

Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three and six months ended June 30, 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 and six months ended June 30, 2018.

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

As at	June 30 2018	December 31 2017
Assets		
Current assets		
Cash and cash equivalents (Note 5)	\$ 330,148	\$ 812,084
Term deposits (Note 5)	9,380,182	9,338,149
Trade and other receivables (Note 6)	45,582	84,660
Prepaid expenses and deposits	727,637	677,338
	10,483,549	10,912,231
Property, plant and equipment (Note 7)	3,490,846	3,489,094
	\$ 13,974,395	\$ 14,401,325
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	\$ 408,036	\$ 468,647
Decommissioning obligation (Note 8)	449,816	466,040
	857,852	934,687
Shareholders' equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated deficit	(8,592,660)	(8,242,565)
	13,116,543	13,466,638
	\$ 13,974,395	\$ 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 June 30		For the six months ended June 30	
	2018	2017	2018	2017
Revenue				
Oil and natural gas sales (Note 4)	\$ 67,372	\$ 12,683	\$ 80,075	\$ 25,701
Royalties	(1,930)	(363)	(2,294)	(738)
	65,442	12,320	77,781	24,963
Expenses				
Production and operating	42,105	39,319	89,945	62,997
General and administrative	154,341	164,197	339,092	313,277
Depletion and depreciation (Note 7)	19,703	8,589	26,285	17,076
Accretion (Note 8)	2,317	2,225	4,739	4,440
Allowance for credit losses (Note 6)	-	-	17,460	-
	218,466	214,330	477,521	397,790
Loss from operating activities	(153,024)	(202,010)	(399,740)	(372,827)
Interest income	22,793	23,355	49,645	64,077
Net loss and comprehensive loss	\$ (130,231)	\$ (178,655)	\$ (350,095)	\$ (308,750)
Net loss per share - basic	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Basic 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	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	(350,095)	(308,750)
Balance, end of period	(8,592,660)	(7,923,302)
Total Shareholders' Equity	\$ 13,116,543	\$ 13,785,901

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	2018	2017
Operating activities		
Net loss	\$ (350,095)	\$ (308,750)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 7)	26,285	17,076
Decommissioning obligation accretion (Note 8)	4,739	4,440
Abandonment expenditures (Note 8)	(49,000)	-
Change in non-cash working capital		
Trade and other receivables	39,078	2,261
Prepaid expenses and deposits	(50,299)	3,832
Trade and other payables	(60,611)	(56,134)
Cash flows used in operating activities	(439,903)	(337,275)
Investing activities		
Term deposit purchase	(42,033)	(49,151)
Development and production asset expenditures	-	(112)
Cash flows used in investing activities	(42,033)	(49,263)
Change in cash and cash equivalents	(481,936)	(386,538)
Cash and cash equivalents, beginning of period	812,084	1,493,768
Cash and cash equivalents, end of period	\$ 330,148	\$ 1,107,230

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, 2018
(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 610, 700 – 4th Avenue SW, Calgary, Alberta.

As at June 30, 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 August 29, 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 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, 2018 (three and six months ended June 30, 2017 – a single working interest partner and property operator) representing 100% of revenue for the three and six months ended June 30, 2018 and

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(Unaudited)
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2017 and \$5,308 of accounts receivable at June 30, 2018 (December 31, 2017 – \$1,520).

Composition of oil and gas sales revenue:

	Three months ended		Six months ended	
	2018	June 30 2017	2018	June 30 2017
Light-medium oil	\$ 16,152	\$ 12,682	\$ 28,855	\$ 25,701
Heavy oil	51,220	–	51,220	–
Total oil and gas sales revenue	\$ 67,372	\$ 12,682	\$ 80,075	\$ 25,701

5. Cash and cash equivalents and term deposits

	June 30 2018	December 31 2017
Cash and cash equivalents		
Cash in bank	\$ 330,148	\$ 378,556
Term deposits with maturities of three months or less	–	433,528
	330,148	812,084
Term deposits		
Term deposits with maturities over three months	9,380,182	9,338,149
	\$ 9,710,330	\$ 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 June 30, 2018 is \$63,042 before the Company's \$17,460 allowance for credit losses (December 31, 2017 – \$84,660). One working interest partner that represents 36% of revenue reported in the six months ended June 30, 2018 comprises \$5,380 of accounts receivable at June 30, 2018 (December 31, 2017 – \$1,520).

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Composition of trade and other receivables:

	June 30 2018	December 31 2017
Production revenue receivable	\$ 5,308	\$ 1,520
Joint venture partner and cash call receivables	45,617	73,237
Goods and Services Tax and other receivables	12,117	9,903
	63,042	84,660
Allowance for credit losses	(17,460)	–
	\$ 45,582	\$ 84,660

Included in general and administrative expenses for the six months ended June 30, 2018, is \$28,455 for the write-off of trade and other receivables older than 90 days. During the six months ended June 30, 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 June 30, 2018, all of the Company's trade and other receivables are less than 60 days old except for approximately \$17,926 (December 31, 2017 – \$73,985) which are greater than 60 days old and primarily comprised of cash calls receivable for which the related capital spending has been postponed.

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 June 30, 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	7,941	18,344	26,285
As at June 30, 2018	\$ 168,643	\$ 1,281,884	\$ 1,450,527
Net carrying amount			
As at December 31, 2017	\$ 57,096	\$ 3,431,998	\$ 3,489,094
As at June 30, 2018	\$ 49,155	\$ 3,441,691	\$ 3,490,846

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.

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8. Decommissioning obligation

Balance, December 31, 2017	\$	466,040
Accretion		4,739
Revisions		28,037
Expenditures		(49,000)
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Balance, June 30, 2018	\$	449,816
