

**Sahara Energy Ltd.**

**Condensed Interim Financial Statements**

**For the three and six months ended June 30, 2019**

(Unaudited – prepared by Management)

## **Notice of No Auditor Review of Condensed Interim Financial Statements**

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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 and six months ended June 30, 2019.

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

As at	June 30 2019	December 31 2018
<b>Assets</b>		
Current assets		
Cash (Note 4)	\$ 497,805	\$ 777,027
Term deposits (Note 4)	8,789,797	8,724,951
Goods and Services Tax receivable	8,465	10,497
Cash call receivable	9,686	-
Inventory	17,320	31,720
Prepaid expenses and deposits	702,571	699,167
	10,025,644	10,243,362
Property and equipment (Note 5)	3,441,419	3,458,966
<b>Total Assets</b>	<b>\$ 13,467,063</b>	<b>\$ 13,702,328</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade and other payables	\$ 420,048	\$ 455,192
Decommissioning obligation (Note 6)	454,448	449,890
<b>Total Liabilities</b>	<b>874,496</b>	<b>905,082</b>
Shareholders' Equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated deficit	(9,116,636)	(8,911,957)
<b>Total Shareholders' Equity</b>	<b>12,592,567</b>	<b>12,797,246</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 13,467,063</b>	<b>\$ 13,702,328</b>

See the accompanying notes to these unaudited condensed interim financial statements.

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

	For the three months ended June 30		For the six months ended June 30	
	2019	2018	2019	2018
<b>Revenue</b>				
Oil sales (Note 7)	\$ 51,026	\$ 67,372	\$ 99,640	\$ 80,075
Royalties	(343)	(1,930)	(695)	(2,294)
	50,683	65,442	98,945	77,781
<b>Expenses</b>				
Production and operating	24,523	42,105	81,872	89,945
General and administrative	121,877	154,341	259,854	310,637
Depletion and depreciation (Note 5)	12,845	19,703	28,305	26,285
Accretion (Note 6)	2,279	2,317	4,558	4,739
Bad debt expense	-	-	-	45,915
	161,524	218,466	374,589	477,521
<b>Loss from operating activities</b>	(110,841)	(153,024)	(275,644)	(399,740)
Interest income	29,839	22,793	70,965	49,645
<b>Net loss and comprehensive loss</b>	\$ (81,002)	\$ (130,231)	\$ (204,679)	\$ (350,095)
<b>Net loss per share - basic</b>	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding	289,684,072	289,684,072	289,684,072	289,684,072

See the accompanying notes to these unaudited condensed interim financial statements.

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

For the six months ended June 30	2019	2018
<b>Share capital</b>		
289,684,072 common shares issued and outstanding		
Balance, beginning and end of period	\$ 20,465,084	\$ 20,465,084
<b>Contributed surplus</b>		
Balance, beginning and end of period	1,244,119	1,244,119
<b>Accumulated deficit</b>		
Balance, beginning of period	(8,911,957)	(8,242,565)
Net loss	(204,679)	(350,095)
Balance, end of period	(9,116,636)	(8,592,660)
<b>Total Shareholders' Equity</b>	<b>\$ 12,592,567</b>	<b>\$ 13,116,543</b>

See the accompanying notes to these unaudited condensed interim financial statements.

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

For the six months ended June 30	2019	2018
<b>Operating activities</b>		
Net loss	\$ (204,679)	\$ (350,095)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 5)	28,305	26,285
Decommissioning obligation accretion (Note 6)	4,558	4,739
Abandonment expenditures (Note 6)	(10,758)	(49,000)
Change in non-cash working capital		
Goods and Services Tax receivable	2,032	39,078
Cash call receivable	(9,686)	-
Inventory	14,400	-
Prepaid expenses and deposits	(3,404)	(50,299)
Trade and other payables	(35,144)	(60,611)
Cash flows used in operating activities	(214,376)	(439,903)
<b>Investing activities</b>		
Term deposit purchase	(64,846)	(42,033)
Cash flows used in investing activities	(64,846)	(42,033)
<b>Change in cash and cash equivalents</b>	<b>(279,222)</b>	<b>(481,936)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>777,027</b>	<b>812,084</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 497,805</b>	<b>\$ 330,148</b>

See the accompanying notes to these unaudited condensed interim financial statements.

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**Sahara Energy Ltd.**  
**Notes to Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2019**  
(Unaudited)  
(in Canadian dollars)

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**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 – 4<sup>th</sup> Avenue SW, Calgary, Alberta.

As at March 31, 2019, 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, 2018.

These unaudited condensed interim financial statements were authorized for issue by the Board of Directors on August 28, 2019.

**3. Change in accounting standard**

*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 (Note 8);
- 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.

**Sahara Energy Ltd.**  
**Notes to Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2019**  
(Unaudited)  
(in Canadian dollars)

**4. Cash and term deposits**

	June 30 2019	December 31 2018
Cash		
Cash in bank	\$ 497,805	\$ 777,027
Term deposits		
Term deposits with maturities over three months	\$ 8,789,797	\$ 8,724,951

**5. Property and equipment**

	Furniture and equipment	Development and production assets	Total
<b>Cost</b>			
As at December 31, 2018	\$ 217,798	\$ 4,719,724	\$ 4,937,522
Decommissioning revisions (Note 6)	–	10,758	10,758
As at June 30, 2019	\$ 217,798	\$ 4,730,482	\$ 4,948,280
<b>Accumulated depletion and depreciation</b>			
As at December 31, 2018	\$ 176,583	\$ 1,301,973	\$ 1,478,556
Depletion and depreciation	5,642	22,663	28,305
As at June 30, 2019	\$ 182,225	\$ 1,324,636	\$ 1,506,861
<b>Net carrying amount</b>			
As at December 31, 2018	\$ 41,215	\$ 3,417,751	\$ 3,458,966
As at June 30, 2019	\$ 35,573	\$ 3,405,846	\$ 3,441,419

Depletion and depreciation:

The calculation of 2019 depletion and depreciation expense included an estimated \$4.4 million (2018 – \$4.4 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.



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**6. Decommissioning obligation**

As at June 30, 2019, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be \$569,855. This amount will be substantially incurred over the next 10.4 years. The Company calculated the decommissioning liabilities using an average risk-free discount rate of 2.07% per annum and an inflation rate of 2% per annum.

Balance, December 31, 2018	\$	449,890
Accretion		4,558
Revisions		10,758
Expenditures		(10,758)
Balance, June 30, 2019	\$	454,448

**7. Oil sales**

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 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 three and six months ended June 30, 2019 and 2018 and \$nil of accounts receivable at June 30, 2019 (December 31, 2018 – \$nil).

Composition of oil sales revenue:

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Light-medium oil	\$ 10,639	\$ 16,152	\$ 22,854	\$ 28,855
Heavy oil	40,387	51,220	76,786	51,220
Total oil and gas sales revenue	\$ 51,026	\$ 67,372	\$ 99,640	\$ 80,075

**8. Office lease**

The Company is committed to lease rental payments and a proportionate share of operating costs pursuant to the terms of a short-term office lease agreement in the amount of \$15,762 per month from July 1, 2019 to August 31, 2019.