

Sahara Energy Ltd.

Financial Statements

For the three and nine month period ended September 30, 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 and nine month period ended September 30, 2008 and 2007.

Sahara Energy Ltd.

Balance Sheets

	September 30, 2008	December 31, 2007
	(Unaudited)	(Audited)
Assets		
Current		
Cash and cash equivalents		\$ -
Prepaid expenses	46,009	100,912
Accounts receivable (note 14)	178,934	3,737,463
	224,943	3,838,375
Property, plant and equipment (note 3)	10,213,079	23,636,062
	10,438,022	\$ 27,474,437
Liabilities		
Current		
Bank indebtedness (note 4)	53,833	\$ 648,843
Current portion of long term debt (note 12)	102,809	-
Due to shareholders (note 13)	392,500	-
Accounts payable and accrued liabilities	2,030,664	6,797,043
Convertible debentures (note 6)	1,337,024	730,004
	3,916,830	8,175,890
Long-term debt (note 11)		-
Asset retirement obligations (note 5)	732,731	682,714
Future tax liability (note 10)	1,175,454	6,198,449
	5,825,015	15,057,053
Shareholders' Equity		
Share capital (note 7)	15,796,818	14,465,861
Warrants (note 7)	62,322	44,236
Contributed surplus (note 8)	2,760,446	2,024,710
Deficit	(14,006,579)	(4,117,423)
	4,603,007	12,417,384
	10,438,022	\$ 27,474,437

Commitments (note 10) Subsequent events (note 15)

Approved by the Board:

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

(Signed) "Dufton H. Lewis", Director

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

	Three month ended September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
Revenue				
Petroleum and natural gas sales	\$ 603,599	\$ 717,621	\$ 1,656,354	\$ 1,776,554
Royalty Expenses	(49,730)	(150,924)	(26,952)	(330,603)
Royalty Income	6,494		9,888	
Other income	162	59	75,254	4,396
	560,526	566,756	1,714,544	1,450,347
Expenses				
Production expenses	195,046	434,246	707,922	1,264,226
General and administrative	148,097	170,673	582,319	502,058
Audit, legal and shareholder reporting	55,056	165,938	371,570	298,191
Engineering services	10,000	-	34,670	-
Stock-based compensation	-	-	146,500	275,347
Interest expense	50,087	73,100	144,068	137,685
Depletion, depreciation and accretion	311,615	369,283	1,169,437	985,208
Business promotion	9,321	11,755	16,902	23,880
Overhead recoveries	-	(11,013)	(6,649)	(96,518)
	779,222	1,213,982	3,166,738	3,390,077
Loss before other items	(218,696)	(648,285)	(1,452,194)	(1,944,126)
Net loss and comprehensive loss for the period	(218,696)	(648,285)	(1,452,194)	(1,944,126)
Deficit, beginning of period	(13,787,883)	(3,255,447)	(12,554,385)	(1,962,943)
Deficit, end of period	(14,006,579)	(3,902,673)	(14,006,579)	(3,902,673)
Net loss per share – basic and diluted	\$ (0.01)	\$ (0.03)	\$ (0.04)	\$ (0.10)
Weighted average number of shares outstanding	38,036,302	19,857,599	35,514,717	19,727,766

