

Sahara Energy Ltd.

Financial Statements

For the three month period ended March 31, 2008 and 2007

Unaudited Interim Financial Statements

Responsibility for financial statements

The accompanying interim financial statements for Sahara Energy Ltd. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the annual December 31, 2007 audited financial statements. Only changes in accounting information have been disclosed in these interim financial statements. These interim statements are presented in accordance basis of accounting. Therefore, estimates and approximations have been made using careful judgement. Recognizing that the Company is responsible for both the integrity and objectivity of the interim financial statements, management is satisfied that these interim financial statements have been fairly presented.

Auditor Involvement

The auditor of Sahara Energy Ltd. has not performed a review of the unaudited interim financial statements for the three month period ended March 31, 2008 and 2007.

Sahara Energy Ltd.**Balance Sheets**

March 31, 2008 2007

Assets**Current**

Cash and cash equivalents	\$	-	\$	-
Prepaid expenses		326,550		100,912
Accounts receivable		885,958		3,737,463

		1,212,507		3,838,375
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Property, plant and equipment (note 3)		11,158,345		23,636,062
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	\$	12,370,852	\$	27,474,437
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Liabilities**Current**

Bank indebtedness (note 4)	\$	336,638	\$	648,843
Current portion of long term debt (note 11)		300,000		-
Due to shareholders (note 5)		392,500		-
Accounts payable and accrued liabilities		2,471,915		6,797,043
Convertible debentures (note 6)		1,199,099		730,004

		4,700,152		8,175,890
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Long-term debt (note 11)		157,245		-
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Asset retirement obligations (note 5)		728,291		682,714
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Future tax liability (note 9)		1,175,454		6,198,449
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		6,761,142		15,057,053
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Shareholders' Equity

Share capital (note 7)		15,834,148		14,465,861
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Warrants (note 6)		62,322		44,236
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Contributed surplus (note 8)		2,815,520		2,024,710
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Deficit		(13,102,280)		(4,117,423)
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		5,609,710		12,417,384
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	\$	12,370,852	\$	27,474,437
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Commitments (note 10)**Subsequent events** (note 13)**Approved by the Board:**

(Signed) "Peter J. Boswell" _____, Director

(Signed) "Quentin Enns" _____, Director

Sahara Energy Ltd.**Statements of Operations and Comprehensive Loss and Deficit**

March 31,	2008	2007
Revenue		
Petroleum and natural gas sales	\$ 801,899	807,897
Royalties	(1,846)	(137,547)
Royalty Refund	74,679	6,237
	<hr/>	<hr/>
	874,732	676,587
Expenses		
Production expenses	336,673	433,666
General and administrative	142,194	252,895
Audit, legal and shareholder reporting	145,373	109,697
Engineering services	24,170	80,049
Stock-based compensation	146,500	576,143
Interest expense	69,321	18,534
Depletion, depreciation and accretion	558,521	639,969
Business promotion	5,775	8,651
Overhead recoveries	(5,901)	(71,186)
	<hr/>	<hr/>
	1,422,626	2,048,418
Loss before income taxes	(547,894)	(1,371,831)
Future income tax recovery	-	-
Net loss and comprehensive loss for the period	(547,894)	(1,371,831)
Deficit, beginning of period	(12,554,385)	(2,745,592)
Deficit, end of period	<hr/>	<hr/>
	\$ (13,102,280)	\$ (4,117,423)
Net Loss per share - basic and diluted	(0.01)	(0.04)
Weighted average number of shares outstanding	<hr/>	<hr/>
	38,036,302	31,594,702

