Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three month period ended March 31, 2011

Sahara Energy Ltd.

Statements of Financial Position
(in Canadian dollars)
(unaudited)

		March 31, 2011		December 31, 2010		January 1, 2010
Assets						
Current Assets						
Cash	$	738,885	$	1,520,502	$	16,630
Accounts receivable		112,122		42,002		11,675
Prepaid expenses and deposits		367,994		601,017		27,803
		1,219,001		2,163,521		56,108
Property, plant and equipment (note 7)		2,720,471		2,657,118		2,568,228
	$	3,939,472	$	4,820,639	$	2,624,336
Liabilities						
Current Liabilities						
Accounts payable and accrued liabilities	$	400,292	$	985,547	$	2,061,369
Promissory notes payable (note 8)		-		100,000		447,711
Convertible debentures (note 9)		-		-		1,337,020
		400,292		1,085,547		3,846,100
Decommissioning provisions (note 10)		466,502		465,801		519,229
		866,794		1,551,348		4,365,329
Shareholders' Equity (Deficiency)						
Share capital (note 11)		2,894,680		2,789,516		10,830,628
Contributed surplus (note 13)		1,142,576		780,013		1,864,724
Accumulated Deficit		(964,578)		(300,238)		(14,436,345)
		3,072,678		3,269,291		(1,740,993)
	$	3,939,472	$	4,820,659	$	2,624,336

Going concern (note 2)
Commitment (note 15)

Approved on behalf of the Board:

(Signed) “ ” ____________________, Director (Signed) “ “ ____________________, Director

Sahara Energy Ltd.

Statements of Comprehensive Income (Loss)
(in Canadian dollars except for share amounts)
(unaudited)

For the three month period ended		March 31, 2011		March 31, 2010
				(note 1)
Revenues				
Petroleum and natural gas sales	$	200,442	$	222,180
Royalties		(24,399)		(26,810)
		176,043		195,370
Expenses				
Operating		170,982		163,540
General and administrative		249,083		126,060
Share-based compensation (note 12)		362,563		-
Finance expense		8,706		37,969
Depletion, depreciation (note 7)		49,049		44,351
		840,383		371,920
Net loss and comprehensive loss for the period	$	(664,340)	$	(176,550)
Loss per share – basic and diluted	$	(0.01)	$	(0.01)
average number of shares outstanding		72,666,096		38,036,302

Sahara Energy Ltd.

Statements of Shareholders' Equity (Deficit)
(in Canadian dollars except for share amounts)
(unaudited)

	Share capital	Contributed surplus	Accumulated Deficit	Total shareholder's equity
Balance at January 1, 2011	$ 2,789,516	$ 780,013	$ (300,238)	$ 3,269,291
Issue of common shares	105,164	-	-	105,164
Share-based compensation expenditures (note)	-	362,563	-	362,563
Total comprehensive loss	-	-	(664,340)	(664,340)
Balance at March 31, 2011	$ 2,894,680	$ 1,142,576	$ (964,578)	$ 3,072,678
Balance at January 1, 2010	$ 10,830,628	$ 1,864,724	$(14,436,345)	$ (1,740,993)
Issue of common shares	-	-	-	-
Share-based compensation expenditures	-	-	-	-
Total comprehensive loss	-	-	(176,550)	(176,550)
Balance at March 31, 2010	$ 10,830,628	$ 1,864,724	$(14,612,895)	$ (1,917,543)

Sahara Energy Ltd.

Statements of Cash Flows
(in Canadian dollars)
(unaudited)

