SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the years ended December 31, 2010 and 2009

This management discussion and analysis ("MD&A") of Sahara Energy Ltd. (the "Company", "Corporation" or "Sahara") for the years ended December 31, 2010 and 2009 contains financial highlights but does not contain the complete financial statements of the Corporation. It should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2010. Additional information is available on SEDAR at www.sedar.com. The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). All references to dollar amounts are in Canadian dollars. This MD&A is based on information as of May 2, 2011.

Forward-Looking Statements

The matters discussed in this MD&A include certain forward-looking statements. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements. Forward-looking statements may be identified, without limitation, by the use of such words as "anticipates", "estimates", "expects", "intends", "plans", "predicts", "projects", "believes", or words or phrases of similar meaning. In addition, any statement that may be made concerning future performance, strategies or prospects and possible future corporate action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date. Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Corporation. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. The Corporation disclaims any intention or obligation to update or revise these forward-looking statements as a result of new information, future events or otherwise, except as required under applicable securities laws.

NON-GAAP MEASUREMENTS

Certain financial measures referred to in this discussion, such as "funds from operations" and "funds from operations per share", are not prescribed by GAAP. Funds from operations is a non-GAAP measure that management believes demonstrates the Corporation's ability to generate cash to fund expenditures. Funds from operations is calculated by taking the cash provided by operations from the statement of cash flows and adding back changes in non-cash working capital. Funds from operations per share is calculated using the same methodology for determining net income per share. These non-GAAP financial measures may not be comparable to similar measures presented by other companies. These financial measures are not intended to represent operating profits for the period nor should they be viewed as an alternative to cash provided by operating activities, net income or other measures of financial performance calculated in accordance with GAAP. The reconciliation between funds from operations and net cash flow from operating activities for the three months and years ended December 31, 2010 and 2009 is presented in the table below:

	Three months ended December 31		**Year ended December 31**	
($)	**2010**[1]	2009	**2010**[1]	2009
Funds from operations (non-GAAP)	**(166,562)**	(267,591)	**(675,747)**	(362,230)
Changes in non-cash working capital	**(383,635)**	304,401	**(564,362)**	292,558
Net cash flow from operating activities	**(550,197)**	(36,810)	**(1,240,109)**	(69,562)
Net cash flow from operating activities per share	**(0.02)**	(0.00)	**(0.10)**	(0.01)

Management uses certain industry benchmarks such as field netback to analyze financial and operating performance. Field netback has been calculated by taking oil and gas revenue less royalties, operating costs and transportation costs. This benchmark does not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies. Management considers field netback as an important measure to demonstrate profitability relative to commodity prices.

BOE CONVERSIONS

All barrels of oil equivalent (“boe”) conversions in this report are derived by converting natural gas to oil at the ratio of six thousand cubic feet (“mcf”) of natural gas to one barrel (bbl) of oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boe may be misleading, particularly if used in isolation. A boe conversion of six mcf to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead.

1 For purposes of the MD&A, the results of operations will be discussed for the year ended December 31, 2010 as the financial reorganization had limited impact on the Company’s physical operations. The results for the year ended December 31, 2010, as discussed in this MD&A, include the period from January 1 to November 30, 2010 before the financial reorganization and the period from December 1 to December 31, 2010 under the reorganized Successor Company. For the three month ended December 31, 2010 include the period from October 1, 2010 to November 30, 2010 before the financial reorganization and the period from December 1 to December 31, 2010 under the reorganized Successor Company. The financial reorganization plan is described in Note 1 of the Company’s consolidated financial statements.

CORPORATION OVERVIEW AND PRINCIPAL BUSINESS RISKS

Sahara was incorporated under the *Business Corporations Act* (Alberta) and is listed on the TSX Venture Exchange (the "Exchange"), under the symbol 'SAH'. The Company is a junior resource exploration company engaged in the acquisition, exploration and development of natural resource properties (primarily oil and gas). The Company's business is presently focused on the exploration and evaluation of various oil and gas properties in Saskatchewan and Alberta.

Due to challenging market conditions, the Company's financial position deteriorated during the year andwe faced the prospect of being unable to meet our obligations to creditors in the foreseeable future. For this reason, we began a process in 2010 to restructure our balance sheet and address our liquidity needs. On November 30, 2010, we commenced execution of a Creditors' Proposal which resulted in a realignment of equity and non-equity interests. The outcome of the financial reorganization was a significant de-leveraging of our balance sheet. Our total liabilities were significantly reduced. Today the Company has emerged in a significantly better position to meet future market challenges.

