

Sahara Energy Ltd.

**Financial Statements
(Unaudited)**

For the three month period ended March 31, 2007 and 2006

Unaudited Interim Financial Statements

Responsibility for financial statements

The accompanying interim financials 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, 2006 audited financial statements. Only changes in accounting information have been disclosed in these interim financial statements. These interim statements are presented on the accrual basis of accounting. Therefore, estimates and approximations have been made using careful judgment. 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, 2007 and 2006.

Sahara Energy Ltd.

Balance Sheets

	March 31, 2007	December 31, 2006
	(Unaudited)	(Audited)
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 2,100,405
Accounts receivable	3,107,617	4,264,325
Prepaid expenses	78,406	74,814
	3,186,023	6,439,544
Property, plant and equipment (note 3)	15,176,582	13,354,901
	18,362,605	\$ 19,794,445

Liabilities

Current		
Bank indebtedness	\$ 222,713	\$ -
Accounts payable and accrued liabilities (note 9)	5,603,496	6,943,457
Convertible debentures (note 5)	730,004	785,000
	6,556,213	7,728,457
Asset retirement obligations (note 4)	474,447	443,497
Future tax liability (note 8)	3,888,235	1,159,948
	10,918,895	9,331,902

Shareholders' Equity

Share capital (note 6)	8,918,112	11,530,705
Warrants (note 6)	24,512	24,512
Contributed surplus (note 7)	1,145,616	870,269
Deficit	(2,644,530)	(1,962,943)
	7,443,710	10,462,543
	18,362,605	\$ 19,794,445

Commitments (note 8)
Subsequent events (note 10)

Approved by the Board:

(Signed) "Peter J. Boswell", Director

(Signed) "Quentin Enns", Director

Sahara Energy Ltd.**Statement of Operations and Deficit
(Unaudited)**

Three month period ended	March 31, 2007	March 31, 2006
Revenue		
Petroleum and natural gas sales	\$ 536,991	\$ 78,076
Royalties	(80,001)	(15,977)
	456,990	62,099
Expenses		
Production expenses	315,214	42,216
General and administrative	163,599	172,430
Audit, legal and shareholder reporting	81,651	-
Engineering services	32,135	-
Stock-based compensation	275,347	82,084
Interest expense	18,534	18,431
Depletion, depreciation and accretion	318,908	56,074
Business promotion	8,651	-
Overhead recoveries	(71,186)	-
	1,142,853	371,235
Loss before other items	(685,863)	(309,136)
Other income		
Interest	4,276	13,991
Net loss for the period	(681,587)	(295,145)
Deficit, beginning of period	(1,962,943)	(358,308)
Deficit, end of period	(2,644,530)	\$ (653,453)
Loss per common share - basic and diluted	\$ (0.03)	\$ (0.03)
Weighted average number of shares outstanding	19,423,524	10,872,944

Sahara Energy Ltd.**Statement of Cash Flows
(Unaudited)**

Three month period ended	March 31, 2007	March 31, 2006
Operating activities		
Net loss	\$ (681,587)	\$ (295,145)
Items not affecting cash:		
Depletion, depreciation and accretion	318,908	56,074
Stock-based compensation	275,347	82,084
	(87,332)	(156,987)
Changes in non-cash working capital		
Accounts receivable	1,156,708	74,884
Prepaid expenses	(3,592)	(52,920)
Accounts payable and accrued liabilities	(518,888)	35,121
	546,896	(99,902)
Financing activities		
Issuance of convertible debentures	-	1,035,080
Exercise of stock options and warrants	60,698	558,750
	60,698	1,593,830
Investing activities		
Purchase of resource properties	(2,109,639)	(1,050,812)
Accounts payable for capital expenditures	(821,073)	-
	(2,930,712)	(1,050,812)
Increase (decrease) in cash	(2,323,118)	443,116
Cash and cash equivalents, beginning of period	2,100,405	2,045,244
Cash and cash equivalents, end of period	\$ (222,713)	\$ 2,488,360
Supplemental cash flow information		
Conversion of debentures to common shares	54,996	-
Asset retirement obligation	20,510	30,653

Three month period ended March 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 involved in the production, exploration and development of petroleum and natural gas properties.

2. Significant accounting policies

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles which requires management to make estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. 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.

These interim financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies employed in the audited financial statements for the year ended December 31, 2006, except for the following changes in accounting policies and disclosures:

a) 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 three months ended March 31, 2007.

b) 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 three months ended March 31, 2007.

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

Three month period ended March 31, 2007

3. Property, plant and equipment

			March 31, 2007
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	15,951,011	846,458	15,104,553
Furniture, equipment and leasehold improvements	96,996	24,967	72,029
	16,048,007	871,425	15,176,582

			December 31, 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 - \$4,625,823 (2006 - \$3,729,621) as these costs are for unproved and major development projects at period end. The Company conducted a separate impairment test on these properties and concluded that no impairment had occurred.

Capitalized costs directly related to the properties is \$270,149 (2006 - \$210,237).

4. 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 \$474,447 as at March 31, 2007 based on an undiscounted future liability of \$850,140 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.

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

Three month period ended March 31, 2007

4. Asset retirement obligations (continued)

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

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 443,497	\$ -
New liabilities incurred	20,510	418,571
Accretion expense	10,440	24,926
Balance, end of period	\$ 474,447	\$ 443,497

5. Convertible debentures

The Company issued 1,035, 10% convertible debentures at a price of \$1,000 per debenture for aggregate gross proceeds of \$1,035,000 in the prior year. The debentures are convertible into one unit at price of \$0.57 per unit at the option of holder. Each unit is comprised of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.57 until December 31, 2007. The debentures are convertible in whole or in part, at any time prior to maturity at the option of the holder. The holder may also convert the debentures into cash at anytime after December 31, 2006 on the basis of repayment of the principal amount together with accrued and unpaid interest to the date of conversion.