For the three month period ended	March 31, 2011	March 31, 2010
Operating activities		
Net loss	$ (664,340)	$ (176,550)
Items not affecting cash:		
Finance expense	8,706	4,227
Depletion, depreciation	49,049	44,351
Share-based compensation	362,563	-
Changes in non-cash working capital:		
Accounts receivable	(70,120)	(68,135)
Prepaid expenses	233,023	(46,287)
Accounts payable and accrued liabilities	(585,255)	(12,223)
Cash from (used in) operating activities	(666,374)	(254,617)
Financing activity		
Repayment of promissory notes	-	(5,883)
Investing activities		
Resource property expenditures	(115,243)	(33,397)
Proceeds on disposal of resource properties	-	286,087
Cash from (used in) investing activities	(115,243)	252,690
(decrease) in cash and cash equivalents	(781,617)	(7,810)
Cash and cash equivalents, beginning of period	1,520,502	16,630
Cash and cash equivalents, end of period	$ 738,885	$ 8,820
Supplemental disclosure of cash flow activity:		
Interest paid	**$ 8,706**	$ 37,969
Supplemental disclosure non-cash transaction		
Issuance of shares for repayment of promissory note	**$ 105,164**	$ -

1. Nature of operations and financial reorganization

Nature of operations

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.

2. Going concern

These condensed interim financial statements have been prepared on a going concern basis which assumes that the Company 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.

The Company incurred a net loss of $664,340 for the three month period ended March 31, 2011. As at March 31, 2011, the Company has an accumulated deficit of $964,578.

The Company's ability to continue as a going concern is dependent upon the ability to raise capital, the generation of positive cash flow, the maintenance of its existing reserve and production base, the success of the development and exploration program and the continued support of its lender. There is no certainty that such events will occur and that sources of financing will be obtained on terms acceptable to management. Whether and when the Company can attain profitability and positive cash flows is also uncertain. These uncertainties cast significant doubt about the Company's ability to continue as going concern.

The accompanying condensed interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

3. Basis of preparation

Statement of compliance

The condensed interim financial statements for the period ended March 31, 2011 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB").

These condensed interim financial statements are the Company's first financial statements prepared under IFRS. The Company adopted IFRS in accordance with IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") with a transition date to IFRS of January 1, 2010. Consequently, the comparative figures for 2010 and the Company's statement of financial position as at January 1, 2010 have been restated from accounting principles generally accepted in Canada ("Canadian GAAP") to comply with IFRS.

The reconciliations to IFRS from the previous Canadian GAAP financial statements are summarized in note 19. In addition, IFRS 1 allows certain exemptions from retrospective application of IFRS in the opening statement of financial position. Where these have been used, they are explained in note 19.

3. Basis of preparation (continued)

Basis of measurement

These condensed interim financial statements are stated in Canadian dollars and were prepared on a going concern basis, under historical cost.

Use of estimates and judgments

The preparation of financial statements in conformity with IAS 34 and IFRS 1 requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. Areas where estimates are significant to the condensed interim financial statements are disclosed in Note 5.

Functional and presentation currency

These condensed interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these condensed interim financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

a) Basis of consolidation

Jointly controlled operations and jointly controlled assets

Certain of the Company's exploration and development activities are conducted jointly with others, and accordingly, the condensed interim financial statements reflect only the Company's proportionate interest in such activities.

b) Cash

Cash includes cash on deposit with the bank.

c) Revenue recognition

Revenue from the sale of crude oil and natural gas is recognized when title and the risks and rewards of ownership passes to the buyer, normally at the pipeline delivery point for natural gas and at the wellhead for crude oil, and collection is reasonably assured.

4. Summary of significant accounting policies (continued)

d) Financial instruments

Financial instruments are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include trade and other receivables.

Non-derivative financial instruments

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include trade and other payables, and promissory notes payable.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

e) Exploration and evaluation expenditures

General exploration and evaluation (“E&E”) expenditures incurred prior to acquiring the legal right to explore are charged to the statement of comprehensive loss as incurred.

E&E expenditures incurred subsequent to acquisition of the legal right to explore, including license and property acquisition costs, geological and geophysical expenditures, costs of drilling exploratory wells and directly attributable overhead including salaries and employee benefits, are initially capitalized as E&E assets. E&E assets are not depleted and are moved into property, plant and equipment when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management. Upon transfer to property, plant and equipment, E&E assets are assessed for impairment in addition to regular impairment reviews to ensure they are not carried at amounts above their estimated recoverable values.

