



Consolidated Financial Statements of

**NEW SAGE ENERGY CORP.**

(A Development Stage Company)

For the Years Ended March 31, 2011 and 2010

## **Management's Responsibility for Financial Statements**

The financial statements and notes thereto have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the management of New Sage Energy Corp. Where appropriate, they reflect management's best estimates and judgement based on currently available information.

The Company has developed and maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. These systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors of the Company is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control, and is ultimately responsible for reviewing and approving the financial statements and the accompanying Management's Discussion and Analysis ("MD&A").

The Audit Committee is appointed by the Board with all three of the members being independent of management. The Audit Committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues, and to satisfy itself that the responsibilities of each party have been properly discharged. The Audit Committee also reviews the financial statements, MD&A and the external auditors' report. Fees and expenses for audit services are reviewed and the engagement or reappointment of the external auditors is also considered. The Audit Committee reports its findings to the Board and recommends approval of the financial statements for issuance to the shareholders.

The financial statements for the year ended March 31, 2011 and 2010 have been audited by McGovern, Hurley, Cunningham, LLP, Chartered Accountants, Licensed Public Accountants, in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their examination and opinion on the financial statements.

Signed "John Carlesso"

**John Carlesso**  
President and Chief Executive Officer

Signed "Paul Haber"

**Paul Haber**  
Chief Financial Officer

Toronto, Canada  
July 28, 2011



# McGovern, Hurley, Cunningham, LLP

## Chartered Accountants

### INDEPENDENT AUDITORS' REPORT

To the Shareholders of New Sage Energy Corp.

We have audited the accompanying consolidated financial statements of New Sage Energy Corp. and its subsidiary, which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of operations and deficit, consolidated statements of comprehensive loss and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Sage Energy Corp. and its subsidiary as at March 31, 2011 and 2010, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

#### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada  
July 28, 2011

**New Sage Energy Corp.**  
(A Development Stage Company)  
Consolidated Balance Sheets

As at March 31,  
**2011** 2010

**Assets**

**Current assets**

Cash	\$	<b>181,222</b>	\$	223,914
Marketable securities (note 4)		-		275,500
Amounts receivable		<b>13,378</b>		27,003
Amounts due from related party (note 9(b))		<b>5,774</b>		26,618
Prepaid expenses		<b>78,989</b>		53,475
		<b>279,363</b>		606,510

<b>Property, plant and equipment (note 5)</b>		<b>71,350</b>		62,390
<b>Oil and gas property interests (note 6)</b>		-		918,209
	\$	<b>350,713</b>	\$	1,587,109

**Liabilities and Shareholders' Equity**

**Current liabilities**

Accounts payable and accrued liabilities	\$	<b>102,899</b>	\$	250,895
Amounts due to related party (note 9(d))		<b>130,000</b>		-
		<b>232,899</b>		250,895

**Shareholders' equity**

Common share capital (note 7(a))		<b>12,051,042</b>		11,614,890
Common share purchase warrants (note 7(c))		<b>138,401</b>		-
Shares and warrants to be issued (note 7(e))		<b>166,835</b>		-
Contributed surplus (note 7(d))		<b>1,006,525</b>		1,006,525
		<b>13,362,803</b>		12,621,415
Accumulated other comprehensive income (note 8)		-		135,469
Deficit		<b>(13,244,989)</b>		(11,420,670)
		<b>(13,244,989)</b>		(11,285,201)
		<b>117,814</b>		1,336,214
	\$	<b>350,713</b>	\$	1,587,109

Nature of Operations and Going Concern (note 1)  
Commitments and Contingencies (note 15)  
Subsequent Events (note 16)

Approved on Behalf of the Board:

Signed "John Carlesso" , Director

Signed "John Varghese" , Director

*The accompanying notes form an integral part of these consolidated financial statements*

**New Sage Energy Corp.**  
(A Development Stage Company)  
Consolidated Statements of Operations and Deficit  
For the years ended March 31,

