SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the three months and year ended December 31, 2014

The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for the three months and year ended December 31, 2014 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, 2014 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 3, 2015****.*

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, 2014 and 2013 is presented in the table below:

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Cash flow used by operating activities	$ (296,549)	$ (156,241)	$ (1,115,307)	$ (644,255)
Change in non-cash working capital	(200,200)	(129,000)	(18,189)	(123,578)
Funds used by operations	$ (496,749)	$ (285,241)	$ (1,133,496)	$ (767,833)
Weighted average number of shares outstanding - Basic	289,684,072	89,684,072	217,355,305	89,684,072
Funds used by operations per share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)

Management uses certain industry benchmarks such as field netback to analyze financial and operating performance. Field netback has been calculated by taking petroleum 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 presently focused on the exploration and evaluation of various oil and gas properties in Saskatchewan and Alberta.

The Company does not have a history of earnings. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and/or complete equity financings and obtain borrowings from third parties sufficient to meet current and future obligations. During the year ended December 31, 2014, the Company incurred a net loss of $1,252,421 and had negative cash flows from operating activities of $1,115,307. In August 2014, the Company closed a private placement for the issuance of 200,000,000 common shares for gross aggregate proceeds of $16.2 million. As at December 31, 2014, the Company has an accumulated deficit of $5.2 million and a working capital surplus of $13.1 million.

OUTLOOK

Sahara intends to use the gross aggregate proceeds of the $16.2 million private placements discussed under the Liquidity and Capital Resources section to drill up to 11 new wells, complete nine perforation wells to increase the production of Sahara's existing wells on Sahara's existing oil and gas concessions. The Company will also use the private placement proceeds to acquire new lands for exploration and drilling and for general working capital.

During 2014, the Company commenced the drilling of two heavy oil development wells in the Bodo area of central Alberta and acquired 384 hectares of undeveloped land in Alberta.

The Company will proceed with further exploration and development plans once crude oil prices recover to a level to make such activities profitable.

OVERVIEW AND SIGNIFICANT EVENTS

During the three months and year ended December 31, 2014, the Company earned net revenues of $63,281 and $362,885, respectively, and incurred a net loss of $528,853 and $1,252,421, respectively. The Company incurred $1,478,363 of capital expenditures during 2014. There were no dispositions.

As at December 31, 2014, the Company reported a cash and cash equivalents balance of $9,019,033 (2013 – $468,415), short-term deposits of $5,025,068 (2013 – $nil) and a working capital surplus of $13,121,325 (2013 – $238,543).

Summary Information	As at December 31 2014	As at December 31 2013	As at December 31 2012
Working capital	$ 13,121,325	$ 238,543	$ 496,199
Exploration and evaluation assets	180,922	41,287	31,655
Property, plant and equipment	4,056,568	2,740,269	2,487,801
Total assets	18,727,491	3,448,220	3,226,337
Total liabilities	2,223,409	1,195,011	675,518
Total shareholders' equity	16,504,082	2,253,209	2,550,819
Net revenue	362,885	413,577	535,822
Net loss and comprehensive loss	(1,252,421)	(925,194)	(952,426)
Net loss per share	(0.01)	(0.01)	(0.01)

NEW DRILLING: HEAVY OIL – BODO, ALBERTA

During the fourth quarter of 2014, the Company commenced the drilling of two heavy oil wells in the Bodo area of central Alberta. Equipping and tie-in activities 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	2014	2013	2014	2013
Revenue	$ 60.25	$ 53.04	$ 68.37	$ 59.50
Royalties	(6.96)	(6.50)	(5.85)	(5.54)
Production and operating expenses	(76.01)	(71.69)	(68.39)	(57.58)
Field netback	$ (22.72)	$ (25.15)	$ (5.87)	$ (3.62)

The decline in the Company's field netback is due to reduced production combined with higher operating costs.

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	
	2014	2013	2014	2013
Production				
Oil (bbls)	1,188	1,671	5,805	7,665
Oil (bbls/d)	13	18	16	21
Composition of production				
Light-medium oil	23%	18%	20%	16%
Heavy oil	77%	82%	80%	83%
Revenue, before royalty				
Oil	$ 71,545	$ 88,613	$ 396,861	$ 456,012
Oil ($/bbl)	60.25	53.04	68.37	59.50

The drop in total oil production in the three months and year ended December 31, 2014 compared to the 2013 periods is due to natural declines.

