Sahara Energy Ltd.

Financial Statements

December 31, 2010

Sahara Energy Ltd.

Balance Sheets
(in Canadian dollars)

	Successor as at December 31, 2010	Predecessor as at November 30, 2010	Predecessor as at December 31, 2009
		(note 1)	
Assets			
Current Assets			
Cash	**$ 1,520,502**	$ 952	$ 16,630
Accounts receivable	**42,002**	32,849	11,675
Prepaid expenses and deposits	**601,017**	41,179	27,803
	2,163,521	74,980	56,108
Property, plant and equipment (note 5)	**2,566,189**	2,496,586	2,568,228
	$ 4,729,710	$ 2,571,566	$ 2,624,336
Liabilities and Shareholders' Equity (Deficiency)			
Current Liabilities			
Accounts payable and accrued liabilities	**$ 985,547**	$ 2,539,077	$ 2,061,369
Promissory notes payable (note 6)	**100,000**	516,000	447,711
Convertible debentures (note 7)	**-**	1,337,020	1,337,020
	1,085,547	4,392,097	3,846,100
Asset retirement obligations (note 8)	**391,322**	394,015	448,367
	1,476,869	4,786,112	4,294,467
Shareholders' Equity (Deficiency)			
Share capital (note 9)	**2,789,516**	10,830,628	10,830,628
Contributed surplus (note 10)	**780,013**	1,864,724	1,864,724
Deficit	**(316,688)**	(14,909,898)	(14,365,483)
	3,252,841	(2,214,546)	(1,670,131)
	$ 4,729,710	$ 2,571,566	$ 2,624,336

Going concern (note 2)
Commitment (note 13)
Subsequent events (note 16)

Approved on behalf of the Board:

(Signed) "Peter Boswell", Director

(Signed) "Gary Chang", Director

Sahara Energy Ltd.

Statements of Operations, Comprehensive Loss and Deficit
(in Canadian dollars except for share amounts)

	Successor Period from December 1, 2010 to December 31, 2010	Predecessor Period from January 1, 2010 to November 30, 2010	Year ended December 31, 2009
		(note 1)	
Revenues			
Petroleum and natural gas sales	**$ 18,951**	$ 402,847	$ 1,196,723
Royalties	**(485)**	(37,224)	(148,156)
Other income	**-**	-	248
	18,466	365,623	1,048,815
Expenses			
Operating	**43,518**	229,860	519,272
General and administrative	**249,744**	502,967	650,801
Stock-based compensation	**-**	-	41,766
Interest	**-**	33,742	242,468
Depletion, depreciation and accretion	**41,892**	143,484	5,001,178
Bad debts	**-**	-	48,579
	335,154	910,053	6,504,064
Loss before income taxes for the period	**(316,688)**	(544,430)	(5,455,249)
Future income tax recovery (note 11(a))	**-**	-	655,000
Net loss and comprehensive loss for the period	**(316,688)**	(544,430)	(4,800,249)
Deficit, beginning of period (note 1)	**-**	(14,365,483)	(9,565,234)
Deficit, end of period	**$ (316,688)**	$ (14,909,913)	$ (14,365,483)
Loss per share – basic and diluted	**$ (0.01)**	$ (0.01)	$ (0.13)
Weighted average number of shares outstanding	**67,569,991**	38,036,302	38,036,302

Sahara Energy Ltd.

Statements of Cash Flows
(in Canadian dollars)

	Successor	Predecessor	
	Period from December 1, 2010 to December 31, 2010	Period from January 1, 2010 to November 30, 2010 **(note 1)**	Year ended December 31, 2009
Operating activities			
Net loss	**$ (316,688)**	$ (544,430)	$ (4,800,249)
Items not affecting cash:			
Future income tax recovery	**-**	-	(655,000)
Interest accretion expense	**-**	-	50,075
Depletion, depreciation and accretion	**41,892**	143,484	5,001,178
Stock-based compensation	**-**	-	41,766
Changes in non-cash working capital:			
Accounts receivable	**(9,153)**	(21,174)	24,385
Prepaid expenses	**(559,838)**	(13,376)	55,724
Accounts payable and accrued liabilities	**(76,719)**	115,893	212,559
	(920,506)	(319,603)	(69,562)
Financing activities			
Issuance of common shares, net of issue costs	**2,631,500**	-	-
Financial reorganization costs	**(198,706)**		
Repayment of promissory notes	**-**	(31,711)	(72,598)
Promissory note issued	**-**	100,000	-
	2,432,794	68,289	(72,598)
Investing activities			
Acquisition of equipment	**-**	(2,480)	(710)
Resource property expenditures	**(1,620)**	(68,171)	(353,825)
Proceeds on disposal of resource properties	**8,882**	306,287	482,751
	7,262	235,636	128,216
Increase (decrease) in cash and cash equivalents	**1,519,550**	(15,678)	(13,944)
Cash and cash equivalents, beginning of period	**952**	16,630	30,574
Cash and cash equivalents, end of period	**$ 1,520,502**	$ 952	$ 16,630
Supplemental disclosure of cash flow activity:			
Interest paid	**$ -**	**$ -**	$ 32,199