4. Summary of significant accounting policies (continued)

f) Property, plant and equipment

Petroleum and natural gas properties

Expenditures on developed oil and gas properties such as drilling of development wells, tangible costs of facilities and infrastructure construction are capitalized to oil and gas properties when it is probable that a future economic benefit will flow to the Company as a result of the expenditure and the cost can be reliably measured.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning liabilities associated with the asset and finance charges on qualifying assets.

Depreciation

Oil and gas properties are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Oil and gas properties are depleted using the unit-of-production method over their reserve life, unless the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis.

Disposals

Development and production assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognizing of the asset, calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in the statement of comprehensive income in the period of derecognizing.

Processing facilities and furniture and fixtures

Furniture and fixtures are carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value on a straight-line basis over their estimated useful economic lives, from 5 to 10 years.

g) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

4. Summary of significant accounting policies (continued)

Non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in comprehensive income (loss).

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of an impairment loss is recognized immediately in comprehensive income (loss).

h) Finance expenses

Finance expenses comprise interest expense on borrowings and accretion of decommissioning liability provisions.

Borrowing costs incurred for the construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale. All other borrowing costs are recognized in the statement of comprehensive loss using the effective interest method. Interest has been capitalized at the rate of interest applicable to the specific borrowings financing the asset, or where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

i) Share-based compensation

The Company operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and consultants as consideration for equity instruments of the Company.

The Company uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

4. Summary of significant accounting policies (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

j) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of the provision to be reimbursed, the expense relating to any provision is presented in the statement of comprehensive income net of the reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the statement of comprehensive income (loss)

Decommissioning provisions

The Company provides for the costs of decommissioning associated with long-lived assets, including the abandonment of crude oil and natural gas wells, related facilities, compressors, gas plants, removal of equipment from leased acreage and returning such land in a condition as it is contractually obligated. The best estimate of each asset decommissioning provisions is recorded in the period a well or related asset is drilled and evaluated, constructed or acquired. The decommissioning provisions is measured in the statement of financial position at the fair value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. A corresponding amount is capitalized as part of tangible non-financial assets. Any further adjustment arising from a reassessment of estimated cost of the decommissioning liabilities also has a corresponding amount capitalized, whilst the charge arising from the accretion of the discount applied to the decommissioning provisions is treated as a component of finance costs in the statement of comprehensive income (loss).

k) Taxes

Tax expense comprises current and deferred tax. Tax is recognized in the statement of comprehensive loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

4. Summary of significant accounting policies (continued)

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities

- are generally recognized for all taxable temporary differences;

- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and

- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and

- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

l) Flow-through shares

The Company has historically financed a portion of its exploration activities in Canada through the issuance of flow-through shares. Under the terms of these shares, the tax attributes of the related expenditures are renounced to subscribers. The proceeds on issuance of the flow-through shares are allocated between the offering of the shares and the sale of the tax benefit when the shares are issued. The premium paid by the investor in excess of the quoted price of existing common shares fair value of non-flow-through shares is recognized as a liability at the time the shares are issued and the fair value of non-flow-through shares is recorded as share capital. Upon renouncing the income tax deductions, the premium liability is reversed and a deferred tax liability is recognized.

4. Summary of significant accounting policies (continued)

m) Earnings per share (“EPS”)

Basic EPS is calculated by dividing profit or loss attributable to owners of the Company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period. The denominator (number of units) is calculated by adjusting the shares in issue at the beginning of the period by the number of shares bought back or issued during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Company is in a loss position.

5. Critical judgments and accounting estimates

The preparation of the condensed interim financial statements in conformity with IAS 34 and IFRS 1 requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the condensed interim financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the condensed interim financial statements are:

Share-based payment transaction
The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility and dividend yield of the share option.

Decommissioning provisions
Decommissioning provisions consist of asset retirement obligations that are based, in part, on estimates of future costs to settle the obligation, in addition to estimates of the useful life of the underlying assets, the rate of inflation and the risk-free interest rate.

Fair value of financial instruments
The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty.