Sahara Energy Ltd.**Statements of Cash Flows**

March 31,	2008	2007
Operating activities		
Net loss	\$ (547,894)	\$ (1,371,831)
Items not affecting cash:		
Depletion, depreciation and accretion	558,521	639,969
Stock-based compensation	146,500	576,143
	157,127	(155,719)
Changes in non-cash working capital		
Accounts receivable	69,207	1,168,267
Prepaid expenses	(303,087)	(10,116)
Accounts payable and accrued liabilities	(429,110)	(467,024)
	(505,863)	535,408
Financing activities		
Bank Indebtedness		425,000
Issuance of convertible debentures		82,500
Repayment of debentures	-	-
Long Term Debt	(75,000)	-
Exercise of stock options and warrants		98,198
Share issue costs		-
	(75,000)	605,698
Investing activities		
Purchase of resource properties	2,398,655	(3,511,306)
Sale of resource properties	(875,659)	-
Acquisition of equipment		-
Accounts payable for capital expenditures	36,122	(729,333)
	1,559,118	(4,240,639)
Increase (decrease) in cash	978,255	(3,099,533)
Cash and cash equivalents, beginning of period	(1,314,893)	2,875,690
Cash and cash equivalents, end of period	\$ (336,638)	\$ (223,843)
Supplemental cash flow information		
Broker warrants issued for share issue costs	\$ -	\$ -
Asset retirement obligation	5,500	40,973
Convertible debentures converted to shares	-	54,996

March 31, 2008

1. Incorporation and nature of business

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 natural resource properties (primarily oil and gas). The Company’s business is presently focused on the exploration and evaluation of various oil and gas properties in Saskatchewan and Alberta.

While these financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions and events that cast substantial doubt on the validity of this assumption.

During the period ended March 31, 2008, the Company incurred a net loss of \$547,894 and has an accumulated deficit of \$13,102,380. At March 31, 2008, the Company had bank indebtedness of \$336,638 and had a working capital deficiency of \$3,487,645.

As a junior exploration stage company, the Company is currently unable to self-finance its operations. The ability of the Company to carry on as a going concern and the ultimate recovery of the Company’s investment in its oil and gas properties is dependent upon the discovery, development and sale of oil and gas reserves, the ability to joint venture or sell its resource properties and the ability to raise sufficient capital to finance this operation. The Company continues to seek new capital and reorganization options and will continue to require additional funds to both finance its administrative expenditures and meet its property commitments. As of March 31, 2008 Company acquired Mirage Energy Ltd (“Mirage”) and upon completion of the arrangement, Mirage became a wholly-owned subsidiary of the Company. (See note 11). The risk of continuing operations now vests with the company.

If the going concern assumptions were not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported revenues and expenses and the balance sheet classifications used. The adjustments could be material.

2. Significant accounting policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles applied on a consistent basis within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Revenue recognition

Revenues associated with sales of petroleum and natural gas is recognized when the risks and rewards of ownership are transferred to the buyer. Revenues from royalty interests are recognized when earned and collection is reasonably assured.

March 31, 2008

2. **Significant accounting policies (continued)**

b) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Specifically, the ceiling test and the amounts recorded for depletion, depreciation, and asset retirement obligations are based on estimates of proved reserves, future oil and natural gas prices, future costs and other relevant assumptions. Such estimates primarily relate to unsettled transactions and events at the balance sheet date which are based on information available to management at each financial statement date.

By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.

c) Property, plant and equipment

The Company follows the full-cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for, and development of oil and natural gas reserves, whether productive or unproductive, are capitalized. Costs capitalized include land acquisitions costs, geological and geophysical expenditures, carrying charges on undeveloped properties and drilling and overhead expenses related to exploitation and development of both productive and non-productive wells.

The Company performs a ceiling test calculation under a two part process. Part I, the recognition of impairment, is determined by comparing the carrying value of property and equipment with the sum of the undiscounted cash flows expected to result from the production of the Company's proved reserves. Cash flows are calculated based on management's best estimate of future prices. If impairment exists, Part II calculates the magnitude of the impairment by comparing the carrying value of the property and equipment to the fair value of proved and probable reserves. Fair value is estimated using accepted present value techniques, which incorporate risk and other uncertainties as well as the future value of reserves when determining expected cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as impairment and charged as additional depletion expense in the statement of operations.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, without any gain or loss being recognized, unless such sale would significantly alter the rate of depletion.

