company's revenue accounting policy was:

Revenue from the sale of crude oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. This is generally at the time volumes are delivered to customers at contractual delivery points and rates.

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 16 Leases

In January 2016, the IASB issued IFRS 16 Leases ("IFRS 16") 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.

IFRS 16 will result in almost all leases being recognized in the statement of financial position, as the distinction between operating and finance leases is removed. Under IFRS 16, an asset (the right-to-use the leased item) and a financial liability are recognized. On initial adoption, the Company anticipates that it will elect to use the following practical expedients permitted under the standard:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than 12 months as at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a right-of-use asset if the underlying asset is of low dollar value; and
- The use of hindsight in determining the lease term where the contract contains terms to extend or terminate the lease.

IFRS 16 is effective for periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 and the extent of the impact on its financial statements has not been determined.

APPENDIX C

PRO FORMA FINANCIAL STATEMENTS

Sahara Energy Ltd.
Unaudited Pro Forma Consolidated Statement of Financial Position
As at March 31, 2021
(Expressed in Canadian dollars)

		Pro forma adjustments		
	Sahara Energy Ltd.	Notes 2(a) and (b)	Note 2(c)	Pro forma consolidated
	$	$	$	$
Assets				
Current assets				
Cash	6,101,793	(5,787,727)	–	314,066
Term deposits	2,523,511	(500,000)	–	2,023,511
Accounts receivable	17,457	–	–	17,457
Prepaid expenses and deposits	673,313	–	–	673,313
	9,316,074	(6,287,727)	–	3,028,347
Investments	–	6,287,727	–	6,287,727
Property and equipment	1,638,619	–	513,788	2,152,407
Total Assets	10,954,693	–	513,788	11,468,481
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	408,067	–	–	408,067
Current portion of decommissioning obligation	36,982	–	–	36,982
Current portion of lease liability	–	–	82,722	82,722
	445,049	–	82,722	527,771
Decommissioning obligation	319,203	–	–	319,203
Canada Emergency Business Account loan	40,000	–	–	40,000
Long-term portion of lease liability	–	–	431,066	431,066
Total Liabilities	804,252	–	513,788	1,318,040
Shareholders' Equity				
Share capital	20,465,084	–	–	20,465,084
Contributed surplus	1,244,119	–	–	1,244,119
Accumulated deficit	(11,558,762)	–	–	(11,558,762)
Total Shareholders' Equity	10,150,441	–	–	10,150,441
Total Liabilities and Shareholders' Equity	10,954,693	–	513,788	11,468,481

Sahara Energy Ltd.
Unaudited Pro Forma Consolidated Statement of Loss and Comprehensive Loss
For the three months ended March 31, 2021
(Expressed in Canadian dollars)

	Sahara Energy Ltd.	Pro forma adjustments Note 3(a)	Note 3(b)	Note 3(c)	Pro forma consolidated
	$	$	$	$	$
Revenue					
Oil sales	11,864	–	–	–	11,864
Royalties	(341)	–	–	–	(341)
	11,523	–	–	–	11,523
Return on investment	–	158,248	–	–	158,248
	11,523	158,248	–	–	169,771
Expenses					
Production and operating	19,980	–	–	–	19,980
General and administrative	120,045	–	–	56,524	176,569
Depletion and depreciation	4,695	–	25,568	–	30,263
Accretion	789	–	–	–	789
Interest	–	–	11,652	–	11,652
Foreign exchange	15,344	–	–	–	15,344
	160,853	–	37,220	56,524	254,597
Loss from operating activities	(149,330)	158,248	(37,220)	(56,524)	(84,826)
Interest income	2,587	–	–	–	2,587
Net loss and comprehensive loss	(146,743)	158,248	(37,220)	(56,524)	(82,239)
Net loss per share – basic (1)	(0.00)				(0.00)

(1) Based on 289,684,072 weighted average number of common shares outstanding

Sahara Energy Ltd.
Unaudited Pro Forma Consolidated Statement of Loss and Comprehensive Loss
For the year ended December 31, 2020
(Expressed in Canadian dollars)