5. Critical judgments and accounting estimates (continued)

Assessment of commercial reserves

Management is required to assess the level of the Company's commercial reserves together with the future expenditures to access those reserves, which are utilized in determining the depletion charge for the period, assessing whether any impairment charge is required against producing and developed, and the determination of the deferred tax liability. By their nature, these estimates of discovered and probable crude oil and natural gas reserves, including the estimates of future prices, costs, related future cash flows and the selection of a pre-tax risked discount rate relevant to the asset in question are subject to measurement uncertainty. The Company employs an independent reserves specialist who periodically assesses the Company's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Company's assets. Significant judgment is involved when determining whether there have been any significant changes in the Company's crude oil and natural gas reserves.

Taxes

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

6. Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2010 or later periods. The standards impacted that are applicable to the Company are as follows:

a) IFRS 9, ‘Financial Instruments’ was issued in November 2009 as the first step in its project to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.

b) IFRS 10, ‘Consolidated Financial Statements’ was issued in May 2011 and will supersede the consolidation requirements in SIC-12 ‘Consolidation – Special Purpose Entities’ and IAS 27 ‘Consolidated and Separate Financial Statements’ effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

c) IFRS 11, ‘Joint Arrangements’ was issued in May 2011 and will supersede existing IAS 31, ‘Joint Ventures’ effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

d) IFRS 12, ‘Disclosure of Interests in Other Entities’ was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

e) IFRS 13, ‘Fair Value Measurement’ was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

7. Property, plant and equipment

			March 31, 2011
	Cost	**Accumulated amortization**	**Net book value**
Petroleum and natural gas properties	**$ 16,842,219**	**$ 14,142,650**	**$ 2,699,569**
Furniture, equipment and leasehold improvements	**91,300**	**70,398**	**20,902**
	$ 16,933,519	**$ 14,213,048**	**$ 2,720,471**

			December 31, 2010
	Cost	**Accumulated amortization**	**Net book value**
Petroleum and natural gas properties	**$ 16,729,817**	**$ 14,095,601**	**$ 2,634,216**
Furniture, equipment and leasehold improvements	**91,300**	**68,398**	**22,902**
	$ 16,821,117	**$ 14,163,999**	**$ 2,657,118**

			November 30, 2010
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	$ 16,631,507	$ 14,089,755	$ 2,541,752
Furniture, equipment and leasehold improvements	91,300	65,205	26,095
	$ 16,722,807	$ 14,154,960	$ 2,567,846

			January 1, 2010
	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

During the three month period ended March 31, 2011, and year ended December 31, 2010, the Company capitalized $nil general and administrative expenses directly attributable to exploration activities.

At March 31, 2011 and December 31, 2010, petroleum and natural gas properties included $nil costs relating to undeveloped properties.

8. Promissory notes payable

	March 31, 2011	December 31, 2010	November 30, 2010	January 1, 2010
Note payable to CGUP – bears interest at 21% per annum, repayment on demand and is secured by a first priority charge on all assets of the Company.	$ -	$ 100,000	$ 100,000	$ -
Related party notes payable – bear interest at 10% per annum, secured by a general security agreement and due on December 31, 2008.	-	-	294,902	294,902
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.	-	-	121,098	152,809
	$ -	$ 100,000	$ 516,000	$ 447,711

The related party notes payable and the note payable balances outstanding as at December 31, 2010 were settled pursuant to the creditors' proposal. The terms of the promissory note to CGUP was modified and settled in 2011 see below.

Included in accounts payable and accrued liabilities as of December 31, 2010 is $175,819 of accrued payables.

In January 2011, the Company agreed with CGUP to settle the promissory note of $100,000 and accrued interest through the issuance of 967,029 common shares at a price of $0.109 per share, the discounted market price as determined by the closing price of the common shares on January 6, 2011, the day before the initial announcement of the common share issuance by Sahara. These shares were issued on March 21, 2011.

9. Convertible debentures

	March 31, 2011	**December 31, 2010**	January 1, 2010
Principal outstanding	**$ -**	$ -	$ 1,337,020
Value assigned to conversion option	**-**	-	(176,373)
Accretion	**-**	-	176,373
	-	-	-
	$ -	$ -	$ 1,337,020

The convertible debenture balances outstanding as at December 31, 2010 were settled pursuant to the creditors' proposal as a secured creditor.

