

Sahara Energy Ltd.

Condensed Interim Financial Statements

As at and for the three and six months ended June 30, 2014

(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, 2014.

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

	June 30 2014	December 31 2013
Assets		
Current assets		
Cash	\$ 1,694	\$ 468,415
Trade and other receivables	97,165	83,019
Prepaid expenses and deposits	251,439	115,230
	350,298	666,664
Exploration and evaluation assets		
Property, plant and equipment (Note 5)	50,919	41,287
	2,698,215	2,740,269
	\$ 3,099,432	\$ 3,448,220
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	\$ 430,518	\$ 428,121
Decommissioning obligation (Note 6)	773,323	766,890
	1,203,841	1,195,011
Shareholders' equity		
Share capital (Note 9)	5,120,443	4,970,443
Contributed surplus	1,239,443	1,234,151
Accumulated deficit	(4,464,295)	(3,951,385)
	1,895,591	2,253,209
	\$ 3,099,432	\$ 3,448,220
Going concern (Note 2)		
Subsequent event (Note 9)		

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)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenue				
Oil and natural gas sales	\$ 110,714	\$ 117,283	\$ 232,733	\$ 201,498
Royalties	(6,880)	(8,986)	(18,092)	(18,605)
	103,834	108,297	214,641	182,893
Expenses				
Production and operating	90,885	101,218	208,653	206,935
General and administrative	250,125	154,116	451,988	315,085
Depletion and depreciation (Note 5)	25,184	28,451	5,292	59,569
Share-based compensation (Note 7)	1,662	5,560	55,813	23,218
	367,856	289,345	721,746	604,807
Loss from operating activities	(264,022)	(181,048)	(507,105)	(421,914)
Interest income	267	194	423	495
Decommissioning obligation accretion (Note 6)	(3,033)	(1,543)	(6,228)	(3,081)
Net loss and comprehensive loss	\$ (266,788)	\$ (182,397)	\$ (512,910)	\$ (424,500)
Net loss per share				
Basic and diluted (Note 8)	\$ —	\$ —	\$ —	\$ —

See the accompanying notes to these condensed interim financial statements.

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

	Six months ended	
	June 30	
	2014	2013
Share capital		
Balance, beginning of period	\$ 4,970,443	\$ 4,370,443
Non-refundable private placement deposit (Note 9)	150,000	600,000
Balance end of period	5,120,443	4,970,443
Contributed surplus		
Balance, beginning of period	1,234,151	1,206,567
Share-based payments (Note 7)	5,292	23,218
Balance, end of period	1,239,443	1,229,785
Deficit		
Balance, beginning of period	(3,951,385)	(3,026,191)
Net loss for the period	(512,910)	(424,500)
Balance, end of period	(4,464,295)	(3,450,691)
Total Shareholders' Equity	\$ 1,895,591	\$ 2,749,537

See the accompanying notes to these condensed interim financial statements.

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

	Six months ended June 30	
	2014	2013
Operating activities		
Net loss	\$ (512,910)	\$ (424,500)
Add back (deduct) non-cash items:		
Depletion and depreciation	55,813	59,569
Share-based compensation	5,292	23,218
Finance expense	6,228	3,081
Abandonment expenditures	(12,238)	–
Change in non-cash working capital:		
Trade and other receivables	(14,146)	(13,099)
Prepaid expenses and deposits	(136,209)	(22,266)
Trade and other payables	2,397	42,000
	(605,773)	(331,997)
Financing activities		
Non-refundable private placement deposit	150,000	600,000
Investing activities		
Exploration and evaluation expenditures	(9,632)	(9,632)
Furniture and equipment expenditures	–	(1,862)
Development and production asset expenditures	(1,316)	(40,170)
	(10,948)	(51,664)
Change in cash	(466,721)	216,339
Cash, beginning of period	468,415	602,493
Cash, end of period	\$ 1,694	\$ 818,832
Supplemental cash flow information:		
Taxes paid	\$ –	\$ –

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, 2014
(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 3700, 400 – Third Avenue SW, Calgary, Alberta.

As at June 30, 2014, China Great United Petroleum Investment Co. Limited owned and controlled 54.6% of the Company's issued and outstanding shares.

2. Going concern

These financial statements have been prepared on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The Company incurred a net loss of \$512,910 and had negative cash flows from operating activities of \$605,773 for the six months ended June 30, 2014. As at June 30, 2014, the Company has an accumulated deficit of \$4,464,295 and a working capital deficit of \$80,220.

The Company's ability to continue as a going concern is dependent upon the ability to raise capital, the generation of positive cash flow, the maintenance of its existing reserve and production base and the success of the development and exploration program. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flows is also uncertain. These uncertainties cast significant doubt about the Company's ability to continue as a going concern.

