

## **SIMBA ESSEL ENERGY INC.**

Formerly Simba Energy Inc.

Management Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

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This "Management's Discussion and Analysis" has been prepared as of May 26, 2018 and should be read in conjunction with the audited consolidated financial statements of the Company for the year ended June 30, 2017.

### **Forward-looking Information**

This Management Discussion and Analysis ("MD&A") contains certain forward-looking statements and information relating to Simba Essel Energy Inc. ("the Company" or "Simba") that are based on the beliefs of its management as well as assumptions made by and information currently available to the Company. When used in this document, the words "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. This MD&A contains forward-looking statements relating to, among other things, regulatory compliance, the sufficiency of current working capital, and the estimated cost and availability of funding for the continued exploration and development of the Simba exploration properties. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performance or achievements of Simba to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements.

### **The Company**

Simba is a Canadian-based company, incorporated under the laws of the Province of British Columbia. On February 18th, 2010, Gold Star Resources Corp. announced it had received approval from the TSX Venture Exchange ("TSX-V") to change the Company's name to Simba Energy Inc. The stock symbol of the Company was changed to "SMB" and the Company's CUSIP number was changed to CUSIP 828572107. The corporate name change and symbol change took effect February 19, 2010. A further amendment to the Company name occurred on April 24, 2017 when the Company name was amended to Simba Essel Energy Inc. The website of the Company is [Simbaenergy.ca](http://Simbaenergy.ca).

Simba's strategy is to focus on oil and gas opportunities in unexplored onshore and shallow offshore basins of Africa. Using expertise and affiliations the Company has pursued and secured strategic assets that demonstrate high potential for drilling and production operations. Once secured, Simba utilizes a farm-out strategy to seek partners to escalate exploration of the assets before commencing exploration drilling.

### **Oil and gas properties**

#### **(a) Kenya**

On August 3, 2011, the Company was awarded a Production Sharing Contract ("PSC") by the Government of Kenya covering Block 2A in Kenya. This PSC comprises 7,802 square kilometres in northeast Kenya.

Block 2A overlies the southern tip of the Mandera Basin while the southwest corner of the block extends into the Anza Basin. The Mandera Basin is Permo-Triassic to Tertiary in age with a sediment thickness of 10,000 meters. Potential source rock interval is mid Jurassic-Lower Cretaceous and comparable with the larger Mandera-Lugh basin in Ethiopia and Somalia.

In December 2011, the work program for year one commenced with a re-interpretation of existing gravity and magnetic data as well as the reprocessing of select 2D lines. The Company also obtained copies of all existing 2D seismic lines (800 kilometers) carried out by Chevron and Amoco. This reprocessing was completed by March 2012.

On April 22, 2014, the Company signed a contract with Bell Geospace to conduct a comprehensive airborne Full Tensor Gradiometry ("FTG") survey on Block 2A in Kenya. Work commenced on this project throughout May 2014 and on June 19, 2014 the Company reported the completion of the flight program portion of the FTG and that

## **SIMBA ESSEL ENERGY INC.**

Formerly Simba Energy Inc.

Management Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

---

Geospace had identified 11 high ranking and sizeable anomalies in both the Manderla (5 anomalies) basin and the Anza (6 anomalies) within the Block 2A concession.

The FTG identified five structural features in the Manderla basin with independent closures varying in size from 30km<sup>2</sup> to over 100km<sup>2</sup>. The largest, having 2D seismic 4-way structural closure and excellent correlation with the FTG and earlier passive seismic surveys completed, is an excellent prospect. The remaining anomalies consist of two "string of pearl type" leads and two FTG structures that are supported by previous passive seismic results. This was outlined in the final report received from Bell Geospace on August 14, 2014.

On June 5, 2015, the Company executed an agreement with Essel Group Middle East DMCC ("Essel"), wherein Essel agreed to provide funding on certain exploration and evaluation expenditures in Kenya with respect to its PSC. This funding commitment covers exploration expenditures for FTG and seismic surveys and the drilling of two wells for which Essel will earn 60% of the Company's Kenyan subsidiary, Simba Africa Rift Energy Ltd. while Simba will retain 40%.