March 31, 2008

2. Significant accounting policies (continued)

c) Property, plant and equipment (continued)

Depletion on developed properties is computed using the units-of-production method, using only the reserves before deduction of royalties underlying the proved developed oil and gas properties. Costs of unproved properties and seismic costs on undeveloped land are initially excluded from oil and gas properties for the purpose of calculating depletion. Oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content based on a conversion ratio of six thousand cubic feet of nature gas to a barrel of oil. Impairment of a proved oil and gas property would be required to the extent its carrying amount exceeded the undiscounted future net cash flows from the Company's interest in the property's estimated proved reserves. Estimates of proved oil and gas reserve volumes and values involve significant uncertainties. These estimates are also primary factors in determining the amount of depletion expense, whether or not oil and gas properties are impaired.

Wells and related equipment are recorded at cost and are amortized under the units-of-production method, based on the estimated proved developed reserves of the underlying properties.

d) Joint operations

All oil and gas exploration and development activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

e) Flow-through shares

Resource expenditures deductions for income tax purposes that arise from exploration and development activities and which have been funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. On the date that the Company files the renunciation with the tax authorities, a future income tax liability is recorded and share capital is reduced by the estimated tax benefits transferred to shareholders.

f) Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks and investments in short-term deposits with original maturities of less than three months.

March 31, 2008

2. Significant accounting policies (continued)

g) Asset retirement obligation

The Company recognizes the estimated fair value of an asset retirement obligation (“ARO”) in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. ARO is initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost will result in an increase or decrease to ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

h) Convertible debentures

Convertible debentures are recorded at the amount of proceeds received less the amount attributed to the conversion feature which is included as part of shareholders’ equity. The difference between the recorded amount and the face value of the convertible debentures is charged to income and included in accretion on convertible debentures using an effective yield basis.

The value of the conversion option was assessed at the date of issuance to be nominal and as such no amount was recorded for the value of the conversion feature.

i) Loss per share

Basic per share amounts are computed by dividing the net earnings by the weighted average number of common shares outstanding for the year. Diluted per share amounts reflect potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares. Diluted per share information is calculated using the treasury stock method that assumes any proceeds received by the Company upon the exercise of in-the-money stock options, plus unamortized stock-based compensation cost, would be used to buy back common shares at the average market price for the period. Anti-dilutive options or instruments are not included in the calculation and all options and instruments are considered anti-dilutive when the Company is in a loss position.

j) Stock-based compensation

The Company uses the fair value method of accounting for options granted to employees and consultants. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

March 31, 2008

2. Significant accounting policies (continued)

k) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized in the current period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. Future income tax assets are limited to the amount that is more likely than not to be realized

l) Other property, plant and equipment

The Company amortizes other property, plant and equipment on the declining balance method at the following rates unless otherwise noted:

Office furniture and equipment	20%
Computer equipment	30%
Leasehold improvements	Straight Line over life of the lease

The rates are reduced by one-half in the year of acquisition.

m) Financial instruments

On January 1, 2007, the Company adopted CICA Handbook Section 3855 “Financial Instruments - Recognition and Measurement”. Under this standard, financial assets available for sale and financial assets and liabilities held for trading have to be measured at fair value. In relation to this policy: accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payable, accrued liabilities and long term debt are classified as other and are initially measured at amortized cost. The adoption of this standard had no impact on the financial statements for the nine months ended December 31, 2007.

n) Hedges

On January 1, 2007, the Company adopted CICA Handbook Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 “Hedging Relationships”, and the hedging guidance in Section 1650 “Foreign Currency Translation” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company has elected not to apply hedge accounting to its financial instruments.

March 31, 2008

2. Significant accounting policies (continued)

o) Accounting changes

On January 1, 2007, the Company adopted CICA Handbook Section 1506 provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in an accounting policy are to be made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

p) Comprehensive income

On January 1, 2007, the Company adopted CICA Handbook Section 1530 “Comprehensive Income”. Under this standard, comprehensive income and losses are charges to shareholders equity to record unrealized gains and losses resulting from changes in the fair value of certain financial instruments. The Company did not have any Comprehensive Income for the nine months ended December 31, 2007.

q) Future accounting changes

- i) On December 1, 2006 the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, and Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These new standards are effective January 1, 2008. Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and (iv) if it has no complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace handbook Section 3861, Financial Instruments - Disclosure and Presentations, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These news sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company is assessing the impact of these new standards on the financial statements.
- ii) The Canadian Accounting Standard Board (AcSB) has confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP for those enterprises. These include listed companies and profit oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeovers date if for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparatives IFRS information for the previous fiscal year. The company is currently evaluating the impact of adopting IFRS.