The combined average price of oil earned by the Company in the three months ended December 31, 2014 is higher than the 2013 comparative period due to an decrease in the percentage of total production from heavy oil which earns a lower price than light-medium oil. The combined average price of oil earned by the Company in the year ended December 31, 2014 is higher than the comparative 2013 period due to an increase in industry prices combined with a decrease in the percentage of total production from heavy oil.

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

	Three months ended December 31		Year ended December 31	
Benchmark oil prices	2014	2013	2014	2013
Light-medium oil [1] ($/bbl)	$ 75.11	$ 86.38	$ 94.18	$ 93.27
Cdn Heavy Hardisty ($/bbl)	$ 61.41	$ 61.62	$ 75.96	$ 64.95

(1) Based on Canadian Light Sweet for 2014 and Edmonton Par Price for 2013. Edmonton Par Price was unavailable after April 2014 and Canadian Light Sweet was not available in 2013.

(b) Royalties

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Royalties	$ 8,264	$ 10,865	$ 10,865	$ 42,435
As a % of oil and natural gas revenue	11.6%	12.3%	8.6%	9.3%
Per boe (6:1)	$ 6.96	$ 6.50	$ 5.85	$ 5.54

Royalties as a percentage of revenue are lower in the 2014 periods due to lower volumes resulting in lower rates for crown royalties.

(c) Production and operating expenses

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Production and operating expenses	$ 90,257	$ 119,772	$ 396,994	$ 441,305
Per boe (6:1)	$ 76.01	$ 71.69	$ 68.39	$ 57.58

Operating costs per boe are higher in the 2014 periods due primarily to the effect of allocating fixed costs over lower production volumes combined with on-going repair and maintenance expenses.

General and administrative expenses

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Salaries, benefits and director fees	$ 132,845	$ 86,718	$ 444,652	$ 342,372
Consulting and professional fees	102,950	89,115	213,790	187,603
Office and general	47,293	44,331	185,443	140,683
Shareholder and regulatory	2,758	8,604	26,473	33,735
Travel and business promotion	52,560	14,511	86,631	36,269
Total	$ 338,406	$ 243,279	$ 956,989	$ 740,662
Per boe (6:1)	$ 284.98	$ 145.62	$ 164.87	$ 96.63

Salaries, benefits and director fees are higher for the three months and year ended December 31, 2014 compared to the 2013 periods due to new employees hired in January 2014 and September 2014.

Office and general expenses are higher in the year ended December 31, 2014 compared to the year ended December 31, 2013 due mainly to an increase in office rent following the move to new office premises in the fourth quarter of 2013.

Consulting and professional fees are higher in the three months and year ended December 31, 2014 compared to the 2013 periods due to an increase in land administrator consulting fees in the fourth quarter as well as costs associated with financing activities and the related due diligence for the private placement that closed in August 2014 as discussed under the Liquidity and Capital Resources section.

Travel and business promotion fees are higher in the three months and year ended December 31, 2014 compared to the 2013 periods due to costs travel between Canada and China for management and investor meetings as well as costs associated with financing activities and the related due diligence for the August 2014 private placement.

Shareholder and regulatory expenses are lower in the 2014 periods due to a reduction in activity following the closing of the August 2014 private placement.

Depletion and depreciation

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Depletion and depreciation	$ 212,095	$ 32,708	$ 295,140	$ 123,595
Per boe (6:1)	$ 178.61	$ 19.58	$ 50.85	$ 16.13

Depletion and depreciation expense per boe is higher in the 2014 periods due depreciation on field vehicles acquired in the last half of the year combined with an increase in the depletable base associated with drilling activity in the fourth quarter.

Share-based compensation

Share-based compensation measures the implicit cost of compensating key personnel through the issuance of stock options. During the three months and year ended December 31, 2014, the Company recognised $1,681 and $8,653 of expense, respectively, (three months and year ended December 31, 2013 – $1,254 recovery and $27,584 expense, respectively) for share-based compensation related to stock options granted in January 2011 and March 2012. The recovery in the three months ended December 31, 2013 was due to a revision of the original forfeiture rate estimate to reflect actual forfeitures in the year.

Income tax

Sahara does not have current income tax payable for 2014. As at December 31, 2014, the Company has approximately $4.2 million (2013 – $3.5 million) of tax pools available for deduction against future taxable income. The Company also has non-capital tax losses of approximately $10.4 million (2013 – $8.2 million) available for deduction against future taxable income that begin to expire in 2027.

