Sahara Energy Ltd.

Financial Statements

December 31, 2009 and 2008

CHARTERED ACCOUNTANTS

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Auditors' Report

To the Shareholders of Sahara Energy Ltd.

We have audited the balance sheets of Sahara Energy Ltd. as at December 31, 2009 and 2008 and the 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada **(Signed) MacKay LLP**

April 28, 2010 **Chartered Accountants**

Sahara Energy Ltd.

Balance Sheets

December 31,		**2009**		2008
## Assets				
Current				
Cash and cash equivalents	**$**	**16,630**	$	30,574
Accounts receivable		**11,675**		36,060
Prepaid expenses and deposits		**27,803**		83,527
		56,108		150,161
Property, plant and equipment (note 5)		**2,568,228**		8,158,977
	$	**2,624,336**	$	8,309,138
## Liabilities				
Current				
Accounts payable and accrued liabilities	**$**	**2,061,369**	$	2,237,308
Convertible debentures (note 8)		**1,337,020**		1,286,945
Promissory notes payable (note 12)		**447,711**		520,309
		3,846,100		4,044,562
Asset retirement obligations (note 7)		**448,367**		521,224
Future income taxes (note 11)		**-**		655,000
		4,294,467		5,220,786
## Shareholders' Equity (Deficiency)				
Share capital (note 9)		**10,830,628**		10,830,628
Contributed surplus (note 10)		**1,864,724**		1,822,958
Deficit		**(14,365,483)**		(9,565,234)
		(1,670,131)		3,088,352
	$	**2,624,336**	$	8,309,138

Going concern (note 1)
Commitment (note 14)
Subsequent events (note 17)

Approved by the Board:

(Signed) "Peter J. Boswell", Director

(Signed) "Quentin Enns", Director

Sahara Energy Ltd.

Statements of Operations, Comprehensive Loss and Deficit

Years ended December 31,	2009	2008
Revenues		
Petroleum and natural gas sales	$ 1,196,723	$ 1,890,718
Royalties	(148,156)	(88,703)
Other income	248	492
	1,048,815	1,802,507
Expenses		
Operating expenses	519,272	830,452
General and administrative	309,652	661,489
Audit, legal and shareholder reporting	160,103	362,748
Engineering services	181,046	119,332
Stock-based compensation	41,766	232,893
Interest expense	242,468	257,497
Depletion, amortization and accretion	5,001,178	1,080,946
Bad debts	48,579	310,404
Overhead recoveries	-	(9,674)
	6,504,064	3,846,087
Loss before income taxes	(5,455,249)	(2,043,580)
Future income tax recovery (note 11(a))	655,000	512,590
Net loss and comprehensive loss for the year	(4,800,249)	(1,530,990)
Deficit, beginning of year	(9,565,234)	(8,034,244)
Deficit, end of year	$ (14,365,483)	$ (9,565,234)
Loss per share – basic and diluted	$ (0.13)	$ (0.04)
Weighted average number of shares outstanding	38,036,302	34,731,232

Sahara Energy Ltd.

Statements of Cash Flows

Years ended December 31,	2009	2008
Operating activities		
Net loss	**$ (4,800,249)**	$ (1,530,990)
Items not affecting cash:		
Future income tax recovery	**(655,000)**	(512,590)
Interest accretion expense	**50,075**	87,846
Depletion, amortization and accretion	**5,001,178**	1,080,946
Stock-based compensation	**41,766**	232,893
Changes in non-cash working capital:		
Accounts receivable	**24,385**	1,099,448
Prepaid expenses	**55,724**	(42,398)
Accounts payable and accrued liabilities	**212,559**	636,149
	(69,562)	(1,051,304)
Financing activities		
Bank indebtedness	**-**	(1,013,876)
Repayment of related party promissory notes	**(72,598)**	(52,500)
Promissory note repayments	**-**	(304,436)
	(72,598)	(1,370,812)
Investing activities		
Cash acquired on acquisition (note 2)	**-**	23,471
Advances to related party	**-**	(693,263)
Acquisition of equipment	**(710)**	(15,572)
Resource property expenditures	**(353,825)**	(388,923)
Proceeds on disposal of resource properties	**482,751**	1,214,658
Accounts payable and accrued liabilities relating to investing activities	**-**	209,711
	128,216	350,082
Increase (decrease) in cash and cash equivalents	**(13,944)**	30,574
Cash and cash equivalents, beginning of year	**30,574**	-
Cash and cash equivalents, end of year	**$ 16,630**	$ 30,574
Supplemental disclosure of cash flow activity:		
Interest paid	**$ 32,199**	$ 124,860