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.

Financial Reorganization

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 unsecured creditor would receive a cash payment of $0.15 for each $1.00 owed by the Company to such creditors;
b) 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;
c) 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.
d) 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 (Note 6).

On June 23, 2010, the creditors' proposal and share consolidation were approved by the Company's creditors and shareholders, respectively. On November 30, 2010, the Company completed the financial reorganization with the completion of the private placement to CGUP for gross proceeds of $2,400,000.

A change in control of the Company occurred on November 30, 2010 with the closing of the private placement to CGUP. Based on the creditors' proposal described above, the Company had an obligation to issue 7,424,152 common shares to the secured creditors (Note 9b) as well as distribution of cash to creditors for the settlement of their claims. The BIA process was completed in March 2011 when all common shares were legally transferred and all liabilities were settled by the trustees (Note 16).

As a result of the above transactions, a substantial realignment of the non-equity and equity interests in the Company as well as a change in control occurred on November 30, 2010. The Company has accounted for the financial reorganization as required under the provisions of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625, "Comprehensive Revaluation of Assets and Liabilities". Accordingly, the Company valued all of its assets and liabilities to their estimated fair values and eliminated the deficit as at November 30, 2010. The outcome of this revaluation process reflects, in essence, a new start for the Company. The enterprise's fair value as at November 30, 2010 of $3,088,028 was determined based on the fair value of the shares at $0.05 subscription price agreed by the new investor.

The predecessor company's financial information has been presented to provide additional information.. The predecessor company's financial information (prior to November 30, 2010) does not reflect the effects of the financial reorganization or the application of its accounting described below. Common shares and loss per share amounts have been retroactively adjusted to reflect the share consolidation described above.

1. Nature of Operations and Financial Reorganization (continued)

The following table summarizes the impact of adjustments recorded to implement the financial reorganization and to reflect the adoption of the new basis ("Fresh Start") of accounting as at November 30, 2010:

Assets	November 30, 2010 Pre-reorganization	Reorganization Adjustments	Notes	Fresh Start Adjustments	Notes	November 30, 2010 Post-reorganization
Current						
Cash and cash equivalents	$ 952	1,951,278	1			$ 1,952,230
Accounts receivable	32,849					32,849
Prepaid expenses and deposits	41,179					41,179
	74,980	1,951,278				2,026,258
Property, plant and equipment	2,496,586	-		116,064	2	2,612,650
	$ 2,571,566	1,951,278		116,064		$ 4,638,908
Liabilities						
Current						
Accounts payable and accrued liabilities	$ 2,539,077	(1,482,212)	1&2			$ 1,056,865
Convertible debentures	1,337,020	(1,337,020)	2			-
Promissory notes payable	516,000	(416,000)	3			100,000
	4,392,097	(3,235,232)				1,156,865
Asset retirement obligations	394,015					394,015
	4,786,112	(3,235,232)				1,550,880
Shareholder's (Deficiency) Equity						
Share Capital	10,830,628	5,385,232	1, 2&3	(13,127,832)	1&2	3,088,028
Contributed surplus	1,864,724	(198,707)	1	(1,666,017)	1	-
Deficit	(14,909,898)	(15)	1	14,909,913	1	-
	(2,214,546)	5,186,510		116,064		3,088,028
	$ 2,571,566	1,951,278				$ 4,638,908

<u>Financial Reorganization Adjustments:</u>

(1) To reflect gross cash receipts of $2,400,000 upon completion of the private placement of 48,000,000 common shares at $0.05 per share with CGUP and the payment of financial reorganization costs and share issuance costs in the amounts of $198,707 and $250,000, respectively, which have been capitalized to equity;
(2) To reflect the reduction of $2,920,268 for unsecured creditor liabilities pursuant to the creditors' proposal; and
(3) To reflect the common shares to be issued and the reduction of $371,208 in secured creditor liabilities pursuant to the creditors' proposal.

