Sahara Energy Ltd.

Condensed Interim Financial Statements

For the three and nine months ended September 30, 2011

Notice of No Auditor Review of Interim Condensed Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited condensed interim financial statements for the three and nine months ended September 30, 2011 and 2010.

Sahara Energy Ltd.
Condensed Interim Statements of Financial Position
(in Canadian dollars)
(unaudited)

	September 30 2011	December 31 2010
Assets		(Note 19)
Current assets		
Cash	$ 309,993	$ 1,520,502
Trade and other receivables	61,117	42,002
Prepaid expenses and deposits	354,751	601,017
	725,861	2,163,521
Property, plant and equipment (Note 5)	2,655,455	2,648,657
	$ 3,381,316	$ 4,812,178
Liabilities and Shareholders' Equity		
Current liabilities		
Trade and other payables	$ 393,375	$ 985,547
Promissory notes payable (Note 6)	–	100,000
	393,375	1,085,547
Decommissioning provision (Note 7)	486,098	465,801
	879,473	1,551,348
Shareholders' (deficit) equity		
Share capital (Note 8)	5,164,890	5,059,726
Warrants (Note 9)	780,013	780,013
Contributed surplus	603,237	–
Deficit	(4,046,297)	(2,578,909)
	2,501,843	3,260,830
	$ 3,381,316	$ 4,812,178

Going concern (Note 2)
Commitments (Note 17)
Subsequent events (Note 18)

See the accompanying notes to these interim condensed financial statements.

Sahara Energy Ltd.
Condensed Interim Statements of Loss and Comprehensive Loss
(in Canadian dollars)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
		(Note 19)		(Note 19)
Revenue				
Petroleum and natural gas sales	$ 177,909	$ 86,459	$ 556,221	$ 372,772
Royalties	(47,637)	(5,391)	(101,005)	(35,950)
	130,272	81,068	455,216	336,822
Expenses				
Production and operating	96,903	63,662	342,248	198,057
General and administrative	259,271	213,604	843,206	614,270
Depletion and depreciation	38,890	20,137	120,407	81,673
Share-based compensation (Note 10)	124,900	–	603,237	–
	519,964	297,403	1,909,098	894,000
Loss from operating activities	(389,692)	(216,335)	(1,453,882)	(557,178)
Finance expense (Note 12)	2,643	2,731	13,506	43,910
Net loss and comprehensive loss	$ (392,335)	$ (219,066)	$ (1,467,388)	$ (601,088)
Net loss per share				
Basic and diluted (Note 11)	$ (0.01)	$ (0.04)	$ (0.02)	$ (0.10)

See the accompanying notes to these interim condensed financial statements.

Sahara Energy Ltd.
Condensed Interim Statements of Changes in Equity
(in Canadian dollars)
(unaudited)

	Share capital	Warrants	Contributed surplus	Accumulated deficit	Total shareholders' equity
Balance, January 1, 2011	$ 5,059,726	$ 780,013	$ –	$ (2,578,909)	$ 3,260,830
Issuance of common shares (Note 8)	105,164	–	–	–	105,164
Share-based compensation (Note 10)	–	–	603,237	–	603,237
Total comprehensive loss	–	–	–	(1,467,388)	(1,467,388)
Balance, September 30, 2011	$ 5,164,890	$ 780,013	$ 603,237	$ (4,046,297)	$ 2,501,843

	Share capital	Warrants	Contributed surplus	Accumulated deficit	Total shareholders' deficit
Balance, January 1, 2010	$ 13,100,838	$ –	$ 1,864,724	$ (16,706,555)	$ (1,740,993)
Total comprehensive loss	–	–	–	(601,088)	(601,088)
Balance, September 30, 2010	$ 13,100,838	$ –	$ 1,864,724	$ (17,307,643)	$ (2,342,081)

See the accompanying notes to these interim condensed financial statements.