Sahara Energy Ltd.**Notes to the Financial Statements**

March 31, 2008

3. Property, plant and equipment

	2008		
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	\$ 24,350,563	\$ 13,262,090	\$ 11,088,473
Furniture, equipment and leasehold improvements	139,588	69,716	69,872
	\$ 24,490,151	\$ 13,331,806	\$ 11,158,345

	2007		
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	\$ 24,811,800	\$ 1,283,095	\$ 23,528,705
Furniture, equipment and leasehold improvements	140,423	33,066	107,357
	\$ 24,952,223	\$ 1,316,161	\$ 23,636,062

Costs excluded from depletion for 2008 - \$968,319 (2007 - \$7,298,904) as these costs are for unproved and major development projects at year end. The Company conducted a separate impairment test on these properties and concluded that no impairment had occurred.

Capitalized G&A costs directly are \$360,012 (2006 - \$354,649).

Upon the review of the company's properties appraisal Report compiled by an independent party, DeGolyer and MacNaughton, Management with the approval of the Board of Directors has provided an impairment of reserves of \$7,484,000 as of December 31, 2007.

The future prices used by the Company in estimating cash flows were based on forecasts by an independent reserves evaluator, adjusted for the Company's quality and transportation differentials. The following table summarizes the benchmark prices used in the calculation at an exchange rate of \$1 CDND to \$1 USD:

	WT1 @Cushing \$/BBL	EDM Oil price D2S2 \$/BBL	Heavy Oil 25 API Hardisty \$/BBL	Alberta AECO Average Current \$/Mcf Cdn.	Condensate \$/bbl Cdn.
2008	90.00	89.50	63.55	6.69	91.29
2009	86.52	86.01	61.06	7.29	87.73
2010	84.87	84.34	59.88	7.18	86.03
2011	83.32	82.78	58.78	7.13	84.44
2012	82.23	82.23	58.38	7.19	83.87
2013	82.19	81.62	58.36	7.21	83.26
Thereafter	Various escalation rates				

Sahara Energy Ltd.**Notes to the Financial Statements**

March 31, 2008

4. Bank indebtedness

As March 31, 2008 the Company has a \$375,000 revolving credit facility with a Canadian chartered bank. The Company has drawn \$336,635 on the facility. The facility bears interest at the lender's base prime rate plus 1%. The facility requires the Company to maintain certain financial ratios and other covenants that the Company is in compliance with at year end, and is collateralized by a fixed charge on the Company's assets.

5. Asset retirement obligations

At the date of completion of drilling and testing, the Company identified obligations related to oil and gas properties and records a liability equal to the present value of expected future assets retirement obligations. The total future ARO was estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total ARO to be \$728,291 as at March 31, 2008 based on an undiscounted future liability of \$850,138 and incorporated the Company's credit-adjusted risk-free interest rate of 9.0% and inflation rate of 2%. These payments are expected to be made over the next eight years.

The following table reconciles the Company's asset retirement obligations:

	March 31, 2008	December 31,2007
Balance, beginning of period	\$ 711,291	\$ 626,718
New liabilities incurred	-	44,600
Accretion expense	17,000	39,973
Balance, end of year	\$ 728,291	\$ 711,291

6. Convertible debentures

	March 31, 2008	December 31, 2007
Balance, beginning of year	\$ 1,199,099	\$ 785,000
Issuance	-	1,337,020
Conversions	-	(130,000)
Repayments	-	(235,000)
Converted to notes payable	-	(420,000)
Value assigned to conversion option	-	(176,373)
	1,199,099	1,160,647
Accretion	-	38,452
Balance, end of the year	\$ 1,199,099	\$ 1,199,099

The convertible debentures bear interest at 10% payable quarterly and are due June 29, 2009.