	Sahara Energy Ltd.	Pro forma adjustments Note 3(a)	Note 3(b)	Note 3(c)	Pro forma consolidated
	$	$	$	$	$
Revenue					
Oil sales	26,276	–	–	–	26,276
Royalties	(743)	–	–	–	(743)
	25,533	–	–	–	25,533
Return on investment	–	670,151	–	–	670,151
	25,533	670,151	–	–	695,684
Expenses					
Production and operating	88,674	–	–	–	88,674
General and administrative	338,706	–	–	239,368	578,074
Depletion and depreciation	21,141	–	108,275	–	129,416
Impairment	1,733,000	–	–	–	1,733,000
Accretion	9,005	–	–	–	9,005
Interest	–	–	46,479	–	46,479
	2,190,526	–	154,754	239,368	2,584,648
Loss from operating activities	(2,164,993)	670,151	(154,754)	(239,368)	(1,888,964)
Interest income	115,282	–	–	–	115,282
Net loss and comprehensive loss	(2,049,711)	670,151	(154,754)	(239,368)	(1,773,682)
Net loss per share – basic [1]	(0.01)				(0.01)

[1] Based on 289,684,072 weighted average number of common shares outstanding

1. Basis of Presentation

Effective January 24, 2021, Sahara Energy Ltd. ("Sahara" or "the Company") entered into two equity investment agreements (the "Investment Agreements") with affiliates of DMG Investments LLC (collectively, "DMG"), pursuant to which the Company has agreed to invest in two of DMG's real estate development projects in Amherst, New York and Albany, New York. Pursuant to the terms of the Investment Agreements, it is currently intended that the Company, through a new wholly-owned subsidiary, will make an investment of USD 3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in a student housing development project in Amherst, New York and an investment of USD 2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in a multi-family mixed commercial housing development project in Albany, New York (collectively, the "Investments").

The accompanying unaudited pro forma consolidated financial statements of Sahara have been prepared from and should be read in conjunction with Sahara's unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2021 and Sahara's audited financial statements as at and for the year ended December 31, 2020.

These pro forma consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards. The pro forma consolidated statement of financial position gives effect to the transactions and assumptions described herein as if they had occurred on March 31, 2021. The pro forma consolidated statement of loss and comprehensive loss for the three months ended March 31, 2021 gives effect to such transactions and assumptions as if they had occurred on January 1, 2021. The pro forma consolidated statement of loss and comprehensive loss year ended December 31, 2020 gives effect to such transactions and assumptions as if they had occurred on January 1, 2020.

The pro forma consolidated financial statements may not be indicative of the results that actually would have occurred if the events reflected therein had been in effect on the dates indicated or of the results which may be obtained in the future.

Accounting policies used in the preparation of the pro forma consolidated financial statements are in accordance with those disclosed in the December 31, 2020 audited financial statements with the addition of the following accounting policy for leases:

Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

In the opinion of management, the pro forma consolidated financial statements include all necessary adjustments to give effect to the transaction.

2. Pro Forma Consolidated Statement of Financial Position Adjustments and Assumptions

The unaudited pro forma consolidated statement of financial position as at March 31, 2021 gives effect to the following adjustments and assumptions as if they had occurred on March 31, 2021:

(a) The Company will make the following Investments:

	USD	Canadian Dollars [1]
21.27% preferred equity ownership position in a student housing development project	$ 3,000,000	$ 3,772,636
15.56% preferred equity ownership position in a multi-family mixed commercial housing development project	2,000,000	2,515,091
	$ 5,000,000	$ 6,287,727

[1] Translated from USD to Canadian dollars using the March 31, 2021 exchange rate of 1.2575.

(b) The Investments will be paid in cash and will require the Company to redeem $500,000 of term deposits.

(c) The Company will enter into a five year office lease for which the right-of-use asset and corresponding lease liability are estimated to be $513,788, of which $82,722 of the lease liability is classified as current and $431,066 is classified as long-term.

3. Pro Forma Consolidated Statement of Loss and Comprehensive Loss Adjustments and Assumptions

The pro forma consolidated statement of loss and comprehensive loss for the three months ended March 31, 2021 gives effect to such transactions and assumptions as if they had occurred on January 1, 2021 and the unaudited pro forma consolidated statement of loss and comprehensive loss for the year ended December 31, 2020 give effect to the following adjustments and assumptions as if they had occurred on January 1, 2020:

(a) During the three months ended March 31, 2021, the Company will earn a quarterly return of 2.5%; during the year ended December 31, 2020, the Company will earn an annual return of 10%.

(b) Depreciation expense has been adjusted for depreciation of the right-of-use asset and interest expense reflects imputed interest on the corresponding lease liability (Note 2(c)).

