

Sahara Energy Ltd.

**Financial Statements
(Unaudited)**

For the three and nine month periods ended September 30, 2007

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

Sahara Energy Ltd.**Balance Sheets**

	September 30, 2007	December 31, 2006
	(unaudited)	(audited)
Assets		
Current		
Cash and cash equivalents	\$ -	\$ 2,100,405
Accounts receivable	1,425,531	4,264,325
Prepaid expenses	360,441	74,814
	1,785,972	6,439,544
Property, plant and equipment (note 3)	15,327,071	13,354,901
	17,113,043	\$ 19,794,445
Liabilities		
Current		
Bank indebtedness	\$ 1,711,089	\$ -
Accounts payable and accrued liabilities	3,170,852	6,943,457
Current portion of convertible debentures (note 5)	520,000	785,000
	5,401,941	7,728,457
Convertible debentures (note 5)	780,000	-
Asset retirement obligations (note 4)	496,017	443,497
Future tax liability (note 8)	3,888,235	1,159,948
	10,566,193	9,331,902
Shareholders' Equity		
Share capital (note 6)	9,271,098	11,530,705
Warrants (note 6)	24,512	24,512
Contributed surplus (note 7)	1,153,913	870,269
Deficit	(3,902,673)	(1,962,943)
	6,546,850	10,462,543
	\$ 17,113,043	\$ 19,794,445

Commitments (note 8)**Approved by the Board:**

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

(Signed) "Quentin Enns" _____, Director

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

	Three month period ended September 30,		Nine month period ended September 30,	
	2007	2006	2007	2006
Revenue				
Petroleum and natural gas sales	\$ 717,621	\$ 262,825	\$ 1,776,554	\$ 465,736
Royalties	(150,924)	(47,081)	(330,603)	(84,334)
	566,697	215,744	1,445,951	381,402
Expenses				
Accounting, legal and shareholder reporting	165,938	31,052	298,191	136,183
Bank charges and interest	36,566	773	59,844	1,300
Business promotion	11,755	35,727	23,880	35,727
Depletion, depreciation and accretion	369,283	60,718	985,208	211,262
General and administrative	170,673	116,842	502,058	422,291
Interest on convertible debentures	36,534	24,383	77,841	68,618
Production	434,246	83,103	1,264,226	211,468
Stock-based compensation	-	135,747	275,347	419,417
Overhead recoveries	(11,013)	(130,164)	(96,518)	(130,164)
	1,213,982	358,181	3,390,077	1,376,102
Loss before other items	(647,285)	(142,437)	(1,944,126)	(994,700)
Other income				
Interest	59	49,847	4,396	92,149
Net loss and comprehensive loss for the period	(647,226)	(92,590)	(1,939,730)	(902,551)
Deficit, beginning of period	(3,255,447)	(1,168,269)	(1,962,943)	(358,308)
Deficit, end of period	\$ (3,902,673)	\$ (1,260,859)	(3,902,673)	\$ (1,260,859)
Loss per common share - basic and diluted	\$ (0.03)	\$ (0.01)	\$ (0.10)	\$ (0.07)
Weighted average number of shares outstanding	19,857,599	15,909,909	19,727,766	13,440,076

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

	Three month period ended September 30, 2007		Nine month period ended September 30, 2007	
	2007	2006	2007	2006
Operating activities				
Net loss	\$ (647,226)	\$ (92,590)	\$ (1,939,730)	\$ (902,551)
Items not affecting cash:				
Depletion, depreciation and accretion	369,283	60,718	985,208	211,262
Stock-based compensation	-	135,747	275,347	419,417
	(277,943)	103,875	(679,175)	(271,872)
Changes in non-cash working capital				
Accounts receivable	2,098,641	(483,579)	2,838,794	(3,189,565)
Prepaid expenses	(267,556)	36,679	(285,627)	(89,787)
Accounts payable and accrued liabilities	(2,684,929)	158,780	(3,772,605)	4,413,827
	(1,131,787)	(184,245)	(1,898,613)	862,603
Financing activities				
Proceeds on issuance of convertible debentures	150,000	-	770,000	1,035,080
Repayment of convertible debentures	(125,000)	-	(125,000)	-
Proceeds on issue of common shares	125,000	-	270,000	1,999,950
Proceeds on conversion of warrants and stock options	47,108	-	130,697	-
Exercise of stock options and warrants	(53,720)	75,000	(53,720)	2,418,500
	143,388	75,000	991,977	5,453,530
Investing activity				
Purchase of resource properties	(113,848)	(4,469,358)	(2,904,858)	(6,703,754)
Decrease in cash	(1,102,247)	(4,578,603)	(3,811,494)	(387,621)
Cash and cash equivalents, beginning of period	(608,842)	6,236,226	2,100,405	2,045,244
Cash and cash equivalents, end of period	\$ (1,711,089)	\$ 1,657,623	\$ (1,711,089)	\$ 1,657,623

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 nine months ended September 30, 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 nine months ended September 30, 2007.

