

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three and nine months ended September 30, 2017

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*The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for the three and nine months ended September 30, 2017 contains financial highlights but does not contain the complete financial statements of the Company. It should be read in conjunction with the Company's September 30, 2017 unaudited condensed interim financial statements and the December 31, 2016 audited financial statements and related notes thereto. Additional information is available on SEDAR at [www.sedar.com](http://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 **November 28, 2017**.*

### **Forward-Looking Statements**

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

### **BASIS OF PRESENTATION**

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

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The reconciliation between funds from (used by) operations and cash flow from (used by) operating activities for the three and nine months ended September 30, 2017 and 2016 is presented in the table below:

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Cash flow used by operating activities	\$ (123,240)	\$ (152,417)	\$ (460,515)	\$ (744,718)
Change in non-cash working capital	2,640	(8,266)	52,681	87,136
Funds used by operations	\$ (120,600)	\$ (160,683)	\$ (407,834)	\$ (657,582)
Weighted average number of shares outstanding - Basic	289,684,072	289,684,072	289,684,072	289,684,072
Funds used by operations per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

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

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

### CORPORATE OVERVIEW AND PRINCIPAL BUSINESS RISKS

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

As at September 30, 2017, JF Investment (Hong Kong) Co., Limited (the "Investor") owned and controlled 69% of the Company's issued and outstanding shares.

### OUTLOOK

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

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

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

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### OVERVIEW AND SIGNIFICANT EVENTS

During the three and nine months ended September 30, 2017, the Company earned oil and gas revenue of \$11,715 and \$37,416, respectively, and incurred a loss of \$131,369 and \$440,119, respectively. The Company incurred \$168 of capital expenditures during the second quarter of 2017. There were no dispositions.

As at September 30, 2017, the Company reported a cash and cash equivalents balance of \$962,771 (December 31, 2016 – \$1,493,768), short-term deposits of \$9,315,989 (December 31, 2016 – \$9,245,675) and a working capital surplus of \$10,638,145 (December 31, 2016 – \$11,046,147).

Summary Information	As at September 30 2017		As at December 31 2016		As at December 31 2015
Working capital	\$	10,638,145	\$	11,046,147	\$ 11,964,151
Exploration and evaluation assets		–		–	193,054
Property, plant and equipment		3,513,688		3,539,128	3,744,698
Total assets		14,559,294		15,060,463	16,422,115
Total liabilities		904,762		965,812	1,403,570
Total shareholders' equity		13,654,532		14,094,651	15,018,545
		Three months ended September 30		Nine months ended September 30	
		2017	2016	2017	2016
Net revenue <sup>(1)</sup>	\$	11,379	\$ 11,436	\$ 36,342	\$ 34,335
Net loss and comprehensive loss		(131,369)	(174,749)	(440,119)	(635,321)
Net loss per share		(0.00)	(0.00)	(0.00)	(0.00)

<sup>(1)</sup> Oil and gas revenue less royalties

### HEAVY OIL – BODO, ALBERTA

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

### OPERATIONAL ACTIVITIES

#### Field netback

Per boe	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenue	\$ 46.89	\$ 44.19	\$ 49.84	\$ 30.47
Royalties	(1.34)	(1.25)	(1.43)	(0.85)
Production and operating expenses	(68.07)	(100.82)	(106.57)	(100.80)
Field netback	\$ (22.52)	\$ (57.88)	\$ (58.16)	\$ (71.18)

The improvement in the Company's field netback in the 2017 periods is due to higher commodity prices combined with a decrease in production and operating expenses per boe for the three months ended September 30, 2017.

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Variations 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 September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Total production</b>				
Light-medium oil (bbls)	250	266	751	784
Heavy oil (bbls)	—	—	—	375
	250	266	751	1,159
<b>Daily production</b>				
Light-medium oil (bbls/day)	3	3	3	3
Heavy oil (bbls/day)	—	—	—	1
	3	3	3	4
<b>Composition of production</b>				
Light-medium oil	100%	100%	100%	68%
Heavy oil	—	—	—	32%
<b>Revenue, before royalty</b>				
Oil	\$ 11,715	\$ 11,768	\$ 37,416	\$ 35,319
Oil (\$/bbl)	\$ 46.89	\$ 44.19	\$ 49.84	\$ 30.47

Total oil production in the three and nine months ended September 30, 2017 is lower than the comparative 2016 periods due to natural declines in light-medium oil producing wells and the shut-in of heavy oil production in the third quarter of 2016 period due to low oil prices.

