

**Sahara Energy Ltd.**

**Condensed Interim Financial Statements**

**For the three and six months ended June 30, 2016**

(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, 2016.

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

As at	June 30 2016	December 31 2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents (Note 4)	\$ 1,910,987	\$ 6,682,584
Term deposits (Note 4)	9,187,745	5,090,069
Trade and other receivables	106,077	113,278
Prepaid expenses and deposits	671,456	598,432
	11,876,265	12,484,363
Exploration and evaluation assets	193,054	193,054
Property, plant and equipment (Note 5)	3,750,184	3,744,698
	\$ 15,819,503	\$ 16,422,115
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities		
Trade and other payables	\$ 409,556	\$ 520,212
Decommissioning obligation (Note 6)	851,974	883,358
	1,261,530	1,403,570
Shareholders' equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated deficit	(7,151,230)	(6,690,658)
	14,557,973	15,018,545
	\$ 15,819,503	\$ 16,422,115

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	
	2016	2015	2016	2015
<b>Revenue</b>				
Oil and natural gas sales	\$ 11,888	\$ 16,619	\$ 23,551	\$ 27,693
Royalties	(338)	(1,237)	(652)	(2,078)
	11,550	15,382	22,899	25,615
<b>Expenses</b>				
Production and operating	32,899	35,516	89,980	63,859
General and administrative	209,600	234,855	421,956	486,091
Depletion and depreciation	9,953	16,644	26,748	32,900
Impairment	-	440,000	-	440,000
Share-based payments	-	-	-	1,315
	252,452	727,015	538,684	1,024,165
<b>Loss from operating activities</b>	(240,902)	(711,633)	(515,785)	(998,550)
Interest income	17,236	36,392	62,101	68,014
Decommissioning obligation accretion	(3,260)	(2,006)	(6,888)	(5,026)
<b>Net loss and comprehensive loss</b>	\$ (226,926)	\$ (677,247)	\$ (460,572)	\$ (935,562)
<b>Net loss per share</b>				
Basic and diluted (Note 8)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

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	2016	2015
<b>Share capital</b>		
Balance, beginning and end of period	\$ 20,465,084	\$ 20,465,084
<b>Contributed surplus</b>		
Balance, beginning of period	1,244,119	1,242,804
Share-based payments	-	1,315
Balance, end of period	1,244,119	1,244,119
<b>Deficit</b>		
Balance, beginning of period	(6,690,658)	(5,203,806)
Net loss	(460,572)	(935,562)
Balance, end of period	(7,151,230)	(6,139,368)
<b>Total Shareholders' Equity</b>	<b>\$ 14,557,973</b>	<b>\$ 15,569,835</b>

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	2016	2015
<b>Operating activities</b>		
Net loss	\$ (460,572)	\$ (935,562)
Add back (deduct) non-cash items:		
Depletion and depreciation	26,748	32,900
Impairment	-	440,000
Share-based payments	-	1,315
Decommissioning obligation accretion	6,888	5,026
Abandonment expenditures	(69,963)	-
Change in non-cash working capital		
Trade and other receivables	7,201	70,393
Prepaid expenses and deposits	(73,024)	(225,159)
Trade and other payables	(29,579)	(226,023)
Cash flows used by operating activities	(592,301)	(837,110)
<b>Investing activities</b>		
Exploration and evaluation expenditures	-	(9,632)
Development and production asset expenditures	(543)	(94,359)
Furniture and equipment expenditures	-	(9,333)
Term deposit (purchase) sale proceeds	(4,097,676)	5,025,068
Term deposit redemption	-	(5,054,397)
Change in non-cash working capital		
Trade and other payables	(81,077)	(711,159)
Cash flows used by investing activities	(4,179,296)	(853,812)
<b>Change in cash and cash equivalents</b>	<b>(4,771,597)</b>	<b>(1,690,922)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>6,682,584</b>	<b>9,019,033</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,910,987</b>	<b>\$ 7,328,111</b>

See the accompanying notes to these condensed interim financial statements.

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**Sahara Energy Ltd.**  
**Notes to Condensed Interim Financial Statements**  
**For the three and six months ended June 30, 2016**  
(Unaudited)  
(in Canadian dollars)

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**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 900, 517 – 10<sup>th</sup> Avenue SW, Calgary, Alberta.

As at June 30, 2016, 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). 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, 2015.

These unaudited condensed interim financial statements were authorized for issue by the Board of Directors on August 29, 2016.

**3. Changes in accounting standards**

On January 1, 2016, the Company adopted amendments to *IFRS 11 Joint Arrangements*. The adoption of these amendments had no impact on the amounts recorded in the condensed interim consolidated financial statements for the three and six months ended June 30, 2016.

**4. Cash and cash equivalents and term deposits**

	June 30 2016	December 31 2015
Cash and cash equivalents		
(Bank overdraft) cash in bank	\$ (9,847)	\$ 724,174
Unrestricted term deposits and those with maturities of three months or less	1,920,834	5,958,410
	1,910,987	6,682,584
Term deposits		
Term deposits with maturities over three months	9,187,745	5,090,069
	\$ 11,098,732	\$ 11,772,653

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(Unaudited)  
(in Canadian dollars)

**5. Property, plant and equipment**

	Furniture and equipment	Development and production assets	Total
<b>Cost</b>			
As at December 31, 2015	\$ 217,798	\$ 4,868,017	\$ 5,085,815
Additions	–	543	543
Decommissioning revisions	–	31,691	31,691
As at June 30, 2016	\$ 217,798	\$ 4,900,251	\$ 5,118,049
<b>Accumulated depletion and depreciation</b>			
As at December 31, 2015	\$ 106,078	\$ 1,235,039	\$ 1,341,117
Depletion and depreciation	16,061	10,687	26,748
As at June 30, 2016	\$ 122,139	\$ 1,245,726	\$ 1,367,865
<b>Net carrying amount</b>			
As at December 31, 2015	\$ 111,720	\$ 3,632,978	\$ 3,744,698
As at June 30, 2016	\$ 95,659	\$ 3,654,525	\$ 3,750,184

Depletion and depreciation:

The calculation of 2016 depletion and depreciation expense included an estimated \$4.5 million (2015 – \$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.

**6. Decommissioning obligation**

As at June 30, 2016, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be \$966,900. This amount will be substantially incurred over the next nine years. The Company calculated the decommissioning liabilities using an average risk-free discount rate of 1.4% per annum and an inflation rate of 2% per annum.

Balance, December 31, 2015	\$ 883,358
Accretion	6,888
Expenditures	(69,963)
Revisions	31,691
Balance, June 30, 2016	\$ 851,974



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**7. Stock options**

The following table provides a continuity of stock options outstanding:

	Number of options	Weighted-average exercise price
Balance, December 31, 2015	2,400,000	\$ 0.10
Expired	(1,700,000)	(0.10)
Balance, June 30, 2016	700,000	\$ 0.10

The following table summarizes information about stock options outstanding as at June 30, 2016:

Exercise price	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable
\$ 0.10	700,000	0.70	\$ 0.10	700,000

**8. Per share amounts**

Basic net loss per share is calculated as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net loss for the period:	\$ (226,926)	\$ (677,247)	\$ (460,572)	\$ (935,562)
Weighted average number of shares – basic:				
Issued common shares at January 1	289,684,072	289,684,072	289,684,072	289,684,072
Effects of shares issued	–	–	–	–
	289,684,072	289,684,072	289,684,072	289,684,072
Net loss per share – basic:	\$ –	\$ –	\$ –	\$ –

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