Capital Expenditures

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Office equipment	$ 7,091	$ 1,031	$ 6,090	$ 2,523
Vehicles	100,575	–	146,848	–
Land and lease rentals	419	344	2,024	1,826
Well equipment	25,488	20,102	25,488	75,842
Drilling and completion	1,157,278	–	1,158,278	–
	1,290,851	21,477	1,338,728	80,191
Exploration and evaluation assets	130,003	–	139,635	9,632
Total capital expenditures	$ 1,420,854	$ 21,477	$ 1,478,363	$ 89,823

During the three months and year ended December 31, 2014, the Company purchased a second vehicle for transportation to and from the field and commenced drilling and completion activities on two wells in the Bodo area of central Alberta. Equipping and tie-in activities are scheduled for early 2015 with production expected to commence in May 2015.

Well and office equipment expenditures incurred during the three months and year ended December 31, 2013, are primarily comprised of pump equipment, office furniture and minor computer equipment purchases.

During the fourth quarter of 2014, the Company acquired 384 hectares of undeveloped land in Alberta for $129,110 and capitalized lease rentals on undeveloped land acquired in previous years.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2014, the Company had a working capital surplus of $13.1 million compared to $238,543 at December 31, 2013. The increase in working capital is due to $1,133,496 of funds used by operations and $1,478,363 of capital expenditures offset by $15,494,641 of net proceeds from the private placements described below.

In April 2014, the Company signed two agreements with JF Investment (Hong Kong) Co., Limited ("JF Investment") for the purchase by JF Investment of the Company's common shares for aggregate proceeds of $16.2 million, of which $0.6 million was received in June 2013, $0.15 million was received in June 2014, $0.15 million was received in July 2014 and the remaining balance was received upon closing. Pursuant to the agreements, the Company agreed to issue 5,000,000 common shares at $0.12 per share and 195,000,000 common shares at $0.08 per share.

The private placements closed on August 21, 2014, following the receipt of applicable government and regulatory approvals, specifically the TSX Venture Exchange and relevant Chinese governmental authorities, and the approval of the shareholders of both Sahara and JF Investment.

Upon closing of the private placements, JF Investment holds 69% of the Company's outstanding shares on a non-diluted basis and 68% on a diluted basis.

At the Company's annual general meeting held on August 12, 2014, the shareholders elected a new board of directors, including six directors nominated by JF Investment in conjunction with the private placements, and re-constituted the board to consist of nine directors.

KEY MANAGEMENT PERSONNEL AND RELATED PARTY TRANSACTIONS

The Company considers its directors and executives to be key management personnel. As at December 31, 2014, key management personnel included nine individuals (2013 – six individuals).

Key management personnel compensation is comprised of the following:

	2014	2013
Salaries and wages	$ 120,000	$ 120,000
Short-term employee benefits	9,326	10,299
Director fees	–	1,800
Share-based payments	8,653	27,584
	$ 137,979	$ 159,683

Other than key management compensation, the Company did not engage in any related party transactions in 2014 and 2013.

COMMITMENTS AND CONTINGENCIES

Premises lease: 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 $10,613 per month from January 1, 2015 to August 31, 2015 and $10,845 per month from September 1, 2015 to August 31, 2017.

The Company has not entered into any off-balance sheet arrangements.

SUBSEQUENT EVENTS

There were no reportable events subsequent to December 31, 2014.

SHARE CAPITAL

Common shares

As at December 31, 2013, the Company had 89,684,072 common shares outstanding. Following the closing of the private placements, the Company issued 200,000,000 common shares to JF Investment on August 21, 2014. As of December 31, 2014 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

Stock options

As at December 31, 2013, the Company had 3,100,000 stock options outstanding. In September 2014, 700,000 stock options expired. As at December 31, 2014 and the date of this MD&A the Company had 2,400,000 stock options outstanding, of which 2,166,667 stock options are exercisable at a weighted average exercise price of $0.10 per share.