The combined average price of oil earned by the Company in the three and nine months ended September 30, 2017 is higher than the 2016 comparative periods due to an increase in industry prices. In addition, the 100% weighting of light-medium oil volumes in the 2017 periods increased the combined oil price as compared to the 2016 periods for which all volumes were split between higher priced light-medium oil and lower priced heavy oil.

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

<b>Benchmark oil prices</b>	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Cdn Light Sweet (\$/bbl)	\$ 57.15	\$ 54.19	\$ 60.57	\$ 49.44
Cdn Heavy Hardisty (\$/bbl)	\$ 44.03	\$ 36.46	\$ 44.52	\$ 31.19

### (b) Royalties

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Royalties	\$ 336	\$ 332	\$ 1,074	\$ 984
As a % of revenue	2.9%	2.8%	2.9%	2.8%
Per boe (6:1)	\$ 1.34	\$ 1.25	\$ 1.43	\$ 0.85

Royalties as a percentage of revenue are lower in the 2016 periods due to the averaging effect of royalties on heavy oil revenues that are at a lower rate than royalties on light-medium oil revenues. All royalties in the 2017 periods are on light-medium oil revenues.

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#### (c) Production and operating expenses

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Production and operating expenses	\$ 17,007	\$ 26,848	\$ 80,004	\$ 116,828
Per boe (6:1)	\$ 68.07	\$ 100.82	\$ 106.57	\$ 100.80

Production and operating expenses per boe are lower in the three months ended September 30, 2017 compared to the 2016 period due to the timing of property taxes and certain lease rentals, which were charged the second quarter of 2017 versus the third quarter of 2016. Production and operating expenses per boe are higher in the nine months ended September 30, 2017 compared to the 2016 period due to the effect of allocating fixed costs over lower volumes.

#### General and administrative expenses

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Salaries, benefits and director fees	\$ 46,198	\$ 81,726	\$ 170,348	\$ 249,302
Office and general	42,527	35,153	141,851	163,269
Consulting and professional fees	49,162	36,302	128,531	120,429
Travel and business promotion	754	24,920	2,358	59,179
Shareholder and regulatory	434	67	9,264	7,945
<b>Total</b>	<b>\$ 139,075</b>	<b>\$ 178,168</b>	<b>\$ 452,352</b>	<b>\$ 600,124</b>

Salaries and benefits are lower in the three and nine months ended September 30, 2017 due to the resignation of the CFO in January 2017 whose position was filled on a part-time basis by an employee of the majority shareholder.

Office and general expenses incurred in the three months ended September 30, 2017 are higher than the 2016 comparative period due to an expense recovery in the 2016 period. Expenses are lower in the nine months ended September 30, 2017 than the 2016 comparative period due to cost control measures.

Consulting and professional fees are higher in the three and nine months ended September 30, 2017 than the 2016 comparative periods due to an increase in legal services related to business planning.

Travel and business promotion fees relate to travel between Canada and China for Investor and management meetings. Travel and business promotion fees are lower in the three and nine months ended September 30, 2017 than the 2016 comparative periods due to reduced travel between Canada and China.

Shareholder and regulatory expenses are higher in the three and nine months ended September 30, 2017 than the 2016 comparative periods due to the timing of expenses and an increase in listing fees.

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### Depletion and depreciation

	Three months ended September 30				Nine months ended September 30							
	2017		2016		2017		2016					
		<u>Per boe</u>		<u>Per boe</u>		<u>Per boe</u>		<u>Per boe</u>				
Depletion	\$	2,906	11.63	\$	3,195	12.00	\$	8,733	11.63	\$	13,882	11.98
Depreciation		5,626		8,031		16,875		24,092				
	\$	8,532		\$	11,226		\$	25,608		\$	37,974	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is lower in the three and nine months ended September 30, 2017 due to an increase in the estimated proved plus probable reserves at December 31, 2016 (661,000 barrels) used for 2017 depletion calculations as compared to proved plus probable reserves reported at December 31, 2015 (659,000 barrels) used for 2016 depletion calculations.

Depreciation of furniture and equipment is calculated on a declining-balance basis. Depreciation expense is lower in the three and nine months ended September 30, 2017 as depreciation expense in comparative periods was calculated on a higher balance. The Company did not purchase any furniture and equipment in the 2017 or 2016 periods.