10. Decommissioning provisions

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 March 31, 2011, the Company has estimated the total undiscounted amount of cash flows required to settle its decommissioning liabilities to be $450,000. This amount will be substantially incurred over the next five years. The Company calculated the decommissioning liabilities using a discount rate of 3.06% per annum and an inflation rate of 2% per annum.

	March 31, 2011	December 31, 2010
Balance, beginning of period	**$ 465,801**	$ 519,229
Revisions to liabilities	**(2,841)**	7,984
Accretion expense	**3,542**	12,907
Settled on sale of properties	**-**	(74,319)
Balance, end of period	**$ 466,502**	$ 465,801

11. Share capital

Authorized:

Unlimited number of:

Common voting shares

Preferred non-voting shares

There was a share consolidation and common shares numbers and per share amounts have been retroactively adjusted to reflect this.

a) Issued and outstanding common shares:

	Number	Amount
Balance, December 31, 2008 and 2009	**38,036,302**	**$ 10,830,628**
Share consolidation	**(31,696,918)**	**-**
Issued on private placements	**58,000,000**	**2,900,000**
Share issuance costs:		
Cash	**-**	**(268,500)**
Warrants (note 11(b))	**-**	**(780,013)**
Shares to be issued to secured creditors (note 11(a))	**-**	**371,208**
Deficit and contributed surplus reclassified to share capital on reorganization	**-**	**(10,263,807)**
Balance, December 31, 2010	**64,339,387**	**$ 2,789,516**
Issued on conversion of promissory notes (note 8)	**967,029**	**105,164**
Shares issued to secured creditors (note 11(a))	**7,424,152**	**-**
Balance, March 31, 2011	**72,730,568**	**$ 2,894,680**

The Company encountered financial difficulty in 2010 and on March 22, 2010, the Company filed for creditor protection pursuant to the Bankruptcy and Insolvency Act (“BIA”) of Canada to work towards a financial reorganization in order to provide its creditors with a partial repayment of outstanding claims.

The Company filed a creditors’ proposal on June 4, 2010 that had the following key elements:

a) Each secured creditor would receive a cash payment of $0.15 plus 17 new shares of the Company for each $1.00 owed to such creditors;
b) Completion of a consolidation of the common shares of the Company whereby one new common share will be issued in exchange for six pre-consolidation common shares; and
The Company would complete a private placement with China Great United Petroleum Investment Co. Ltd. (“CGUP”), an unrelated third party. CGUP agreed to participate in a private placement of 48,000,000 post-consolidation common shares at a price of $0.05 per share for total investment of $2.4 million, conditional on creditor and court approval of the creditors’ proposal. These funds would be used to pay for the financial reorganization cash obligations as well as fund future expansion of the operations. CGUP would also provide funding in the form of a $100,000 promissory note to the Company in advance, in order to pay for the BIA process and other disbursements

11. Share capital (continued)

On December 10, 2010, the Company completed a second private placement with 10,000,000 common shares issued to other seventeen individual investors at $0.05 per share for gross proceeds of $500,000 and $ 18,500 was paid as share issuance costs.

Pursuant to the private placements, the Company granted 10,110,000 common share purchase warrants to the brokers that are each exchangeable into one common share at $0.05 per share for a term of one year (note 11(b)).

The Company on March 21, 2011 issued 7,424,152 common shares as part of the Creditors' Proposal (note 1) for secured creditors in the ratio 17 post-consolidation common shares of the Company for each $1.00 owed to such creditors. The value assigned to these shares was recorded in the year ended December 31, 2010.

b) Warrants

	March 31, 2011			December 31, 2010		
	Number of warrants		**Amount**	Number of warrants		Amount
Balance, beginning of period	**10,110,000**	**$**	**780,013**	-	$	-
Granted	**-**		**-**	10,110,000		780,013
Balance, end of period	**10,110,000**	**$**	**780,013**	10,110,000	$	780,013

	January 1, 2010		
	Number of warrants		Amount
Balance, beginning of period	441,814	$	23,422
Granted	-		-
Expired	(441,814)		(23,422)
Balance, end of period	-	$	-

The Company calculates the fair value of its warrants using the Black-Scholes pricing model. The following weighted average assumptions were used to determine the fair value of the warrants issued during the period from December 1, 2010 to December 31, 2010:

Risk-free interest rate	1.60%
Expected volatility	120%
Dividend yield	0%
Expected life of each warrant issued	1.0 years

The weighted average fair value of the warrants issued during the period December 1, 2010 to December 31, 2010 was $0.077 per warrant aggregating $780,013 which has been charged to share issuance costs in these financial statements.