Sahara Energy Ltd.
Condensed Interim Statements of Cash Flows
(in Canadian dollars)
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
		(Note 19)		(Note 19)
Operating activities				
Net loss	$ (392,335)	$ (219,066)	$ (1,467,388)	$ (601,088)
Add back (deduct) non-cash items:				
Depletion and depreciation	38,890	20,137	120,407	81,673
Share-based compensation	124,900	–	603,237	–
Finance expense	3,405	2,786	15,121	10,230
Decommissioning expenditures	(74,552)	–	(74,552)	–
Change in non-cash working capital:				
Trade and other receivables	13,599	14,180	(19,115)	(1,696)
Prepaid expenses and deposits	31,014	17,693	246,266	(13,376)
Trade and other payables	179,260	144,695	(592,172)	(124,847)
	(75,819)	(19,575)	(1,168,196)	(649,104)
Financing activities				
Repayment of promissory notes	–	–	–	(5,883)
Advance from third party	–	50,000	–	100,000
	–	50,000	–	94,117
Investing activities				
Resource property (expenditures) recoveries	(14,428)	(42,333)	(42,313)	(81,894)
Proceeds on disposition of resource properties	–	–	–	299,586
Accounts payable related to resource property expenditures	–	–	–	322,380
	(14,428)	(42,333)	(42,313)	540,072
Change in cash	(90,247)	(11,908)	(1,210,509)	(14,915)
Cash, beginning of period	400,240	13,623	1,520,502	16,630
Cash, end of period	$ 309,993	$ 1,715	$ 309,993	$ 1,715

Supplemental cash flow information:				
Interest paid	$ 24	$ –	$ 24	$ 33,742
Issuance of shares for repayment of promissory notes and related interest	$ –	$ –	$ 105,164	$ –

See the accompanying notes to these interim condensed financial statements.

1. 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. The Company's registered address is 3700, 400 – Third Avenue SW, Calgary, Alberta.

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 $1,467,388 for the nine months ended September 30, 2011. As at September 30, the Company has an accumulated deficit of $4,046,297 and a working capital surplus of $332,486.

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

(a) Statement of compliance

The condensed interim financial statements for the three and nine months ended September 30, 2011 and 2010 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 third 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.

The condensed interim financial statements were authorized for issue by the Board of Directors on **November 28, 2011**.

(b) Basis of measurement

These condensed interim financial statements were prepared on a going concern basis, under historical cost.

(c) Functional and presentation currency

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

(d) Significant accounting policies

The accounting policies followed in these condensed interim financial statements are the same as those applied in the Company's condensed interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

(e) New standards and interpretations adopted

Accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

(f) New standards and interpretations not yet adopted

As of January 1, 2013, the Company will be required to adopt IFRS 9, "Financial Instruments", as the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. The adoption of this standard should not have a material impact on the Company's financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10 Consolidated Financial Statements (IFRS 10), IFRS 11 Joint Arrangements (IFRS 11), IFRS 12 Disclosure of Interests in Other Entities (IFRS 12), IAS 27 Separate Financial Statements (IAS 27), IFRS 13 Fair Value Measurement (IFRS 13) and amended IAS 28 Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

(g) 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.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

- Note 4 – determination of fair values
- Note 5 – valuation of property, plant and equipment

- Note 7 – valuation of decommissioning liability
- Note 10 – measurement of share-based payments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the financial statements.

(i) Determination of cash generating units
When the Company establishes technical feasibility and commercial viability of its properties, management will evaluate the oil and gas properties and group them into cash generating units ("CGUs") on the basis of their ability to generate independent cash flows, similar reserve characteristics, geographical location, and shared infrastructure.

(ii) Impairment indicators and calculation of impairment
At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property, plant and equipment are not recoverable, or impaired. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. When management judges that circumstances clearly indicate impairment, property, plant and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of CGUs are determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, including the discount rate applied.

