SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the three and six months ended June 30, 2021

*The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three and six months ended June 30, 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 June 30, 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 **August 30, 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 and six months ended June 30, 2021 and 2020 is presented in the table below:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Cash flow used by operating activities	$ (183,368)	$ (108,804)	$ (332,711)	$ (226,792)
Abandonment expenditures	–	12,260	–	18,494
Change in non-cash working capital	(82,022)	34,898	(58,594)	81,374
Funds used by operations	$ (265,390)	$ (61,646)	$ (391,305)	$ (126,924)
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.

Financial statements

The June 30, 2021 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. The Company has consistently applied the same accounting policies throughout all periods presented except for the additions noted below:

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. All intercompany balances and transactions are eliminated in full upon consolidation.

Functional and presentation currency

The functional currency of Sahara is the Canadian dollar ("CAD"), the functional currency of GC Capital is the United States dollar ("USD"). The presentation currency of the Company is the CAD.

Foreign currencies

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in the consolidated statement of loss and comprehensive loss in the period in which they arise.

The financial results of operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange at the reporting date. Differences arising on translation are recognized as other comprehensive income (loss).

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 using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. 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.

The Company has applied the practical expedients for short-term and low value leases whereby related lease payments are recognized as expenses in the period incurred.

Abbreviations

In the following discussion, the three and six months ended June 30, 2021 may be referred to as "Q2 2021" and "the June 2021 period", respectively, or "the 2021 periods" collectively, and the comparative three and six months ended June 30, 2020 may be referred to as "Q2 2020" and "the June 2020 period", respectively, or "the 2020 periods" collectively.

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. ("GC Capital"), 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.

As at June 30, 2021, JK Investment (Hong Kong) Co., Limited (the "Investor") owned and controlled 69% of the Company's issued and outstanding shares.

SUMMARY INFORMATION

During Q2 2021, the Company earned oil sales revenue of $14,829 and reported a net loss of $352,689. The Company did not incur any capital expenditures during Q2 2021.

As at June 30, 2021, the Company reported a cash balance of $8,360,541 (December 31, 2020 – $1,118,324), short-term deposits of $nil (December 31, 2020 – $7,671,667) and $8,406,114 of working capital (December 31, 2020 – $9,012,284).

As at	June 30 2021	December 31 2020	December 31 2019
Working capital	$ 8,406,114	$ 9,012,284	$ 9,332,013
Property and equipment	1,780,482	1,643,314	3,541,483
Total assets	10,833,576	11,138,435	13,361,497
Total liabilities	1,038,367	841,251	1,014,602
Total shareholders' equity	9,795,209	10,297,184	12,346,895

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Oil sales revenue	$ 14,829	$ 2,616	$ 26,693	$ 11,219
Net loss	(352,689)	(66,923)	(499,432)	(258,038)
Net loss per share	(0.00)	(0.00)	(0.00)	(0.00)

OPERATIONAL ACTIVITIES

Field netback

Per boe	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Revenue	$ 63.52	$ 38.14	$ 58.19	$ 36.91
Royalties	(1.84)	(1.09)	(1.68)	(1.04)
Production and operating expenses	(108.73)	(241.84)	(98.89)	(114.20)
Field netback	$ (47.05)	$ (204.79)	$ (42.38)	$ (78.33)

The Company produced higher volumes during the 2021 periods than in the 2020 periods, which reduced production and operating expenses per boe.

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 June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Production				
Light-medium oil production (bbls)	234	69	459	304
Light-medium oil (bbls/day)	2.6	0.8	2.5	1.7
Revenue, before royalty				
Light-medium oil	$ 14,829	$ 2,616	$ 26,693	$ 11,219
Light-medium ($/bbl)	$ 63.52	$ 38.14	$ 58.19	$ 36.91
Benchmark oil price				
Cdn Light Sweet ($/bbl)	$ 76.29	$ 31.33	$ 72.46	$ 41.67

Light-medium oil production in the 2021 periods is higher than in the 2020 periods as two of three producing wells were shut-in during Q2 2020.

(b) Royalties

	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Royalties	$ 429	$ 343	$ 770	$ 695
As a % of light-medium oil revenue	2.9%	2.9%	2.9%	2.8%
Per boe (6:1)	$ 1.84	$ 1.09	$ 1.68	$ 1.04

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

(c) Production and operating expenses

	Three months ended June 30 2021	Three months ended June 30 2020	Six months ended June 30 2021	Six months ended June 30 2020
Production and operating expenses	$ 25,384	$ 16,588	$ 45,364	$ 34,709
Per boe (6:1)	$ 108.73	$ 241.84	$ 98.89	$ 114.20

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 the 2021 periods are lower than in the 2020 periods due to and increase in light-medium oil volumes resulting in lower fixed costs per boe.