### Capital Expenditures

The Company did not engage in any drilling or related activities during the first quarter of 2017 or 2016 and incurred only minor expenditures.

### LIQUIDITY AND CAPITAL RESOURCES

As at September 30, 2017, the Company had a working capital surplus of \$10,638,145 compared to \$11,046,147 at December 31, 2016. The decrease in working capital is due to \$407,834 of funds used by operations and \$168 of capital expenditures.

The Company's September 30, 2017 working capital surplus includes \$962,771 of cash and cash equivalents and \$9,315,989 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 \$407,461, on standard payment terms.

### SUBSEQUENT EVENTS

There were no reportable events subsequent to September 30, 2017.

### SHARE CAPITAL

#### Common shares

As at September 30, 2017, December 31, 2016 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

#### Stock options

As at December 31, 2016, the Company had 700,000 stock options outstanding, all of which were exercisable at a weighted average exercise price of \$0.10 per share and expired on March 12, 2017.

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### 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](http://www.sedar.com).

	3rd Quarter 2017	2nd Quarter 2017	1st Quarter 2017	4th Quarter 2016
Net Revenue <sup>(1)</sup>	\$11,379	\$ 12,320	\$ 12,643	\$ 12,738
Loss	(131,369)	(178,655)	(130,095)	(288,573)
Loss per share				
Basic and fully diluted	(0.000)	(0.000)	(0.000)	(0.001)
Weighted Average Number of Shares (000s)	289,684	289,684	289,684	289,684

	3rd Quarter 2016	2nd Quarter 2016	1st Quarter 2016	4th Quarter 2015
Net Revenue <sup>(1)</sup>	\$ 11,436	\$ 11,550	\$ 11,349	\$ 24,094
Loss	(174,749)	(226,926)	(233,646)	(291,018)
Loss per share				
Basic and fully diluted	(0.001)	(0.001)	(0.001)	(0.001)
Weighted Average Number of Shares (000s)	289,684	289,684	289,684	289,684

<sup>(1)</sup> Oil and gas revenue less royalties

- The loss for the 3<sup>rd</sup> Quarter of 2017 is lower than the previous quarter due to a decrease in production and operating expenses and general and administration expenses.
- The loss for the 2<sup>nd</sup> Quarter of 2017 is higher than the previous quarter due to an increase in production and operating expenses for property taxes and lease rentals and an increase in general and administrative expenses related to consulting and professional fees.
- The loss for the 1<sup>st</sup> Quarter of 2017 is lower than the previous quarter due primarily to a decrease in production and operating expenses and general and administrative expenses. The 1<sup>st</sup> Quarter of 2017 did not include the recognition of exploration expenses or impact of property dispositions.
- The loss for the 4<sup>th</sup> Quarter 2016 is higher than the previous quarter due to \$193,054 of exploration expense and an increase in general and administrative expenses offset by the recognition of a \$174,416 gain on disposition of three non-producing wells.
- The loss for the 3<sup>rd</sup> Quarter of 2016 is lower than the previous quarter due to a decrease in general and administrative expenses.
- The loss for the 2<sup>nd</sup> Quarter of 2016 is comparable to the loss of the previous quarter.
- The decrease in net revenue for the 1<sup>st</sup> Quarter of 2016 is due to a decrease in production combined with a decline in commodity prices. The decrease in loss is due to a decrease in general and administrative expenses.

### CONTROLS AND PROCEDURES

As the Company is classified as a Venture Issuer under applicable securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certifications, which it has done for the three and

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nine months ended September 30, 2017. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at September 30, 2017.

### **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 is also exposed to credit risk. Substantially all of the Company's trade and other receivables are with customers and joint venture partners in the petroleum and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on

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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 September 30, 2017 and December 31, 2016, all of the Company's trade and other receivables are less than 60 days old except for approximately \$74,500 (December 31, 2016 – \$65,700) which are greater than 60 days old . The Company does not anticipate any default or non-performance with respect to the trade and other receivables. As such a provision for doubtful accounts has not been recorded.

### **FINANCIAL INSTRUMENTS**

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

### **USE OF JUDGMENTS AND ESTIMATES IN FINANCIAL STATEMENTS**

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

Detailed disclosures on the Company's use of critical judgments in applying accounting policies and key sources of estimation uncertainty can be found in Note 2(d) to the Company's December 31, 2016 audited financial statements as well as the Company's December 31, 2016 MD&A.