	2011	2010
<b>Administrative and General Expenses:</b>		
Accounting and audit	\$ 24,000	\$ 27,704
Salaries, wages and benefits	359,036	262,869
Insurance	11,259	10,454
Business development	176,176	159,187
Legal fees (note 9(a))	12,097	11,926
Office and general	49,276	34,986
Amortization	19,140	13,939
Regulatory fees	12,773	17,254
Rent	59,546	51,487
Stock-based compensation (note 7(b))	-	107,030
Investor relations	91,911	75,155
Transfer agent fees	10,315	8,635
	<b>825,529</b>	<b>780,626</b>
Other (income) expenses:		
Interest income	-	(1,091)
Bank charges	2,015	2,072
(Gain) loss on sale of marketable securities (note 8)	(123,810)	443,025
Foreign exchange loss	11,927	3,711
Loss on disposal of asset	1,108,658	-
	<b>998,790</b>	<b>447,717</b>
<b>Net loss for the year</b>	<b>1,824,319</b>	<b>1,228,343</b>
<b>Deficit, beginning of year</b>	<b>11,420,670</b>	<b>10,192,327</b>
<b>Deficit, end of year</b>	<b>\$ 13,244,989</b>	<b>\$ 11,420,670</b>
<b>Loss per share - basic and diluted</b>	<b>\$ 0.05</b>	<b>\$ 0.04</b>
<b>Weighted average number of common shares outstanding</b>		
- basic and diluted	<b>36,472,752</b>	<b>31,292,478</b>

*The accompanying notes form an integral part of these consolidated financial statements*

**New Sage Energy Corp.**  
(A Development Stage Company)  
Consolidated Statements of Comprehensive Loss  
For the years ended March 31,

	2011	2010
<b>Net loss for the year</b>	<b>\$ 1,824,319</b>	<b>\$ 1,228,343</b>
Other comprehensive loss:		
Realized gain (loss) on sale of marketable securities transferred to operations	<b>123,810</b>	(443,025)
Unrealized loss (gain) on changes in marketable securities classified as available-for-sale	<b>11,659</b>	(932,464)
<b>Comprehensive loss (income) for the year</b>	<b>\$ 1,959,788</b>	<b>\$ (147,146)</b>

*The accompanying notes form an integral part of these consolidated financial statements*

**New Sage Energy Corp.**  
(A Development Stage Company)  
Consolidated Statements of Cash Flows  
For the years ended March 31,

	2011	2010
<b>Cash provided by (used in):</b>		
<b>Operating:</b>		
Net loss for the year	\$ (1,824,319)	\$ (1,228,343)
Items not involving cash:		
Amortization of property, plant and equipment	19,140	13,939
(Gain) loss on sale of marketable securities	(123,810)	443,025
Write-down of oil and gas property interests	1,108,658	-
Stock-based compensation	-	107,030
	<b>(820,331)</b>	<b>(664,349)</b>
Changes in non-cash working capital balances		
Accounts payable and accrued liabilities	(17,996)	(9,729)
Amounts receivable and amounts due from related party	34,469	23,824
Prepaid expenses	(25,514)	9,619
	<b>(829,372)</b>	<b>(640,635)</b>
<b>Investing:</b>		
(Purchase) disposition of property, plant and equipment	(28,100)	10,318
Proceeds from sale of marketable securities	263,840	1,349,964
Investment in oil and gas properties interests	(190,449)	(918,209)
Increase in oil and gas properties accounts payable	-	184,432
	<b>45,291</b>	<b>626,505</b>
<b>Financing:</b>		
Proceeds from private placement	620,000	-
Share issue costs	(45,446)	-
Shares and warrants to be issued	166,835	-
	<b>741,389</b>	<b>-</b>
<b>Decrease in cash</b>	<b>(42,692)</b>	<b>(14,130)</b>
<b>Cash, beginning of year</b>	<b>\$ 223,914</b>	<b>\$ 238,044</b>
<b>Cash, end of year</b>	<b>\$ 181,222</b>	<b>\$ 223,914</b>
<b>Supplemental Cash Flow Information</b>		
<b>Interest received</b>	<b>\$ -</b>	<b>\$ 16,051</b>

*The accompanying notes form an integral part of these consolidated financial statements*

**New Sage Energy Corp.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements  
**March 31, 2011 and 2010**

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**1. Nature of Operations and Going Concern**

On April 19, 2007, New Sage Energy Corp. (“New Sage” or the “Company”) announced that the Company was undertaking a change in strategic direction to identify and develop opportunities in the energy industry with a particular focus on oil and gas. The Company is a development stage entity as defined by the Canadian Institute of Chartered Accountants (the “CICA”) Accounting Guideline 11.