1. Nature of Operations and Financial Reorganization (continued)

Fresh Start Accounting Adjustments:

At November 30, 2010, the book value of all current assets and current liabilities not subject to the creditors' proposal approximated fair value.

(1) To reclassify the deficit and contributed surplus that arose prior to the fresh start to share capital.
(2) The fair value ascribed to the property, plant and equipment is based on the forecasted discounted cash flow reserve report prepared by the Company's independent reserves evaluator, and has been adjusted to reflect the excess of net assets over the fair value of the enterprise as determined as at November 30, 2010.

2. 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.

For the predecessor company prior to the Fresh Start accounting, from January 1 to November 30, 2010, the Company incurred a net loss of $544,430, used cash in operating activities of $319,603 and as at November 30, 2010, had an accumulated deficit of $14,909,913. Subsequent to the financial reorganization, from December 1 to December 31, 2010, the Company incurred a net loss of $316,688 and used cash in operating activities of $920,506. As at December 31, 2010, the Company has an accumulated deficit of $316,688 after the reorganization.

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 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. 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) Basis of valuation

The Company was required to perform a comprehensive balance sheet revaluation under the provisions of CICA 1625 as described in Note 1. The Company assessed the fair value of identifiable assets and liabilities as at November 30, 2010, whether or not previously recorded. The adjustments to revalue assets and liabilities met the recognition criteria under Canadian GAAP to establish a new cost basis as at November 30, 2010. Under CICA 1625, if the fair value of the enterprise as a whole exceeds the re-valued net asset values, goodwill is not recorded.

b) Estimates by management and measurement uncertainty

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, the fair value amounts of assets and liabilities as at November 30, 2010 for fresh start accounting, and to estimate income tax expense or recoveries.

The Company calculates depletion, amortization and accretion expense and calculates the ceiling test using managements estimates of petroleum and gas reserves remaining in petroleum and gas properties, commodity prices and capital costs required to develop those reserves. 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 judgment 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.

3. Significant accounting policies (continued)

b) Estimates by management and measurement uncertainty (continued)

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

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

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 prices 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 than 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 amounts are credited to 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

All financial instruments are measured at fair value on initial recognition of the instrument. Measurements in subsequent periods depend on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale”, “held-to-maturity”, “loans and receivables”, or “other financial liabilities”.

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are designated as held-for-trading and are measured at fair value using Level 1 in the fair value hierarchy whereby fair value is determined based on quoted prices in active markets for similar assets. Accounts receivable are designated as loans and receivables and are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities and promissory notes payable 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 issuance costs

Costs incurred on the issuance 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.

4. Future accounting standards

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

			December 31, 2010
	Cost	**Accumulated amortization**	**Net book value**
Petroleum and natural gas properties	**$ 16,706,658**	**$ 14,163,371**	**$ 2,543,287**
Furniture, equipment and leasehold improvements	**91,300**	**68,398**	**22,902**
	$ 16,797,958	**$ 14,231,769**	**$ 2,566,189**

			November 30, 2010
	Cost	Accumulated amortization	Net book value
Petroleum and natural gas properties	$ 16,617,773	$ 14,147,282	$ 2,470,491
Furniture, equipment and leasehold improvements	91,300	65,205	26,095
	$ 16,709,073	$ 14,212,487	$ 2,496,586

			December 31, 2009
	Cost	Cost	Cost
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 2010 and 2009, the Company capitalized $nil general and administrative expenses directly attributable to exploration activities. The Company has capitalized an aggregate of $375,019 in general and administration costs since inception.

At December 31, 2010 and 2009, petroleum and natural gas properties included $nil costs relating to undeveloped properties. The Company performed an impairment assessment of undeveloped properties and added undeveloped properties costs of $nil (2009 - $3,713,420) to the full cost pool.

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.

5. Property, plant and equipment (continued)

The following table summarizes the benchmark prices used in the calculation at an exchange rate of 1:0.98 for Canadian to 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.
2011	88.00	89.30	78.59	3.98	91.09
2012	90.78	92.13	79.23	4.69	93.97
2013	93.64	95.04	80.78	5.38	96.94
2014	96.57	98.02	81.36	6.02	99.98
2015	99.58	101.58	83.90	6.31	103.11

Prices increase at 2% per year after 2015 until the end of the reserve life.