General and administrative expenses

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Salaries and benefits	$ 86,136	$ 40,740	$ 128,363	$ 82,851
Canada Emergency Wage Subsidy	(18,036)	(6,013)	(22,288)	(6,013)
Office and general	19,986	10,741	33,036	21,927
Consulting and professional fees	108,887	23,373	162,310	59,865
Travel and business promotion	450	450	900	900
Shareholder and regulatory	57,840	9,288	72,987	10,680
Total	$ 255,263	$ 78,579	$ 375,308	$ 170,210

Salaries and benefits for the 2021 periods are higher than the 2020 periods due to new employees hired in by GC Capital.

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 the 2021 periods than in the 2020 periods due to an increase in communication expenses and additional expenses incurred by GC Capital.

Consulting and professional fees are higher in the 2021 periods than in the 2020 periods 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 are higher in the 2021 periods than in the 2020 periods 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 June 30				Six months ended June 30			
					2021		2020	
		Per boe		Per boe		Per boe		Per boe
Depletion	$ 3,360	14.39	$ 1,013	14.76	$ 6,603	14.39	$ 4,595	15.12
Depreciation	40,485		2,018		41,937		4,036	
	$ 43,845		$ 3,031		$ 48,540		$ 8,631	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is lower in the 2021 periods compared to the 2020 periods. 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 is comprised of depreciation of furniture and equipment and depreciation of right-of-use (“ROU”) assets. Depreciation of furniture and equipment is calculated on a declining-balance basis and is lower in the 2021 periods as there have been no additions to increase the depreciable base. During Q2 2021, the Company recognized a $189,793 ROU asset and corresponding lease liability related to office premises. The ROU asset is depreciated on a straight-line basis over the 19 month term of the related lease.

Impairment

As at June 30, 2021, the Company did not identify any additional or significantly changed indicators of impairment in relation to its CGU.

During the quarter ended 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 June 30, 2021, the Company had a working capital surplus of $8,406,114 compared to $9,012,284 at December 31, 2020. The decrease in working capital is due to $391,305 of funds used by operations, $41,134 of lease payments, the $118,126 current portion of lease liability and $55,605 of foreign exchange losses on U.S. denominated cash balances.

The Company’s June 30, 2021 working capital surplus includes $8,360,541 of cash, ensuring that the Company has sufficient cash resources to meet its financial obligations, comprised of trade and other payables of $491,872, 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, June 30, 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.

	2nd Quarter 2021	1st Quarter 2021	4th Quarter 2020	3rd Quarter 2020
Net Revenue (1)	$ 14,400	$ 11,523	$ 8,760	$ 5,870
Net Loss	(352,689)	(146,743)	(1,726,538)	(65,135)
Net Loss per share				
Basic and fully diluted	(0.001)	(0.001)	(0.006)	(0.000)
Weighted Average Number of Shares	289,684,072	289,684,072	289,684,072	289,684,072

	2nd Quarter 2020	1st Quarter 2020	4th Quarter 2019	3rd Quarter 2019
Net Revenue (1)	$ 2,541	$ 8,362	$ 9,913	$ 44,195
Net Loss and Comprehensive Loss	(66,923)	(191,115)	(113,527)	(132,145)
Net Loss per share				
Basic and fully diluted	(0.000)	(0.001)	(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 2nd Quarter of 2021 is higher than the previous quarter due to additional salaries and office expenses incurred by GC Capital.
- 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.

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 and six months ended June 30, 2021. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at June 30, 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 June 30, 2021 and December 31, 2020.

The maximum exposure to credit risk at is as follows:

		June 30 2021		December 31 2020
Cash and cash equivalents	$	8,360,541	$	1,118,324
Term deposits		–		7,671,667
Canada Emergency Wage Subsidy		18,036		11,575
	$	8,378,577	$	8,801,566

FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, term deposits, trade and other receivables, deposits, trade and other payables, lease liabilities 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.

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

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

Cash-generating units

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

Joint arrangements

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

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

Impairment indicators

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

Provisions

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

Deferred taxes

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

Contingencies

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

Key Sources of Estimation Uncertainty

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

Recoverability of asset carrying values

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

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

Depletion and depreciation

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

Decommissioning obligation

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

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.