1. Incorporation, nature of business and going concern

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 petroleum and natural gas reserves in western Canada. Effective March 31, 2008, the Company acquired Mirage Energy Ltd. ("Mirage") pursuant to a plan of arrangement and the two corporations were amalgamated. The newly-amalgamated Company is continuing operations as Sahara Energy Ltd.

Going concern

These financial statements have been prepared on a going concern basis which assumes that the Corporation will continue to operate for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

During the year ended December 31, 2009, the Company incurred a loss of $4,800,249. Funds used by operations for the year ended December 31, 2009 were $69,562. As at December 31, 2009, the Company has an accumulated deficit of $14,365,483 and a working capital deficiency of $3,789,992.

Although the Company's assessment of its producing petroleum and natural gas assets shows positive cash flows from operations based on its current forecast and financial models, there is significant doubt as to the appropriateness of the use of the going concern assumption due to the following factors:

a) Continued weak petroleum and natural gas prices will affect the ability of the Company to generate cash flows;

b) Current economic and credit conditions and resulting equity market decline may affect the Company's ability to raise or have access to funds for operational & capital spending; and

c) Financial results of the Company including working capital deficiency and accumulated net deficit.

To help remedy this situation, the Company has reduced its capital spending and future administrative costs. In addition, the Company has moved its focus towards reviewing and completing projects where the risks and costs have been greatly reduced. Management believes these measures in addition to the future cash flow of the Company arising from a possible equity financing and achieving profitable operations will address the Company's working capital deficiency for the foreseeable future. However, there can be no assurances that the initiatives undertaken by management will be successful.

Subsequent to the year end, the Company filed a Notice of Intention to make a Proposal under the Bankruptcy and Insolvency Act (see note 17(b)). The Company has until June 4, 2010 to make a proposal to its creditors. These financial statements do not reflect adjustments, if any, that may result from this proposal. Such adjustments could be material and may impact the Company's ability to continue as a going concern.

2. Business combination

Effective March 31, 2008, the Company acquired all of the issued and outstanding shares of Mirage Energy Ltd. ("Mirage"), a related party through common officers, directors and shareholders. Each Mirage common share was exchanged for one-half (1/2) of a common share of the Company. The number of common shares issued by the Company was 13,403,896 with an assigned value of $0.08 per share. The acquisition has been accounted for using the purchase method of accounting with the results from operations included from the closing date of the transaction. The purchase equation is as follows:

Consideration given:		
13,403,896 Common shares	**$**	**1,072,312**

Net assets acquired:		
Property, plant and equipment	**$**	**2,721,060**
Working capital		**(532,313)**
Convertible debentures		**(508,530)**
Future income tax liability		**(388,610)**
Asset retirement obligations		**(219,295)**
	$	**1,072,312**

Transaction costs of $62,150 related to the acquisition were expensed during the year and are combined with audit, legal and shareholder reporting expenses in the statement of operations, comprehensive loss and deficit.

3. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

a) Estimates by management

Estimates by management represent an integral component of these financial statements. The estimates made in these financial statements reflect management's judgements based on past experiences, present conditions and expectations of future events. Where estimates were made, the reported amounts for assets, liabilities, revenues and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future events were known at the time these financial statements were prepared.

