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	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 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	Three months ended December 31 2019	Year ended December 31 2020	Year ended December 31 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		Year ended December 31	
	2020	2019	2020	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		Year ended December 31	
	2020	2019	2020	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		Year ended December 31	
	2020	2019	2020	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

<u>Common shares</u>

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.