

Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three and nine months ended September 30, 2015

(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, 2015.

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

As at	September 30 2015	December 31 2014
Assets		
Current assets		
Cash and cash equivalents (Note 3)	\$ 6,970,116	\$ 9,019,033
Term deposits (Note 3)	5,054,397	5,025,068
Trade and other receivables	105,045	150,602
Prepaid expenses and deposits	578,405	295,298
	12,707,963	14,490,001
Exploration and evaluation assets	193,054	180,922
Property, plant and equipment (Note 4)	3,702,054	4,056,568
	\$ 16,603,071	\$ 18,727,491
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	\$ 416,553	\$ 1,368,676
Decommissioning obligation (Note 5)	876,955	854,733
	1,293,508	2,223,409
Shareholders' equity		
Share capital	20,465,084	20,465,084
Contributed surplus	1,244,119	1,242,804
Accumulated deficit	(6,399,640)	(5,203,806)
	15,309,563	16,504,082
	\$ 16,603,071	\$ 18,727,491

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 September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue				
Oil and natural gas sales	\$ 56,700	\$ 92,583	\$ 84,393	\$ 325,316
Royalties	(2,249)	(7,620)	(4,327)	(25,712)
	54,451	84,963	80,066	299,604
Expenses				
Production and operating	55,332	98,084	119,191	306,737
General and administrative	236,204	166,595	722,295	618,583
Depletion and depreciation	31,736	27,232	64,636	83,045
Impairment (Note 4)	-	-	440,000	-
Share-based payments (Note 6)	-	1,680	1,315	6,972
	323,272	293,591	1,347,437	1,015,337
Loss from operating activities	(268,821)	(208,628)	(1,267,371)	(715,733)
Interest income	10,683	784	78,697	1,207
Decommissioning obligation accretion	(2,134)	(2,814)	(7,160)	(9,042)
Net loss and comprehensive loss	\$ (260,272)	\$ (210,658)	\$ (1,195,834)	\$ (723,568)
Net loss per share				
Basic and diluted (Note 7)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

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	2015	2014
Share capital		
Balance, beginning of period	\$ 20,465,084	\$ 4,970,443
Private placement, net of issuance costs	-	15,494,641
Balance, beginning and end of period	20,465,084	20,465,084
Contributed surplus		
Balance, beginning of period	1,242,804	1,234,151
Share-based payments (Note 6)	1,315	6,972
Balance, end of period	1,244,119	1,241,123
Deficit		
Balance, beginning of period	(5,203,806)	(3,951,385)
Net loss	(1,195,834)	(723,568)
Balance, end of period	(6,399,640)	(4,674,953)
Total Shareholders' Equity	\$ 15,309,563	\$ 17,031,254

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	2015	2014
Operating activities		
Net loss	\$ (1,195,834)	\$ (723,568)
Add back (deduct) non-cash items:		
Depletion and depreciation	64,636	83,045
Impairment	440,000	-
Share-based payments	1,315	6,972
Decommissioning obligation accretion	7,160	9,042
Abandonment expenditures	(9,969)	(12,238)
Change in non-cash working capital		
Trade and other receivables	45,557	(10,993)
Prepaid expenses and deposits	(283,107)	(151,140)
Trade and other payables	(221,357)	(19,878)
	(1,151,599)	(818,758)
Financing activities		
Private placement proceeds, net of share issue costs	-	15,494,641
Investing activities		
Exploration and evaluation expenditures	(12,132)	(9,632)
Development and production asset expenditures	(114,446)	(1,606)
Furniture and equipment expenditures	(10,645)	(46,271)
Term deposit purchase	(5,054,397)	(5,000,000)
Term deposit redemption	5,025,068	-
Change in non-cash working capital		
Trade and other payables	(730,766)	-
	(897,318)	(5,057,509)
Change in cash and cash equivalents	(2,048,917)	9,618,374
Cash and cash equivalents, beginning of period	9,019,033	468,415
Cash and cash equivalents, end of period	\$ 6,970,116	\$ 10,086,789

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, 2015
(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 September 30, 2015, JF Investment (Hong Kong) Co., Limited ("JF Investment") owned and controlled 69% of the Company's issued and outstanding shares.