(iii) Decommissioning liability
Dismantling, decommissioning and site disturbance re-mediation costs will be incurred by the Company at the end of the operating life of some of the Company's facilities and properties. 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. The ultimate decommissioning liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(iv) Income taxes
The Company recognizes deferred income tax assets to the extent that it is probable that taxable profit will be available to allow the benefit of that deferred income tax asset to be utilized. Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred income tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

(v) Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

Estimates of recoverable quantities of proved and probable reserves include judgmental assumptions regarding commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows. It also requires interpretation of complex geological and geophysical models in order to make an assessment of the size, shape, depth and quality of reservoirs, and their anticipated recoveries. The economic, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact asset carrying values, the provision for decommissioning liabilities and the recognition of deferred tax assets, due to changes in expected future cash flows. Reserve estimates are prepared in accordance with the Canadian Oil and Gas Evaluation Handbook and are reviewed by third party reservoir engineers.

The Company makes judgments in determining its CGUs and evaluates the geography, geology, production profile and infrastructure of its assets in making such determinations, which are based on estimates of reserves. Based on this assessment, the Company's CGUs are generally composed of significant development areas. The Company reviews the composition of its CGUs at each reporting date to assess whether any changes are required in light of new facts and circumstances. The amounts recorded for depletion and depreciation of property and equipment, the provision for decommissioning liabilities, and the valuation of property and equipment are based on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices, future costs and the remaining lives and period of future benefit of the related assets. Amounts recorded from joint venture partners are based on the Company's interpretation of underlying agreements and may be subject to joint approval. The Company has recorded balances due from its joint venture partners based on costs incurred and its interpretation of allowable expenditures. Any adjustment required as a result of joint venture audits are recorded in the period of settlement with joint venture partners.

(b) Trade and other receivables, deposits and trade and other payables

The fair value of trade and other receivables, deposits and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At September 30, 2011 and December 31, 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

(c) Stock options

The fair value of stock options is measured using a Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected forfeiture rate (based on historic forfeitures), expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

(d) Fair value measurement information

The carrying value of cash, trade and other receivables, deposits and trade and other payables included in the statement of financial position approximate fair value due to the short term nature of those instruments.

- Level 1 fair value measurements are based on unadjusted quoted market prices.
- Level 2 fair value measurements are based on valuation models and techniques where the

(in Canadian dollars)

significant inputs are derived from quoted indices.

- Level 3 fair value measurements are based on unobservable information.

5. Property, plant and equipment

		Furniture, equipment and leasehold improvements		Development and production assets		Total
Cost						
As at January 1, 2010	$	88,820	$	16,558,112	$	16,646,932
Additions		2,480		478,752		481,232
Dispositions		–		(315,169)		(315,169)
Decommissioning revisions		–		7,984		7,984
As at December 31, 2010		91,300		16,729,679		16,820,979
Additions		937		41,376		42,313
Decommissioning revisions		–		84,892		84,892
As at September 30, 2011	$	92,237	$	16,855,947	$	16,948,184
Accumulated depletion and depreciation						
As at January 1, 2010	$	59,592	$	14,019,112	$	14,078,704
Depletion and depreciation		8,806		84,812		93,618
As at December 31, 2010		68,398		14,103,924		14,172,322
Depletion and depreciation		4,692		115,715		120,407
As at September 30, 2011	$	73,090	$	14,219,639	$	14,292,729
Net book value						
As at January 1, 2010	$	29,228	$	2,539,000	$	2,568,228
As at December 31, 2010	$	22,902	$	2,625,755	$	2,648,657
As at September 30, 2011	$	19,147	$	2,636,308	$	2,655,455

The Company included $5 million of future development costs in the depletion calculation for the period ended September 30, 2011 (December 31, 2010 – $4.7 million). The Company has capitalized an aggregate of $375,019 (December 31, 2010 – $375,019) of directly attributable general and administrative expenses to development and production assets since inception.

6. Promissory note payable

As at December 31, 2010, the Company had a $100,000 promissory note payable to China Great United Petroleum Investment Co. Ltd. ("CGUP"), an unrelated third party prior to the corporate reorganization. The note bore interest at 21% per annum, was repayable on demand and secured by a first priority charge on all assets of the Company. In January 2011, the Company agreed with CGUP to settle the promissory note of $100,000 and $5,164 of accrued interest through the issuance of 967,029 common shares (Note 8(b)) 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.