(c) The Company will hire three employees and incur other additional general and administrative expenses.

(d) Amounts denominated in USD have been translated to Canadian dollars using an average exchange rate of 1.2660 for the three months ended March 31, 2021 and 1.3403 for the year ended December 31, 2020.

APPENDIX D

DIRECTOR AND OFFICER INFORMATION

Name and Municipality of Residence	Office Held	Principal Occupation for the Past Five Years	Director Since	Number of Shares Held
Qingshou Gao Wuhan, China 65 years old	Director	Chairman of the board of directors of Hubei Guochuang[5], a company listed on the Shenzhen Stock Exchange since May 1996.	August 12, 2014	Nil[1]
Tao Gao[3] Wuhan, China 52 years old	Director	Director and General Manager of Guochuang since 2007. Prior thereto, director of a research institute for Guochuang Hitech from 2002 to 2005.	August 12, 2014	Nil[1]
Liqun Hao[3] Wuhan, China 49 years old	Director	Director and CFO of Hubei Guochuang since 2007.	August 12, 2014	Nil[1]
Yachao Peng[2] Wuhan, China 53 years old	Director	Director, Hubei GuoChuang from February 2011 - Present; CEO, Hubei GuoChuang from September, 2015 to May, 2016; Vice General Manager, Hubei GuoChuang from 2011to 2016. Prior thereto, Department Manager and Vice-President of the Hubei branch of Agricultural Bank of China (a bank listed on the Hong Kong Stock Exchange).	August 12, 2014	Nil[1]
Panwen Gao New York, U.S.A. 34 years old	Director, Chief Executive Officer	CEO of the Company since March 13, 2016. Investment Analyst with Pineridge Investment LLC, a global asset manager based in New York City. Obtained a Master of Science in 2012 from Worcester Polytechnic Institute and a Bachelor of Science from the University of Kent in 2009.	August 12, 2014	Nil
Fei Gao Ontario, Canada 34 years old	Director	Partner, YongDaXing construction budget consulting company from Jan 2019 to Present; Founder, Surpass International Education Corp. from May 2015 to Present; Founder & Chairman, DAXiANG (Elephant) International English Education Institution from May 2017 to Present; prior to 2017 acted in various roles including as an associate investment advisor with the Royal Bank of Canada and as a manager with HSBC Bank from 2007 to 2010.	March 23, 2021	Nil

Songxian Tan[(2) (4)] United States 36 years old	Director	Senior Director at JD.Com Inc. (an e-commerce company and retail infrastructure service provider (NASDAQ: JD)) from March 2021 – Present; Deputy General Manager/Executive Director at Tong Yang Life Insurance Co. Ltd (KRX: 082640) with USD$6bn alternative investment portfolio (Real Estate, Infrastructure, Direct lending Derivatives), from November, 2019 to February, 2021; from fall of 2017 to the fall of 2019 director and Chief Investment Officer at ABL Global Asset Management (a comprehensive asset management company providing a broad range of products from global and domestic investment solution to institutional and individual investors); Executive Advisor, Associate Director and then Director of Global Investment with real estate M&A project management and real estate acquisition execution in Anbang Insurance Group Ltd. (an insurance, banking and financial services company) from mid-2014 to the fall of 2017	December 21, 2018	Nil
Jinglin Yang[(2) (4)] British Columbia, Canada 32 years old	Director	Accounting Manager, Zi Jin Property Management Ltd (a real estate management company) since 2014. Accounting Manager, YJL Construction Ltd. from 2011 to 2014.	December 21, 2018	Nil
Yan Feng Liu Wuhan, China 50 years old	Chief Financial Officer & Corporate Secretary	Chief Accountant, Yunfang Network Technology Co Ltd since 2018; Deputy Chief Accountant in charge of GuoChuang Guanggu Shangcheng Project and GuoChuang QingYun Project with total of 578K square meters construction size, Hubei Donghu Yijia Real Estate Development Co., Ltd (a company focused on the development of commercial, residential and mixed-use real property and real estate business incubation) from 2013 to 2017; Project Manager, Accounting Firm in Hubei Province, China (2001-2013); Accounting Director, Wudong Hospital, Wuhan, China (1992-2000).	January 9, 2017	Nil
Samuel Wang Alberta, Canada 56 years old	Vice President, Reserves and Resources (Full time employee)	Vice President/Petroleum Engineer in Sahara Energy Ltd since 2015.	October 2015	Nil