11. Share capital (continued)

The following table summarizes information about warrants outstanding at March 31, 2011:

	Exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number exercisable		Weighted average exercise price
$	0.05	10,000,000	0.67	$	0.05	10,000,000	$	0.05
$	0.05	110,000	0.69	$	0.05	110,000		0.05

12. Share-based payments

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 10% of the issued and outstanding 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.

The Company calculates the fair value of its options using the Black-Scholes pricing model. The following weighted average assumptions were used to determine the fair value of the options issued during the three month period ended March 31, 2011:

Risk-free interest rate	2.75%
Expected volatility	120%
Forfeiture rate	10%
Dividend yield	0%
Expected life of each option issued	5.0 years

The following table outlines the status of stock options outstanding and changes during the periods:

	Number of options	Weighted average exercise price $
Outstanding at January 1, 2010	1,460,000	0.66
Granted	-	-
Forfeited/expired	(985,000)	0.40
Outstanding at December 31, 2010	475,000	1.11
Granted	6,420,000	0.21
Forfeited/expired	(255,000)	1.08
Outstanding at March 31, 2011	6,640,000	0.24

During the three month period ended March 31, 2011, the Company recorded share-based compensation expense of $362,563 (March 31, 2010 - $nil) as determined based on the fair value of the stock options at the grant date. As of March 31, 2011, the Company has unvested share-based compensation expense of $565,023. The options granted during the three month period ended March 31, 2011, vest 1/3 on date of issuance and 1/3 on the first and second anniversaries.

13. Contributed surplus

A summary of the status of contributed surplus as of March 31, 2011 and December 31, 2010 and the changes during the periods then ended is presented below:

	March 31, 2011	December 31, 2010
Balance, beginning of period	**$ 780,013**	$ 1,864,724
Share-based compensation	**362,563**	-
Fair value of warrants issued	**-**	780,013
Financial reorganization costs (note 1)	**-**	(198,707)
Fresh start accounting (note 1)	**-**	(1,666,017)
Balance, end of period	**$ 1,142,576**	$ 780,013

14. 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 for the three month period ended

Expenses	March 31, 2011	March 31, 2010
Consulting fees paid to a corporation controlled by officers	$ 61,500	$ 33,000
Operating costs paid to a corporation controlled by a director	-	21,000
Interest charged on promissory notes payable to certain officers, directors and corporations under their control	5,164	7,274

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.

14. Related party transactions and balances (continued)

(b) Due from/to related parties

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

	March 31, 2011	December 31, 2010	January 1, 2010
Accounts payable and accrued liabilities	$ -	$ -	$ 164,266
Promissory note payable to a former officer (note 8)	-	-	24,902
Promissory notes payable to a current officer and directors (note 8)	-	-	270,000
Promissory note payable to CGUP (note 8)	-	100,000	-

15. Commitment

The Company is committed to lease rental payments of approximately $62,000 per annum pursuant to the terms of an office lease agreement that expires on September 2014.

16. Financial instruments

The Company holds various forms of financial instruments as at March 31, 2011. 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 and 2010 and March 31, 2011, 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 March 31, 2011 and December 31, 2010 and 2009, the Company had no forward foreign exchange contracts in place.

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, 2010 and 2009 and three month period ended March 31, 2011.

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.

Liquidity risk
Liquidity risk would occur if the Company is not able to meet its financial obligations as they come due. Historically, the Company has suffered substantial operating losses and has a working capital surplus of $818,709 as of March 31, 2011 due to the reorganization. As the Company's industry is very capital intensive, the majority of the spending is related to the Company's capital programs. The Company's goal is to prudently spend its capital while improving its credit reputation amongst its suppliers.