6. Promissory notes payable

	December 31, 2010	November 30, 2010	December 31, 2009
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 November 30, 2010 were settled pursuant to the creditors' proposal disclosed in Note 1. The terms of the promissory note to CGUP was modified and settled in 2011 disclosed in Note 16.

Included in accounts payable and accrued liabilities is $175,819 (2009 - $160,195) of accrued interest.

7. Convertible debentures

	December 31, 2010	November 30, 2010	December 31, 2009
Principal outstanding	**$ -**	$ 1,337,020	$ 1,337,020
Value assigned to conversion option	**-**	-	(176,373)
Accretion	**-**	-	176,373
	-	-	-
	$ -	$ 1,337,020	$ 1,337,020

The convertible debenture balances outstanding as at November 30, 2010 were settled pursuant to the creditors' proposal as a secured creditor disclosed in Note 1.

8. Asset retirement obligations

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, 2010, the Company estimated the total undiscounted amount of cash flows required to settle its asset retirement obligations ("ARO") to be $450,000, 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.

	December 31, 2010	November 30, 2010	December 31, 2009
Balance, beginning of period	**$ 394,015**	$ 448,367	$ 521,224
Accretion expense	**2,693**	29,618	42,971
Settled on sale of properties	**(5,386)**	(83,970)	(115,828)
Balance, end of period	**$ 391,322**	$ 394,015	$ 448,367

9. Share capital

Authorized:

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

As described in Note 1, there was a share consolidation and common shares numbers and per share amounts have been retroactively adjusted to reflect this.

a) Issued:

	Number		Amount
Common shares			
Balance, December 31, 2008 and 2009	**38,036,302**	**$**	**10,830,628**
Share consolidation (note 1)	**(31,696,918)**		**-**
Balance, November 30, 2010	**6,339,387**		**10,830,628**
Issued on private placements (note 1)	**58,000,000**		**2,900,000**
Share issuance costs:			
Cash			**(268,500)**
Warrants (note 9(c))			**(780,013)**
Shares to be issued to secured creditors (note 1, 9(b))			**371,208**
Deficit and contributed surplus reclassified to share capital on adoption of Fresh Start Accounting (note 1)			**(10,263,807)**
Balance, December 31, 2010	**64,339,387**	**$**	**2,789,516**

The Company completed the private placement for 48,000,000 post-consolidation common shares on November 30, 2010 as described in Note 1.

On December 10, 2010, the Company completed a second private placement with 10,000,000 common shares issued to other 17 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 9(c)).

9. Share capital (continued)

b) Shares to be issued

The Company is committed to issuing 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. As noted in Note 16, these common shares were issued on March 21, 2011.

c) Warrants:

		December 31, 2010		November 30, 2010
	Number of warrants	**Amount**	Number of warrants	Amount
Balance, beginning of period	**-**	**$ -**	-	$ -
Granted	**10,110,000**	**780,013**	-	-
Expired	**-**	**-**	-	-
Balance, end of period	**10,110,000**	**$ 780,013**	-	$ -

		December 31, 2009
	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 was $0.077 per warrant aggregating $780,013 which has been charged to share issuance costs in these financial statements.

The following table summarizes information about warrants outstanding at December 31, 2010:

Exercise price		Number outstanding	Weighted average remaining life (years)	Weighted average exercise price		Number exercisable	Weighted average exercise price	
$	0.05	10,000,000	0.92	$	0.05	10,000,000	$	0.05
$	0.05	110,000	0.94	$	0.05	110,000		0.05

9. Share capital (continued)

c) Options:

As at December 31, 2010, the following options were outstanding:

Options outstanding	Option price ($)	Weighted average remaining contractual life (years)	Number of options currently exercisable	Weighted average exercisable price of options currently exercisable ($)
175,000	1.00	0.05	175,000	1.00
110,000	1.00	0.41	110,000	1.00
80,000	1.25	0.16	80,000	1.25
110,000	1.30	1.01	110,000	1.30
475,000	1.11	0.41	475,000	1.11

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.