Shu Wang New York, U.S.A. 32 years old	Vice President, Operations (Full time employee)	Vice President of CMA Real Estate LLC in USA since 2018, Manager of Investment Relationship in Qianxing Capital 2016-2018.	Closing of COB	Nil
Zhaohui Liang New York, U.S.A. 51 years old	Investment Advisor and Director	President of U.S. Operations, YNG GROUP (U.S.A.) (an operating platform for a Shanghai-based conglomerate investing in real estate, industrial parks, supply chain, and hospitality) from 2018-Present; Managing Director, XIN Development Group International (a real estate developer operating in both China and the United States) from 2012-2017.	Investment Advisor – Closing of COB Director – August 25, 2021	Nil
Jennifer Li Pelham, New York, U.S.A. 53 years old	Director	Chief Operation Officer (Operation and Risk) in Horizon Vision Capital Advisors LLC since April 2020; Independent Director of Synertone Communication Corporation, a company listed on the Stock Exchange of Hong Kong Limited (1613.HK) since October 2016; Independent Director of Neo-Neon Holdings Limited, a company listed on the Stock Exchange of Hong Kong Limited (1868.HK) since August 2014.	August 25, 2021	Nil

Notes:

(1) Qingshou Gao, Tao Gao, Liqun Hao and Yachao Peng are directors of Guochuang Group which indirectly holds, through JK Investments (Hong Kong) Co., Limited, 200,000,000 Common Shares.
(2) Member of the Audit Committee.
(3) Tao Gao and Liquin Hao resigned as members of the Audit Committee on December 21, 2018.
(4) Songxian Tan and Jinglin Yang were appointed members of the Audit Committee on December 21, 2018.
(5) Hubei Guochuang is a publicly-listed asphalt manufacturer on the Shenzhen Stock Exchange - (SHE: 002377) and still carrying on business. Hubei Guochuang is deemed to be an affiliate of the Company as Mr. Qingshou Gao has majority control of both Hubei Guochuang and JK Investment (Hong Kong) Co., Ltd. (which holds 69.04% securities of the Company).

PUBLIC COMPANY EXPERIENCE DISCLOSURE

The following table sets out the directors, officers and proposed directors and officers of the Company that are, or have been within the last five years, directors, officers or promoters of other reporting issuers or companies that are equivalent to reporting issuers:

Name	Name and Jurisdiction of Reporting Issuer	Name of Trading Market	Position(s)	Term
Qingshou Gao	Hubei Guochuang Hitech Material Co., Ltd.	Shenzhen Stock Exchange	Director and Chairman, Board of Directors	1996 – Present
Tao Gao	Hubei Guochuang Hitech Material Co., Ltd.	Shenzhen Stock Exchange	Director and General Manager	2007 - Present
Liqun Hao	Hubei Guochuang Hitech Material Co., Ltd.	Shenzhen Stock Exchange	Director Chief Financial Officer	2007 – Present
Yachao Peng	Hubei Guochuang Hitech Material Co., Ltd.	Shenzhen Stock Exchange	Director Chief Executive Officer Vice General Manager	2011 – Present (Director) 2015 – 2016 (CEO) 2011 – 2016 (Vice General Manager)
Jennifer Li	Synertone Communication Corporation Neo-Neon Holdings Limited	Stock Exchange of Hong Kong Limited Stock Exchange of Hong Kong Limited	Independent Director Independent Director	October 2016 – Present August 2014 - Present

APPENDIX E

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Company's compensation program for Named Executive Officers ("**NEOs**") for 2020, includes a base salary or consulting arrangement and awards of stock options ("**Options**"). The Board determines the level of compensation to NEOs, reflecting the need to provide incentive and compensation for the time and effort expended by the officers while taking into account the financial and other resources of the Company. The process for determining the compensation of the Company's NEOs relies solely on discussion by the Board, which discussions occur at any time that the Board determines the same to be appropriate, including without limitation, following the end of each fiscal year of the Company.

NEOs who are not consultants are provided with extended health care, dental and insurance benefits. In addition, each NEO receives minor perquisites (such as parking) which total is less than ten (10%) percent of the total compensation.

Summary Compensation Table

The following table discloses, for each NEO in the most recently completed financial year, total compensation received during the Company's three most recently completed financial years.