The Company uses estimates to calculate depletion, amortization and accretion expense, to assess impairment of long-lived assets, to estimate asset retirement obligations, to calculate the fair value of stock options, warrants and the conversion feature of debentures and to estimate income tax expense or recoveries.

3. Significant accounting policies (continued)

b) Measurement uncertainty

The Company calculated depletion, amortization and accretion expense and calculates the ceiling test using management estimates of petroleum and gas reserves remaining in petroleum and gas properties, commodity prices and capital costs required to develop those reserves. Estimates of volumes and the related future cash flows are subject to measurement uncertainty. Such reserve estimates are subject to change as additional information becomes available.

Numerous assumptions and judgments are required in the fair value calculation of asset retirement obligations ("ARO") including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlement, and changes in the legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of any existing ARO liability, a corresponding adjustment is made to the related petroleum and gas properties.

The assumptions used in the determination of the fair value of stock options issued are based on the use of the Black-Scholes pricing model, which includes estimates of the future volatility of the Company's stock price, expected lives of the stock options, expected dividends and other relevant assumptions.

Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The amounts recorded for income taxes involve tax interpretations, regulations and legislation that are continually changing. Management is required to make estimates on the probability of the Company utilizing certain tax pools which, in turn, is dependent on estimates of proved and probable reserves, production rates and future petroleum prices.

By their nature, these estimates are subject to measurement uncertainty and the impact of differences between actual and estimated amounts on the financial statements of this and future periods could be material.

c) Joint operations

Substantially all of the Company's petroleum and gas operations are conducted jointly with other parties and accordingly, the financial statements reflect only the Company's proportionate interest in these petroleum and gas operations and the related revenues and expenses.

d) Cash and cash equivalents

Cash and cash equivalents include cash and highly liquid investments that have original maturity terms of ninety days or less.

3. Significant accounting policies (continued)

e) Revenue recognition

Revenue from the sales of petroleum and natural gas is recorded on the gross basis when title passes to an external party and is recognized based on volumes delivered to customers at contractual delivery points and rates and when the significant risks and rewards of ownership have been transferred to the buyer and collectability is reasonably assured.

f) Property, plant and equipment

(i) **Capitalized costs -** The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized in cost centers on a country-by-country basis. Costs include lease acquisition costs, geological and geophysical expenses and drilling costs of productive and non-productive wells and equipment costs. Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized unless such sale would alter the depletion rate by more then 20%.

(ii) **Depletion and depreciation -** Depletion of capitalized costs is calculated using the unit-of-production method based upon estimated proven reserves as determined by independent engineers. Administrative assets are amortized on a declining balance basis over their estimated useful lives at rates varying from 20% to 45% annually.

(iii) **Ceiling test** - The Company performs a two-step test at least annually to assess the carrying value of petroleum and gas assets. A cost center is defined on a country-by-country basis and is tested for recoverability using undiscounted future cash flows from proved reserves and forward indexed commodity prices, adjusted for contractual obligations and product quality differentials. A cost center is written-down to its fair value when its carrying value, less the lower of cost and market value of unproved properties, is in excess of the related undiscounted future net cash flows associated with the cost centre’s proved reserves. If the carrying value is not fully recoverable, the amount of impairment is measured by comparing the carrying amounts less the lower of cost and market value of unproved properties, to the discounted future net cash flows associated with the cost centre’s proved and probable reserves. This impairment in the carrying amount is charged to depletion, amortization and accretion in the period in which the impairment occurs.

3. Significant accounting policies (continued)

g) Asset retirement obligations

The Company recognizes the fair value of an ARO in the period in which the well or related asset is drilled, constructed or acquired and when a reasonable estimate of the fair value of the ARO can be determined. The fair value of the estimated ARO is recorded as a long-term liability, and equals the present value of estimated future cash flows, discounted using a risk-free interest rate adjusted for the Company's credit standing. The liability accretes until the date of expected settlement of the ARO or the asset is sold and is recorded as an accretion expense. The associated asset retirement costs are capitalized as part of the carrying value of the related assets. The capitalized amount is amortized on a basis consistent with the amortization and depletion of the underlying assets. Actual restoration expenditures are charged to the accumulated obligation as incurred. Any settlements are charged to income in the period of settlement.

