

Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three and nine months ended September 30, 2016

(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 nine months ended September 30, 2016.

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

As at	September 30 2016	December 31 2015
Assets		
Current assets		
Cash and cash equivalents (Note 4)	\$ 1,728,938	\$ 6,682,584
Term deposits (Note 4)	9,217,817	5,090,069
Trade and other receivables	93,630	113,278
Prepaid expenses and deposits	674,430	598,432
	11,714,815	12,484,363
Exploration and evaluation assets	193,054	193,054
Property, plant and equipment (Note 5)	3,738,958	3,744,698
	\$ 15,646,827	\$ 16,422,115
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	\$ 408,789	\$ 520,212
Decommissioning obligation (Note 6)	854,814	883,358
	1,263,603	1,403,570
Shareholders' equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,244,119
Accumulated deficit	(7,325,979)	(6,690,658)
	14,383,224	15,018,545
	\$ 15,646,827	\$ 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 September 30		For the nine months ended September 30	
	2016	2015	2016	2015
Revenue				
Oil and natural gas sales	\$ 11,768	\$ 56,700	\$ 35,319	\$ 84,393
Royalties	(332)	(2,249)	(984)	(4,327)
	11,436	54,451	34,335	80,066
Expenses				
Production and operating	26,848	55,332	116,828	119,191
General and administrative	178,168	236,204	600,124	722,295
Depletion and depreciation	11,226	31,736	37,974	64,636
Impairment	-	-	-	440,000
Share-based payments	-	-	-	1,315
	216,242	323,272	754,926	1,347,437
Loss from operating activities	(204,806)	(268,821)	(720,591)	(1,267,371)
Interest income	32,897	10,683	94,998	78,697
Decommissioning obligation accretion	(2,840)	(2,134)	(9,728)	(7,160)
Net loss and comprehensive loss	\$ (174,749)	\$ (260,272)	\$ (635,321)	\$ (1,195,834)
Net loss per share				
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 nine months ended September 30	2016	2015
Share capital		
Balance, beginning and end of period	\$ 20,465,084	\$ 20,465,084
Contributed surplus		
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
Deficit		
Balance, beginning of period	(6,690,658)	(5,203,806)
Net loss	(635,321)	(1,195,834)
Balance, end of period	(7,325,979)	(6,399,640)
Total Shareholders' Equity	\$ 14,383,224	\$ 15,309,563

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 nine months ended September 30	2016	2015
Operating activities		
Net loss	\$ (635,321)	\$ (1,195,834)
Add back (deduct) non-cash items:		
Depletion and depreciation	37,974	64,636
Impairment	-	440,000
Share-based payments	-	1,315
Decommissioning obligation accretion	9,728	7,160
Abandonment expenditures	(69,963)	(9,969)
Change in non-cash working capital		
Trade and other receivables	19,648	45,557
Prepaid expenses and deposits	(75,998)	(283,107)
Trade and other payables	(30,786)	(221,357)
Cash flows used by operating activities	(744,718)	(1,151,599)
Investing activities		
Exploration and evaluation expenditures	-	(12,132)
Development and production asset expenditures	(543)	(114,446)
Furniture and equipment expenditures	-	(10,645)
Term deposit redemption proceeds	-	5,025,068
Term deposit purchase	(4,127,748)	(5,054,397)
Change in non-cash working capital		
Trade and other payables	(80,637)	(730,766)
Cash flows used by investing activities	(4,208,928)	(897,318)
Change in cash and cash equivalents	(4,953,646)	(2,048,917)
Cash and cash equivalents, beginning of period	6,682,584	9,019,033
Cash and cash equivalents, end of period	\$ 1,728,938	\$ 6,970,116

See the accompanying notes to these condensed interim financial statements.

Sahara Energy Ltd.
Notes to Condensed Interim Financial Statements
For the three and nine months ended September 30, 2016
(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 900, 517 – 10th Avenue SW, Calgary, Alberta.

As at September 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 November 28, 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 nine months ended September 30, 2016.

4. Cash and cash equivalents and term deposits

	September 30 2016	December 31 2015
Cash and cash equivalents		
(Bank overdraft) cash in bank	\$ 308,104	\$ 724,174
Unrestricted term deposits and those with maturities of three months or less	1,420,834	5,958,410
	1,728,938	6,682,584
Term deposits		
Term deposits with maturities over three months	9,217,817	5,090,069
	\$ 10,946,755	\$ 11,772,653

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

5. Property, plant and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2015	\$ 217,798	\$ 4,868,017	\$ 5,085,815
Additions	–	543	543
Decommissioning revisions	–	31,691	31,691
As at September 30, 2016	\$ 217,798	\$ 4,900,251	\$ 5,118,049
Accumulated depletion and depreciation			
As at December 31, 2015	\$ 106,078	\$ 1,235,039	\$ 1,341,117
Depletion and depreciation	24,092	13,882	37,974
As at September 30, 2016	\$ 130,170	\$ 1,248,921	\$ 1,379,091
Net carrying amount			
As at December 31, 2015	\$ 111,720	\$ 3,632,978	\$ 3,744,698
As at September 30, 2016	\$ 87,628	\$ 3,651,330	\$ 3,738,958

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 September 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 eight years. The Company calculated the decommissioning liabilities using an average risk-free discount rate of 1.3% per annum and an inflation rate of 2% per annum.

Balance, December 31, 2015	\$ 883,358
Accretion	9,728
Expenditures	(69,963)
Revisions	31,691
Balance, September 30, 2016	\$ 854,814

Sahara Energy Ltd.
Notes to Condensed Interim Financial Statements
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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, September 30, 2016	700,000	\$ 0.10

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

Exercise price	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable
\$ 0.10	700,000	0.45	\$ 0.10	700,000

8. Per share amounts

Basic net loss per share is calculated as follows:

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Net loss for the period:	\$ (174,749)	\$ (260,272)	\$ (635,321)	\$ (1,195,834)
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.