The business of exploring for oil and gas involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable operations. The Company's continued existence is dependent upon the acquisition of new property interests, the preservation of its interest in those underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development activities and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, and non-compliance with regulatory and environmental requirements.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of operations and at amounts different from those in the accompanying financial statements. The operations of the Company were primarily funded by the issuance of share capital. The continued operations of the Company are dependent on its ability to complete sufficient public equity financing, or generate profitable operations in the future. The Company had the following deficits and working capital as at the following dates:

<b>Date</b>	<b>Deficit</b>	<b>Working Capital</b>
March 31, 2011	\$ 13,244,989	\$ 46,464
March 31, 2010	\$ 11,420,670	\$ 355,615

## **2. Summary of Significant Accounting Policies**

These financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) using the following significant accounting policies:

### **(a) Basis of Presentation and Principles of Consolidation**

All amounts presented are in Canadian dollars unless otherwise stated. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated.

### **(b) Use of Estimates**

The preparation of the Company’s financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates made by the Company include factors affecting valuations of marketable securities, oil and gas properties, asset retirement obligations, contingencies, income tax accounts, stock-based compensation and common share purchase warrants. Actual results could differ from those estimates and these differences could be material. Management believes that the estimates are reasonable.

### **(c) Foreign Currency Translation**

The functional currency of the Company is the Canadian dollar. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the years except for amortization, which is translated at historical exchange rates. Gains and losses on translations are included in the determination of income (loss) for the years.

### **(d) Cash and Cash Equivalents**

Cash and cash equivalents include cash and highly liquid investments held in the form of high quality commercial paper, bankers’ acceptances, money market investments and certificates of deposit with investment terms of less than three months at acquisition. These investments are stated at fair value which approximates cost plus accrued interest. The Company’s cash and cash equivalents are held in a major Canadian bank. The Company did not have any cash equivalents at March 31, 2011 and 2010.

### **(e) Property, Plant and Equipment**

Property, plant and equipment is carried at cost. Amortization is computed using the straight-line method over estimated useful lives of one to five years.

**2. Summary of Significant Accounting Policies (Continued)**

**(f) Marketable Securities and Impairment of Marketable Securities**

Marketable securities are investments in equity securities and consist of investments that are designated as available-for-sale. These are investments in which New Sage is not able to exert significant influence. Unrealized holding gains and losses, to the extent that they can be determined, related to available-for-sale investments are excluded from operations and are included in accumulated other comprehensive income (loss) ("AOCL") until such gains and losses are realized or an other-than-temporary impairment is determined to have occurred. The Company periodically reviews the carrying value of its investments. When a decline in the value of an investment is considered to be other-than-temporary, the loss is charged to operations.

**(g) Oil and Gas Property Interests and Impairment of Interests**

The Company accounts for oil and gas properties in accordance with the Canadian Institute of Chartered Accountants ("CICA") accounting guideline 16 on full cost accounting in the oil and gas industry. Under this method, all costs associated with the acquisition of, exploration for and the development of, natural gas and crude oil reserves, including asset retirement costs, are capitalized within a separate cost centre for each country in which the Company has oil and gas activities. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities net of government assistance, option payments received and pre-production revenues. All costs have been capitalized in a single USA cost centre. Capitalized costs are assessed at the end of each reporting period to determine if there has been an impairment. Any costs considered impaired are written-off and a corresponding loss is recognized in operations.

The Company tests its oil and gas properties for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The Company monitors the recoverability of the carrying amount of its oil and gas properties by estimating the undiscounted cash flows expected to result from their use and eventual disposition. If the carrying amount exceeds the sum of the undiscounted cash flows expected to result, an impairment loss is recognized and the adjusted carrying amount becomes the new cost basis. Non-producing oil and gas properties are evaluated for impairment based on management's plan for and commitment to the exploration activities for each property. The carrying value is written down when the long-term expectation is that the net carrying amount will not be recovered.