On a periodic basis, management will review these estimates and if changes to the estimates are required, these changes will be applied on a prospective basis and will result in an increase or decrease to the ARO. Any difference between the actual costs incurred and the recorded liability is recorded as a gain or loss in the statement of operations, comprehensive loss and deficit in the period in which the settlement occurs.

h) Income taxes

The Company follows the asset and liability method of income tax allocation. Under the liability method, future income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values. Future income tax assets are also recognized for the benefits from income tax losses and deductions that cannot be identified with particular assets or liabilities, provided those benefits are more likely than not to be realized. Future income tax assets and liabilities are determined based on the substantively enacted tax laws and rates that are anticipated to apply in the period of realization.

i) Stock-based compensation

The Company grants options to employees, directors, and non-employees to purchase common shares at a specified price. The fair value of such options is estimated at the time of grant using the Black-Scholes pricing model and is recorded as stock-based compensation expense with a corresponding amount recorded as contributed surplus, on a straight-line basis over the vesting period. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. Upon the exercise of stock options, the consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that options expire, previously recognized expenses associated with such stock options are not reversed. The Company accounts for forfeitures as they occur.

3. Significant accounting policies (continued)

j) Warrants

The Company issues warrants to purchase common shares when issuing common share units. The fair value of such warrants is estimated at the time of issuance using the Black-Scholes pricing model and is recorded as warrants in the equity section of the balance sheet and the corresponding value is reduced from share capital from the common share issuance. Upon the exercise of warrants, the consideration paid together with the amount previously recognized in warrants is recorded as an increase in share capital. In the event that warrants options expire, previously recognized warrant value is adjusted through contributed surplus. In addition, the Company issues broker warrants as compensation related financing activities. The fair value of such warrants is estimated at the time of issuance using the Black-Scholes pricing model and is recorded as warrants in the equity section of the balance sheet.

k) Financial instruments and derivatives

Cash and cash equivalents are designated as held-for-trading and are measured at fair value. Accounts receivable and due from related party are designated as loans and receivables and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, promissory notes payable and the current portion of convertible debentures are classified as other liabilities and are measured at amortized cost using the effective interest method. The carrying value of these financial instruments approximates fair value due to the short-term nature of these instruments.

The Company may use various types of derivative financial instruments to manage risks. Proceeds and costs realized from holding the related contracts are recognized at the time each transaction under a contract is settled. For the unrealized portion of such contracts, the Company utilizes the fair value method of accounting. The fair value is based on an estimate of the amounts that would have been paid to or received from counterparties to settle these instruments. The method requires the fair value of the derivative financial instruments to be recorded at each balance sheet date with unrealized gains or losses on those contracts recorded through net earnings. Transaction costs are expensed as incurred.

An embedded derivative is a component of a contract that affects the terms in relation to another factor. These hybrid contracts are considered to consist of a “host” contract plus an embedded derivative. The embedded derivative is separated from the host contract and accounted for as a derivative only if certain conditions are met. The Company has not identified any embedded derivatives which require separate recognition and measurement.

l) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act in Canada (the "Act"). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deduction may be renounced to subscribers. Accordingly, these expenditures are not an income tax deduction to the Company. Share capital is reduced and a future income tax liability is recorded for the estimated value of the renounced expenditures at the time of filing.

3. Significant accounting policies (continued)

m) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Weighted average number of shares is determined by relating the portion of time within the reporting period that common shares have been outstanding to the total time in that period.

