

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

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The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three months ended March 31, 2019 contains financial highlights but does not contain the complete financial statements of the Company. It should be read in conjunction with the Company's March 31, 2019 unaudited condensed interim financial statements and December 31, 2018 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 **May 28, 2019**.

### Forward-Looking Statements

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

### BASIS OF PRESENTATION

#### *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.

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

The reconciliation between funds from (used by) operations and cash flow from (used by) operating activities for the three months and year ended December 31, 2018 and 2017 is presented in the table below:

	Three months ended March 31	
	2019	2018
Cash flow used by operating activities	\$ (128,529)	\$ (249,042)
Abandonment expenditures	10,758	49,000
Change in non-cash working capital	11,833	(10,818)
<b>Funds used by operations</b>	<b>\$ (105,938)</b>	<b>\$ (210,860)</b>
Weighted average number of shares outstanding - Basic	289,684,072	289,684,072
Funds used by operations per share	\$ (0.00)	\$ (0.00)

### *Field netback*

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

### *BOE*

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

### *Abbreviations*

In the following discussion, the three months ended March 31, 2019 may be referred to as "Q1 2019" and the comparative three months ended March 31, 2018 may be referred to as "Q1 2018".

## **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 March 31, 2019, JF Investment (Hong Kong) Co., Limited (the "Investor") owned and controlled 69% of the Company's issued and outstanding shares.

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

### OUTLOOK

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

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

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

### OVERVIEW AND SIGNIFICANT EVENTS

During Q1 2019, the Company earned oil sales revenue of \$48,614 and reported a net loss of \$123,677. The Company did not incur any capital expenditures during Q1 2019.

As at March 31, 2019, the Company reported a cash balance of \$610,391 (December 31, 2018 – \$777,027), short-term deposits of \$8,763,058 (December 31, 2018 – \$8,724,951) and \$9,671,474 of working capital (December 31, 2018 – \$9,788,170).

Summary Information as at	March 31 2019	December 31 2018	December 31 2017
Working capital	\$ 9,671,474	\$ 9,788,170	\$ 10,443,584
Property and equipment	3,454,264	3,458,966	3,489,094
Total assets	13,546,399	13,702,328	14,401,325
Total liabilities	872,830	905,082	934,687
Total shareholders' equity	12,673,569	12,797,246	13,466,638

  

	Three months ended March 31	
	2019	2018
Oil sales revenue	\$ 48,614	\$ 12,703
Net loss and comprehensive loss	(123,677)	(219,864)
Net loss per share	(0.00)	(0.00)

### HEAVY OIL – BODO, ALBERTA

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

## SAHARA ENERGY LTD.

### Management's Discussion and Analysis For the three months ended March 31, 2019

#### OPERATIONAL ACTIVITIES

##### Field netback

Per boe	Three months ended March 31	
	2019	2018
Revenue	\$ 45.33	\$ 56.23
Royalties	(0.33)	(1.61)
Production and operating expenses	(53.47)	(211.77)
Field netback	\$ (8.47)	\$ (157.15)

The Company produced higher volumes during Q1 2019, which reduced production and operating expenses per boe as discussed below.

Variances in the Company's field netbacks are explained in more detail by changes in the following components:

##### (a) Production volumes and revenues

	Three months ended March 31	
	2019	2018
<b>Total production</b>		
Light-medium oil (bbls)	214	226
Heavy oil (bbls)	859	–
	1,073	226
<b>Daily production</b>		
Light-medium oil (bbls/day)	2.4	2.5
Heavy oil (bbls/day)	9.4	–
	11.8	2.5
<b>Composition of production</b>		
Light-medium oil	25%	100%
Heavy oil	75%	–
<b>Revenue, before royalty</b>		
Light-medium oil	\$ 12,214	\$ 12,703
Heavy oil	36,400	–
	48,614	12,703
Light-medium (\$/bbl)	\$ 57.19	\$ 56.23
Heavy oil (\$/bbl)	42.38	–
	45.33	56.23
<b>Benchmark oil price</b>		
Cdn Light Sweet (\$/bbl)	\$ 66.92	\$ 70.09
Heavy Hardisty (\$/bbl)	56.66	–

Total oil production in Q1 2019 is higher than Q1 2018 due to recommencement of heavy oil production in the second quarter of 2018.

