

**Sahara Energy Ltd.**

**Condensed Interim Consolidated Financial Statements**

**For the three and six months ended June 30, 2021**

(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, 2021.

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

As at	June 30 2021	December 31 2020
<b>Assets</b>		
Current assets		
Cash	\$ 8,360,541	\$ 1,118,324
Term deposits	-	7,671,667
Accounts receivable (Note 3)	30,055	19,455
Prepaid expenses and deposits	662,498	685,675
	9,053,094	9,495,121
Property and equipment (Note 4)	1,780,482	1,643,314
<b>Total Assets</b>	<b>\$ 10,833,576</b>	<b>\$ 11,138,435</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade and other payables	\$ 491,872	\$ 445,855
Current portion of decommissioning obligation (Note 5)	36,982	36,982
Current portion of lease liability (Note 6)	118,126	-
	646,980	482,837
Decommissioning obligation (Note 5)	319,994	318,414
Lease liability (Note 6)	31,393	-
Canada Emergency Business Account loan (Note 7)	40,000	40,000
Total Liabilities	1,038,367	841,251
Shareholders' Equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated other comprehensive loss	(2,543)	-
Accumulated deficit	(11,911,451)	(11,412,019)
Total Shareholders' Equity	9,795,209	10,297,184
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 10,833,576</b>	<b>\$ 11,138,435</b>

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

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

	For the three months ended June 30		For the six months ended June 30	
	2021	2020	2021	2020
<b>Revenue</b>				
Oil sales (Note 8)	\$ 14,829	\$ 2,616	\$ 26,693	\$ 11,219
Royalties	(429)	(75)	(770)	(316)
	14,400	2,541	25,923	10,903
<b>Expenses</b>				
Production and operating	25,384	16,588	45,364	34,709
General and administrative (Note 3)	255,263	78,579	375,308	170,210
Depletion and depreciation (Note 4)	43,845	3,031	48,540	8,631
Impairment of property and equipment	-	-	-	118,000
Accretion (Note 5)	791	2,246	1,580	4,483
Imputed interest (Note 6)	4,940	-	4,940	-
Foreign exchange	37,931	-	53,275	-
	368,154	100,444	529,007	336,033
<b>Loss from operating activities</b>	(353,754)	(97,903)	(503,084)	(325,130)
Interest income	1,065	30,980	3,652	67,092
<b>Net loss</b>	(352,689)	(66,923)	(499,432)	(258,038)
Exchange differences on translation of subsidiary	(2,543)	-	(2,543)	-
<b>Comprehensive loss</b>	\$ (355,232)	\$ (66,923)	\$ (501,975)	\$ (258,038)
<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 condensed interim consolidated financial statements.

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

For the six months ended June 30	2021	2020
<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 other comprehensive loss</b>		
Balance, beginning of period	-	-
Exchange differences on translation of subsidiary	(2,543)	-
Balance, end of period	(2,543)	-
<b>Accumulated deficit</b>		
Balance, beginning of period	(11,412,019)	(9,362,308)
Net loss and comprehensive loss	(499,432)	(258,038)
Balance, end of period	(11,911,451)	(9,620,346)
<b>Total Shareholders' Equity</b>	<b>\$ 9,795,209</b>	<b>\$ 12,088,857</b>

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

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

For the six months ended June 30	2021	2020
<b>Operating activities</b>		
Net loss	\$ (499,432)	\$ (258,038)
Add back (deduct) non-cash items:		
Depletion and depreciation (Note 4)	48,540	8,631
Impairment of property and equipment	-	118,000
Accretion (Note 5)	1,580	4,483
Imputed interest (Note 6)	4,940	-
Foreign exchange	53,067	-
Abandonment expenditures	-	(18,494)
Change in non-cash working capital		
Accounts receivable	(10,600)	(175)
Prepaid expenses and deposits	23,177	14,894
Trade and other payables	46,017	(96,093)
Cash flows used in operating activities	(332,711)	(226,792)
<b>Financing activities</b>		
Lease payments (Note 6)	(41,134)	-
Canada Emergency Business Account loan proceeds (Note 7)	-	40,000
Cash flows (used in) provided by financing activities	(41,134)	40,000
<b>Investing activities</b>		
Term deposit proceeds	7,671,667	-
Term deposit reinvestment	-	(67,092)
Cash flows (used in) provided by investing activities	7,671,667	(67,092)
<b>Change in cash</b>	<b>7,297,822</b>	<b>(253,884)</b>
Foreign exchange effect of cash USD denominated cash	(55,605)	-
<b>Cash, beginning of period</b>	<b>1,118,324</b>	<b>635,434</b>
<b>Cash, end of period</b>	<b>\$ 8,360,541</b>	<b>\$ 381,550</b>

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

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**Sahara Energy Ltd.**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**For the three and six months ended June 30, 2021**  
**(Unaudited)**  
**(in Canadian dollars)**

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**1. Nature of operations**

Sahara Energy Ltd. ("Sahara" or the "Company") was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"). The Company's registered address is 400, 444 – 7<sup>th</sup> Avenue SW, Calgary, Alberta.

In January 2021, the Company entered into two equity investment agreements (the "Investment Agreements") with affiliates of DMG Investments LLC (collectively, "DMG"), pursuant to which the Company has agreed to invest in two of DMG's real estate development projects in Amherst, New York and Albany, New York. Pursuant to the terms of the Investment Agreements, it is currently intended that the Company, through a new wholly-owned subsidiary, will make an investment of USD 3,000,000 in exchange for a preferred equity ownership position of approximately 21.27% in a student housing development project in Amherst, New York and an investment of USD 2,000,000 in exchange for a preferred equity ownership position of approximately 15.56% in a multi-family mixed commercial housing development in Albany, New York (collectively, the "Investments"). Completion of the Investments, as currently proposed, would constitute a "change of business" of the Company in accordance with TSX Venture Exchange Policy 5.2 - Changes of Business and Reverse Take-overs, as the Company currently operates as a junior resource exploration company engaged in the acquisition, exploration and development of petroleum and natural gas reserves in Western Canada and the Investments would see the Company making investments in two real estate development projects in the United States.