**2. Summary of Significant Accounting Policies (Continued)**

**(h) Stock-Based Compensation**

The Company has a stock option plan as described in note 7(b). The Company accounts for options granted under the stock option plan using the fair-value method. Under this method, the fair value of options issued to directors, officers, employees and consultants is charged to operations over their vesting period, with an offsetting amount recorded to contributed surplus. The fair value of options issued to agents in conjunction with public offerings is charged to share issue costs with an offsetting amount recorded to contributed surplus. Fair value is estimated using the Black-Scholes options pricing model that takes into account, as of the grant date, the exercise price, the estimated expected life of the option, the current price of the underlying stock and its estimated expected volatility, estimated expected dividends on the stock and the risk-free interest rate over the estimated expected life of the option. When options are exercised, the proceeds received, together with any amount in contributed surplus are credited to share capital.

**(i) Share Issue Costs**

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

**(j) Loss Per Share**

Loss per share is calculated using the weighted average number of shares outstanding during the year. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As at March 31, 2011 and 2010, all outstanding options and warrants were considered anti-dilutive and were therefore excluded from the diluted loss per share calculation.

**(k) Financial Instruments Recognition, Measurement, Disclosure and Presentation**

Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in operations. Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in other comprehensive income (loss) ("OCL") until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in operations.

**2. Summary of Significant Accounting Policies (Continued)**

**(l) Future Income Taxes**

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying value on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period that substantive enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**(m) Comprehensive Income (Loss)**

Comprehensive income (loss) includes both net (loss) and Other Comprehensive Loss (“OCL”). OCL is the change in shareholders’ equity from non-owner sources which is not included in the calculation of net loss until realized. Cumulative changes in OCL are included in AOCL, which is presented as a category of shareholders’ equity on the balance sheet.

**(n) Asset Retirement Obligations**

Asset retirement obligations include the costs related to the abandonment of oil and gas properties, dismantling and removing tangible equipment and returning the land to its original condition. The Company recognizes an asset retirement obligation (“ARO”) in the period in which it is identified and a reasonable estimate of the fair value can be made. Fair value is estimated based on the present value of the estimated future cash outflow to abandon the asset, discounted at the Company’s credit-adjusted risk-free interest rate. The fair value of the estimated ARO is recorded as a long-term liability with a corresponding amount capitalized to exploration properties. The amount capitalized is charged to operations through the depletion and depreciation of oil and gas properties. The ARO liability is increased each reporting period due to the passage of time and the amount of accretion is charged to operations. Revisions to the original estimated cost or the timing of the cash outflows may result in a change to the ARO. Actual costs incurred to settle the ARO reduce the long-term liability. Management is not aware of any significant asset retirement obligations at March 30, 2011 and 2010.

### **3. Future Accounting and Reporting Changes**

#### *Business combinations, consolidated financial statements and non-controlling interest:*

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-controlling Interests”. These sections replace the former CICA Handbook Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard (“IFRS”) 3, “Business Combinations” (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IAS 27, “Consolidated and Separate Financial Statements” (January 2008). CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

#### *Convergence with International Financial Reporting Standards*

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The effective date for the Company is for interim and annual financial statements relating to fiscal periods beginning on or after April 1, 2011 and the Company will therefore commence reporting interim and annual financial statements in accordance with IFRS requirements on that date. The transition to IFRS will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended March 31, 2011. The Company has identified oil and gas properties and share-based payments as areas where the adoption of IFRS may have a material effect on the Company's financial reporting. The Company is still in the process of quantifying the effects of the applications of IFRS on the Company's consolidated financial statements.

## New Sage Energy Corp.

(A Development Stage Company)

Notes to the Consolidated Financial Statements

March 31, 2011 and 2010

### 4. Marketable Securities

The Company holds NIL (2010 – 290,000) shares in Americas Petrogas Inc. (API), a public Canadian oil and gas company (TSXV:BOE) focused on exploiting oil and gas business opportunities in South America. .

