

Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three and six months ended June 30, 2020

(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 and six months ended June 30, 2020.

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

As at	June 30 2020	December 31 2019
Assets		
Current assets		
Cash	\$ 381,550	\$ 635,434
Term deposits	8,550,751	8,483,659
Goods and Services Tax receivable	7,961	7,786
Inventory	5,050	5,050
Prepaid expenses and deposits	673,191	688,085
	9,618,503	9,820,014
Property and equipment (Note 3)	3,416,013	3,541,483
Total Assets	\$ 13,034,516	\$ 13,361,497
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	\$ 391,908	\$ 488,001
Decommissioning obligation (Note 4)	513,751	526,601
Canada Emergency Business Account loan (Note 5)	40,000	-
Total Liabilities	945,659	1,014,602
Shareholders' Equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated deficit	(9,620,346)	(9,362,308)
Total Shareholders' Equity	12,088,857	12,346,895
Total Liabilities and Shareholders' Equity	\$ 13,034,516	\$ 13,361,497

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 June 30		For the six months ended June 30	
	2020	2019	2020	2019
Revenue				
Oil sales (Note 5)	\$ 2,616	\$ 51,026	\$ 11,219	\$ 99,640
Royalties	(75)	(343)	(316)	(695)
	2,541	50,683	10,903	98,945
Expenses				
Production and operating	16,588	24,523	34,709	81,872
General and administrative	84,592	121,877	176,223	259,854
Depletion and depreciation (Note 3)	3,031	12,845	8,631	28,305
Impairment (Note 3)	-	-	118,000	-
Accretion (Note 4)	2,246	2,279	4,483	4,558
	106,457	161,524	342,046	374,589
Loss from operating activities	(103,916)	(110,841)	(331,143)	(275,644)
Interest income	30,980	29,839	67,092	70,965
Canada Emergency Wage Subsidy (Note 7)	6,013	-	6,013	-
Net loss and comprehensive loss	\$ (66,923)	\$ (81,002)	\$ (258,038)	\$ (204,679)
Net loss per share - basic	\$ (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 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	2020	2019
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	(9,362,308)	(8,911,957)
Net loss and comprehensive loss	(258,038)	(204,679)
Balance, end of period	(9,620,346)	(9,116,636)
Total Shareholders' Equity	\$ 12,088,857	\$ 12,592,567

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 six months ended June 30	2020	2019
Operating activities		
Net loss	\$ (258,038)	\$ (204,679)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 3)	8,631	28,305
Impairment (Note 3)	118,000	-
Accretion (Note 4)	4,483	4,558
Abandonment expenditures (Note 4)	(18,494)	(10,758)
Change in non-cash working capital		
Goods and Services Tax receivable	(175)	2,032
Cash call receivable	-	(9,686)
Inventory	-	14,400
Prepaid expenses and deposits	14,894	(3,404)
Trade and other payables	(96,093)	(35,144)
Cash flows used in operating activities	(226,792)	(214,376)
Financing activities		
Canada Emergency Business Account loan proceeds (Note 5)	40,000	-
Cash flows from financing activities	40,000	-
Investing activities		
Term deposit purchase	(67,092)	(64,846)
Cash flows used in investing activities	(67,092)	(64,846)
Change in cash	(253,884)	(279,222)
Cash, beginning of period	635,434	777,027
Cash, end of period	\$ 381,550	\$ 497,805

See the accompanying notes to these condensed interim financial statements.

Sahara Energy Ltd.
Notes to Condensed Interim Financial Statements
For the three and six months ended June 30, 2020
(Unaudited)
(in Canadian dollars)

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 400, 444 – 7th Avenue SW, Calgary, Alberta.

As at June 30, 2020, 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. 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, 2019.

These unaudited condensed interim financial statements were authorized for issue by the Board of Directors on August 27, 2020.

