Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three months ended March 31, 2018

(Unaudited – prepared by Management)

Notice of No Auditor Review of Condensed Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim financial statements as at and for the three months ended March 31, 2018.

Sahara Energy Ltd.
Condensed Interim Statements of Financial Position
(Unaudited)
(in Canadian dollars)

As at		March 31 2018		December 31 2017
Assets				
Current assets				
Cash and cash equivalents (Note 5)	$	541,518	$	812,084
Term deposits (Note 5)		9,359,673		9,338,149
Trade and other receivables (Note 6)		41,485		84,660
Prepaid expenses and deposits		684,889		677,338
		10,627,565		10,912,231
Property, plant and equipment (Note 7)		3,510,549		3,489,094
	$	14,138,114	$	14,401,325
Liabilities and Shareholders' Equity				
Current liabilities				
Trade and other payables	$	443,841	$	468,647
Decommissioning obligation (Note 8)		447,499		466,040
		891,340		934,687
Shareholders' equity				
Share capital		20,465,084		20,465,084
Contributed surplus		1,244,119		1,244,119
Accumulated deficit		(8,462,429)		(8,242,565)
		13,246,774		13,466,638
	$	14,138,114	$	14,401,325

See the accompanying notes to these condensed interim financial statements.

Sahara Energy Ltd.
Condensed Interim Statements of Loss and Comprehensive Loss
(Unaudited)
(in Canadian dollars)

For the three months ended March 31		2018		2017
Revenue				
Oil and natural gas sales (Note 4)	$	12,703	$	13,018
Royalties		(364)		(375)
		12,339		12,643
Expenses				
Production and operating		47,840		23,678
General and administrative		184,751		149,080
Depletion and depreciation (Note 7)		6,582		8,487
Decommissioning obligation accretion (Note 8)		2,422		2,215
Allowance for credit losses (Note 6)		17,460		-
		259,055		183,460
Loss from operating activities		(246,716)		(170,817)
Interest income		26,852		40,722
Net loss and comprehensive loss	$	(219,864)	$	(130,095)
Net loss per share - basic	$	(0.00)	$	(0.00)
Basic weighted average number of common shares outstanding		289,684,072		289,684,072

See the accompanying notes to these condensed interim financial statements.

Sahara Energy Ltd.
Condensed Interim Statements of Changes in Equity
(Unaudited)
(in Canadian dollars)

For the three months ended March 31		2018		2017
Share capital				
289,684,072 common shares issued and outstanding				
Balance, beginning and end of period	$	20,465,084	$	20,465,084
Contributed surplus				
Balance, beginning and end of period		1,244,119		1,244,119
Accumulated deficit				
Balance, beginning of period		(8,242,565)		(7,614,552)
Net loss		(219,864)		(130,095)
Balance, end of period		(8,462,429)		(7,744,647)
Total Shareholders' Equity	$	13,246,774	$	13,964,556

See the accompanying notes to these condensed interim financial statements.

Sahara Energy Ltd.
Condensed Interim Statements of Cash Flows
(Unaudited)
(in Canadian dollars)

For the three months ended March 31		2018		2017
Operating activities				
Net loss	$	(219,864)	$	(130,095)
Add back (deduct) non-cash items:				
Depletion and depreciation (Note 7)		6,582		8,487
Decommissioning obligation accretion (Note 8)		2,422		2,215
Abandonment expenditures (Note 8)		(49,000)		-
Change in non-cash working capital				
Trade and other receivables		43,175		1,758
Prepaid expenses and deposits		(7,551)		25,906
Trade and other payables		(24,806)		(52,925)
Cash flows used in operating activities		(249,042)		(144,654)
Investing activities				
Term deposit purchase		(21,524)		(26,925)
Cash flows used in investing activities		(21,524)		(26,925)
Change in cash and cash equivalents		(270,566)		(171,579)
Cash and cash equivalents, beginning of period		812,084		1,493,768
Cash and cash equivalents, end of period	$	541,518	$	1,322,189

See the accompanying notes to these condensed interim financial statements.

1. Nature of operations

Sahara Energy Ltd. (the “Company”) was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange (“the Exchange”). The Company is a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada. The Company’s registered address is 610, 700 – 4th Avenue SW, Calgary, Alberta.

As at March 31, 2018, JF Investment (Hong Kong) Co., Limited (“JF Investment”) owned and controlled 69% of the Company's issued and outstanding shares.

2. Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board, including International Accounting Standard 34 – Interim Financial Reporting.

