

Sahara Energy Ltd.

Financial Statements

December 31, 2007 and 2006

**CHARTERED
ACCOUNTANTS**

MacKay LLP

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Auditors' Report

To the Shareholders of Sahara Energy Ltd.

We have audited the balance sheet of Sahara Energy Ltd. as at December 31, 2007 and 2006 and the related statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles

**Calgary, Canada
May 29, 2008**

(Signed) "MacKay LLP"

Chartered Accountants

Sahara Energy Ltd.

Balance Sheets

December 31, 2007 2006

Assets

Current

Cash and cash equivalents	\$ -	\$ 2,100,405
Prepaid expenses	20,833	74,814
Accounts receivable	298,279	4,264,325
Inter Company Receivable	450,589	

769,701 6,439,544

Property, plant and equipment (note 3) 9,130,695 13,354,901

\$ 9,900,396 \$ 19,794,445

Liabilities

Current

Bank indebtedness (note 4)	\$ 1,013,876	\$ -
Current portion of long term debt (note 11)	300,000	-
Due to shareholders (note 12)	420,000	-
Accounts payable and accrued liabilities	2,728,094	6,943,457
Convertible debentures (note 6)	690,569	785,000

5,152,539 7,728,457

Long-term debt (note 11) 157,245 -

Asset retirement obligations (note 5) 497,496 443,497

Future tax liability (note 9) 621,081 1,159,948

6,428,361 9,331,902

Shareholders' Equity

Share capital (note 7) 9,916,214 11,530,705

Warrants (note 6) 23,422 24,512

Contributed surplus (note 8) 1,566,643 870,269

Deficit (8,034,244) (1,962,943)

3,472,035 10,462,543

\$ 9,900,396 \$ 19,794,445

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**

December 31,	2007	2006
Revenue		
Petroleum and natural gas sales	\$ 2,445,248	818,571
Royalties	(428,656)	(125,825)
Interest Income	10,789	113,692
	2,027,381	806,438
Expenses		
Production expenses	1,790,630	420,276
General and administrative	873,727	494,427
Audit, legal and shareholder reporting	230,958	187,091
Engineering services	114,423	53,277
Stock-based compensation	634,557	748,406
Interest expense	207,120	89,064
Depletion, depreciation and accretion	7,570,972	584,988
Business promotion	44,270	48,806
Overhead recoveries	(100,821)	(170,886)
	11,365,836	2,411,073
Loss before income taxes	(9,338,455)	(1,604,635)
Future income tax recovery	3,267,154	-
Net loss and comprehensive loss for the year	(6,071,301)	
Deficit, beginning of year	(1,962,943)	(358,308)
Deficit, end of year	\$ (8,034,244)	\$ (1,962,943)
Net Loss per share - basic and diluted	(0.41)	(0.11)
Weighted average number of shares outstanding	19,940,054	14,292,511

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

December 31,	2007	2006
Operating activities		
Net loss	\$ (6,071,301)	\$ (1,604,635)
Items not affecting cash:		
Future income tax recovery	(3,267,154)	
Accretion in interest expense	22,145	
Depletion, depreciation and accretion	7,570,972	584,988
Stock-based compensation	634,557	748,406
	(1,110,782)	(271,241)
Changes in non-cash working capital		
Accounts receivable	3,515,457	(4,127,794)
Prepaid expenses	53,981	(59,498)
Accounts payable and accrued liabilities	(2,934,767)	1,275,176
	(476,111)	(3,183,357)
Financing activities		
Bank Indebtedness	1,013,876	
Issuance of convertible debentures	770,000	1,035,000
Repayment of debentures	(235,000)	
Issue of common shares	686,817	5,911,574
Exercise of stock options and warrants	130,697	2,573,498
Share issue costs	(53,720)	(149,932)
	2,312,670	9,370,140
Investing activities		
Purchase of resource properties	(3,768,563)	(11,652,911)
Sale of resource properties	400,165	-
Acquisition of equipment	(7,971)	-
Accounts payable for capital expenditures	(560,596)	5,521,289
	(3,936,965)	(6,131,622)
Increase (decrease) in cash	(2,100,405)	55,161
Cash and cash equivalents, beginning of year	2,100,405	2,045,244
Cash and cash equivalents, end of year	\$ -	\$ 2,100,405
Supplemental cash flow information		
Broker warrants issued for share issue costs	\$ (21,198)	\$ 24,512
Asset retirement obligation	22,300	418,571
Convertible debentures converted to shares	130,000	250,000

December 31, 2007

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 year ended December 31, 2007, the Company incurred a net loss of \$6,071,301 and has an accumulated deficit of \$8,034,244. At December 31, 2007, the Company had bank indebtedness of \$1,013,876 and had a working capital deficiency of \$4,382,838.