### 5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	March 31, 2011			March 31, 2010		
	Cost \$	Accumulated depreciation \$	Net book value \$	Cost \$	Accumulated depreciation \$	Net book value \$
Computers	5,781	3,264	2,517	3,583	1,515	2,068
Furniture	56,258	29,101	27,157	50,164	16,306	33,858
Leaseholds	50,342	8,666	41,676	30,535	4,071	26,464
	<b>112,381</b>	<b>41,031</b>	<b>71,350</b>	84,282	21,892	62,390

### 6. Oil and Gas Property Interests

Oil and gas property interests in the USA cost centre consists of the following:

	March 31, 2011				March 31, 2010		
	Cost \$	Preproduction Revenue \$	Write- downs \$	Net book value \$	Cost \$	Preproduction Revenue \$	Net book value \$
Lafourche	126,672	(21,249)	(105,423)	-	126,672	(17,044)	109,628
Pearsall	673,110	(45,072)	(628,038)	-	668,568	(45,072)	623,496
Valentine	375,197	-	(375,197)	-	185,085	-	185,085
	<b>1,174,979</b>	<b>(66,321)</b>	<b>(1,108,658)</b>	-	980,325	(62,116)	918,209

During the year ended March 31, 2011, management determined that the properties in which it held an interest would not provide any future benefits for the Company. As a result all properties were abandoned.

**New Sage Energy Corp.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements  
**March 31, 2011 and 2010**

**7. Capital Stock**

**(a) Common Share Capital**

**Authorized**

The Company is authorized to issue an unlimited number of common shares, without nominal or par value.

**Issued**

Transactions during the years ended March 31, 2011 and 2010 are as follows:

	Number of Shares	Amount
<b>Balance, March 31, 2009 and 2010</b>	<b>31,292,478</b>	<b>\$ 11,614,890</b>
Issued in private placement (i)	2,500,000	125,000
Fair value of warrants		(24,812)
Share issue costs		(18,362)
Issued in private placement (ii)	9,900,000	495,000
Fair value of warrants		(118,800)
Share issue costs		(21,874)
<b>Balance, March 31, 2011</b>	<b>43,692,478</b>	<b>\$ 12,051,042</b>

- (i) Effective June 25, 2010 (first closing) and August 25, 2010 (final closing) the Company closed a private placement issuing 2,500,000 units for gross proceeds of \$125,000. Each unit consists of one common share and one-half of one warrant. Each full warrant entitles the holder to purchase one additional common share at a price of \$0.10 for a period of 18 months from the date of closing. The warrants were valued at \$24,812 using the Black-Scholes model. The Company issued 112,000 compensation warrants to the brokers. Each compensation warrant is exercisable into one common share at a price of \$0.05 for a period of 18 months from the date of closing. The compensation warrants were valued at \$2,212 using the Black-Scholes model. Total share issues costs were \$22,909, of which \$4,547 was allocated to warrants.
- (ii) Effective November 26, 2010, the Company closed a private placement issuing 9,900,000 units for gross proceeds of \$495,000. Each unit consists of one common share and one-half of one warrant. Each full warrant entitles the holder to purchase one additional common share at a price of \$0.10 for a period of 24 months from the date of closing. The warrants were valued at \$118,800 using the Black-Scholes model. The Company issued 168,000 compensation warrants to the brokers. Each compensation warrant is exercisable into one common share at a price of \$0.05 for a period of 24 months from the date of closing. The compensation warrants were valued at \$4,032 using the Black-Scholes model. Total share issues costs were \$28,782, of which \$6,908 was allocated to warrants.

**New Sage Energy Corp.**  
(A Development Stage Company)  
Notes to the Consolidated Financial Statements  
**March 31, 2011 and 2010**

**7. Capital Stock (Continued)**

**(b) Stock Options**

The Company has an incentive stock option plan (the “Plan”) whereby it has granted options for the purchase of common shares to its directors, officers, employees and certain consultants. The Plan is a rolling stock option plan whereby the number of stock options available to be granted under the Plan cannot exceed 10% of the issued and outstanding common shares of the Company at the time of the granting of the options. Options granted under the Plan are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the board of directors of the Company at the time of grant at a price not less than the market price of the common shares, subject to all applicable regulatory requirements. Under the Plan, options granted vest immediately unless determined otherwise by the board of directors or pursuant to regulatory requirements.