However, the Corporation does not have a history of earnings. The Corporation's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, and to continue to obtain borrowings from third parties sufficient to meet current and future obligations. Pre-reorganization, for the period of January 1 to November 30, the Company incurred a net loss of $544,430 and has an accumulated deficit of $14,909,913. At November 30, 2010, the Company had a working capital deficit of $4,317,222. Subsequent to the reorganization, for the period of December 1 to December 31, the Company incurred a net loss of $316,688 and has an accumulated deficit of $316,688 after reorganization. At December 31, 2010, the Company had a working capital surplus of $1,077,974.

The audited financial statements for the year ended December 31, 2010 do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Corporation were unable to continue its operations.

OVERVIEW AND SIGNIFICANT EVENTS

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
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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 a private placement aggregating 48,000,000 common shares at $0.05 per share for gross proceeds of $2,400,000. Fees and costs of the reorganization in the amount of $198,707 were incurred. On December 10, 2010, the Company completed another 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.

As a result of the financial reorganization described above, a substantial realignment of the non-equity and equity interests in the Company as well as a change in control of the Company occurred as of November 30, 2010. The Company has adopted the accounting standards outlined in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1625 – *Comprehensive Revaluation of Assets and Liabilities.* Under fresh start accounting, the Company was required to determine its enterprise value. The enterprise value of $3,088,028 was determined based on the fair value of the shares at $0.05 subscribed by the third party investors as part of the financial reorganization.

For purposes of this MD&A, the results of operations will be discussed for the year ended December 31, 2010 as the financial reorganization had limited impact on the Company's physical operations. The results for the year ended December 31, 2010, as discussed in this MD&A, include the period from January 1 to November 30, 2010 before the financial reorganization and the period from December 1 to December 31, 2010 under the reorganized Successor Company. For the three month ended December 31, 2010 include the period from October 1, 2010 to November 30, 2010 before the financial reorganization and the period from December 1 to December 31, 2010 under the reorganized Successor Company. Please note that any per share data for the year ended December 31, 2010 or the quarter ended December 31, 2010 is a Non-GAAP measure as it includes both predecessor and successor periods combined. The financial reorganization plan is described in Note 1 of the Company's audited annual financial statements.

During the period from January 1 to November 30, 2010, the Company had net revenues of $365,623, and during the period from December 1 to December 31, 2010, the Company had net revenues of $18,466. The Company had a net loss of $544,430 for the period from January 1 to November 30, 2010 and a net loss of $316,688 for the period from December 1 to December 31, 2010.

During the period from January 1 to November 30, 2010, the Company incurred capital expenditures of $70,651. During the period from December 1 to December 31, 2010, the Company incurred capital expenditures of $1,620.

A total of $306,287 was received for property dispositions period from January 1 to November 30, 2010. A total of $8,882 was received for property dispositions period from December 1 to December 31, 2010.

As at December 31, 2010, the Company reported a bank balance of $1,520,502 and a working capital surplus of $1,077,974.

OPERATIONAL ACTIVITIES

In 2010, the Company averaged 19 boepd which consisted of 17 bbls/day of heavy oil and 14 mcf/d (2 boepd) of natural gas. For the three months ended December 31, 2010, the Company averaged 3 boepd which consisted of 3 bbls/day of heavy oil and 0 mcf/d (0 boepd) of natural gas. The low production was a result of the Company's wells being shut-in during the financial reorganization and BIA process.

Divestments

During the first nine months of 2010, the Company sold a non-producing well in the Lloydminster area. In the Hayter area of Alberta Sahara also sold used well equipment from non-producing wells. The proceeds from these dispositions totalled $306,287.

Core Area -Heavy Oil – Lloydminster, Alberta

On October 19, 2010, Sahara's joint venture partner, Forent Energy Ltd. ("Forent"), successfully drilled and completed the first farm-in well on Sahara's Blackfoot lands. Sahara owns a 15% royalty on the well convertible to a 50% working interest after payout. Under the farmout agreement, Forent has earned an additional 50% working interest in an offsetting 40 acres. Forent also has the option to earn an additional 80 acres by drilling an option well, under the same terms, within 60 days of rig release of the first farm-in well. Forent indicated that it will drill at least one more well on Sahara's lands. Sahara owns 160 acres at Blackfoot that has been downspaced to 20 acre drilling spacing units.