(in Canadian dollars)

7. Decommissioning liability

As at September 30, 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 1.87% per annum and an inflation rate of 2% per annum.

		September 30 2011		December 31 2010
Balance, beginning of period	$	465,801	$	519,229
Accretion		9,957		12,907
Revisions		84,892		7,984
Expenditures		(74,552)		–
Settled on disposition of properties		–		(74,319)
Balance, end of period	$	486,098	$	465,801

8. Share capital

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred non-voting shares

b) Issued and outstanding common shares

	Number of shares		Amount
Balance, January 1, 2010	38,036,302	$	10,830,628
Share consolidation (i)(a)	(31,696,915)		–
	6,339,387		10,830,628
Issued on private placement (i)(b)	48,000,000		2,400,000
Issued on private placement (ii)	10,000,000		500,000
Share issuance costs:			
Cash	–		(268,500)
Warrants (iii)	–		(780,013)
Shares to be issued to secured creditors (i)(c)	–		371,208
Deficit and contributed surplus reclassification on reorganization (i)	–		(10,263,807)
Balance, December 31, 2010	64,339,387		2,789,516
Issued to secured creditors (iv)	7,424,152		–
Issued on settlement of promissory notes (Note 6)	967,029		105,164
Balance, September 30, 2011	72,730,568	$	2,894,680

(i) 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.

(in Canadian dollars)

In conjunction with the creditors' proposal approved on June 23, 2010, the following events occurred on November 30, 2010:

a. Consolidation of the common shares of the Company whereby one new common share was issued in exchange for six pre-consolidation common shares;

b. The Company completed a private placement with CGUP, an unrelated party, for the issuance of 48,000,000 post-consolidation common shares at a price of $0.05 per share for total proceeds of $2,400,000 used to pay for the financial reorganization cash obligations and fund future expansion of the operations. CGUP also provided funding in the form of a $100,000 promissory note to the Company (Note 6), in order to pay for the BIA process and other disbursements; and

c. Each secured creditor received a cash payment of $0.15 plus 17 new shares of the Company for each $1.00 owed to such creditors.

(ii) 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.

(iii) 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).

(iv) On March 21, 2011, the Company issued 7,424,152 common shares as part of the Creditors' Proposal 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 2010 ((i)(c)).

9. Warrants

As at September 30, 2011 and December 31, 2010, the Company had 10,110,000 warrants outstanding and exercisable.

	Number of warrants	Weighted-average exercise price	Amount
Balance, January 1 and November 30, 2010	–	$ –	$ –
Issued (Note 8(b)(iii)	10,110,000	0.05	780,013
Balance, December 31, 2010 and September 30, 2011	10,110,000	$ 0.05	$ 780,013

The following table summarizes information about warrants outstanding as at September 30, 2011:

Exercise price	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price
$ 0.05	10,000,000	0.17	$ 0.05
0.05	110,000	0.19	0.05
	10,110,000	0.17	$ 0.05

(in Canadian dollars)

The Company calculated the $780,013 ($0.08 per warrant) fair value of warrants using the Black-Scholes pricing model. The following weighted average assumptions were used to determine the fair value of 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	1.0 years

10. 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.

In February 2011, the Company granted 6,400,000 stock options at an exercise price of $0.21 per share. These options expire in February 2016 and vest one-third on the date of grant and one-third on each of the first and second anniversaries.

The Company estimated the fair value of these options on the grant date at $1,005,912 ($0.17 per option) based on the Black-Scholes pricing model based on the following assumptions:

Risk-free interest rate	2.59%
Expected volatility	120%
Forfeiture rate	10%
Dividend yield	0%
Expected life	5.0 years

During the three and nine months ended September 30, 2011, the Company recognized $124,900 and $603,237, respectively, of share-based compensation expense (2010 – $nil). As at September 30, 2011, the Company's remaining unvested share-based compensation is $208,676.