2. 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, 2014. 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, 2014.

These financial statements were authorized for issue by the Board of Directors on October 29, 2015.

3. Cash and cash equivalents and term deposits

	September 30 2015	December 31 2014
Cash and cash equivalents		
Cash in bank	\$ 416,894	\$ –
Term deposits with maturities of three months or less or redeemable without penalty	6,553,222	9,019,033
	6,970,116	9,019,033
Term deposits		
Term deposits with maturities over three months and restricted early redemption terms	5,054,397	5,025,068
	\$ 12,024,513	\$ 14,044,101

Sahara Energy Ltd.
Notes to Condensed Interim Financial Statements
For the three and nine months ended September 30, 2015
(Unaudited)
(In Canadian dollars)

4. Property, plant and equipment

	Furniture and equipment	Development and production assets	Total
Cost			
As at December 31, 2014	\$ 207,153	\$ 4,665,922	\$ 4,873,075
Additions	10,645	114,446	125,091
Decommissioning revisions	–	25,031	25,031
As at September 30, 2015	\$ 217,798	\$ 4,805,399	\$ 5,023,197
Accumulated depletion and depreciation			
As at December 31, 2014	\$ 54,383	\$ 762,124	\$ 816,507
Depletion and depreciation	38,771	25,865	64,636
Impairment	–	440,000	440,000
As at September 30, 2015	\$ 93,154	\$ 1,227,989	\$ 1,321,143
Net carrying amount			
As at December 31, 2014	\$ 152,770	\$ 3,903,798	\$ 4,056,568
As at September 30, 2015	\$ 124,644	\$ 3,577,410	\$ 3,702,054

Future development costs:

The September 30, 2015 calculation of depletion and depreciation expense included an estimated \$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.

Impairment:

During the previous quarter ended June 30, 2015, the Company identified certain business risks related to its cash generating unit (“CGU”) such as a decline in forward commodity prices. As a result, the Company performed an impairment test at June 30, 2015 and recognized an impairment charge of \$440,000.

Management estimated the recoverable amount of the Company’s CGU based on the ‘fair value less costs to sell’ using 15% discounted cash flows expected to be derived from the CGU’s proved plus probable reserves as reported in the Company’s December 31, 2014 externally prepared reserve report updated for June 30, 2015 commodity price estimates.

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5. Decommissioning obligation

As at September 30, 2015, the Company has estimated the total undiscounted inflation-adjusted amount of cash flows required to settle its decommissioning liabilities to be \$960,631. This amount will be substantially incurred over the next 5.5 years. The Company calculated the decommissioning liabilities using an average risk-free discount rate of 1.15% per annum and an inflation rate of 2% per annum.

Balance, December 31, 2014	\$	854,733
Accretion		7,160
Revisions		25,031
Expenditures		(9,969)
<hr/>		
Balance, September 30, 2015	\$	876,955

6. Share-based payments

As at September 30, 2015 and December 31, 2014, the Company had 2,400,000 stock options outstanding, all of which are exercisable at September 30, 2015. The stock options are exercisable at \$0.10 per share and expire between January 2016 and March 2017.

During the three and six months ended September 30, 2015, the Company recognized \$nil and \$1,315, respectively, of share-based compensation expense (three and six months ended September 30, 2014 – \$1,680 and \$6,972, respectively). As at September 30, 2015, the Company's remaining unvested share-based compensation was \$nil.

7. Per share amounts

Basic net loss per share is calculated as follows:

	Three months ended		Six months ended	
	September 30		September 30	
	2015	2014	2015	2014
Net loss for the period:	\$ (260,272)	\$ (210,658)	\$ (1,195,834)	\$ (723,568)
Weighted average number of shares – basic:				
Issued common shares at January 1	289,684,072	89,684,072	289,684,072	89,684,072
Effects of shares issued	–	86,956,522	–	29,304,029
	289,684,072	176,640,594	289,684,072	118,988,101
Net loss per share – basic:	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)

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