SELECTED ANNUAL INFORMATION

	2010[2]	2009
Production (boe/d)	19	64
Petroleum and natural gas revenue ($)	421,798	1,196,723
Average realized price ($/boe)	60.39	50.91
Royalties ($/boe)	7.48	6.30
Operating expense ($/boe)	32.51	22.09
Field netback ($/boe)	20.97	22.52
Net G&A expense($)	752,711	452,382
Stock-based compensation ($)	-	41,766
Funds from used by operations (non-GAAP)($)	(1,240,109)	(362,230)
Per share – basic and diluted ($) (non-GAAP)	(0.10)	(0.01)
Net loss ($)	(861,118)	(4,800,249)
Total assets ($)	4,729,710	2,624,336
Working capital (deficiency) ($)	1,077,974	(3,789,991)
Total liabilities ($)	1,476,869	4,294,467
Shareholders' equity ($)	*3,252,841*	(1,670,131)

[2] For purposes of the MD&A, the results of operations will be discussed for the year ended December 31, 2010 as the financial reorganization had limited impact on the Company's physical operations. The results for the year ended December 31, 2010, as discussed in this MD&A, include the period from January 1 to November 30, 2010 before the financial reorganization and the period from December 1 to December 31, 2010 under the reorganized Successor Company. The financial reorganization plan is described in Note 1 of the Company's consolidated financial statements.

QUARTERLY FINANCIAL INFORMATION

	4th Quarter 2010	3rd Quarter 2010	2nd Quarter 2010	1st Quarter 2010
Net Revenue	**$ 47,205**	**$ 81,123**	**$ 60,391**	**$ 195,370**
Net Loss	**(205,316)**	**(234,742)**	**(220,557)**	**(210,504)**
Loss per share				
Basic	(0.007)	(0.037)	(0.035)	(0.033)
Fully Diluted	(0.007)	(0.037)	(0.035)	(0.033)
Weighted Average Number of Shares In Thousands	28,443	6,339	6,339	6,339

	4th Quarter 2009	3rd Quarter 2009	2nd Quarter 2009	1st Quarter 2009
Net Revenue	**$ 274,710**	**$ 375,791**	**$ 261,633**	**$ 136,681**
Net Loss	**(3,680,127)**	**(284,240)**	**(564,876)**	**(271,006)**
Loss per share				
Basic	(0.0581)	(0.045)	(0.089)	(0.043)
Fully Diluted	(0.581)	(0.045)	(0.089)	(0.043)
Weighted Average Number of Shares In Thousands	6,339	6,339	6,339	6,339

Common shares and loss per share amounts have been retroactively adjusted to reflect the share consolidation described above.

RESULTS OF OPERATION

Production and Prices

For 2010, production decreased significantly due to lack of well maintenance.

	Three months ended December 31		Year ended December 31	
Production by Product	**2010**	2009	**2010**	2009
Oil (bbls/d)	**3**	53	**17**	58
Natural gas (mcf/d)	**-**	52	**12**	36
Total (boe/d) (6:1)	**3**	62	**19**	64

Average product prices for the year ended December 31, 2010 were $60.39 per boe compared to $50.91 per boe for the year ended December 31, 2009. Product prices for the quarter ended December 31, 2010 were $68.20 per boe compared to $55.70 per boe for the quarter ended December 31, 2009. Product prices have continued to improve during 2010 as economic conditions also continue to improve.

($)	Three months ended December 31		Year ended December 31	
Product Prices	**2010**	2009	**2010**	2009
Oil ($/bbl)	**72.06**	62.56	**65.93**	54.56
Natural gas ($/mcf)	**3.04**	3.84	**4.05**	3.25

Combined average ($/boe) (6:1)	**68.20**	55.70	**60.39**	50.91

Oil and Natural Gas Revenues

Revenues for the period from January 1 to November 30 were 402,847 and from the December 1 to December 31 were $18,951 compared to $1,196,723 for the year ended December 31, 2009. Revenues are down significantly due to Company's limited cash flows to operate as a result of the BIA process and financial reorganization not implemented until late in the year. Revenues for the quarter ended December 31, 2010 were $49,026 compared to $318,983 for the quarter ended December 31, 2009. Revenues were down as some of the Company's wells were shut down.

	Three months ended December 31		**Year ended December 31**	
	2010	2009	**2010**	2009
Oil ($)	**48,568**	700,706	**409,493**	1,150,953
Natural gas ($)	**458**	18,726	**12,305**	45,770
	49,026	318,983	**421,798**	1,196,723

Royalties

Royalties have decreased due to low production volumes.