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

Nine month period ended September 30, 2007

3. Property, plant and equipment

		September 30, 2007	
	Cost	Accumulated amortization	Net book Value
Petroleum and natural gas properties	\$ 16,745,696	\$ 1,479,766	\$ 15,265,930
Furniture, equipment and leasehold improvements	97,530	36,389	61,141
	\$ 16,843,226	\$ 1,516,155	\$ 15,327,071

		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 of \$4,625,823 (2006 - \$3,729,621) were excluded from depletion, 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 \$358,101 (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. Asset retirement obligations were 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 present value of its obligations at September 30, 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**

Nine month period ended September 30, 2007

4. Asset retirement obligations (continued)

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

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 443,497	\$ -
New liabilities incurred	20,510	418,571
Accretion expense	32,010	24,926
Balance, end of period	\$ 496,017	\$ 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 2006. 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 the maturity date of December 31, 2007 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.

On June 5, 2007, the Company issued a convertible unsecured debenture in the principal amount of \$620,000. The convertible debenture bears interest at 10% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, is due on June 4, 2009 and is convertible, in whole or in part, at any time at the option of the debenture holders into 688,888 common shares of the Company at a conversion price of \$0.90 per share.

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

Nine month period ended September 30, 2007

5. Convertible debentures (continued)

On July 23, 2007, the Company issued a convertible unsecured debenture in the principal amount of \$150,000. The convertible debenture bears interest at 10% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, is due on July 22, 2009 and is convertible, in whole or in part, at any time at the option of the debenture holders into 166,666 common shares of the Company at a conversion price of \$0.90 per share.

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 785,000	\$ -
Issuances	770,000	1,035,000
Conversions	(130,000)	(250,000)
Redemptions	(125,000)	-
Balance	1,300,000	785,000
Less: Current portion	(520,000)	(785,000)
Balance, end of period	\$ 780,000	\$ -

6. Share capital**Authorized:**

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

Issued:

Common shares	September 30, 2007		December 31, 2006	
	Shares	Amount	Shares	Amount
Balance beginning of period	19,368,083	\$ 11,530,705	10,716,000	\$ 3,710,576
Conversion of debentures	228,065	130,000	438,589	250,000
Private placement of flow-through shares	270,000	270,000	4,345,892	5,911,574
Exercise of options	37,500	31,215	387,500	240,951
Exercise of warrants	202,978	115,697	3,480,102	2,641,508
Share issue costs	-	(53,720)	-	(174,444)
Future tax effect of flow-through share renouncements	-	(2,728,287)	-	(1,024,948)
Value of warrants	-	(24,512)	-	(24,512)
Balance end of period	20,106,626	\$ 9,271,098	19,368,083	\$ 11,530,705

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

Nine month period ended September 30, 2007

6. Share capital (continued)

Warrants	September 30, 2007		December 31, 2006	
	Number of warrants	Amount	Number of warrants	Amount
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)	228,065	-	438,589	-
Exercise of warrants	(202,978)	-	(3,480,102)	(191,788)
Expired	-	-	(20,000)	(1,222)
Balance, end of period	160,114	\$ 24,512	135,027	\$ 24,512

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 September 30, 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
1,047,500	0.40	3.17	1,047,500	0.40
450,000	1.00	3.31	283,334	1.00
80,000	1.25	3.42	80,000	1.25
190,000	1.10	4.00	47,500	1.10
360,000	1.30	4.27	90,000	1.30
225,000	0.90	4.67	56,250	0.90
2,352,500	0.79	3.81	1,604,584	0.64

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**

Nine month period ended September 30, 2007

6. Share capital (continued)

	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	735,000	1.18	830,000	1.05
Exercised	(37,500)	0.40	(387,500)	0.32
Cancelled	(635,000)	0.40	(352,500)	0.36
Outstanding, end of period	2,352,500	0.87	2,290,000	0.63

To September 30, 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:

	September 30, 2007	December 31, 2006
Volatility rate	119.0%	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 September 30, 2007, there were 1,080,000 shares held in escrow.

7. Contributed surplus

A summary of the status of contributed surplus as of September 30, 2007 and the changes during the period is presented below:

	September 30, 2007	December 31, 2006
Balance, beginning of period	\$ 870,269	\$ 237,814
Fair value assigned to stock options and warrants	299,859	748,406
Fair value of options exercised	(16,215)	(115,951)
Balance, end of period	\$ 1,153,913	\$ 870,269

8. Commitments

Flow-through expenditures

During 2006, the Company issued 4,345,892 flow-through common shares for proceeds of \$5,911,574.

During 2007, the Company issued 270,000 flow through common shares for proceeds of \$270,000. 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 September 30, 2007, \$516,315 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 an office lease agreement for a period of five years that calls for annual basic rent payments of \$211,741 a year of which \$82,389 is recovered by a sub lease of office space. Additional recoveries of \$37,152 are received from a related third party. The net office lease expense to the Company is \$92,200 per annum.

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 \$293,604 (2006 - \$700,760) which is included in accounts receivable for costs associated with joint venture operations during the period. The related company also reimbursed \$78,825 (2006 - \$85,536) for general and administrative costs incurred during the period and \$55,421 (2006 - \$ 69,709) for office rent.

10. Subsequent events

Subsequent to the end of the quarter, the Company entered into a Promissory Note and a debenture with a supplier with respect to accounts payable totaling \$ 532,242.00 The terms of the agreement state that these accounts payable will be repaid in installments of \$25,000 per month over 20 months with interest at 10% per annum, calculated daily.