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

In April 2014, the Company signed two agreements for the issuance of 200,000,000 common shares for aggregate proceeds of \$16.2 million as disclosed in Note 9.

3. Basis of preparation

These unaudited condensed interim financial statements ("financial statements") have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting. These financial statements do not include all of the information required for full annual financial statements.

These financial statements have been prepared following the same accounting policies and methods of computation as the audited financial statements of the Company for the year ended December 31, 2013. The disclosures provided herein are incremental to those included with the audited annual financial statements and certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual filings for the year ended December 31, 2013.

These financial statements were authorized for issue by the Board of Directors on August 28, 2014.

Sahara Energy Ltd.
Notes to Condensed Interim Financial Statements
For the three and six months ended June 30, 2014
(unaudited)
(in Canadian dollars)

4. Changes in accounting policies

As of January 1, 2014, the Company adopted the new and amended standards for IAS 36 "Impairment of Assets", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRIC 21 "Levies". The adoption of these standards and amendments had no impact on the amounts recorded or disclosures included in these financial statements.

5. Property, plant and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2013	\$ 54,215	\$ 3,207,421	\$ 3,261,636
Additions	–	1,316	1,316
Decommissioning revisions	–	12,443	12,443
As at June 30, 2014	\$ 54,215	\$ 3,221,180	\$ 3,275,395
Accumulated depletion and depreciation			
As at December 31, 2013	\$ 26,361	\$ 495,006	\$ 521,367
Depletion and depreciation	2,025	53,788	55,813
As at June 30, 2014	\$ 28,386	\$ 548,794	\$ 577,180
Net carrying amount			
As at December 31, 2013	\$ 27,854	\$ 2,712,415	\$ 2,740,269
As at June 30, 2014	\$ 25,829	\$ 2,672,386	\$ 2,698,215

Depletion and depreciation:

The calculation of 2014 depletion and depreciation expense included an estimated \$3.8 million (2013 – \$3.8 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.

Impairment:

The Company did not identify any indicators of impairment as at June 30, 2014.

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Notes to Condensed Interim Financial Statements
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6. Decommissioning obligation

As at June 30, 2014, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be \$828,065 (December 31, 2013 – 831,142). This amount will be substantially incurred over the next three to eight years. The Company calculated the June 30, 2014 decommissioning liabilities using an average risk-free discount rate of 1.44% (December 31, 2013 – 1.66%) per annum and an inflation rate of 2% per annum (December 31, 2013 – 2%).

Balance, December 31, 2013	\$	766,890
Accretion		6,228
Abandonment expenditures		(12,238)
Revisions		12,443
<hr/>		
Balance, June 30, 2014	\$	773,323

7. Share-based payments

As at June 30, 2014 and December 31, 2013, the Company had 3,100,000 stock options outstanding.

During the three and six months ended June 30, 2014, the Company recognized \$1,662 and \$5,292, respectively, of share-based compensation expense (three and six months ended June 30, 2013 – \$5,560 and \$23,218, respectively). As at June 30, 2014, the Company's remaining unvested share-based compensation is \$4,676.

The following table summarizes information about stock options outstanding as at June 30, 2014:

Exercise price	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable
\$ 0.10	3,100,000	1.8	\$ 0.10	2,866,667

8. Per share amounts

Basic net loss per share is calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Net loss for the period:	\$ (266,788)	\$ (182,397)	\$ (512,910)	\$ (424,500)
Weighted average number of shares – basic:				
Issued common shares at January 1	89,684,072	89,684,072	89,684,072	89,684,072
Effects of shares issued	–	–	–	–
	<hr/> 89,684,072	<hr/> 89,684,072	<hr/> 89,684,072	<hr/> 89,684,072
Net loss per share – basic:	\$ –	\$ –	\$ –	\$ –

The effect of stock options is anti-dilutive in loss periods.

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9. Subsequent event

In April 2014, the Company signed two agreements with JF Investment (Hong Kong) Co., Limited (“JF Investment”) for the purchase by JF Investment of the Company’s common shares for aggregate proceeds of \$16.2 million, of which \$0.6 million was received in June 2013 and \$0.15 million was received in June 2014. Pursuant to the agreements, the Company agreed to issue 5,000,000 common shares at \$0.12 per share and 195,000,000 common shares at \$0.08 per share.

The private placements closed on August 21, 2014, following the receipt of applicable government and regulatory approvals, specifically the TSX Venture Exchange and relevant Chinese governmental authorities, and the approval of the shareholders of both Sahara and JF Investment.