	Three months ended December 31		**Year ended December 31**	
	2010	2009	**2010**	2009
Royalties ($)	**1,759**	44,295	**37,709**	148,156
As a % of oil and natural gas revenue ($)	**3.59**	13.89	**8.94**	12.38
Per boe (6:1) ($)	**5.32**	7.73	**5.38**	6.30

Production Expenses

Production expenses for the period from January 1 to November 30 were $229,860 and for the period from December 1 to December 31 were $43,518 compared to $519,272 for the year ended December 31, 2009. Production expenses for the quarter ended December 31, 2010 were $75,321 compared to $1,948 for the quarter ended December 31, 2009. The production expenses per boe increased significantly due to the low production levels when the Company's wells were shut-in during the financial reorganization and BIA process.

	Three months ended December 31		**Year ended December 31**	
	2010	2009	**2010**	2009
Operating expenses ($)	**75,321**	1,948	**273,378**	519,272
As a % of oil and natural gas revenue	**180**	0.61	**64.81**	43.39

Per boe (6:1) ($)	**227.56**	0.34	**32.32**	22.09

Operating Netbacks

Operating Netbacks totalled $20.97 per boe for 2010 and $(6.45) per boe for the three month ended December 31, 2010. The operating netbacks were significantly lower as compared to the same periods last year due to lower production volumes.

General & Administrative Costs

General and administrative ("G&A") expenses for 2010 were $752,711 and $379,872 for the three months ended December 31, 2010. G&A costs were significantly higher compared to the same periods last year due to expenses paid by the Company with respect to the for financial reorganization and BIA process.

	Three months ended December 31		**Year ended December 31**	
	2010	2009	**2010**	2009
General & Administrative ($)	**379,872**	259,142	**752,711**	452,382
As a % of oil and natural gas revenue ($)	**1,221**	81.24	**178.4**	37.80
Per boe (6:1) ($)	**783.26**	45.25	**107.36**	19.25

Stock-based compensation

Stock based compensation measures the implicit cost of compensating key personnel through the issuance of stock options. The Company's stock-based compensation expenses incurred for the year ended December 31, 2010 was Nil as compared to $41,766 for the year ended December 31, 2009. Stock based compensation for the three months ended December 31, 2010 and 2009 were also Nil.

Interest Expense

Interest expense incurred for the year ended December 31, 2010 was $33,742, compared to $192,393 for the year ended December 31, 2009. Interest expense for the three months ended December 31, 2010 was $nil as compared to $45,946 for the three months ended December 31, 2009. Interest expense was lower in the fourth quarter and year ended December 31, 2010 due to the financial reorganization that restructured the liabilities owing by the Company.

	Three months ended December 31		**Year ended December 31**	
	2010	2009	**2010**	2009
Interest expense ($)	**-**	45,946	**33,742**	192,393
Per boe (6:1) ($)	**-**	8.02	**4.81**	8.18

Depletion Depreciation and Accretion (DD&A)

Depletion, depreciation and accretion expenses were $185,376 for the year ended December 31, 2010 and $28,759 for the three months ended December 31, 2010. Depletion costs are significantly lower for the year due to an impairment charge of $3,713,421 in 2009. The impairment occurred because the Company was seeking to enter BIA process and would most likely not spend the capital required to develop its probable reserves in 2010. As such the petroleum and natural gas properties had been written down to reflect only the proven reserves and there are no impairments written down in 2010.

	Three months ended December 31		**Year ended December 31**	
	2010	2009	**2010**	2009
Depletion and Depreciation ($)	**19,281**	3,895,486	**153,065**	4,958,207
Per boe (6:1) ($)	**58.25**	680.20	**21.83**	210.93
Accretion ($)	**9,478**	9,866	**32,311**	93,046
Per boe (6:1) ($)	**28.64**	1.72	**4.60**	3.96

Income tax

The Company does not have current income tax payable and does not expect to pay current income taxes in 2011 as the Company had estimated tax pools available of $8,818,000 at December 31, 2010.

Basis of presentation

As a result of the reorganization transactions, a substantial realignment of the non-equity and equity interests in the Company as well as a change in control occurred as of November 30, 2010. The Company has accounted for the financial reorganization and under fresh start accounting, the revaluation of all assets and liabilities of the Company as estimated fair values and the elimination of the Company's deficit. The outcome of this revaluation process reflects, in essence, a "fresh start" for the Company.

At November 30, 2010, the book value of all current assets and current liabilities not impacted by the financial reorganization approximated fair value.

The historical deficit and contributed surplus of the Company has been reclassified to share capital. The liabilities subject to the Creditors' Proposal have been recorded at the new basis as a results of the approval of the Creditors' Proposal. The fair value ascribed to the property, plant and equipment is based on the forecasted discounted cash flow prepared by DeGolyer and MacNaughton Canada Limited, independent reserves evaluator and has been adjusted to reflect the excess of net assets over the fair value of the enterprise as determined on November 30, 2010.