A summary of the status of the Company’s stock option plan as of March 31, 2011 and 2010, and changes during the years then ended is as follows:

	2011			2010		
	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)	Number of Options	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (years)
Options Outstanding, beginning of year	3,150,000	0.15	3.20	2,650,000	0.21	2.77
Granted	-	-	-	1,400,000	0.10	-
Expired	(200,000)	0.19	-	-	-	-
Forfeited	-	-	-	(900,000)	0.23	-
Options Outstanding, end of year	2,950,000	0.15	2.33	3,150,000	0.15	3.20

The following table provides detailed information about stock options outstanding at March 31, 2011:

Date of Grant	Number Outstanding	Number Exercisable	Exercise Price	Expiry Date	Contractual Remaining Life (Years)
June 8, 2006	500,000	500,000	\$0.14	June 8, 2011	0.19
July 12, 2006	300,000	300,000	\$0.18	July 12, 2011	0.28
April 19, 2007	450,000	450,000	\$0.25	April 19, 2012	1.05
May 19, 2008	300,000	300,000	\$0.24	May 19, 2013	2.14
March 24, 2010	1,400,000	1,400,000	\$0.10	March 24, 2015	3.98
	2,950,000	2,950,000			2.33

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**7. Capital Stock (Continued)**

**(b) Stock Options (Continued)**

No options were granted during the year ended March 31, 2011.

During the year ended March 31, 2010, the Company issued 1,400,000 options to officers, directors and consultants of the Company at an exercise price of \$0.10. The weighted average grant date fair value of options granted during the year ended March 31, 2010 was \$0.07. The Company included in contributed surplus and recognized stock-based compensation expense of \$107,030 during the year ended March 31, 2010. The amount is management's estimate of the fair value of stock options granted and vested and has been expensed in the statement of operations. The weighed average exercise price of exercisable stock options for the year ended March 31, 2010 was \$0.15.

The above fair values of options were estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Expected annual volatility	-	198%
Risk-free interest rate	-	2.52%
Expected life	-	5 years
Expected dividend yield	-	Nil

**(c) Common Share Purchase Warrants**

As at March 31, 2011, the Company has 6,480,000 (2010 - NIL) common share purchase warrants outstanding entitling the holder to purchase one common share of the Company. A summary of the outstanding warrants is as follows:

Number of Warrants	Exercise Price/Warrant	Expiry Date	Carrying Value
1,050,000	\$0.10	December 25, 2011	\$ 17,152
84,000	\$0.05	December 25, 2011	1,680
200,000	\$0.10	February 25, 2012	3,113
28,000	\$0.05	February 25, 2012	532
4,950,000	\$0.10	November 26, 2012	111,892
168,000	\$0.05	November 26, 2012	4,032
6,480,000	\$0.10		\$ 138,401

The above fair values of warrants were estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Expected annual volatility	163%	-
Risk-free interest rate	1.65%	-
Expected life	1.89 years	-
Expected dividend yield	Nil	-

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**7. Capital Stock (Continued)**

**(c) Common Share Purchase Warrants (Continued)**

The following is a summary of warrant activity for the years ended March 31, 2011 and 2010:

	Number of Warrants	Weighted Average Exercise Price (\$)	Carrying Value
<b>Balance, March 31, 2009</b>	3,119,107	0.50	\$ 426,600
Warrants expired	(3,119,107)	0.50	(426,600)
<b>Balance, March 31, 2010</b>	-	-	-
Warrants issued	6,480,000	0.10	138,401
<b>Balance, March 31, 2011</b>	6,480,000	0.10	\$ 138,401

**(d) Contributed Surplus**

The following is a summary of contributed surplus activity:

	March 31, 2011	March 31, 2010
<b>Balance, beginning of year</b>	\$ 1,006,525	\$ 472,895
Employee stock-based compensation	-	74,690
Non-employee stock-based compensation	-	32,340
Expiration of warrants	-	426,600
<b>Balance, end of year</b>	\$ 1,006,525	\$ 1,006,525

**(e) Shares and Warrants to be Issued**

During the year the Company received \$166,835 in connection with the private placement that closed on April 5, 2011.