The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. Diluted calculations reflect the weighted average incremental common shares that would be issued upon exercise of dilutive options assuming proceeds would be used to repurchase shares at average market prices for the period. Anti-dilutive options are not included in the calculation.

n) Share issue costs

Costs incurred on the issue of the Company's shares are charged directly to share capital and are net of applicable future income tax benefits.

o) Transaction costs

Costs incurred relating to acquisition or business combination activities are expensed in the period incurred.

p) Changes in accounting policies and standards

The following new standards were issued by the Canadian Institute of Chartered Accountants ("CICA") in 2009 and have been adopted as follows:

The Corporation has adopted CICA Handbook Section 3064 – *Goodwill and Other Intangible Assets* which replaces Section 3062 of the same name and Section 3450 – *Research and Development Costs*. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill on initial recognition remain unchanged from the previous section. The Corporation has adopted the new standard effective January 1, 2009. The adoption of this standard has not had a material impact on the Corporation's financial statements.

Effective January 1, 2009, the Company adopted the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants ("CICA"), Abstract 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." EIC Abstract 173 establishes standards concerning the measurement of financial assets and financial liabilities. The adoption of EIC Abstract 173 did not affect the Company's financial position.

Effective December 31, 2009, the Company adopted the amendments to CICA Handbook Section 3862, "Financial Instruments – Disclosures." The amendments include enhanced disclosures relating to the fair value of financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels. The amendments are consistent with recent amendments to financial instrument disclosure standards under International Financial Reporting Standards ("IFRS"). The adoption of these amendments had no impact on the financial statements of the Company since it does not have any financial instruments measured at fair value.

4. Future accounting standards and reporting changes

a) Business combinations

The CICA issued new accounting standard Sections 1582, 1601 and 1602, replacing Sections 1581 and 1600. These new Sections will be effective for the Company on January 1, 2009 and they establish the principles and requirements for accounting for business combinations. Changes include determination of the purchase price based on the fair value of shares exchanged on the acquisition or closing date and expensing versus capitalizing transaction costs as they are incurred. In addition, negative goodwill is required to be recognized in earnings at the acquisition date.

b) International financial reporting standards

The Canadian Accounting Standards Board confirmed January 1, 2011 as the effective date for the requirement to report under International Financial Reporting Standards ("IFRS") with comparative 2010 periods converted as well. Canadian generally accepted accounting principles, as we currently know them, will cease to exist for all public reporting entities. Changes to accounting policies are likely and may materially impact the Company's financial statements. The Company has started the processes necessary to make the transition to IFRS; however, continued progress is required before the Company is in a position to quantify the impact of IFRS on financial results.

5. Property, plant and equipment

			2009
	Cost	**Accumulated amortization**	**Net book value**
Petroleum and natural gas properties	**$ 16,558,112**	**$ 14,019,112**	**$ 2,539,000**
Furniture, equipment and leasehold improvements	**88,820**	**59,592**	**29,228**
	$ 16,646,932	**$ 14,078,704**	**$ 2,568,228**

			2008
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	$ 17,189,713	$ 9,084,620	$ 8,105,093
Furniture, equipment and leasehold improvements	139,588	85,704	53,884
	$ 17,329,301	$ 9,170,324	$ 8,158,977

During 2009, the Company capitalized $Nil (2008 - $30,000) of general and administrative expenses directly attributable to exploration activities. The Company has capitalized an aggregate of $375,019 (2008 - $375,019) in general and administration costs since inception.

At December 31, 2009, petroleum and natural gas properties included costs of $Nil (2008 - $358,425) relating to undeveloped properties, which have been excluded from the depletion, depreciation and amortization calculations. The Company performed a ceiling test calculation on these properties and recorded additional depletion of $3,713,420 (2008 - $Nil).