Sahara Energy Ltd.**Notes to the Financial Statements**

March 31, 2008

6. Convertible debentures (continued)

For accounting purposes, the value assigned to the conversion option uses an effective risk free interest rate of 18% and the liability component of the debenture will be accreted to the principal amount over the term of the debenture.

The debentures are convertible at the option of the holder into 1,335,033 units, each unit consisting of one common share and one common share purchase warrant at a price of \$0.90 per share. The warrants expire June 29, 2009.

During the period ending March 31, 2008, no debentures were converted or came due.

7. Share capital**Authorized:**

Unlimited number of:
Common voting shares
Preferred non-voting shares

Issued:

	March 31, 2008		December 31, 2007	
	Shares	Amount	Shares	Amount
Common shares				
Balance, beginning of year	38,036,301	\$ 15,836,141	31,009,291	\$ 19,268,018
Conversion of debentures			228,065	129,997
Private placement of flow-through shares			2,001,437	809,305
Private placement of common shares			3,476,780	416,820
Shares issued in settlement of debts			1,049,000	212,530
Exercise of options			37,500	15,000
Fair value of options exercised			-	10,125
Exercise of warrants			234,228	153,197
Share issue costs			-	(105,423)
Tax effect of flow-through share renunciation			-	(5,038,501)
Value assigned to warrants			-	(29,403)
Fair value of warrants exercised			-	(5,524)
Balance, end of year	38,036,301	\$ 15,836,141	38,036,301	\$ 15,836,141

Sahara Energy Ltd.**Notes to the Financial Statements**

March 31, 2008

7. Share capital (continued)

	Number of warrants	Amount	Number of warrants	Amount
Warrants				
Balance, beginning of period	441,814	\$ 23,422	135,027	\$ 24,512
Issuance of warrants			281,700	32,286
Issuance of warrants on conversion of debentures (note 5)			228,065	-
Expired warrants	(4,200)		(20,000)	-
Exercise of warrants			(202,978)	(33,376)
Balance, end of year	437,614	\$ 23,422	441,814	\$ 23,422

The Company has assigned values to warrants issued as compensation to brokers as part of the year-end private placements. The warrants were issued for a one year term with an exercise price of \$1.50 per warrant. The values assigned to the warrants were determined by using the Black-Scholes option pricing model with a volatility rate of 119% and a risk free interest rate of 5.0%.

The compensation warrants have been issued on debenture financing (7,500) and the issuance of flow-through shares (4,200). These warrants expire June 29, 2008. The warrants issued as part of the flow-through shares issued in the year entitled the holder to acquire one common share at \$1.05 for each warrant. The warrants expired January 18, 2008 unexercised

Options

As at March 31, 2008, the following options were outstanding:

Options outstanding	Option price	Weighted average remaining contractual life	Number of options currently exercisable	Weighted average exercisable price of options currently exercisable
935,000	0.40	2.67	935,000	0.40
360,000	1.30	2.83	235,000	1.30
80,000	1.25	2.92	-	1.25
460,000	1.00	2.83	148,668	1.00
190,000	1.10	3.83	95,000	1.10
225,000	0.90	4.17	225,000	0.90
2,250,000	0.81	3.21	1,631,668	0.81

The Corporation has an option plan (the "Option Plan") for its directors, officers, employees and consultants. Under the Option Plan, the Corporation has reserved for issuance of a total of 2,423,200 Common Shares. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares. Under the plan, options are exercisable at varying vesting provisions for a maximum term of five years.

Sahara Energy Ltd.**Notes to the Financial Statements**

March 31, 2008

7. Share capital (continued)

	Stock options	Weighted average exercise price (\$)	Stock options	Weighted average exercise price (\$)
Outstanding, beginning of year	2,290,000	0.63	2,200,000	0.38
Granted	735,000	1.05	830,000	1.05
Exercised	(37,500)	0.40	(387,500)	0.32
Cancelled	(737,500)	0.40	(352,500)	0.36
Outstanding, end of year	2,250,000	0.81	2,290,000	0.63

To March 31, 2008, the Company recorded compensation expense of \$146,500 included in contributed surplus as determined based on the fair value of the stock options at the grant date estimated using the Black-Scholes model with the following assumptions:

	2007	2006
Volatility rate	49-129%	80-118%
Risk-free interest rate	5.0%	5.0%
Dividend yield rate	0.00%	0.00%
Forfeiture rate of	0.00%	0.00%
Weighted average life	5.00 years	5.00 years

Escrow

As at March 31, 2008, there were 2,256,139 (2007-4,074,038) shares held in escrow.