As a "change in business", the completion of the Investments is subject to the approval of the TSX Venture Exchange and there can be no guarantee that such approval will be obtained on terms acceptable to the parties or at all. As such, the Investments may not be completed on the terms currently contemplated by the Company or at all.

Sahara incorporated a wholly-owned subsidiary, GC Capital Holdings Inc. ("GC Capital"), a Delaware business corporation in the United States, on January 20, 2021.

As at June 30, 2021, JK Investment (Hong Kong) Co., Limited ("JK Investment") owned and controlled 69% of the Company's issued and outstanding shares.

**2. Basis of preparation**

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, GC Capital, and 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.

These unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on August 30, 2021.

These unaudited condensed interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2020. The Company has consistently applied the same accounting policies throughout all periods presented except for the additions noted below:

*Subsidiaries*

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using

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consistent accounting policies. All intercompany balances and transactions are eliminated in full upon consolidation.

*Functional and presentation currency*

The functional currency of Sahara is the Canadian dollar ("CAD"), the functional currency of GC Capital is the United States dollar ("USD"). The presentation currency of the Company is the CAD.

*Foreign currencies*

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences on monetary items are recognized in the consolidated statement of loss and comprehensive loss in the period in which they arise.

The financial results of operations that have a functional currency different from the presentation currency are translated into the presentation currency. Income and expenditures of operations are translated at the average rate of the exchange for the year. All assets and liabilities are translated at the rate of exchange at the reporting date. Differences arising on translation are recognized as other comprehensive income (loss).

*Leases*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease liability is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the lease term. Interest expense is recognized on the lease liabilities using the effective interest rate method and payments are applied against the lease liability.

The Company has applied the practical expedients for short-term and low value leases whereby related lease payments are recognized as expenses in the period incurred.

**3. Accounts receivable**

	June 30 2021	December 31 2020
Goods and Services Tax	\$ 12,019	\$ 7,880
Canada Emergency Wage Subsidy ("CEWS")	18,036	11,575
	\$ 30,055	\$ 19,455

During the three and six months ended June 30, 2021, the Company applied for \$18,036 and \$22,288, respectively (three and six months ended June 30, 2020 – \$6,013) in wage subsidies under the CEWS program. Amounts applied for under the CEWS program are recorded as an offset to employee compensation expense included in general and administrative expenses. As at June 30, 2021, \$18,036 was included in accounts receivable (December 31, 2020 – \$11,575) in respect of CEWS.



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**4. Property and equipment**

	Right-of-use asset	Furniture and equipment	Development and production assets	Total
<b>Cost</b>				
Balance, December 31, 2020	\$ –	\$ 217,798	\$ 4,705,376	\$ 4,923,174
Additions	189,793	–	–	189,793
Foreign exchange	(4,002)	–	–	(4,002)
Balance, June 30, 2021	185,791	217,798	4,705,376	5,108,965
<b>Accumulated depletion and depreciation</b>				
Balance, December 31, 2020	\$ –	\$ 195,940	\$ 3,083,920	\$ 3,279,860
Depletion and depreciation	39,032	2,905	6,603	48,540
Foreign exchange	83	–	–	83
Balance, June 30, 2021	\$ 39,115	\$ 198,845	\$ 3,090,523	\$ 3,328,483
<b>Net carrying amount</b>				
As at December 31, 2020	\$ –	\$ 21,858	\$ 1,621,456	\$ 1,643,314
As at June 30, 2021	\$ 146,676	\$ 18,953	\$ 1,614,853	\$ 1,780,482

Right-of-use asset:

The Company has recognized a right-of-use asset and corresponding lease liability (Note 6) related to office premises. The ROU asset is depreciated on a straight-line basis over the 19 month term of the related lease.

Depletion and depreciation:

The calculation of 2021 depletion and depreciation expense included an estimated \$0.5 million (December 31, 2020 – \$0.5 million) for future development costs associated with proved plus probable reserves.

**5. Decommissioning obligation**

Balance, December 31, 2020	\$ 355,396
Accretion	1,580
Balance, June 30, 2021	356,976
Current portion	(36,982)
Long-term portion	\$ 319,994

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**6. Lease liability**

The Company incurs lease payments related to office premises.

Balance, December 31, 2020	\$	–
Lease liability for right-of-use asset (Note 4)		189,793
Imputed interest		4,940
Lease payments		(41,134)
Foreign exchange		(4,080)
Balance, June 30, 2021		149,519
Current portion		(118,126)
Long-term portion	\$	31,393

The lease liability for the office premise was determined using an incremental borrowing rate of 10% and a lease term of 19 months. As at June 30, 2021, the remaining expected payments under the Company's office lease agreement are as follows:

	Monthly USD	Monthly CAD	Total CAD
July 1, 2021 to September 30, 2021	\$ 8,315	\$ 10,306	\$ 30,918
October 1, 2021 to September 30, 2022	\$ 8,565	\$ 10,615	\$ 127,380

**7. Canada Emergency Business Account (“CEBA”) Loan**

The \$40,000 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.

**8. 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 light-medium oil from non-operated properties. During the three and six months ended June 30, 2021, \$14,829 and \$26,693, respectively, of oil sales were earned from one working interest partner (the property operator) (three and six months ended June 30, 2020 – \$2,616 and \$11,219, respectively) representing 100% of revenue and \$nil of accounts receivable at June 30, 2021 and December 31, 2020.