**(f) Per Share Information**

The weighted average number of common shares outstanding during the year ended March 31, 2011 of 36,472,752 (2010 – 31,292,478) was used to calculate basic and diluted loss for the year. Total shares issuable from options and warrants have been excluded from the computation of diluted loss per share because they were anti-dilutive for the years ended March 31, 2011 and 2010.

**8. Accumulated Other Comprehensive Income (Loss)**

The following is a summary of accumulated other comprehensive income (loss) activity:

	March 31, 2011	March 31, 2010
<b>Balance, beginning of year</b>	\$ (135,469)	\$ 1,240,020
Realized gain (loss) on sale of marketable securities transferred to operations	123,810	(443,025)
Unrealized loss (gain) on changes in marketable securities classified as available-for-sale	11,659	(932,464)
<b>Balance, end of year</b>	\$ -	\$ (135,469)

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**9. Related Party Transactions**

- (a) During the year ended March 31, 2011, legal fees of \$3,243 (2010 - \$7,553) were incurred with a law firm in which a director is a partner.
- (b) Included in prepaid expenses as at March 31, 2011 is \$39,763 related to travel advances given to an officer and director of the Company.”
- (c) The Company shares its premises with another company with common management and directors. The Company receives reimbursement from the related company for its proportional share of expenses, including rent, which totaled \$62,799 (2010 - \$78,221). Included in amounts due from related party is \$5,774 (2010 - \$26,618) related to these expenses. The amount is unsecured, non-interest bearing and due on demand.
- (d) No options were granted during the year ended March 31, 2011. During the year ended March 31, 2010, directors and officers of the Company were granted options to purchase up to 950,000 common shares of the Company at \$0.10 per share for a period of five years.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties.

- (e) During the year ended March 31, 2011, New Sage obtained a loan from a company with common management and directors. Included in amounts due to related party is \$130,000 (2010 – NIL) related to this loan. Also included in accounts payable and accrued liabilities is \$6,887. Both amounts are due on demand, unsecured and non-interest bearing.

**10. Fair Value of Financial Instruments**

The Company has various financial instruments comprising of cash, amounts receivable, amounts due from related party, marketable securities, accounts payable and accrued liabilities and amounts due to related party.

Cash consists of cash on hand with a financial institution in Canada. Cash is designated as loans and receivable and is carried at amortized cost.

Amounts receivable and amounts due from related party are classified as loans and receivables, which are measured at amortized cost. The marketable securities are classified as available-for-sale and are carried at fair value. Accounts payable and accrued liabilities and amounts due to related party are classified as other financial liabilities, which are measured at amortized cost.

As of March 31, 2011, the carrying amounts of cash, amounts receivable and accounts payable and accrued liabilities approximates fair market value due to the short-term nature of their maturities. The fair value of amounts due from and due to a related company cannot be determined as no comparable market information exists.

The Company’s available-for-sale investment consists of an investment in API and is recorded at the quoted market value as at March 31, 2010. This investment was sold during the year-ended March 31, 2011.

At March 31, 2011 the Company did not hold any financial instruments carried at fair value that require classification within the fair value hierarchy.

**11. Financial Instruments Risk Exposure and Risk Management**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below. There have been no changes in the risks, objectives, policies and procedures during the years ended March 31, 2011 and 2010.

**Credit Risk**

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash consists of cash which has been invested with a reputable financial institution in Canada and management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of receivables from a related company for shared services. Management believes that the credit risk concentration with respect to amounts receivable is remote.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Senior management is actively involved in the review and approval of planned expenditures by regularly monitoring cash flows from anticipated investing and financing activities. Despite this, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. As at March 31, 2011, the Company had cash, amounts receivable and amounts due from related party of \$200,374 (2010 - \$277,535) to settle current liabilities of \$232,899 (2010 - \$250,895).

**Interest Rate Risk**

Interest rate risk is the risk borne by an interest-bearing asset or liability as a result of fluctuations in interest rates. The Company has no interest bearing assets or liabilities so this risk is considered low.