8. Contributed surplus

A summary of the status of contributed surplus as of March 31, 2008 and the changes during the year is presented below:

	March 31, 2008	December 31, 2007
Balance, beginning of year	\$ 2,669,020	\$ 1,290,306
Fair value assigned to stock options	146,500	1,064,347
Fair value of conversion factor of convertible debentures		176,373
Fair value of warrants expired		177,753
Fair value of options exercised/cancelled		(39,759)
Balance, end of year	\$ 2,815,520	\$ 2,669,020

Sahara Energy Ltd.**Notes to the Financial Statements**

March 31, 2008

9. Income taxes**(a) Tax pools**

As at March 31, 2008, the Company has available for deduction against future taxable income, the following approximate amounts:

	2008	Rate
Operating loss carry forwards	\$ 3,295,000	
Share issue costs	493,000	20%
Canadian oil and gas property expenditures	5,713,000	10%
Canadian development and exploration expenditures	2,567,000	100%
Capital cost allowances	2,286,000	20-45%
	\$ 14,354,000	

The availability of deduction of the operating loss carry forwards against future taxable income expires in 2021.

The Company has renounced the available tax pools in Canadian development and exploration expenditures to its shareholders as outlined in note 9 for flow through commitments from 2005, 2006 and 2007.

10. Commitments**Flow-through expenditures**

During 2007, the Company issued 3,751,376 of flow-through common shares for proceeds of \$1,065,235. The Company has renounced resource expenditures to the subscribers for income tax purposes and is committed to renounce qualifying expenditures of this amount by December 31, 2007 and to incur qualifying expenditures of this amount by December 31, 2007. The renunciation of the qualifying resource expenditures to shareholders was filed with the tax authorities in March 2008. The Company has fulfilled its flow-through responsibilities.

A future tax liability of \$2,728,287 has been recorded in 2007 with a corresponding reduction in share capital for 2006 flow-through renounced resource expenditures. The remaining expenditures of \$1,693,724 were fully satisfied in 2007.

A future tax liability approximating \$157,898 will be recorded in 2008 with a corresponding reduction in share capital.

Premises lease

The Company entered into a lease agreement for a period of five years that calls for annual basic rent payments of \$214,900 per year, of which \$81,612 is recovered through a sub-lease agreement with a third party.

March 31, 2008

11. Long-term debt

The Company entered into a long-term repayment agreement with a third party concerning the settlement of \$457,245 outstanding payables. The payment schedule is for \$25,000 per month which is reflected in the current portion of long-term debt (\$300,000) on the financial statements. The remaining \$82,245 is reported as long-term debt.

12. Related party transactions

The Company had the following related party transactions during the year measured at the exchange rate, which is the amount established and agreed to by the related parties and which are similar to those negotiable with third parties:

As of March 31, 2008, \$392,500 pertaining to debentures that came due on December 31, 2007 of which \$320,000 is owed to senior management of the Company.

13. Subsequent events

In April, 2008, the Company agreed to a payment schedule for the payment of debentures due December 31, 2007 in the amount of \$100,000 to the former Chief Financial Officer of the Company. Under the terms and conditions of this agreement, a monthly payment will see the debt retired in October 2008.

On April 24, 2008, the Company sold a non-operated heavy oil property in Western Saskatchewan for settlement of the \$1,387,141 outstanding to the Operator. The Company also sold its working interest in a marginal oil well for \$187,700. Proceeds from the sale were used to reduce outstanding bank debt by \$60,000 to \$295,000. These transactions reduced the Company's reported debt as at March 31, 2008 by \$1,574,841. The bank debt was \$295,000 on March 31, 2008 ; the current bank debt is \$195,000.

In May 2008 the Company signed an agreement with a third party to rent out office space at a rate of \$5,000.00 per month. This agreement commences July 1, 2008.