Capital Expenditures

	Three months ended	**Year ended**
($)	**December 31, 2010**	
Land	**-**	**27,021**
Geological & Geophysical	**-**	**-**

Well completions & workovers	**252,655**	**264,453**
Well and office equipment	**-**	**43,075**
Total operations	**252,655**	**334,549**
Property dispositions	**-**	**(299,586)**
Total (net of dispositions)	**252,655**	**34,963**

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital surplus of $1,077,974 for the year ended December 31, 2010.

COMMITMENTS AND CONTINGENCIES

The following is a summary of commitments and contingencies for the reporting period.

Premises lease: The Company entered into a lease agreement on September 1, 2009 for a period of five years that calls for annual basic rent payments of $62,000 per year. The new lease agreement expires September 2014.

RELATED PARTY TRANSACTIONS

The Company had the following related party transactions during each reporting period measured at the exchange rate, which is the amount established and agreed to by the related parties and which are similar to those negotiable with third parties:

On December 31, 2010, the Company had promissory notes payable of $100,000 is owed to CGUP, which owns 67% shares of the Company.

During 2010, consulting fees were paid to a corporation controlled by an officer of the Company of $143,000 ($132,000 – 2009).

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 deemed 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 has 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. The Stock Option Plan and the options granted thereunder are subject to the approval of the shareholders of the Corporation at the next annual shareholder meeting.

c) On March 21, 2011, the Company completed the conditions of the Creditors' Proposal and made the final cash and Common Share distributions to creditors. The total of cash payment was $580,846 and the total Common Shares issued was 7,424,152.

CONTROLS AND PROCEDURES

As the Corporation is classified as a Venture Issuer under applicable securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certifications, which it has done for the year ended December 31, 2010. The Corporation makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings as at December 31, 2010.

BUSINESS RISKS

The Corporation is engaged in the exploration and development of crude oil and natural gas. The Corporation's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

- **Environment**

  All phases of the oil and gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a complex blend of federal, provincial, and municipal laws and regulations. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or materially increase the costs of production, development, and exploration activities or otherwise adversely affect the Corporation's financial condition, results from operations and or prospects.

- **Financial**

  Financial risks associated with the petroleum and natural gas industry include fluctuation in commodity prices, interest rates, and currency exchange rates. Other financial risks include, but are not limited to, the availability of funds through equity markets and or debt to invest in capital projects to support the Corporation's growth.

- **Operational**

  Operational risks include, but are not limited to, competitive and environmental factors, reservoir performance uncertainties and dependence upon third parties for commodity transportation and processing and a complex regulatory environment. The Corporation closely follows the applicable government regulations. The Corporation carries insurance coverage to protect itself against those potential losses that could be economically insured against.

  - **Commodity Price Risk Management**

  The Corporation does not have any contracts in place to protect against commodity price changes.

  - **Fair Value of Financial Instruments**

  The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, line of credit, accounts payable and accrued liabilities, and note payable. Management has utilized valuation methodologies available as at the year end and has determined that the carrying amounts of such financial instruments approximate their fair value in all cases due to the short-term maturity of these instruments.

  - **Foreign Currency Exchange Risk**

  The Corporation is exposed to foreign currency fluctuations as crude oil to be received are referenced in United States dollar denominated prices.

It is management's opinion that the Corporation is not currently exposed to commodity price risk, credit risk or interest rate risk except as described above. The Corporation does not use derivative instruments to reduce exposure to commodity price or foreign currency exchange risk.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its financial statements in accordance with GAAP. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the year of the financial statements. Significant accounting policies and methods used in the preparation of the financial statements are described in notes of the audited financial statements for the year ended December 31, 2010, as well as in the *Accounting Policies – Accounting Standards Implemented by the Corporation in 2008* discussed below.

The Corporation evaluates its estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in the financial statements are estimates used in determining the fair value of investments, revenue recognition and other matters. Actual results could differ materially from those estimates and assumptions.

ACCOUNTING POLICIES – ACCOUNTING STANDARDS IMPLEMENTED BY THE CORPORATION IN 2008

The Corporation's accounting policies are disclosed in the notes to the 2010 audited annual financial statements and in the following disclosure of the impact of new accounting standards implemented by the Corporation in the year ended December 31, 2010.

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an Omnibus Exposure Draft that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section – *Accounting Changes,* paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to Exposure Draft.

The Corporation is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Corporation does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the information.