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.

December 31, 2007

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.

December 31, 2007

2. Significant accounting policies (continued)

c) Property, plant and equipment (continued)

Depletion on developed properties is computer 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.

December 31, 2007

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.

December 31, 2007

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.

December 31, 2007

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, 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**

December 31, 2007

3. Property, plant and equipment

			2007
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	\$ 17,112,645	\$ 8,039,654	\$ 9,072,991
Furniture, equipment and leasehold improvements	97,980	40,276	57,704
	\$ 17,210,625	\$ 8,079,930	\$ 9,130,695

			2006
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	\$ 13,827,816	\$ 542,542	\$ 13,285,274
Furniture, equipment and leasehold improvements	90,042	20,415	69,627
	\$ 13,917,858	\$ 562,957	\$ 13,354,901

Costs excluded from depletion for 2007 - \$774,000 (2006 - \$3,729,621) 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 \$345,019 (2006 - \$210,237).

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 \$4,300,000 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**

December 31, 2007

4. Bank indebtedness

As December 31, 2007 the Company has a \$1,500,000 revolving credit facility with a Canadian chartered bank. The Company has drawn \$1,013,876 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 not 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 \$497,496 as at December 31, 2007 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:

	2007		2006	
Balance, beginning of year	\$	443,497	\$	-
New liabilities incurred		22,300		418,571
Accretion expense		31,699		24,926
Balance, end of year	\$	497,496	\$	443,497

6. Convertible debentures

	2007		2006	
Balance, beginning of year	\$	785,000	\$	-
Issuance		770,000		1,035,000
Conversions		(130,000)		(250,000)
Repayments		(235,000)		-
Converted to notes payable		(420,000)		-
Value assigned to conversion option		(101,576)		-
		668,424		-
Accretion		22,145		-
Balance, end of the year	\$	690,569	\$	785,000

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

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

December 31, 2007

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 770,000 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.

Costs relating to the issue of the debenture of \$7,500 have been expensed.

During the year, debentures with a face value of \$130,000 in debentures were converted into units of the Company at a price of \$0.57 per unit resulting in 228,065 units being issued. Each unit consists of one common share and one common share purchase warrant. On conversion the Company issued in aggregate 228,065 common shares and 228,065 common share purchase warrants. In May 2007 the Company repaid \$125,000 as settlement for terminated services. On December 31, 2007 debentures with a face value of \$530,000 were due to be redeemed. Company redeemed debentures with a face value of \$110,000 and remaining balance of \$420,000 being reported as "due to shareholders" on the December 31, 2007 financial statements.

7. Share capital**Authorized:**

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

Issued:

	2007		2006	
	Shares	Amount	Shares	Amount
Common shares				
Balance, beginning of year	19,368,083	\$ 11,530,705	10,716,000	\$ 3,686,064
Conversion of debentures	228,065	129,997	438,589	250,000
Private placement of flow-through shares	270,000	270,000	4,345,892	5,911,574
Private placement of common shares	3,476,780	416,820	4,345,892	5,911,574
Shares issued in settlement of debts	1,049,000	212,530		
Exercise of options	37,500	15,000	387,500	240,951
Fair value of options exercised	-	10,125		
Exercise of warrants	202,978	115,697	3,480,102	2,641,508
Share issue costs	-	(57,463)	-	(174,444)
Tax effect of flow-through share renunciation	-	(2,728,287)	-	(1,024,948)
Value assigned to warrants	-	(32,286)	-	-
Fair value of warrants exercised	-	33,376	-	-
Balance, end of year	24,632,406	\$ 9,916,214	19,368,083	\$ 11,530,705

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

December 31, 2007

7. Share capital (continued)

	Number of warrants	Amount	Number of warrants	Amount
Warrants				
Balance, beginning of year	135,027	\$ 24,512	3,158,000	\$ 193,010
Issuance of warrants	281,700	32,286	38,540	24,512
Issuance of warrants on conversion of debentures (note 5)	228,065	-	438,589	-
Expired warrants	-	-	(20,000)	(1,222)
Exercise of warrants	(202,978)	(33,376)	(3,480,102)	(191,788)
Balance, end of year	441,814	\$ 23,422	135,027	\$ 24,512

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 December 31, 2007, 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	2.92	935,000	0.40
360,000	1.30	3.08	235,000	1.30
80,000	1.25	3.17	-	1.25
460,000	1.00	3.08	148,668	1.00
190,000	1.10	4.08	95,000	1.10
225,000	0.90	4.42	225,000	0.90
2,250,000	0.81	3.69	1,631,668	0.81

The Company has an option plan (the "Option Plan") for its directors, officers, employees and consultants. Under the Option Plan, the Company 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**

December 31, 2007

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 December 31, 2007, the Company recorded compensation expense of \$634,557 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 December 31, 2007, there were 620,000 (2006-1,440,000) shares held in escrow.