A definitive agreement was executed on November 27, 2015 and was subject to approval of the TSX-V, the government of Kenya and the Company's shareholders, all of which were subsequently received.

In January and May 2016, Essel subscribed to a total of 67,914,975 units of the Company and two of its officers became directors and officers of Simba. As a result, Essel is henceforth disclosed as a related party for financial statement purposes.

On March 3, 2017, Africa Geophysical Services Ltd ("AGS") completed the 2D seismic acquisition program on Block 2A in Wajir, Kenya, and the Company announced that the 2D seismic program on Block 2A in Kenya covering 520 kilometers was completed and forwarded to Essel. The seismic data generated by AGS is currently being interpreted and this report is expected shortly. Essel also engaged Sproule International Limited, of Calgary Alberta Canada, a premier, independent petroleum consulting firm with expertise in geology, geophysics and petroleum engineering, to complete 2D seismic interpretation services, a prospective resource estimate, and an updated NI 51-101 report for block 2A in Wajir, Kenya. The scope of work involves an update of Sproule's Block 2A interpretation study conducted in May 2012, along with the inclusion of approximately 535 km of new 2D seismic data that was recently acquired. This report has been received and Essel has assessed its content and is preparing for the next phase of its program which will be either additional seismic or a drill program.

### **(b) Liberia**

Liberia is a country that resumed stable and democratic government in 2006, after a period of over twenty years of civil war. The current government, which is underwritten by the United Nations ("UN") and the USA, has restored democracy and through its government agency, National Oil Company of Liberia ("NOCAL"), is directing efforts towards the opening of the natural resource sector to foreign investment, and consequently, is also laying great emphasis on infrastructure. The Liberian and US dollar are freely traded in parallel within the national economy.

In 2010, the Company, through its subsidiary, Simba Energy Liberia Inc., acquired a Hydrocarbon Reconnaissance License ("HRL") covering an onshore area in Liberia covering an area of approximately 1,366 square kilometres. Although the HRL Permit NR-001 in Liberia was allowed to expire in February 2011, the application process of applying for a PSC effectively extended the life of the license through this process. The extension of the reconnaissance permit by NOCAL provided both the Company and NOCAL additional time to complete the technical review. The negotiations were put on hold in 2015 as the country dealt with an outbreak of a serious contagious disease.

On April 10, 2017, the Company executed an agreement with NOCAL for the issuance of a new Hydrocarbon Reconnaissance License #NR-002 which includes the existing concession area of 1,366km<sup>2</sup> plus an additional

## **SIMBA ESSEL ENERGY INC.**

Formerly Simba Energy Inc.

Management Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

---

1,595.7km<sup>2</sup> for a total area of 2,961.7km<sup>2</sup>. This newly expanded exploration area connects Simba's existing onshore concession with the newly acquired offshore acreage.

The new HRL is for a period of two years with an automatic one-year renewal, provided the Company complies with the terms of the HRL. Those terms included annual fees of US\$284,234 and commencing a work program within 180 days of signing (October 27, 2017). The work program will include an environmental and social impact study, FTG and seismic surveys.

Once the above program has been successfully completed, the Company will immediately apply for conversion of the existing NR-002 license to a formal PSC.

Between February 2011 and April 2017, any costs incurred in Liberia were expensed as site investigation costs.

The Company is finalizing a contract with Essel Group to carry out an exploration program, including initially a FTG survey of the property, and expect to initiate this program shortly.

### **(c) Guinea**

On July 27, 2011, the Company signed an agreement to acquire a 60% interest in an issued a PSC for Blocks 1 & 2 comprising 12,000 square kilometres onshore in the Republic of Guinea's Bove Basin. This agreement was executed after the Company's geological staff conducted both a site investigation and a detailed review of technical data, and then advised that there existed a significant potential for oil and gas in the basin.

The Company received approval for its 60% owned PSC on May 24, 2012 regarding Blocks 1 & 2 in onshore Guinea and commenced negotiations to acquire the remaining 40% of the PSC. This 40% was owned by a third company that defaulted on the PSC and the Guinean government eventually rescinded their ownership.