					Non-equity incentive Plan compensation ($)				
Name & Principal Position	Year	Salary($)	Share-Based awards($)	Option-Based awards ($)(1)	Annual Incentive Plans	Long-Term Incentive Plans	Pension Value ($)	All other Compensation	Total Compensation
Panwen Gao CEO(2)	2019 2018 2017	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil N/A N/A	Nil Nil Nil	Nil Nil Nil
Yanfeng Liu CFO & Corporate Secretary(3)	2019 2018 2017	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil Nil Nil	Nil N/A N/A	Nil Nil Nil	Nil Nil Nil

Notes:

(1) This figure does not represent cash paid to the NEO. The calculation of option-based awards includes both vested and unvested Options and is based on the Black-Scholes option valuation model based on parameters at the grant date.

(2) Ms. Panwen Gao was appointed CEO on May 13, 2016.

(3) Ms. Yanfeng Liu was appointed CFO & Corporate Secretary on January 9, 2017.

Outstanding Share-Based and Option-Based Awards – Named Executive Officers

The following table sets forth information with respect to the outstanding awards granted under the Stock Option Plan issued to the NEOs as at December 31, 2020.

	Option-Based Awards					Share-Based Awards		
Name	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised In-the-Money Options [1]		Number of Shares or Units of Shares that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested ($)	Market or Payout Value of Vested Share-Based Awards Not Paid Out or Distributed ($)
Panwen Gao CEO[1]	Nil	Nil	Nil	Nil		Nil	N/A	N/A
Yanfeng Liu CFO & Corporate Secretary[2]	Nil	Nil	Nil	Nil		Nil	N/A	N/A

Notes:

(1) Ms. Panwen Gao was appointed CEO on May 13, 2016.
(2) Ms. Yanfeng Liu was appointed CFO & Corporate Secretary on January 9, 2017.

Incentive Plan Awards – Value Vested or Earned During the Year – Named Executive Officers

The following table sets forth information in respect of the value of awards granted pursuant to the Stock Option Plan to the NEOs of the Company that vested during the period ending December 31, 2020.

Name		Option-Based Awards Value Vested During Year[1] ($)		Share-Based Awards – Value Vested During Year ($)		Non-Equity Incentive Plan Compensation- Value Earned During Year ($)
Panwen Gao CEO[2]		Nil		Nil		Nil
Yanfeng Liu CFO & Corporate Secretary[3]		Nil		Nil		Nil

Notes:

(1) Calculated based on the difference between the market value of the Common Shares on the application date of vesting and the applicable exercise price of the Option which vested.
(2) Ms. Panwen Gao was appointed CEO on May 13, 2016.
(3) Ms. Yanfeng Liu was appointed CFO & Corporate Secretary on January 9, 2017.

Other Plans

The Company has no retirement plans, pension plans or other forms of retirement or deferred compensation for its officers.

Compensation of Directors

The process for determining the compensation of the Company's directors relies solely on discussion by the Board, which discussions occur at any time that the Board determines the same to be appropriate, including without limitation, following the end of each fiscal year of the Company. The following table summarizes compensation for directors who are not NEOs of the Company during the fiscal year ended December 31, 2020.

Name	Fees Earned ($)	Share-Based Awards ($)	Option-Based Awards ($)	Non-Equity Incentive Plan Compensation ($)	Pension Value ($)	All Other Compensation ($)	Total ($)
Quingshou Gao	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Tao Gao	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Liqun Hao	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Yachao Peng	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Gary Chang[(1)]	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Songxian Tan	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Jinglin Yang	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Note:

(1) Gary Chang resigned as a director of the Company as of March 18, 2021. Fei Gao was appointed as a director of the Company as of March 31, 2021.

Outstanding Shares-Based and Option-Based Awards – Directors

The following table sets forth information with respect to the outstanding awards granted under the Stock Option Plan issued to the directors who are not NEOs of the Company as at December 31, 2020.