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

	Three month ended September 30,		Nine month ended September 30,	
	2008	2007	2008	2007
Operating activities				
Net loss	\$ (218,696)	\$ (647,226)	\$ (1,452,194)	\$ (1,939,730)
Items not affecting cash:				
Depletion, depreciation and accretion	311,615	369,283	1,169,437	985,208
Stock-based compensation		-	146,500	275,347
	92,919	(277,943)	(136,257)	(679,175)
Changes in non-cash working capital				
Accounts receivable	380,915	2,098,641	543,246	2,838,794
Prepaid expenses	16,983	(267,556)	(22,546)	(285,627)
Accounts payable and accrued liabilities	(392,895)	(2,684,929)	(1,582,016)	(3,772,605)
	97,922	(1,131,787)	(1,197,573)	(1,898,613)
Financing activities				
Issuance of convertible debentures		150,000		770,000
Repayment of debentures		(125,000)		(125,000)
Proceeds on issue of common shares		125,000		270,000
Proceeds on conversion of warrants and stock options		47,108		130,697
Exercise of stock options and warrants		(53,720)		(53,720)
Long-term debt	(125,000)		(244,010)	
Share Capital			(37,330)	
Contributed Surplus			(55,074)	
	(125,000)	143,388	(336,414)	991,977
Investing activities				
Purchase of resource properties	50,338	(113,848)	2,737,447	(2,904,858)
Sale of resource properties	57,600		57,600	
Increase/(Decrease) in cash	80,860	(1,102,247)	1,261,060	(3,811,494)
Cash and cash equivalents, beginning of period	(134,693)	(608,842)	(1,314,893)	2,100,405
Cash and cash equivalents, end of period	\$ (53,833)	\$ (1,711,089)	\$ (53,833)	\$ (1,711,089)
Supplemental cash flow information				
Broker warrants issued for share issue costs				
Asset retirement obligation				
Convertible debentures converted to shares				

September 30, 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 three month period ended September 30, 2008, the Company incurred a net loss of \$218,696 and has an accumulated deficit of \$14,006,579. As at September 30, 2008, the Company had bank indebtedness of \$0 and had a working capital deficiency of \$3,691,887.

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 interim consolidated 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 the 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 consolidated balance sheets 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 consolidated financial statements for current and future periods could be significant.

September 30, 2008

2. Summary of significant accounting policies and basis of presentation (continued)

These interim consolidated 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, 2007, except for the following changes in accounting policies and disclosures that were adopted prospectively (if applicable), on January 1, 2008 with no restatement of prior periods. No impact to the earnings or cash flows of the Company was identified upon adoption.

a) Inventories

CICA Section 3031 – Inventories replaces Section 3030 and provides revised guidance on the measurement of cost and cost formulas for inventories, and increased disclosures. This standard had no impact on the Company upon adoption as the Company does not maintain significant levels of inventories on an ongoing basis.

b) Capital disclosures

CICA Section 1535 provides guidance on disclosure of an entity's objectives, policies and processes for managing capital. Disclosures include what is defined as capital, how it is management, and whether externally imposed restrictions on capital are present. Refer to note 11 for further information regarding the Company's management of capital.

c) Financial instruments – Disclosures

CICA Section 3862, in addition to Section 3863 replaces Section 3861 – “Financial Instruments – Disclosure and Presentation”, and provides guidance on disclosing the significant of financial instruments and their associated risks to an entity's financial position and performance. Refer to note 11 for further information regarding the Company's management of financial risks.

d) Financial instruments – Presentation

CICA Section 3863, in addition to Section 3862 replaces Section 3861 – “Financial Instruments – Disclosure and Presentation”, and provides guidance on presentation of financial instruments as liabilities vs. equity and when offsetting of financial assets and financial liabilities is appropriate. The adoption of this standard did not have a material impact on the Company's presentation of its financial instruments.

e) Going Concern

CICA Section 1400 – “General Standards of Financial Presentation” requires management to assess and disclose the ability of the Corporation to continue as a going concern.

September 30, 2008

2. Summary of significant accounting policies and basis of presentation (continued)**f) Future accounting changes**Convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards 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 other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

Section 3064 – Goodwill and Intangible Assets

Effective January 1, 2009, the Company will be required to adopt this standard which replaces GAAP section 3062 and 3450 and provides guidance relating to the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Company is current assessing the impact of this standard.

3. Property, plant and equipment

	2008		
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	\$ 24,011,773	\$ 13,866,058	\$ 10,145,714
Furniture, equipment and leasehold improvements	139,588	72,224	67,364
	\$ 24,151,361	\$ 13,938,282	\$ 10,213,079
	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 \$0 (2007 - \$406,939).

Notes to the Interim Financial Statements

September 30, 2008

3. Property, plant and equipment (continued)

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				

4. Bank indebtedness

As September 30, 2008, the Company has a \$0 revolving credit facility with a Canadian chartered bank. Outstanding cheques totalling \$53,833 at the end of the period are recorded separately in Current Liabilities.