The Company has consistently applied the same accounting policies throughout all periods presented (see Note 3 for impact of new accounting policies). These unaudited condensed interim financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2017.

These unaudited condensed interim financial statements were authorized for issue by the Board of Directors on May 30, 2018.

3. Changes in accounting standards

On January 1, 2018, the Company retrospectively adopted IFRS 9 Financial Instruments (“IFRS 9”) which includes new requirements for the classification and measurement of financial assets, a new credit loss impairment model and new model to be used for hedge accounting for risk management contracts. The Company does not currently have any risk management contracts. The adoption of IFRS 9 did not have a material impact on the Company’s condensed interim financial statements and management applied the provision matrix practical expedient as part of the adoption of the standard. The additional disclosures required by IFRS 9 are detailed in Note 6.

On January 1, 2018, the Company adopted IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) using the retrospective method of adoption. The adoption of IFRS 15 did not have a material impact on the Company’s unaudited condensed interim financial statements and as a result, the Company did not apply any practical expedients as part of the adoption of IFRS 15. The additional disclosures required by IFRS 15 are detailed in Note 4.

4. Revenue

The Company sells its production pursuant to fixed and variable price contracts with varying length terms up to 1 year. Under the contracts, the Company is required to deliver a fixed or variable volume of light-medium oil to the contract counterparty. The transaction price is based on the commodity price, adjusted for quality, location or other factors.

All of the Company’s revenue is from the sale of light-medium from non-operated properties. Oil sales were earned from a single working interest partner and property operator during the three months ended March 31, 2018 and 2017 representing 100% of revenue for the three months ended March 31, 2018 and 2017 and $nil of accounts receivable at March 31, 2018 (December 31, 2017 – $1,520).

(in Canadian dollars)

5. Cash and cash equivalents and term deposits

		March 31 2018		December 31 2017
Cash and cash equivalents				
Cash in bank	$	541,518	$	378,556
Term deposits with maturities of three months or less		–		433,528
		541,518		812,084
Term deposits				
Term deposits with maturities over three months		9,359,673		9,338,149
	$	9,901,191	$	10,150,233

6. Trade and other receivables

The Company's trade and other receivables are exposed to the risk of financial loss if the counterparty fails to meet its contractual obligations. 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 maximum exposure to credit risk related to trade and other receivables at March 31, 2018 is $58,945 before the Company's allowance for credit losses (December 31, 2017 – $84,660). One working interest partner and property operator that represent 100% of revenue reported in the three months ended March 31, 2018 comprises $nil of accounts receivable at March 31, 2018 (December 31, 2017 – $1,520).

Composition of trade and other receivables:

		March 31 2018		December 31 2017
Production revenue receivable	$	–	$	1,520
Joint venture partner and cash call receivables		45,807		73,237
Goods and Services Tax and other receivables		13,138		9,903
		58,945		84,660
Allowance for credit losses		(17,460)		–
	$	41,485	$	84,660

Included in general and administrative expenses for the three months ended March 31, 2018, is $28,455 for the write-off of trade and other receivables older than 90 days. During the three months ended March 31, 2018, the Company recognized an allowance for credit losses based on its history of non-collection of trade accounts receivable over 90 days. As at March 31, 2018, all of the Company's trade and other receivables are less than 60 days old except for approximately $34,287 (December 31, 2017 – $73,985) which are greater than 60 days old.

(in Canadian dollars)

7. Property, plant and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2017	$ 217,798	$ 4,695,538	$ 4,913,336
Decommissioning revisions	–	28,037	28,037
As at March 31, 2018	$ 217,798	$ 4,723,575	$ 4,941,373
Accumulated depletion and depreciation			
As at December 31, 2017	$ 160,702	$ 1,263,540	$ 1,424,242
Depletion and depreciation	3,971	2,611	6,582
As at March 31, 2018	$ 164,673	$ 1,266,151	$ 1,430,824
Net carrying amount			
As at December 31, 2017	$ 57,096	$ 3,431,998	$ 3,489,094
As at March 31, 2018	$ 53,125	$ 3,457,424	$ 3,510,549

The calculation of 2018 depletion and depreciation expense included an estimated $4.5 million (December 31, 2017 – $4.5 million) for future development costs associated with proved plus probable reserves. The Company has not capitalized any directly attributable general and administrative expenses to development and production assets.

8. Decommissioning obligation

Balance, December 31, 2017	$ 466,040
Accretion	2,422
Revisions	28,037
Expenditures	(49,000)
Balance, March 31, 2018	$ 447,499