The two blocks total 12,000km<sup>2</sup> onshore in the Bove basin in the Republic of Guinea and when conducting the geo-chem, several surface oil seeps and three known reservoir systems with good reservoir parameters in both clastic sediments and carbonates were identified.

A field trip was conducted on Block 2 that identified and sampled numerous oil seeps and contaminated (unpalatable) water well. Several samples have been collected for laboratory analysis to confirm the presence of hydrocarbon. Preliminary tests on the two samples showed significant fluorescence that confirmed the presence of hydrocarbon. During the surface sampling program completed in the summer of 2013, two sites of major blowouts were visited and the blowouts were confirmed in discussion with residents in the area.

The work program was put on hold in 2015 and 2016 as Guinea dealt with an outbreak of a serious contagious disease. Further, there was an opportunity to increase the Company's ownership of the PSC from 60% to 100%. Accordingly, the Company ceased any exploration activity until changes to the ownership of the PSC could be finalized. As at June 30, 2016, the negotiations ceased, and, without a firm agreement, management impaired the property. During fiscal 2018, negotiations have been completed, and the Company anticipates closing on 100% ownership of a PSC shortly.

During fiscal 2017 negotiations were reinstated and the Company has provided required information and anticipates a PSC being issued soon with Simba as the 100% owner of the PSC.

### **Financial statement presentation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board on a going concern basis, which

## SIMBA ESSEL ENERGY INC.

Formerly Simba Energy Inc.

Management Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

presumes the realization of assets and discharge of liabilities in the normal course of business for the near future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining on-going financing. There can be no assurance that the Company will be able to obtain either of these requirements. The consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

### Selected Annual Financial Information

The following annual information has been extracted from the audited consolidated financial statements:

	June 30, 2017 In CDN \$	June 30, 2016 In CDN \$	June 30, 2015 In CDN \$
Operating expenses	1,160,990	1,120,495	1,523,455
Other (income)/expenses	-	1,107,576	682,263
Net loss for the year	1,160,990	2,228,071	2,205,718
Net loss per share	0.00	0.01	0.01
Total assets	10,460,742	9,957,731	8,912,079
Total Liabilities	2,032,872	2,617,581	2,532,098

### Summary of Quarterly Results

Results for the eight most recently completed quarters, extracted from the unaudited condensed interim consolidated financial statements, are summarized as follows:

	Total revenues In CDN \$	Net loss for the period In CDN \$	Net loss per share (basic and diluted) In CDN \$
March 31, 2018	NIL	136,058	0.00
December 31, 2017	NIL	164,582	0.00
September 30, 2017	NIL	215,788	0.00
June 30, 2017	NIL	281,931	0.01
March 31, 2017	NIL	301,758	0.00
December 31, 2016	NIL	323,754	0.00
September 30, 2016	NIL	253,547	0.00
June 30, 2016	NIL	1,330,438	0.01

### Results of Operations

The operating expenses for the 3rd quarter ("Q3") of fiscal 2018 were \$136,058. In the same period for the previous year, the operating expenses were \$301,758. The \$165,700 drop in expenses represents a reduction of 55%.

The reduction resulted mainly from the change in project investigation costs related to Liberia. As noted earlier, expenditures made for the Liberia property were expensed until the new Hydrocarbon Reconnaissance License was issued in April, 2017. There were two other accounts whose reduction also impacted the loss on operations.

## **SIMBA ESSEL ENERGY INC.**

Formerly Simba Energy Inc.

Management Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

---

Consulting fees were \$Nil in Q3, 2018 compared to \$18,353 in Q3 2017. The operating expenses for the nine-month period ended March 31, 2018 were \$516,428 compared to \$879,059 for the same period of the previous year. This represents a drop of \$362,631 or 41%. The same accounts that affected Q3 also affected the nine-month period. Project investigation costs were \$245,394 in 2017 compared to \$Nil in 2018. The costs incurred were mainly required to reinstate the Hydrocarbon Reconnaissance License.