5. Property, plant and equipment (continued)

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 1:0.95 for Canadian and United States dollars:

	WTI @Cushing $US/BBL	EDM Oil price D2S2 $/BBL	Heavy Oil 25 API Hardisty $/BBL	Alberta AECO Average Current $/Mcf Cdn.	Condensate $/bbl Cdn.
2010	80.00	83.73	74.52	5.77	85.41
2011	82.88	86.75	76.34	6.46	88.48
2012	85.83	89.85	77.27	6.55	91.65
2013	88.88	93.05	78.62	6.80	94.91
2014	92.01	96.33	79.95	7.30	98.26
2015	93.85	98.26	81.55	7.69	100.22

Prices increased at various escalation rates per year after 2015 until the end of the reserve life.

6. Bank indebtedness

During fiscal 2008, the Company repaid the outstanding balance and the credit facility agreement was terminated. There was no bank indebtedness in 2009.

7. Asset retirement obligations

The Company is legally required to restore its properties to their original condition. Estimated future site restoration costs are based upon engineering estimates of the anticipated method and extent of site restoration required in accordance with current legislation and industry practices in the various jurisdictions in which the Company has properties.

As at December 31, 2009, the Company estimated the total undiscounted amount of cash flows required to settle its ARO to be $525,000, which will be substantially incurred over the next five years. The Company calculated the ARO using a discount rate of 9% per annum and an inflation rate of 2% per annum.

	2009	2008
Balance, beginning of year	**$ 521,224**	$ 497,496
Acquired on acquisition (Note 2)	**-**	219,295
Accretion expense	**42,971**	16,589
Settled on sale of properties	**(115,828)**	(212,156)
Balance, end of year	**$ 448,367**	$ 521,224

8. Convertible debentures

	2009	2008
Principal outstanding	**$ 1,337,020**	$ 1,337,020
Value assigned to conversion option	**(176,373)**	(176,373)
Accretion	**176,373**	126,298
	-	(50,075)
	$ 1,337,020	$ 1,286,945

The convertible debentures bear interest at 10% per annum, which is payable quarterly, are secured by a general security agreement over all assets of the Company and were due June 29, 2009.

The value assigned to the conversion option was calculated using an effective risk free interest rate of 18% per annum. As at December 31, 2009, the debentures were fully accreted to their face values.

The Company had extended the maturity date to September 30, 2009 but the debentures remain in default as at the balance sheet date. The Company continues to accrue interest on the outstanding balances. The company has filed a Notice of Intention in an effort to satisfy the indebtedness (see note 17(b).

9. Share capital

Authorized:

Unlimited number of:

Common voting shares

Preferred non-voting shares

a) Issued:

	2009		2008	
	Number	**Amount**	Shares	Amount
Common shares				
Balance, beginning of year	**38,036,302**	**$ 10,830,628**	24,632,406	$ 9,916,214
Tax effect of flow-through share renunciations	**-**	**-**	-	(157,898)
Issued on acquisition (note 2)	**-**	**-**	13,403,896	1,072,312
Balance, end of year	**38,036,302**	**$ 10,830,628**	38,036,302	$ 10,830,628

9. Share capital (continued)

b) Warrants:

	Number of warrants		Amount	Number of warrants		Amount
Warrants						
Balance, beginning of year	**441,814**	**$**	**23,422**	441,814	$	23,422
Expired warrants	**(441,814)**		**(23,422)**	(281,700)		(23,422)
Balance, end of year	**-**	**$**	**-**	160,114	$	-

All outstanding warrants expired June 29, 2009.

c) Options:

As at December 31, 2009, the following options were outstanding:

Options outstanding	Option price ($)	Weighted average remaining contractual life	Number of options currently exercisable	Weighted average exercisable price of options currently exercisable ($)
910,000	0.40	0.92	935,000	0.40
175,000	1.00	1.08	175,000	1.00
110,000	1.00	1.42	110,000	1.00
80,000	1.25	1.17	80,000	1.25
110,000	1.30	1.08	73,333	1.30
75,000	0.90	2.42	50,000	0.90
1,460,000	0.66	1.35	1,398,333	0.64

9. Share capital (continued)

c) Options (continued):

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 periods for a maximum term of five years.