## SAHARA ENERGY LTD.

### Management's Discussion and Analysis For the three months ended March 31, 2019

#### (b) Royalties

	Three months ended March 31	
	2019	2018
Royalties	\$ 352	\$ 367
As a % of light-medium oil revenue	2.9%	2.9%
Per light-medium oil boe (6:1)	\$ 1.65	\$ 1.61

Royalties as a percentage of light-medium oil revenue in Q1 2019 is comparable to Q1 2018.

#### (c) Production and operating expenses

	Three months ended March 31	
	2019	2018
Production and operating expenses	\$ 57,349	\$ 47,840
Per boe (6:1)	\$ 53.47	\$ 211.77

The Company incurs certain fixed production and operating costs regardless of whether wells are producing or shut-in. Production and operating expenses per boe are lower in Q1 2019 than in Q1 2018 due to higher production volumes related to production from heavy oil wells in Q1 2019. In addition, during the first quarter of 2018, the Company incurred approximately \$24,000 of repair and maintenance expenditures on two of the Company's heavy oil wells that were placed back on production in the second quarter.

#### General and administrative expenses

	Three months ended March 31	
	2019	2018
Salaries and benefits	\$ 41,182	\$ 42,938
Office and general	56,046	57,993
Consulting and professional fees	31,471	42,387
Travel and business promotion	1,571	3,984
Shareholder and regulatory	7,707	8,994
<b>Total</b>	<b>\$ 137,977</b>	<b>\$ 156,296</b>

Consulting and professional fees are lower in Q1 2019 than Q1 2018 due to an decrease in legal services.

Travel and business promotion fees relate to travel between Canada and China for Investor and management meetings. Travel and business promotion fees are lower in Q1 2019 than Q1 2018 due to an decrease in travel between Canada and China in Q1 2019.

Shareholder and regulatory expenses are lower in Q1 2019 than Q1 2018 due to the timing of expenses and an increase in shareholder reporting costs.

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

### Depletion and depreciation

	Three months ended March 31			
	2019		2018	
		Per boe		Per boe
Depletion	\$ 12,638	11.78	\$ 2,611	11.56
Depreciation	2,822		3,971	
	\$ 15,460		\$ 6,582	

Depletion of development and production assets is calculated on a unit-of-production basis. Depletion expense per boe is higher in Q1 2019 than Q1 2018 due to a decrease in the estimated proved plus probable reserves at December 31, 2018 (643,000 barrels) as compared to proved plus probable reserves reported at December 31, 2017 (664,000 barrels).

Depreciation of furniture and equipment is calculated on a declining-balance basis. Depreciation expense is lower in Q1 2019 periods as there have been no additions to increase the depreciable base.

### Bad debt expense

During Q1 2018, the Company recognized \$45,915 of bad debt expense for the write-off of uncollectible trade and other receivables.

### Capital expenditures

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

## LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2019, the Company had a working capital surplus of \$9,671,474 compared to \$9,788,170 at December 31, 2018. The decrease in working capital is due to \$116,696 of funds used by operations.

The Company's March 31, 2019 working capital surplus includes \$610,391 of cash and cash equivalents and \$8,763,058 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 \$420,661, on standard payment terms.

## SUBSEQUENT EVENTS

There were no reportable events subsequent to March 31, 2019.

## SHARE CAPITAL

### Common shares

As at December 31, 2018, March 31, 2019 and the date of this MD&A, the Company had 289,684,072 common shares outstanding.