The following table provided a continuity of stock options outstanding:

	Number of options	Weighted-average exercise price
Balance, January 1, 2010	243,333	$ 3.96
Expired	(164,166)	(2.40)
Balance, November 30 and December 31 2010	79,167	6.66
Granted	6,400,000	0.21
Expired	(60,833)	(6.33)
Forfeited	(1,418,334)	(0.31)
Balance, September 30, 2011	5,000,000	$ 0.21

The following table summarizes information about stock options outstanding as at September 30, 2011:

Exercise price	Number outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price	Number exercisable
$ 0.21	5,000,000	4.32	$ 0.21	1,666,667

(in Canadian dollars)

11. Per share amounts

Basic net loss per share is calculated as follows:

	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Net loss for the period:	$ 392,335	$ 219,066	$ 1,467,388	$ 601,088
Weighted average number of shares – basic:				
Issued common shares at January 1	64,339,387	6,399,387	64,339,387	6,399,387
Effects of shares issued	8,391,181	–	5,932,227	–
	72,730,568	6,399,387	70,271,614	6,399,387
Net loss per share – basic:	$ 0.01	$ 0.03	$ 0.02	$ 0.09

The effect of stock options and warrants is anti-dilutive in loss periods.

12. Finance expense

	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Interest income	$ (786)	$ (55)	$ (1,639)	$ (62)
Interest expense	24	–	5,188	33,742
Decommissioning liability accretion	3,405	2,786	9,957	10,230
	$ 2,643	$ 2,731	$ 13,506	$ 43,910

13. Related party transactions

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. 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.

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions during the current and comparative reporting periods:

	Three months ended September 30 2011	Three months ended September 30 2010	Nine months ended September 30 2011	Nine months ended September 30 2010
Consulting fees paid to corporations controlled by officers and former officers	$ 20,500	$ 37,500	$ 143,500	$ 105,500
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

14. Financial instruments

The Company holds various financial instruments as at September 30, 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.

(a) 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.

(i) 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 September 30, 2011 and December 31, 2010, the Company had no contracts outstanding.

(ii) Foreign currency exchange risk
Although 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 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 September 30, 2011 and December 31, 2010, the Company had no forward foreign exchange contracts in place.

(iii) 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. As at September 30, 2011 and December 31, 2010, the Company had no interest rate swaps or financial contracts in place.

(b) 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.

(c) 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. As at September 30, 2011, the Company has an accumulated deficit of $4,046,297 and a working capital surplus of $332,486. 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 objectives in managing its capital structure are to create and maintain flexibility so that the Company can continue to meet its financial obligations; and 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 September 30, 2011.

16. Comparative figures

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

17. 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.

18. Subsequent events

(a) In November 2011, the Company issued 5,000,000 common shares on the exercise of the same number of warrants at $0.05 per common share for gross proceeds of $250,000.

(b) The Company's directors approved a resolution to amend the exercise price of 6,400,000 stock options from $0.21 per share to $0.10 per share based on the market price of the common shares at the time of the resolution. All other terms of the amended stock options remain unchanged. The amendment is subject to shareholder approval at the Company's Annual General Meeting on November 29, 2011. The financial statement effect of the amendment will be determined and accounted for when approved.

19. Reconciliation of Canadian GAAP to IFRS

The Company's accounting policies under IFRS differ from those followed under previous GAAP as described in Note 3. These accounting policies have been applied for the three and nine months ended September 30, 2011, as well as to the opening statement of financial position on the transition date, January 1, 2010, the comparative information for the three and nine months ended September 30, 2010 and the comparative information for the year ended December 31, 2010.

On transition to IFRS on January 1, 2010, the Company used the IFRS mandatory exception for the retrospective application of certain IFRS whereby hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under GAAP are consistent with their application under IFRS.

The Company applied the following exemptions to full retrospective application of IFRS in accordance with IFRS 1:

- Deemed cost of property, plant and equipment

  The Company has elected to apply the exemption under IFRS 1 allowing the measurement of oil and gas assets at the date of transition to IFRS to be determined based on the amounts disclosed under the full cost method of accounting in accordance with GAAP.