	Option-Based Awards				Share-Based Awards	
Name	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price ($)	Option Expiration Date	Value of Unexercised In-the-Money Options [(1)] ($)	Number of Shares or Units of Shares that Have Not Vested (#)	Market or Payout Value of Share-Based Awards that Have Not Vested ($)
Qingshou Gao	Nil	N/A	N/A	N/A	Nil	N/A
Tao Gao	Nil	N/A	N/A	N/A	Nil	N/A
Liqun Hao	Nil	N/A	N/A	N/A	Nil	N/A
Yachao Peng	Nil	N/A	N/A	N/A	Nil	N/A
Gary Chang[(2)]	Nil	N/A	N/A	N/A	Nil	N/A
Songxian Tan	Nil	N/A	N/A	N/A	Nil	N/A
Jinglin Yang	Nil	N/A	N/A	N/A	Nil	N/A

Notes:

(1) The Company has suspended the Stock Option Plan. See "Stock Option Plan" above. Currently, there are no outstanding options.

(2) Gary Chang resigned as a director of the Company as of March 18, 2021. Fei Gao was appointed as a director of the Company as of March 31, 2021.

Incentive Plan Awards - Value Vested or Earned During the Year – Directors

The following table sets forth information in respect of the value of awards granted pursuant to the Stock Option Plan to the directors who are not NEOs of the Company that vested during the period ending December 31, 2020.

Name		Option-Based Awards Value Vested During Year[1] ($)		Share-Based Awards – Value Vested During Year ($)		Non-Equity Incentive Plan Compensation- Value Earned During Year ($)
Qingshou Gao		Nil		Nil		Nil
Tao Gao		Nil		Nil		Nil
Liqun Hao		Nil		Nil		Nil
Yachao Peng		Nil		Nil		Nil
Gary Chang[2]		Nil		Nil		Nil
Songxian Tan [3]		Nil		Nil		Nil
Jinglin Yang[3]		Nil		Nil		Nil

Notes:

(1) Calculated based on the difference between the market value of the Common Shares on the applicable date of vesting and the applicable exercise price of the Options which vested.

(2) Gary Chang resigned as a director of the Company as of March 18, 2021. Fei Gao was appointed as a director of the Company as of March 31, 2021.

(3) Songxian Tan and Jinglin Yang were appointed directors on December 21, 2018.

Equity Compensation Plan Information as at December 31, 2020

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))**
Equity compensation plans approved by securityholders[1]	Nil	N/A	N/A
Equity compensation plans not approved by securityholders	Nil	N/A	N/A
Total	Nil	N/A	N/A

Note:

(1) The Company suspended all equity compensation plans in November of 2017.

APPENDIX F

INVESTMENT POLICY

Investment Objective

The investment objective of Sahara Energy Ltd. (the "**Company**") is to provide investors with long-term capital growth by deploying the Company's cash assets in strategic investments and real estate-driven business opportunities.

Investment Strategy

The following shall be the guidelines for the Company's investment strategy:

1. Investments of the Company shall be focused on a variety of investments and real estate-driven activities as opportunities present themselves.

2. Target investments shall be focused on and encompass a variety of real estate-driven assets, opportunities and ventures at all stages of development, including pre-IPO entities and/or early stage projects or enterprises with undeveloped and undervalued high-quality assets requiring start-up or development capital, as well as intermediate and senior projects or enterprises.

3. The Company will maintain a flexible position with respect to the form of investment undertaken and may employ a wide range of investment methods. Among other things, the Company may invest in equity, debt or convertible securities, which the Company intends may be acquired and held both for long-term capital appreciation and shorter-term gains. The Company may undertake its own real estate development projects, enter into partnerships or joint ventures with respect to projects of particular interest and it may also acquire real property directly, where the same is determined to be in the best interests of the Company's investment portfolio.

4. The investment activities of the Company may be passive; but, also, the Company may enter into joint ventures and partnerships for development projects, take an active role in management of its properties, projects or other investments where its experience and contacts would be beneficial.

5. A key aspect of the investment strategy shall be seeking and identifying investments that have potential, strong asset portfolio, strong management teams and/or are involved with a segment of the market that is complementary to the Company's macro position.

6. All investments shall be made in full compliance with applicable laws in relevant jurisdictions, and shall be made in accordance with and governed by the rules and policies in effect in the regulatory environment.

7. The Company's Investment Policy may be amended from time to time as approved by the Board and the Investment Committee (as defined below). Additionally, notwithstanding the Investment Policy, the Investment Committee or the Board, as applicable, may, from time to time, authorize such additional investments outside of the guidelines described herein as its sees fit for the benefit of the Company and its shareholders.