17. Capital disclosures

The Company considers its capital structure to include shareholders' equity, long-term 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 March 31, 2011.

18. Comparative figures

Certain comparative figures have been reclassified to conform to current period presentation.

19. Explanation of transition to IFRS

The condensed interim financial statements for the period ended March 31, 2011 are the Company's first financial statements prepared under IFRS. For all accounting periods prior to this, the Company prepared its financial statements under Canadian GAAP. In accordance with IFRS 1 'First time adoption of IFRS', certain disclosures relating to the transition to IFRS are given in this note. These disclosures are prepared under IFRS as set out in the basis of preparation in Note 3.

IFRS 1 allows first time adopters to IFRS to take advantage of a number of voluntary exemptions from the general principal of retrospective restatement. The Company has taken the following exemptions:

IFRS 3 Business Combinations ("IFRS 3")
The Company has elected to apply the exemption for retrospective application of IFRS 3 to business combinations that took place before the transition date.

IFRS 6 - Exploration for and Evaluation of Mineral Resources
The Company has elected to apply the exemption from full retrospective application of IFRS 6. As such the Company has at January 1, 2010, measured the development and production assets by allocating the amount determined under Canadian GAAP to the underlying assets on a pro rata basis using reserve values at that date. As a result of using the IFRS 1 optional exemption, the development and production assets have been subjected to an impairment test.

IAS 2 – Share-based payments ("IAS 2")
The Company has elected to apply the exemption from full retrospective application of shares as allowed under IFRS 1 to any share options and other instruments that were granted prior to January 1, 2010 and had fully vested. As such, the Company has not re-measured any of the outstanding equity instruments as of January 1, 2010 as all instruments were fully vested.

19. Explanation of transition to IFRS (continued)

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”)

The Company has elected to apply the exemption from full retrospective application of decommissioning liabilities as allowed under IFRS 1. As such, the Company has re-measured the provisions as at January 1, 2010 under IAS 37 and recognized the difference between the amount determined under IAS 37 and the carrying amount of the provisions at January 1, 2010, directly in deficit.

Other than the information presented below, there were no other material changes to the statement of financial position, statement of comprehensive loss and statement of cash flows as previously presented under Canadian GAAP as of January 1, 2010, March 31, 2010, December 31, 2010 and for the periods then ended.

Reconciliation of equity as at January 1, 2010:

	Canadian GAAP	Effect of transition to IFRS: Depletion (note 1)	Effect of transition to IFRS: Decommissioning liability (note 2)	IFRS
ASSETS				
Current assets				
Cash	$ 16,630	$ -	$ -	$ 16,630
Accounts receivables	11,675	-	-	11,675
Prepaid expenses and deposits	27,803	-	-	27,803
	56,108	-	-	56,108
Property, plant and equipment	2,568,228	-	-	2,568,228
Total Assets	$ 2,624,336	$ -	$ -	$ 2,624,336
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$ 2,061,369	$ -	$ -	$ 2,061,369
Promissory notes payable	447,711	-	-	447,711
Convertible debentures	1,337,020	-	-	1,337,020
	3,846,100	-	-	3,846,100
Decommissioning liability	448,367	-	70,862	519,229
	4,294,467	-	70,862	4,365,329
SHAREHOLDERS’ EQUITY				
Share capital	10,830,628	-	-	10,830,628
Contributed surplus	1,864,724	-	-	1,864,724
Deficit	(14,365,483)	-	(70,862)	(14,436,345)
	(1,670,131)	-	(70,862)	(1,740,993)
Total Liabilities and Shareholders’ Equity	$ 2,624,336	$	$ -	$ 2,624,336

19. Explanation of transition to IFRS (continued)

Reconciliation of equity as at March 31, 2010:

	Canadian GAAP	Effect of transition to IFRS: Depletion (note 1)	Effect of transition to IFRS: Decommissioning liability (note 2)	IFRS
ASSETS				
Current assets				
Cash	$ 8,820	$ -	$ -	$ 8,820
Accounts receivables	79,810	-	-	79,810
Prepaid expenses and deposits	74,090	-	-	74,090
	162,720	-	-	162,720
Property, plant and equipment	2,177,602	29,533	(9,261)	2,197,874
Total Assets	$ 2,340,322	$ 29,533	$ (9,261)	$ 2,360,594
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$ 2,049,146	$ -	$ -	$ 2,049,146
Promissory notes payable	1,337,020	-	-	1,337,020
Convertible debentures	441,828	-	-	441,828
	3,827,994	-	-	3,827,994
Decommissioning liability	392,962	-	57,181	450,143
	4,220,956		57,181	4,278,137
SHAREHOLDERS' EQUITY				
Share capital	10,830,628	-	-	10,830,628
Contributed surplus	1,864,724	-	-	1,864,724
Deficit	(14,575,986)	29,533	(66,442)	(14,612,895)
	(1,880,634)	29,533	(66,442)	(1,917,543)
Total Liabilities and Shareholders' Equity	$ 2,340,322	$ 29,533	$ (9,261)	$ 2,360,594

Reconciliation of statement of comprehensive loss for the period ended March 31, 2010:

Loss as previously reported under Canadian GAAP	$ (210,503)
Adjustment for depletion (Note 1)	29,533
Finance expense	4,420
Loss and comprehensive loss under IFRS	$ (176,550)

19. Explanation of transition to IFRS (continued)

Reconciliation of equity as at December 31, 2010:

	Canadian GAAP	Effect of transition to IFRS: Depletion (note 1)	Effect of transition to IFRS: Decommissioning liability (note 2)	IFRS
ASSETS				
Current assets				
Cash	$ 1,520,502	$ -	$ -	$ 1,520,502
Accounts receivables	42,002	-	-	42,002
Prepaid expenses and deposits	601,017	-	-	601,017
	2,163,521	-	-	2,163,521
Property, plant and equipment	2,566,189	67,908	23,021	2,657,118
Total Assets	$ 4,729,710	$ 67,908	$ 23,021	$ 4,820,639
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$ 985,547	$ -	$ -	$ 985,547
Promissory notes payable	100,000	-	-	100,000
Convertible debentures	-	-	-	-
	1,085,547	-	-	1,085,547
Decommissioning liability	391,322	-	74,479	465,801
	1,476,869	-	74,479	1,551,348
SHAREHOLDERS' EQUITY				
Share capital	2,789,516	-	-	2,789,516
Contributed surplus	780,013	-	-	780,013
Deficit	(316,688)	67,908	(51,458)	(300,238)
	3,252,841	67,908	(51,458)	3,269,291
Total Liabilities and Shareholders' Equity	$ 4,729,710	$ 67,908	$ (51,458)	$ 4,820,659

Reconciliation of statement of comprehensive loss for the period ended December 31, 2010:

Loss as previously reported under Canadian GAAP	$ (316,688)
Adjustment for depletion	14,283
Finance expense	2,167
Loss and comprehensive loss under IFRS	$ (300,238)

19. Explanation of transition to IFRS (continued)

Note 1 - Depletion

The Company depletes its development and production assets using unit of production under both IFRS and Canadian GAAP. However, due to the adjustments described above, the carrying value of the development and production assets has decreased under IFRS, which has resulted in a reduction in the depletion for the period ended March 31, 2010 and year ended December 31, 2010.

Note 2 – Decommissioning liability

Under Canadian GAAP, future cash flows related to funding the Company's asset retirement obligation in relation to petroleum and natural gas properties is discounted using a risk-adjusted rate.

Under IFRS, the future cashed flows are discounted using a to a pre-tax risk free rate that reflects current market assessments of the time value of money and the risks specific to the obligation. This has resulted in an increase in the asset retirement obligation at the date of transition to IFRS, which can be recognized through deficit under the IFRS 1 exemption, and for the period ended March 31, 2010, and year ended December 31, 2010 which is recognised through the Statement of Comprehensive Loss for that year. Unlike Canadian GAAP, the accretion expense is classified as finance expense under IFRS