		2009		2008
	Number	**Weighted average exercise price ($)**	Number	Weighted average exercise price ($)
Outstanding, beginning of year	**1,710,000**	**0.70**	2,250,000	0.81
Cancelled	**(250,000)**	**0.94**	(540,000)	1.11
Outstanding, end of year	**1,460,000**	**0.66**	1,710,000	0.70

During 2009, the Company recorded stock-based compensation expense of $41,766 (2008 - $232,893) as determined based on the fair value of the stock options at the grant date.

10. Contributed surplus

A summary of the status of contributed surplus as of December 31, 2009 and 2008 and the changes during the years then ended is presented below:

	2009	2008
Balance, beginning of year	**$ 1,822,958**	$ 1,566,643
Stock-based compensation	**41,766**	232,893
Fair value of expired warrants	**-**	23,422
Balance, end of year	**$ 1,864,724**	$ 1,822,958

11. Income taxes

a) Income tax recovery

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

For the years ended December 31,	2009	2008
Loss before income taxes	$ (5,455,249)	$ (2,043,580)
Income tax rate	29.13%	29.63%
Expected income tax recovery	(1,589,000)	(606,000)
Increase (decrease) in taxes resulting from:		
Stock-based compensation	12,000	69,000
Non-deductible expenses	19,000	31,000
Previously unrecognized future income tax assets	-	(187,000)
Impact of change in future income tax rates	11,000	(128,090)
Change in valuation allowance	892,000	308,500
Income tax recovery	$ (655,000)	$ (512,590)

b) Future income tax assets and liabilities

The components of future income tax assets and (liabilities) are as follows:

As at December 31,	2009	2008
Non-capital losses	$ 1,378,000	$ 1,320,000
Property, plant and equipment	883,000	(655,000)
Share issue costs	41,000	90,000
Net future income tax assets	2,302,000	755,000
Valuation allowance	(2,302,000)	(1,410,000)
Net future income tax liability	$ -	$ (655,000)

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.

11. Income taxes (continued)

c) Tax pools

As at December 31, 2009, the Company has available for deduction against future taxable income, the following approximate amounts:

Operating loss carry-forwards	**$**	**5,271,000**
Share issue costs		**155,000**
Property, plant and equipment		**5,637,000**
	$	**11,063,000**

The availability of deduction of the operating loss carry-forwards against future taxable income expires between 2025 and 2029.

12. Promissory notes payable

		2009		2008
Related party notes payable – bear interest at 10% per annum, are secured by a general security agreement and were due December 31, 2008 (see note 13).	**$**	**294,902**	$	367,500
Note payable – bears interest at 10% per annum, payable in monthly blended instalments of $25,000 per month and secured by a fixed charge over certain petroleum and natural gas properties.		**152,809**		152,809
	$	**447,711**	$	520,309

Included in accounts payable and accrued liabilities is $160,195 (2008 - $44,791) of accrued interest.

13. Related party transactions and balances

The Company has entered into transactions with individuals that are related by virtue of the individuals being officers, directors and shareholders of the Company and corporations that have common officers, directors and shareholders.

(a) Transactions with related parties

The Company entered into the following transactions with related parties:

Expenses		**2009**		2008
Consulting fees paid to a corporation controlled by an officer	**$**	**132,000**	$	100,000
Operating costs paid to a corporation controlled by a director		**141,258**		-
Interest charged on promissory notes payable to certain officers, directors and corporations under their control		**30,986**		32,000

13. Related party transactions and balances (continued)

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(b) Due from/to related parties

The following table outlines the balances due from/to related parties by financial statement category:

		2008		2008
Accounts payable and accrued liabilities	**$**	**164,266**	$	15,815
Promissory note payable to a former officer (note 12)		**24,902**		47,500
Promissory notes payable to a current officer and directors (note 12)		**270,000**		320,000

14. Commitment

The Company is committed to lease rental payments of approximately $71,000 per annum pursuant to the terms of an office lease agreement that expires on September 2014.