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 2014	3rd Quarter 2014	2nd Quarter 2014	1st Quarter 2014
Net Revenue	$ 63,281	$ 84,963	$ 103,834	$ 110,807
Net Loss	(528,853)	(210,658)	(266,788)	(246,122)
Loss per share				
Basic and fully diluted	(0.002)	(0.001)	(0.003)	(0.003)
Weighted Average Number of Shares In Thousands	289,684	176,641	89,684	89,684

	4th Quarter 2013	3rd Quarter 2013	2nd Quarter 2013	1st Quarter 2013
Net Revenue	$ 77,748	$ 152,936	$ 108,297	$ 74,596
Net Loss	(318,248)	(182,446)	(182,397)	(242,103)
Loss per share				
Basic and fully diluted	(0.004)	(0.002)	(0.002)	(0.003)
Weighted Average Number of Shares In Thousands	89,684	89,684	89,684	89,684

- The decrease in net revenue for the 4th Quarter of 2014 is due to a decrease in production and commodity prices. The increase in the net loss compared to previous 2014 quarters is due to an increase in general and administrative expenses and depletion expense.
- The decrease in net revenue for the 3rd Quarter of 2014 is due to a decrease in production. The decrease in net loss compared to previous 2014 quarters is due to a decrease in general and administrative expenses.
- The increase in net revenue for the 2nd Quarter of 2014 is due to an increase in oil prices combined with a decrease in royalty rates. The increase in the net loss compared to the previous quarter is due

to an increase in general and administrative expenses offset by the increase in net revenue and a decrease in production and operating costs.

- The increase in net revenue for the 1st Quarter of 2014 is due to an increase in production and oil prices compared to the 4th Quarter of 2013. The decrease in net loss compared to the previous quarter is due to an increase in net revenue and a decrease in general and administrative expenses.
- The decrease in net revenue for the 4th Quarter of 2013 is due to a decrease in both production and oil prices compared to the 3rd Quarter. The increase in net loss is due to the decrease in net revenue combined with increases in operating costs and general and administrative expenses.
- The increase in net revenue for the 3rd Quarter of 2013 is due to an increase in both production and oil prices over the previous quarter. The decrease in the net loss is due to the increase in net revenue.
- The increase in net loss for the 2nd Quarter 2013 is due to a decrease in net revenue combined with a decrease in general and administrative expenses and share-based payments expense. The decrease in net revenue is due primarily to a decrease in production.
- The decrease in net revenue for the 1st Quarter 2013 is due to a decline in both production and pricing. The decrease in net loss is due to a reduction in general and administrative expenses and share-based payments expense.
- The decrease in net revenue for the 3rd Quarter 2012 is due to a decline in production. The increase in net loss for the period is due to an increase in general and administrative expenses and share-based payments expense.

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, 2014. 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, 2014.

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

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

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

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.

The Company is also exposed to credit risk and liquidity risk:

- Credit risk – Substantially all of the Company's trade and other receivables are with customers and joint venture partners in the petroleum and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The Company does not anticipate any default or non-performance with respect to its receivables. As such a provision for doubtful accounts has not been recorded. As at December 31, 2014, all of the Company's trade and other receivables are less than 60 days old except for approximately $32,500 which is greater than 60 days old.
- 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, 2014, the Company has an accumulated deficit of $5,203,806 (2013 – $3,951,385) and a working capital surplus of $13,121,325 (2013 – $238,543). 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 $1,368,676, are met on standard payment terms.

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 year 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 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.

Share-based compensation

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

Deferred taxes

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur.

Management must make estimates of amounts related to the outcome of future events.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 3 Business Combinations

Amendments to *IFRS 3 Business Combinations* clarify the classification and measurement of the obligation to pay contingent consideration. The amendments are effective for business combinations for which the acquisition date is on or after July 1, 2014.

IFRS 11 Joint Arrangements

Amendments to *IFRS 11 Joint Arrangements* clarify the accounting for acquisitions of interests in joint operations. The amendments are effective for annual period beginning on or after January 1, 2016.

IFRS 24 Related Party Disclosures

Amendments to *IFRS 24 Related Party Disclosures* expand the definition of a related party to include a management entity and related disclosures of transactions with a management entity. The amendments are effective annual periods beginning on or after July 1, 2014.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board ("IASB") issued *IFRS 15 Revenue from Contracts with Customers* which specifies how and when an entity will recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. *IFRS 15* is effective for annual period beginning on or after January 1, 2017.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of *IFRS 9 Financial Instruments* which replaces *IAS 39 Financial Instruments: Recognition and Measurement.* *IFRS 9* includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting. *IFRS 9* is effective for annual period beginning on or after January 1, 2018.

The Company is currently assessing the impact of these standards and amendments on its financial statements.