- Decommissioning liability

  The exemption provided in IFRS 1 from the full retrospective application of IFRS 1 has been applied and the difference between the net book values of the Company's decommissioning liability as measured under IFRS and their net book values under GAAP as of January 1, 2010 has been recognized directly in opening deficit.

(in Canadian dollars)

- Share-based payments

  The Company has elected not to apply IFRS 2 Share-based Payments to equity instruments granted after November 7, 2002 that had not vested by the transition date.

- Borrowing costs

  The Company has applied the borrowing cost exemption in IFRS 1. It has applied the requirement of IAS 23 Borrowing Costs to borrowing costs relating to qualifying assets on a prospective basis from the date of transition to IFRS.

The remaining IFRS 1 exemptions were not applicable or material to the preparation of the Company's Statement of Financial Position at the date of transition on January 1, 2010.

The IFRS transition adjustments did not have a material impact on the presentation of the Company's consolidated statement of cash flows.

(a) Statement of financial position

At the transition date – January 1, 2010:

		IFRS adjustments		
	Canadian GAAP	Decommissioning liability(d)	Flow-through shares (e)	IFRS
Assets				
Current assets				
Cash	$ 16,630	$ –	$ –	$ 16,630
Trade and other 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
	$ 2,624,336	$ –	$ –	$ 2,624,336
Liabilities and Shareholders' Deficit				
Current liabilities				
Trade and other payables	$ 2,061,369	$ –	$ –	$ 2,061,369
Promissory notes payable	447,711	–	–	447,711
Convertible debenture	1,337,020	–	–	1,337,020
	3,846,100	–	–	3,846,100
Decommissioning provision	448,367	70,862	–	519,229
	4,294,467	70,862	–	4,365,329
Shareholders' deficit				
Share capital	10,830,628	–	2,270,210	13,100,838
Contributed surplus	1,864,724	–	–	1,864,724
Deficit	(14,365,483)	(70,862)	(2,270,210)	(16,706,555)
	(1,670,131)	(70,862)	–	(1,740,993)
	$ 2,624,336	$ –	$ –	$ 2,624,336

(in Canadian dollars)

At the end of the comparative period – September 30, 2010:

	Canadian GAAP	IFRS adjustments Depletion (c)	Decommissioning liability(d)	Flow-through shares (e)	IFRS
Assets					
Current assets					
Cash	$ 1,715	$ –	$ –	$ –	$ 1,715
Trade and other receivables	13,371	–	–	–	13,371
Prepaid expenses and deposits	41,179	–	–	–	41,179
	56,265	–	–	–	56,265
Property, plant and equipment	1,830,319	52,111	5,371	–	1,887,801
	$ 1,886,584	$ 52,111	$ 5,371	$ –	$ 1,944,066
Liabilities and Shareholders' Deficit					
Current liabilities					
Trade and other payables	$ 1,936,522	$ –	$ –	$ –	$ 1,936,522
Promissory notes payable	541,828	–	–	–	541,828
Convertible debenture	1,337,020	–	–	–	1,337,020
	3,815,370	–	–	–	3,815,370
Decommissioning provision	407,147	–	63,630	–	470,777
	4,222,517	–	63,630	–	4,286,147
Shareholders' deficit					
Share capital	10,830,628	–	–	2,270,210	13,100,838
Contributed surplus	1,864,724	–	–	–	1,864,724
Deficit	(15,031,285)	52,111	(58,259)	(2,270,210)	(17,307,643)
	(2,335,933)	52,111	(58,259)	–	(2,342,081)
	$ 1,886,584	$ 52,111	$ 5,371	$ –	$ 1,944,066

(in Canadian dollars)

At the end of the last reporting year – December 31, 2010:

	Canadian GAAP	IFRS adjustments: Depletion (c)	IFRS adjustments: Decommissioning liability (d)	IFRS adjustments: Flow-through shares (e)	IFRS
Assets					
Current assets					
Cash	$ 1,520,502	$ –	$ –	$ –	$ 1,520,502
Trade and other 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	59,447	23,021	–	2,648,657
	$ 4,729,710	$ 59,447	$ 23,021	$ –	$ 4,812,178
Liabilities and Shareholders' Equity					
Current liabilities					
Trade and other payables	$ 985,547	$ –	$ –	$ –	$ 985,547
Promissory notes payable	100,000	–	–	–	100,000
	1,085,547	–	–	–	1,085,547
Decommissioning provision	391,322	–	74,479	–	465,801
	1,476,869	–	74,479	–	1,551,348
Shareholders' equity					
Share capital	2,789,516	–	–	2,270,210	5,059,726
Warrants	780,013	–	–	–	780,013
Deficit	(316,688)	59,447	(51,458)	(2,270,210)	(2,578,909)
	3,252,841	59,447	(51,458)	–	3,260,830
	$ 4,729,710	$ 59,447	$ 23,021	$ –	$ 4,812,178

(b) Net loss and comprehensive loss

	Three months ended September 30 2011	Nine months ended September 30 2011	Year ended December 31 2010
Net loss and comprehensive loss as previously reported under Canadian GAAP	$ (234,742)	$ (665,802)	$ (861,118)
IFRS adjustments:			
Depletion (c)	12,923	52,111	59,447
Finance expense (d)	2,753	12,603	19,404
Net loss and comprehensive loss as reported under IFRS	$ (219,066)	$ (601,088)	$ (782,267)

(c) Depletion

Upon transition to IFRS, the Company adopted a policy of depleting oil and natural gas interests on a unit of production basis over proved plus probable reserves. The depletion policy under the Canadian GAAP was based on units of production over proved reserves. Due to the change in the depletion policy, depletion expense under IFRS was reduced (date of transition January 1, 2010 – $nil; three months ended September 30, 2010 – $12,923; nine months ended September 30, 2010 – $52,111; year ended December 31, 2010 – $59,447).

(d) Decommissioning liability

Under Canadian GAAP, increases in the estimated cash flows were discounted using the current credit-adjusted risk-free rate while downward revisions in the estimated cash flows were discounted using the credit-adjusted risk-free rate that existed when the original liability was recognized. Under IFRS, estimated cash flows are discounted using the risk-free rate that exists at the date of the statement of financial position.

At the IFRS transition date, the Company recorded a $70,862 increase to decommissioning liability and opening deficit. Adjustments arising due to changes in the risk-free rate in 2010 have been recorded to property plant, and equipment (September 30, 2010 – $5,371 decrease; December 31, 2010 – $23,021 decrease). The impact of these changes on accretion has been reflected as a change in finance expense (three months ended September 30, 2010 – $2,753; nine months ended September 30, 2011 – $12,603; year ended December 31, 2010 – $19,404).

(e) Flow-through shares

Under Canadian GAAP, the accounting treatment for flow-through shares is to record the full amount of the proceeds in share capital. When expenditures are renounced, the related tax affect is recorded to share capital and the future tax liability. Under IFRS, the amount initially recorded in share capital is limited to the market value of the common shares on that date and the difference between the actual proceeds and the amount recorded in share capital is set up as a flow-through share premium liability. As flow-through expenditures are incurred, the related flow-through share premium liability is reversed and the related tax effect is recorded as a deferred tax liability.

In 2007 and earlier years, the Company raised flow-through share proceeds for which the total tax effect recognized in share capital under Canadian GAAP was $3,911,133. Under IFRS, the total flow-through premium was determined to be $1,640,923 for which all related expenditures were incurred by December 31, 2008.

On the date of transition to IFRS, share capital was increased by the reversal of the Canadian GAAP tax effect and reduced by the flow-through share premium for a net increase of $2,270,210. As the Company has sufficient deferred tax assets to offset deferred tax liabilities, the corresponding adjustment was to the Company's deficit.