15. Financial instruments

The Company holds various forms of financial instruments. The nature of these instruments and its operations expose the Company to market risk, credit risk and liquidity risks. The Company manages it exposure to these risks by operating in a manner that minimizes this exposure. While management monitors and administers these risks, the Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

Market risk
Market risks are generally those risks that are outside of the control of the Company. These are: commodity prices, foreign exchange rates and interest rates. The objective of the Company is to mitigate exposure to these risks, while maximizing returns to the Company.

Commodity price risk
Due to the volatility of commodity prices, the Company is potentially exposed to adverse consequences in the event of declining prices. The Company may enter into petroleum and natural gas contracts in order to protect its cash flow on future sales. The contracts reduce the fluctuation in sales revenue by locking in prices with respect to future deliveries of petroleum and natural gas. As at December 31, 2009, the Company had no contracts outstanding.

Foreign currency exchange risk
Even though all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. In addition, the fair value of our risk management contracts will fluctuate as a result of changes in foreign exchange rates as most derivative contracts are denominated in US dollars. As at December 31, 2009, the Company had no forward foreign exchange contracts in place.

15. Financial instruments (continued)

Interest rate risk

The Company does not have any debt subject to floating rates and is therefore not exposed to fluctuations in the market rate of interest. The Company has no interest rate swaps or financial contracts in place at or during the year ended December 31, 2009.

Credit risk

Substantially all of the accounts receivable are with customers and joint venture partners in the petroleum and gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable, counterparties and partners. Wherever possible, the Company requires cash calls from its partners on capital projects before they commence. Receivables related to the sale of the Company's petroleum and natural gas production are from major marketing companies who have excellent credit ratings. These revenues are normally collected on the 25th day of the month following delivery. The Company has recorded a bad debt provision during fiscal 2008 as a result of one of its' marketing agents going into receivership.

Liquidity risk

Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. The Company has suffered substantial operating losses and has a working capital deficiency of $3,789,992 as of December 31, 2009. As our industry is very capital intensive, the majority of our spending is related to our capital programs. The Company's goal is to prudently spend its capital while improving its credit reputation amongst its suppliers.

16. Capital disclosures

The Company considers its capital structure to include shareholders' equity, convertible debt and working capital. The Company will adjust its capital structure to manage its current and projected debt through the issuance of shares and/or adjusting its capital spending. The Company monitors its capital based on the current and projected ratios of net debt to cash flow. The Company's objective in managing its capital structure is to:

a) create and maintain flexibility so that the Company can continue to meet its financial obligations; and,
b) finance its growth either through internally generated projects, joint venture relationships or asset/corporate acquisitions.

The Company does not have any externally imposed capital requirements as at December 31, 2009.

17. Subsequent events

a) On March 18, 2010, the Company entered into an arm's length letter of intent agreement with Gallic Energy Ltd. to negotiate the sale by Sahara of its Alberta and Saskatchewan properties for consideration of approximately 13,500,000 class A common shares of Gallic and the assumption by Gallic of $500,000 of Sahara's secured debt. Gallic has made a refundable deposit of $50,000 under the terms of the letter of intent, to be applied against the sale price at closing.

b) On March 23, 2010, the Company filed a Notice of Intention to make a Proposal ("NOI") pursuant to Section 50.4(1) of the Bankruptcy and Insolvency Act ("BIA"). Sahara must now file a Proposal within 30 days following the filing of the NOI or within any further extension of that period approved by the Court. On April 20, 2010 an extension was granted until June 4, 2010. Once a Proposal has been filed, a meeting of creditors to consider the Proposal will be held within 21 days. Pursuant to Section 69 of the BIA, all proceedings against Sahara are now stayed and service to Sahara cannot be discontinued.

18. Comparative figures

Certain comparative figures from the prior year have been reclassified to conform with the financial statement presentation used in the current year. The changes did not have any impact on net loss or deficit.