### Kenya

Under the Definitive Agreement, Essel is to fund certain ongoing exploration expenditures. In fiscal 2017, Essel initiated a 2D seismic program on Block 2A with AGS Oilfield Services Ltd. of Oman. The program was completed on March 3, 2017 and after review by Essel was outsourced for interpretation. In May 2017, Essel also engaged the services of Sproule International Limited, an international independent petroleum consulting firm with expertise in geology, geophysics and petroleum engineering, to complete 2D seismic interpretation services, and a prospective resource estimate. This information has been received and continues to be evaluated in preparation of the next phase of its exploration program. Essel is responsible for maintaining an office in Kenya.

### Liberia

Under the terms of the new HRL license the Company was required to make annual payments of approximately US\$285,000. These costs are to be paid on each annual renewal. In addition, there were over \$85,000 in costs incurred prior to the new HRL license being issued that were expensed as site investigation costs in fiscal 2017.

### Guinea

As noted above, negotiations to obtain a 100% owned PSC started again in 2017. The Company incurred \$146,000 in costs that were expensed as site investigation costs in fiscal 2017. All information necessary for reissuance of the PSC has been provided to the Guinea government, and issuance of the PSC is expected soon.

## **Liquidity and Capital Resources**

At March 31, 2018, the Company had cash on hand of \$4 compared to \$16,068 at June 30, 2017. Current assets amounted to \$33,644 at March 31, 2018 compared to \$54,483 at June 30, 2017 and the working capital deficit at March 31, 2018 amounted to \$2,663,806 compared to \$1,978,389 at June 30, 2017.

In the past, the Company has been able to raise funds through private placements or the exercise of stock options and/or warrants. Although the Company has been successful in raising capital by those means in the past, there can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statements of financial position. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material. The Company has incurred losses since inception and has a working capital deficiency as at March 31, 2018. These material uncertainties may cast significant doubt upon the ability of the Company to continue as a going concern.

On June 27, 2017, the Company completed a non-brokered private placement by issuing 10,569,214 common shares of the Company at a price of \$0.07 per share to Essel to settle debt for advances and direct payments made by Essel to the Company's creditors. The share issuance totaled \$739,845.

7,500,000 warrants were exercised at \$0.05 and 1,270,000 options were exercised at \$0.06. Total gross proceeds received was \$451,200. The fair value of those options was originally determined to be \$18,453 and was credited

## SIMBA ESSEL ENERGY INC.

Formerly Simba Energy Inc.

Management Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

---

to reserves at the time of issuance. Upon exercise, this amount was taken out of reserves and added to the value received for shares issued.

The Company currently has no commitments for any credit facilities such as revolving credit agreements or lines of credit that could provide additional working capital.

### Transactions with Related Parties

The following are fees paid or accrued to officers and directors:

For the nine months ended March 31	<u>2017</u>	<u>2016</u>
Management fees paid to the CEO	\$ 99,000	\$ 66,000
Management fees to the President	90,000	90,000
Management fees to the Director of Operations	40,000	90,000
Management fees to the CFO	36,000	36,000
<u>Total</u>	<u>\$ 265,000</u>	<u>\$ 282,000</u>

Included in amounts due to related parties as at March 31, 2018, is an amount due to Essel of \$1,025,462 (2017 - \$939,896). Also included are amounts due to officers and directors of the Company, or companies owned by officers and directors of \$805,734 (2016 - \$325,633). All amounts payable are unsecured, non-interest bearing and have no fixed terms of repayment.

The shares issued during the June 30, 2017 year of 10,569,214 common shares at a price of \$0.07 per share for proceeds of \$739,845 were issued to Essel.

### Recent accounting pronouncements

The standards that are issued up to the date of issuance of the Company's financial statements, but were not effective during the year ended June 30, 2017, are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

**IFRS 9, Financial Instruments ("IFRS 9")** – classification and measurement, addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

**IFRS 16, Leases** - IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases.

The standard is effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

## **SIMBA ESSEL ENERGY INC.**

Formerly Simba Energy Inc.

Management Discussion and Analysis

For the three and nine months ended March 31, 2018 and 2017

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The Company has not early adopted these new and revised standards and is currently assessing the impact that these standards will have on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

### **Other Information**

At May 26, 2018, the Company had the following common shares, stock options and warrants outstanding:

Issued and outstanding common shares	401,328,457
Options	10,000,000
Warrants	76,682,497
<b>Total</b>	<b>488,010,954</b>