8. Contributed surplus

A summary of the status of contributed surplus as of December 31, 2007 and the changes during the year is presented below:

	2007	2006
Balance, beginning of year	\$ 870,269	\$ 237,814
Fair value assigned to stock options	634,557	748,406
Fair value of conversion factor of convertible debentures	101,576	-
Fair value of options exercised/cancelled	(39,759)	(115,951)
Balance, end of year	\$ 1,566,643	\$ 870,269

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

December 31, 2007

9. Income taxes**(a) Income tax expense**

The provision for income tax reflects an effective income tax rate which differs from federal and provincial statutory income tax rates. The main difference is as follows:

For the years ended December 31,	2007	2006
Loss before income taxes	\$ (9,338,455)	\$ (1,604,635)
Enacted income tax rate	32.30%	35.77%
Expected income tax recovery	(3,016,000)	\$ (574,000)
Increase (decrease) in taxes resulting from:		
Resource allowance	-	25,000
Stock-based compensation	205,000	268,000
Non-deductible expenses	900	25,000
Impact of change in effective tax rate	(793,554)	30,000
Valuation allowance	336,500	226,000
Income tax expense/(recovery)	\$ (3,267,154)	\$ -

(b) Components of the net future income tax asset (liability)

Temporary differences and carry forwards that give rise to future income tax assets as of December 31, 2007 are as follows:

As at December 31,	2007	2006
Non-capital losses	\$ 627,000	\$ 300,000
Property, plant and equipment	(621,081)	(1,190,948)
Share issue costs	72,500	94,000
Total gross future tax asset (liability)	78,419	(796,948)
Valuation allowance	(699,500)	(363,000)
Net future income tax liability	\$ (621,081)	\$ (1,159,948)

The valuation allowance offsets the net future income tax assets for which there is no assurance of recovery. The valuation allowance is evaluated considering positive and negative evidence about whether the future income tax assets will be realized. At the time of evaluation, the allowance is either increased or reduced, reduction could result in the complete elimination of the allowance, if positive evidence indicated that the value of the future income tax assets is no longer impaired and the allowance is no longer required.

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

December 31, 2007

9. Income taxes (continued)**(c) Tax pools**

As at December 31, 2007, the Company has available for deduction against future taxable income, the following approximate amounts:

	2007	Rate
Operating loss carry forwards	\$ 2,260,000	
Share issue costs	261,000	20%
Canadian oil and gas property expenditures	4,600,000	10%
Canadian development and exploration expenditures	1,500,000	100%
Capital cost allowances	1,470,000	20-45%
	\$ 10,091,000	

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 and 2006.

10. Commitments**Flow-through expenditures**

During 2007, the Company issued 1,988,689 of flow-through common shares for proceeds of \$493,430. 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. During 2007, the Company utilized qualifying resource expenditures of total \$2,187,157 out of which \$1,693,724 relates to flow-through shares issued in 2006.

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.

December 31, 2007

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 \$157,245 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:

A related company by virtue of common directors owes \$450,589 (2006 - \$700,760) which is included in accounts receivable for costs associated with joint venture operations during the year. The related company also reimbursed \$91,575 for general and administrative costs incurred during the year and \$69,709 for office rent.

On December 31, 2007, debentures with a face value of \$530,000 were due to be redeemed. The Company redeemed debentures with a face value of \$110,000 and remaining balance of \$420,000 of which \$320,000 is owed to senior management of the Company.

13. Subsequent events

On February 19, 2008, the Company sold its 30% working interest in an oil property located in the Tangent area of Alberta for \$806,014.51. The proceeds from the sale were used to pay down the Company's bank debt. In addition, the Company sold a 17% working interest in a section of Nikanassin rights in the Gold Creek area of Alberta for \$101,079.95. The proceeds from this sale were used to pay down other existing trade payables and bank debt.

On March 31, 2008, the Company acquired all of the issued and outstanding common shares of Mirage Energy Ltd ("Mirage") in exchange for the common shares of the Company such that each shareholder of Mirage received 0.5 of the company's share for each Mirage share held as of the effective date of the arrangement. Upon completion of the arrangement, Mirage became a wholly-owned subsidiary of the Company. In addition, the Company assumed Mirage's obligations pursuant to outstanding convertible debentures of Mirage such that the debentures are now convertible into securities of the Company.

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 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 an 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 December 31, 2007 by \$1,574,841.

Subsequent to year-end, the Company issued 1,145,000 shares to settle payables of \$229,000.