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

### 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).

	1st Quarter 2019	4th Quarter 2018	3rd Quarter 2018	2nd Quarter 2018
Net Revenue <sup>(1)</sup>	48,262	\$ 21,277	\$ 59,275	\$ 65,442
Net Loss and Comprehensive Loss	(123,677)	(182,997)	(136,300)	(130,231)
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

  

	1st Quarter 2018	4th Quarter 2017	3rd Quarter 2017	2nd Quarter 2017
Net Revenue <sup>(1)</sup>	\$12,339	\$ 13,253	\$ 11,379	\$ 12,320
Net Loss and Comprehensive Loss	(219,864)	(187,894)	(131,369)	(178,655)
Net Loss per share				
Basic and fully diluted	(0.001)	(0.001)	(0.000)	(0.001)
Weighted Average Number of Shares	289,684,072	289,684,072	289,684,072	289,684,072

<sup>(1)</sup> Oil sales revenue less royalties

- The net loss for the 1<sup>st</sup> Quarter of 2019 is lower than the previous quarter due to an increase in net revenue related to higher production volumes and also to a decrease in expenses.
- The net loss for the 4<sup>th</sup> Quarter of 2018 is higher than the previous quarter due to a decrease in net revenue related to lower production volumes and lower oil prices.
- The net loss for the 3<sup>rd</sup> Quarter of 2018 is higher than the previous quarter due to a decrease in net revenue related to lower production volumes offset by slightly higher oil prices.
- The net loss for the 2<sup>nd</sup> Quarter of 2018 is lower than the previous quarter due primarily to an increase in net revenue related to sales of heavy oil from wells that were put back on production in the quarter.
- The net loss for the 1<sup>st</sup> Quarter of 2018 is higher than the previous quarter due to an increase in general and administrative expenses and the recognition of an allowance for credit losses offset by a decrease in depletion and depreciation expense.
- The net loss for the 4<sup>th</sup> Quarter of 2017 is higher than the previous quarter due to an increase in production and operating expenses and general and administrative expenses.
- The net loss for the 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.

### CONTROLS AND PROCEDURES

As the Company is classified as a Venture Issuer under applicable securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certifications, which it has done for the three months ended March 31, 2019. The Company makes no assessment relating to establishment and

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

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maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at March 31, 2019.

### **BUSINESS RISKS**

The Company is engaged in the exploration and development of crude oil. The Company's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

#### Environment risks

All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a complex blend of federal, provincial, and municipal laws and regulations. Although the Company believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or materially increase the costs of production, development, and exploration activities or otherwise adversely affect the Company's financial condition, results from operations and or prospects.

#### Operational risks

Operational risks include competitive environmental factors, reservoir performance uncertainties and dependence upon third parties for commodity transportation and processing and a complex regulatory environment. The Company closely follows the applicable government regulations. The Company carries insurance coverage to protect itself against those potential losses that could be economically insured against.

#### Financial risks

Financial risks associated with the petroleum industry include fluctuation in commodity prices, interest rates, and currency exchange rates. Other financial risks include, but are not limited to, the availability of funds through equity markets and or debt to invest in capital projects to support the Company's growth.

- Commodity price risk – Due to the volatility of commodity prices, the Company is exposed to adverse consequences in the event of declining prices. The Company does not have any contracts in place to protect against commodity price changes.
- 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. As at March 31, 2019 and December 31, 2018, the Company's trade and other receivables are for Goods and Services Tax. For the portion of the Company's trade and other receivables that may be with customers and joint venture partners in the petroleum and gas industry, such receivables are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and joint venture partners 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. Receivables

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

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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.

All of the Company's oil sales revenue is from the sale of heavy and light-medium oil from non-operated properties. Oil sales were earned from two working interest partners (the property operators) during the Q1 2019 (Q1 2018 – a single working interest partner and property operator) representing 100% of revenue for Q1 2019 and Q1 2018 and \$nil of accounts receivable at March 31, 2019 (December 31, 2018 – \$nil).

### FINANCIAL INSTRUMENTS

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

### USE OF JUDGMENTS AND ESTIMATES IN FINANCIAL STATEMENTS

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

#### Critical judgments in applying accounting policies

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

#### *Cash-generating units*

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

#### *Joint arrangements*

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

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

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

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### *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

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the three months ended March 31, 2019

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

### *Deferred taxes*

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

### *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. Management must make estimates of amounts related to the outcome of future events.

## **CHANGES IN ACCOUNTING STANDARDS**

### *IFRS 16 Leases*

On January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") using the modified retrospective approach. IFRS 16 replaces the previous leases standard, IAS 17 Leases and eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

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

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

The adoption of IFRS 16 had no impact on the Company's condensed interim financial statements.