3. Property and Equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2019	\$ 217,798	\$ 4,849,404	\$ 5,067,202
Decommissioning revisions (Note 4)	–	1,161	1,161
As at June 30, 2020	\$ 217,798	\$ 4,850,565	\$ 5,068,363
Accumulated depletion and depreciation			
As at December 31, 2019	\$ 187,869	\$ 1,337,850	\$ 1,525,719
Depletion and depreciation	4,036	4,595	8,631
Impairment	–	118,000	118,000
As at June 30, 2020	\$ 191,905	\$ 1,460,445	\$ 1,652,350
Net carrying amount			
As at December 31, 2019	\$ 29,929	\$ 3,511,554	\$ 3,541,483
As at June 30, 2020	\$ 25,893	\$ 3,390,120	\$ 3,416,013

Depletion and depreciation:

The calculation of 2020 depletion and depreciation expense included an estimated \$0.6 million (December 31, 2019 – \$0.6 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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Impairment:

During the previous quarter ended March 31, 2020, the Company identified certain business risks related to its CGU such as a decline in forward commodity prices. As a result, the Company tested its petroleum and natural gas CGU for impairment at March 31, 2020 based on the 15% discounted net present value of cash flows from oil and natural gas reserves as estimated by a mechanical update of the Company's December 31, 2019 reserve report prepared independent reserves evaluator. As at March 31, 2020, the estimate of the 'fair value less costs of disposal' of the Company's petroleum and natural gas assets was less than the carrying value of the CGU. The Company's statement of loss and comprehensive loss for the six months ended June 30, 2020 includes the recognition of \$118,000 of impairment as determined in the previous quarter ended March 31, 2020.

A 1% increase in the assumed discount rate would result in \$72,000 of additional impairment; a 5% decrease in the forward commodity price estimates would result in \$273,000 of additional impairment.

The March 31, 2020 impairment test used the following commodity price estimates:

	Cdn\$/bbl
2020 (remainder)	32.87
2021	42.47
2022	46.95
2023	50.29
2024	52.19
2025	54.10
2026	55.20
2027	56.32
Escalation rate thereafter	+ 2% per year

4. Decommissioning Obligation

Balance, December 31, 2019	\$	526,601
Accretion		4,483
Expenditures		(18,494)
Revisions		1,161
Balance, June 30, 2020	\$	513,751

5. Canada Emergency Business Account Loan

On April 29, 2020, the Company received \$40,000 of loan proceeds from a Canadian bank pursuant to the Canada Emergency Business Account ("CEBA") program, a Government of Canada COVID response program designed to assist companies with the payment of non-deferrable operating expenses during shutdowns and economic strain related to the COVID-19 pandemic.

The CEBA loan matures on December 31, 2025. Interest will accrue on the outstanding balance of the CEBA loan at a rate of 5% per annum commencing January 1, 2023. The outstanding balance of the CEBA loan plus accrued interest is payable on the maturity date. 25% of the CEBA loan amount shall be forgiven if the remaining 75% of the loan is repaid on or before December 31, 2022. The Company expects to repay the loan on or before December 31, 2022.

6. 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.

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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 one working interest partner (the property operator) during the three and six months ended June 30, 2020 (three and six months ended June 30, 2019 – two working interest partners and property operators) representing 100% of revenue and \$nil of accounts receivable at June 30, 2020 and December 31, 2019.

Composition of oil sales revenue:

	Three months ended		Six months ended	
	June 30		June 30	
	2020	2019	2020	2019
Light-medium oil	\$ 2,616	\$ 10,639	\$ 11,219	\$ 22,854
Heavy oil	–	40,387	–	76,786
Total oil and gas sales revenue	\$ 2,616	\$ 51,026	\$ 11,219	\$ 99,640

7. Canada Emergency Wage Subsidy

During the three and six months ended June 30, 2020, the Company applied for and received \$6,013 in wage subsidies under the Canada Emergency Wage Subsidy ("CEWS") program, a Government of Canada COVID response program designed to assist companies with the re-hiring of workers and job loss prevention during shutdowns and economic strain related to the COVID-19 pandemic. Amounts received under the CEWS program are reported as income in the period received.