The Company at its sole discretion may redeem the outstanding debentures together with accrued interest thereon on or after December 31, 2006 provided that, prior to redemption, the Company shall have provided written notice to the holders and which notice provides thirty days for the holders to convert their debenture into units of common shares and warrants pursuant to the convertibility provision of the debentures. If the holder does not exercise his right of conversion, the debentures are redeemable by the Company and shall be purchased at a redemption price of 105% of the principal amount of the debentures plus accrued and unpaid interest to the date of redemption.

The debentures are also automatically convertible at the option of the holder in the event that the Company fails to pay interest or failure to repay the principal amount and accrued interest on the maturity date.

The Company assessed the fair value of the repayment obligation upon issuance and concluded that it was equivalent to the face value of the debentures issued. Accordingly, no value was assigned to the conversion option.

During the period, debentures with a face value of \$54,996 (2006 - \$250,000) in debentures were converted into units of the Company at a price of \$0.57 per unit resulting in 96,484 (2006 - 438,589) units being issued. Each unit consists of one common share and one common share purchase warrant. On conversion the Company issued in aggregate 96,484 (2006 - 438,589) common shares and 96,484 (2006 - 438,589) common share purchase warrants.

Sahara Energy Ltd.

Notes to the Financial Statements

Three month period ended March 31, 2007

5. Convertible debentures (continued)

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 785,000	\$ -
Issuances	-	1,035,000
Conversions	(54,996)	(250,000)
Balance, end of period	\$ 730,004	\$ 785,000

6. Share capital

Authorized:

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

Issued:

	March 31, 2007		December 31, 2006	
	Shares	Amount	Shares	Amount
Common shares				
Balance beginning of period	19,368,083	\$ 11,530,705	10,716,000	\$ 3,686,064
Conversion of debentures	96,484	54,996	438,589	250,000
Private placement of flow-through shares	-	-	4,345,892	5,911,574
Exercise of options			387,500	240,951
Exercise of warrants	106,488	60,698	3,480,102	2,641,508
Share issue costs				(174,444)
Tax effect of flow-through share renunciation	-	(2,728,287)	-	(1,024,948)
Balance end of period	19,571,055	8,918,112	19,368,083	\$ 11,530,705

	March 31, 2007		December 31, 2006	
	Number of warrants	Amount	Number of warrants	Amount
Warrants				
Balance, beginning of period	135,027	\$ 24,512	3,158,000	\$ 193,010
Issuance of warrants			38,540	24,512
Issuance of warrants on conversion of debentures (note 5)	96,484	-	438,589	-
Exercise of warrants	(106,488)	-	(3,480,102)	(191,788)
Expired			(20,000)	(1,222)
Balance, end of period	125,023	\$ 24,512	135,027	\$ 24,512

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

Three month period ended March 31, 2007

6. Share capital (continued)

The Company has assigned values to warrants issued in 2006 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%.

Options

As at March 31, 2007, the following options were outstanding:

Options outstanding	Option price	Weighted average remaining contractual life	Number of options currently exercisable	Weighted average price of options currently exercisable
1,460,000	0.40	3.67	1,095,000	0.40
300,000	1.00	3.83	225,000	1.00
80,000	1.25	3.92	60,000	1.25
260,000	1.00	4.17	86,667	1.00
190,000	1.00	4.50	47,500	1.00
450,000	1.30	4.75	112,500	1.30
2,290,000	0.74	3.98	1,419,167	0.74

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 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.

	Stock options	Weighted average exercise price (\$)	Stock options	Weighted average exercise price (\$)
Outstanding, beginning of period	2,290,000	0.63	2,200,000	0.38
Granted	450,000	1.30	830,000	1.05
Exercised	-	-	(387,500)	0.32
Cancelled	-	-	(352,500)	0.36
Outstanding, end of period	2,740,000	0.74	2,290,000	0.63

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

Three month period ended March 31, 2007

6. Share capital (continued)

To March 31, 2007, the Company recorded compensation expense of \$275,347 (2006 - \$618,405) 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:

	March 31, 2007	December 31, 2006
Volatility rate	119%	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, 2007, there were 1,440,000 shares held in escrow.

7. Contributed surplus

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

	March 31, 2007	December 31, 2006
Balance, beginning of period	\$ 870,269	\$ 237,814
Fair value assigned to stock options	275,347	748,406
Fair value of options exercised	-	(115,951)
Balance, end of period	1,145,616	\$ 870,269

8. Commitments

Flow-through expenditures

During 2006, the Company issued 7,080,015 of flow-through common shares for proceeds of \$8,115,074. 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, 2006 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 2007. The Company anticipates utilizing qualifying resource expenditures of \$6,421,350 that were incurred in 2006 and \$1,693,724 to be incurred in 2007, in order to satisfy this commitment. As of March 31, 2007, \$216,315 remains to be spent on the commitment.

A future tax liability of \$2,728,287 has been recorded in 2007 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 \$199,010 per year, of which approximately half is recovered from a related party.

9. Related party transactions

The Company had the following related party transactions during the period 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 \$608,920 (2006 - \$700,760) which is included in accounts receivable for costs associated with joint venture operations during the period. The related company also reimbursed \$8,700 (2006 - \$85,536) for general and administrative costs incurred during the period and \$29,400 (2006 - \$ 69,709) for office rent.

10. Subsequent events

Subsequent to the period, the Company cancelled 375,000 previously vested options and redeemed \$125,000 of debentures from a former director and officer at its face value.