

Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three months ended March 31, 2019

(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, 2019.

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

As at	March 31 2019	December 31 2018
Assets		
Current assets		
Cash (Note 4)	\$ 610,391	\$ 777,027
Term deposits (Note 4)	8,763,058	8,724,951
Goods and Services Tax receivable	9,150	10,497
Inventory	13,860	31,720
Prepaid expenses and deposits	695,676	699,167
	10,092,135	10,243,362
Property and equipment (Note 5)	3,454,264	3,458,966
Total Assets	\$ 13,546,399	\$ 13,702,328
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	\$ 420,661	\$ 455,192
Decommissioning obligation (Note 6)	452,169	449,890
Total Liabilities	872,830	905,082
Shareholders' Equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated deficit	(9,035,634)	(8,911,957)
Total Shareholders' Equity	12,673,569	12,797,246
Total Liabilities and Shareholders' Equity	\$ 13,546,399	\$ 13,702,328

See the accompanying notes to these financial statements.

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

For the three months ended March 31	2019	2018
Revenue		
Oil sales (Note 7)	\$ 48,614	\$ 12,703
Royalties	(352)	(364)
	48,262	12,339
Expenses		
Production and operating	57,349	47,840
General and administrative	137,977	156,296
Depletion and depreciation (Note 5)	15,460	6,582
Accretion (Note 6)	2,279	2,422
Bad debt expense	-	45,915
	213,065	259,055
Loss from operating activities	(164,803)	(246,716)
Interest income	41,126	26,852
Net loss and comprehensive loss	\$ (123,677)	\$ (219,864)
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 financial statements.

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

For the three months ended March 31	2019	2018
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	(8,911,957)	(8,242,565)
Net loss	(123,677)	(219,864)
Balance, end of period	(9,035,634)	(8,462,429)
Total Shareholders' Equity	\$ 12,673,569	\$ 13,246,774

See the accompanying notes to these financial statements.

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

For the three months ended March 31	2019	2018
Operating activities		
Net loss	\$ (123,677)	\$ (219,864)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 5)	15,460	6,582
Decommissioning obligation accretion (Note 6)	2,279	2,422
Abandonment expenditures (Note 6)	(10,758)	(49,000)
Change in non-cash working capital		
Trade and other receivables	1,347	43,175
Inventory	17,860	-
Prepaid expenses and deposits	3,491	(7,551)
Trade and other payables	(34,531)	(24,806)
Cash flows used in operating activities	(128,529)	(249,042)
Investing activities		
Term deposit purchase	(38,107)	(21,524)
Cash flows used in investing activities	(38,107)	(21,524)
Change in cash and cash equivalents	(166,636)	(270,566)
Cash and cash equivalents, beginning of period	777,027	812,084
Cash and cash equivalents, end of period	\$ 610,391	\$ 541,518

See the accompanying notes to these financial statements.

Sahara Energy Ltd.
Notes to Condensed Interim Financial Statements
For the three months ended March 31, 2019
(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 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 May 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 months ended March 31, 2019
(Unaudited)
(in Canadian dollars)

4. Cash and term deposits

	March 31 2019	December 31 2018
Cash		
Cash in bank	\$ 610,391	\$ 777,027
Term deposits		
Term deposits with maturities over three months	\$ 8,763,058	\$ 8,724,951

5. Property and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2018	\$ 217,798	\$ 4,719,724	\$ 4,937,522
Decommissioning revisions (Note 6)	–	10,758	10,758
As at March 31, 2019	\$ 217,798	\$ 4,730,482	\$ 4,948,280
Accumulated depletion and depreciation			
As at December 31, 2018	\$ 176,583	\$ 1,301,973	\$ 1,478,556
Depletion and depreciation	2,822	12,638	15,460
As at March 31, 2019	\$ 179,405	\$ 1,314,611	\$ 1,494,016
Net carrying amount			
As at December 31, 2018	\$ 41,215	\$ 3,417,751	\$ 3,458,966
As at March 31, 2019	\$ 38,393	\$ 3,415,871	\$ 3,454,264

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 March 31, 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 11 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		2,279
Revisions		10,758
Expenditures		(10,758)
Balance, March 31, 2019	\$	452,169

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 months ended March 31, 2019 (three months ended March 31, 2018 – a single working interest partner and property operator) representing 100% of revenue for the three months ended March 31, 2019 and 2018 and \$nil of accounts receivable at March 31, 2019 (December 31, 2018 – \$nil).

Composition of oil sales revenue:

For the three months ended March 31	2019		2018	
Light-medium oil	\$	12,214	\$	12,703
Heavy oil		36,400		–
	\$	48,614	\$	12,703

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 April 1, 2019 to August 31, 2019.