Implementation of the Investment Policy and Management of the Company's Investments

The Company's Board of Directors will have ultimate oversight over the Investment Policy as well as ensuring that the Company's investment objectives are achieved. The officers, directors and management of the Company shall work jointly and severally to uncover appropriate investment opportunities. These individuals have a broad range of business experience and their own networks of business partners, financiers, venture capitalists and finders through whom potential investments may be identified.

In furtherance of meeting its objectives, the Company will establish an investment committee ("**Investment Committee**"). It is expected that members of the Investment Committee will include directors (including independent directors) and/or officers of the Company, but the Company may also utilize, or the Board may appoint to the Investment Committee, qualified independent financial or technical consultants to assist the Investment Committee in making its investment decisions. The members of the Investment Committee will be appointed by the Board, and members of the Investment Committee may be removed or replaced by the Board.

The Investment Committee will be responsible for evaluating all potential investment opportunities. In assessing potential investments, the Investment Committee will consider whether or not such investments fit the investment and corporate objectives of the Company in accordance with the investment evaluation process below and the Investment Policy in general. The investment evaluation process may also require the Investment Committee to conduct preliminary due diligence after which a report of their findings will be presented to the Board for consideration.

The Investment Committee and designated members of the Company's management team will also monitor the Company's investment portfolio on an ongoing basis, review the status of the Company's investments and provide recommendations to the Board from time to time. The Investment Committee will conduct a quarterly review of the Company's investment portfolio in order to assess performance and market conditions. One member of the Investment Committee may be designated and authorized to handle the day-to-day trading decisions in keeping with the directions of the Board and the Investment Committee.

Investment Evaluation Process

It is anticipated that the Company's investments will be carried out according to an opportunistic and disciplined process to maximize returns while minimizing risk, taking advantage of investment opportunities identified from the industry contacts of the Board, as well as personnel and officers of the Company.

In selecting potential investments for the Company's portfolio, the Investment Committee will consider various factors in relation to any particular investment, including among others:

1. strength of management team and the extent to which there are clearly defined objectives in respect of the particular investment;
2. future capital requirements to develop the full potential of the investment and the expected ability to raise the necessary capital;
3. anticipated rate of return and the level of risk;
4. existing and anticipated market conditions;
5. financial performance; and
6. exit strategies and criteria.

Once the investment evaluation process and the required due diligence is completed, the Investment Committee will present a report of their findings on potentially viable investments to the Board for consideration. There will be no requirements for majority or supermajority decisions, instead, the final responsibility to approve or reject a proposed investment will rest with the Company's CEO, and the CEO shall determine when Board approval is also appropriate. Upon the approval of an investment, the CEO (or the Board, where full Board approval has been sought) shall designate certain members of the Investment Committee and management team to negotiate the terms of the investment and execute the deal on behalf of the Company.

Risk Management

The Company will implement the following controls to limit and manage risk:

1. conservative and streamlined investment strategy;
2. when appropriate and subject to the Company's cash position, a syndication strategy whereby the Company will invest in projects with other investors to diversify and share risks associated with a given investment;
3. detailed investment analysis which emphasizes potential returns, risk exposure, and market conditions; and
4. independent and technical appraisals of potential investments by experts, as required.

Conflicts of Interest

The Company is not averse to exploring investment opportunities that members of the Board or management may already be a part of, however, the respective individual is required to declare their interests in, and refrain from voting on, any matter in which they may have a conflict of interest. In such situations where an individual has a personal interest in a potential investment, the Investment Committee and the Board of Directors, where applicable, will ensure that there are independent and qualified officers and directors available to conduct an independent assessment.

Any potential investments where there is a material conflict of interest involving management or the Board may only proceed after receiving approval from disinterested directors of the Board. The Company is also subject to certain stock exchange policies and securities laws regarding "related party" transactions, which policies and laws will be complied with prior to the completion of any investment to which they may apply.

Monitoring and Reporting

The Company's CFO shall be primarily responsible for the reporting process whereby the performance of each of the Company's investments is monitored. Quarterly financial and other progress reports shall be gathered with respect to each investment, and these shall form the basis for a quarterly review of the Company's investment portfolio by the Investment Committee. Any deviations from expectation are to be investigated by the Investment Committee, and if deemed to be significant, reported to the Board. Where such information is not publicly available, in each of its investments, the Company shall endeavour to obtain a contractual right to be provided with timely access to all books and records it considers necessary to monitor and protect its investment. A full report of the status and performance of the Company's investments is to be prepared by the Investment Committee and presented to the Board at the end of each fiscal year.