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 \$732,731 as at September 30, 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:

	September 30, 2008	December 31, 2007
Balance, beginning of period	\$ 711,291	\$ 626,718
New liabilities incurred	-	44,600
Accretion expense	21,440	39,973
Balance, end of period	\$ 732,731	\$ 711,291

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

September 30, 2008

6. Convertible debentures

	September 30, 2008	December 31, 2007
Balance, beginning of year	\$ 1,337,024	\$ 785,000
Issuance	-	1,337,020
Conversions	-	(130,000)
Repayments	-	(235,000)
Converted to notes payable	-	(420,000)
Value assigned to conversion option	-	(38,452)
	1,337,024	1,160,647
Accretion	-	38,452
Balance, end of the period	\$ 1,337,024	\$ 1,337,024

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

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.

During the period ending September 30, 2008, no debentures were converted or came due.

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

September 30, 2008

7. Share capital**Authorized:**Unlimited number of:
Common voting shares
Preferred non-voting shares**Issued:**

	September 30, 2008		December 31, 2007	
	Shares	Amount	Shares	Amount
Common shares				
Balance, beginning of year	38,036,302	\$ 15,836,141	31,009,292	\$ 19,268,018
Conversion of debentures			228,065	129,997
Private placement of flow-through shares			3,720,127	809,305
Private placement of common shares			1,758,091	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	38,036,302	\$ 15,836,141	38,036,302	\$ 15,836,141

	Number of warrants	Amount	Number of warrants	Amount
Warrants				
Balance, beginning of period	1,012,004	\$ 63,322	4,050,512	\$ 205,147
Issuance of warrants			281,700	32,286
Issuance of warrants on conversion of debentures (note 5)			228,065	-
Issuance of agent's warrants			12,690	
Flow-through warrants on Flow-through share issue.			557,500	38,900
Expired warrants	(4,200)		(3,852,985)	(177,752)
Exercise of warrants			(265,478)	(36,259)
Balance, end of period	1,007,804	\$ 63,322	1,012,004	\$ 63,322

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%.

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

September 30, 2008

7. Share capital (continued)

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	2.17	935,000	0.40
360,000	1.30	2.25	208,000	1.30
80,000	1.25	2.67	40,000	1.25
460,000	1.00	2.67	155,000	1.00
225,000	0.90	3.67	75,000	0.90
1,710,000	0.81	3.21	1,285,000	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 Interim Financial Statements**

September 30, 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	-	-	-	-
Exercised	-	-	-	-
Cancelled	(540,000)	1.38	(352,500)	0.36
Outstanding, end of year	1,710,000	0.70	2,290,000	0.63

To September 30, 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:

	2008	2007
Volatility rate	49-129%	49-129%
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, 2008, there were 1,024,126 (2007 – 4,074,038) shares held in escrow.

8. Contributed surplus

A summary of the status of contributed surplus as of September 30, 2008 and the changes during the year is presented below:

	September 30, 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 due to Mirage merger	(55,074)	
Fair value of options exercised/cancelled		(39,759)
Balance, end of year	\$ 2,760,446	\$ 2,669,020

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

September 30, 2008

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

As at September 30, 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 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 was 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 on June 1, 2006 that calls for annual basic rent payments of \$214,900 per year, of which \$141,600 is recovered through a sub-lease agreement with a third party. The net office lease is \$73,300.

September 30, 2008

12. 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 (\$102,809) on the financial statements.

13. 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 September 30, 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.

14. Accounts receivables

- The Company's oil and gas marketer has requested bankruptcy protection during the quarter. As a result there is \$300,000 due to the Company for June 2008 revenue, however, a portion of this amount is offset by the prepayment of subsequent month's revenues. This prepayment policy is expected to remain in place throughout the next quarter.

15. Subsequent events

- The Company's Lloydminster well 16B-4-51-2W4 oil well was completed on September 18, 2008. This completion was funded by the WCSB GORR Fund. The well is producing at a rate of 30 BOPD.
- Sahara farmed out the completion and tie-in of its gas well at Soda Lake, Saskatchewan. Sahara will be carried for a 35% working interest on this operation. It is anticipated that this work will be completed in November 2008.