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

	December 31, 2010		November 30, 2010	
	Number	**Weighted average exercise price ($)**	Number	Weighted average exercise price ($)
Outstanding, beginning of period	**475,000**	**1.11**	1,460,000	0.66
Expired	**-**	**-**	(985,000)	0.40
Outstanding, end of period	**475,000**	**1.11**	475,000	1.11

	December 31, 2009	
	Number	Weighted average exercise price ($)
Outstanding, beginning of period	1,710,000	0.70
Cancelled	(250,000)	0.94
Outstanding, end of period	1,460,000	0.66

During 2010, the Company recorded stock-based compensation expense of $nil (2009 - $41,766) 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, 2010 and 2009 and November 30, 2010 and the changes during the periods then ended is presented below:

	Period from December 1, 2010 to December 31, 2010	Period from January 1, 2010 to November 30, 2010	Year ended December 31, 2009
	December 31, 2010	November 30, 2010	December 31, 2009
Balance, beginning of period	**$ 1,864,724**	$ 1,864,724	$ 1,822,958
Stock-based compensation		-	41,766
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	**$ 780,013**	$ 1,864,724	$ 1,864,724

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:

	Period from December 1, 2010 to December 31, 2010	Period from January 1, 2010 to November 30, 2010	Year ended December 31, 2009
Loss before income taxes	**$ (316,688)**	$ (544,430)	$ (5,455,249)
Income tax rate	**28.10%**	28.10%	29.13%
Expected income tax recovery	**(89,000)**	(153,000)	(1,589,000)
Increase (decrease) in taxes resulting from:			
Stock-based compensation	**-**	-	12,000
Non-deductible expenses	**-**	18,000	19,000
Impact of financial reorganization and fair value adjustments	**838,000**	-	-
Previously unrecognized future income tax assets	**4,000**	40,000	-
Impact of change in future income tax rates	**15,000**	(2,000)	11,000
Change in valuation allowance	**(768,000)**	97,000	892,000
Income tax recovery	**$ -**	$ -	$ (655,000)

11. Income taxes (continued)

b) Future income tax assets and liabilities

The components of future income tax assets are as follows:

		December 31, 2010		November 30, 2010		December 31, 2009
Non-capital losses	**$**	**1,211,000**	$	1,410,000	$	1,378,000
Property, plant and equipment		**302,000**		866,000		883,000
Share issuance costs		**80,000**		84,000		41,000
Other		**38,000**		39,000		-
Total future income tax assets		**1,631,000**		2,399,000		2,302,000
Valuation allowance		**(1,631,000)**		(2,399,000)		(2,302,000)
Net future income tax assets	**$**	**-**	$	-	$	-

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.

c) Tax pools

As at December 31, 2010 and 2009, the Company has available for deduction against future taxable income, the following approximate amounts:

		December 31, 2010		**November 30, 2010**		**December 3 20**
Operating losses carried forward	$	4,641,000	$	4,351,000	$	5,271,00
Share issue costs		308,000		321,000		155,00
Property, plant and equipment		3,722,000		3,729,000		5,637,00
Other		147,000		148,000		
	$	8,818,000	$	8,549,000	$	11,063,00

The operating losses carried forward are available to reduce future taxable income and expire between 2025 and 2030.

12. 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	**Period from December 1, 2010 to December 31, 2010**	Period from January 1, 2010 to November 30, 2010	Year ended December 31, 2009
Consulting fees paid to a corporation controlled by an officer	**$ 22,000**	$ 121,000	$ 132,000
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

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 to related parties by financial statement category:

	December 31, 2010	November 30, 2010	December 31, 2009
Accounts payable and accrued liabilities	**$ -**	$ -	$ 164,266
Promissory note payable to a former officer (note 6)	**-**	-	24,902
Promissory notes payable to a current officer and directors (note 6)	**-**	-	270,000
Promissory note payable to CGUP(note 6)	**100,000**	-	-

13. 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.

14. Financial instruments

The Company holds various forms of financial instruments as at December 31, 2010. 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, 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, 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.

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 $1,077,974 as of December 31, 2010 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.

15. 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 December 31, 2010 but is required to complete the obligations subject to the Creditors' Proposal as disclosed in Note 1.

16. Subsequent events

a) 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.

.

b) The Company amended the terms of its Stock Option Plan and granted 6,400,000 stock options to certain officers, directors and consultants. Each option is exercisable at a price of $0.21 per common share and vest over a two year period from the February 18, 2011.

d) On March 21, 2011, the Company completed the conditions of the creditors' proposal (Note 1) and made the final cash distributions to the relevant creditors. The settlement included total payments of $580,846 and the issuance of 7,424,152 common shares.