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**11. Financial Instruments Risk Exposure and Risk Management (Continued)**

**Foreign Currency Risk**

The Company operates in Canada and the United States and has some historic accounts payable denominated in Australian dollars. A significant change in the currency exchange rates between the Canadian dollar relative to the US or Australian dollar could have a significant effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations as it considers the risk low and has not changed its approach towards managing this risk. As at March 31, 2011 the Company is exposed to currency risk through the following assets and liabilities:

	US\$	CDN \$
Cash and amounts receivable	\$ 4,135	\$ 4,009

	US\$	CDN \$
Accounts Payable	\$ 896	\$ 870

	Australian \$	CDN \$
Accounts Payable	\$ 29,153	\$ 29,342

**Price Risk**

The Company is exposed to price risk with respect to the prices of oil and gas, through its marketable securities and in oil and gas properties. The prices of each of these commodities has increased substantially in recent years and most recently declined dramatically. The Company does not currently manage commodity price risk through the use of derivative financial instruments.

**Sensitivity Analysis**

Financial instruments include amounts held in currencies other than the Canadian dollar. A 10% change in foreign exchange rates between the Canadian dollar and these foreign currencies would affect net loss by approximately \$3,000 based on the foreign currency balances at March 31, 2011.

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**12. Capital Management**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its ongoing corporate development initiatives. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company is currently in the development stage and is dependent upon external financing to fund its activities. In order to carry out planned exploration and development and pay for administrative costs, the Company will spend its existing working capital balances, utilize proceeds from equity financings and raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The capital structure of the Company consists of equity comprised of common share capital, common share purchase warrants and contributed surplus.

There were no changes in the Company's approach to capital management during the fiscal year ended March 31, 2011 compared to the year ended March 31, 2010. The Company and its subsidiary are not subject to externally imposed capital requirements.

The Company expects that it will be necessary to raise additional capital during the coming fiscal year to meet its budgeted development plans and fund operations.

**13. Income Taxes**

There was no income tax expense or recovery for 2011 or 2010. Income tax expense varies from the amount that would be computed from applying the combined Canadian federal and provincial income tax rate to loss before taxes as follows:

	2011	2010
Loss for year before taxes	\$ (1,824,319)	\$ (1,228,343)
Statutory Canadian corporate tax rate	30.4%	33.0%
Anticipated tax recovery	(555,000)	(406,000)
Unrealized loss on investment	-	176,000
Changes in tax rates	(18,000)	510,000
Stock-based compensation	-	35,000
Realized loss on investment	19,000	73,000
Other	(34,000)	83,000
Change in valuation allowance	588,000	(471,000)
Income tax recovery	\$ -	\$ -

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**13. Income Taxes (continued)**

The significant components of the Company's future income tax assets are as follows:

	<b>2011</b>	2010
Property, plant and equipment	\$ <b>13,000</b>	\$ 9,000
Exploration and development deductions	<b>2,326,000</b>	1,953,000
Non-capital loss carry forwards	<b>706,000</b>	496,000
Capital loss carry forwards	<b>39,000</b>	55,000
Marketable securities	-	(17,000)
Share issue costs	<b>17,000</b>	17,000
	<b>3,101,000</b>	2,513,000
Valuation allowance	<b>(3,101,000)</b>	(2,513,000)
	\$ -	\$ -

As at March 31, 2011 the Company had available for deduction against future taxable income, non-capital losses in Canada of approximately \$2,789,000 which expire as follows:

2014	\$ 131,000
2015	80,000
2026	52,000
2027	104,000
2028	377,000
2029	550,000
2030	676,000
2031	819,000
	<u>\$ 2,789,000</u>

At March 31, 2011, the Company has unclaimed resource and other deductions of approximately \$7,813,000, which may be deducted against future taxable income on a discretionary basis. The Company has capital losses that are available to reduce future year's capital gains in the amount of approximately \$314,000 which do not expire. In addition, the Company has incurred share issue costs approximating \$69,000 which have not yet been claimed for income tax purposes. The Company has approximately \$22,000 of net operating losses in the United States, which under certain circumstances may be used to reduce the taxable income of future years. These losses expire in 2031.

Tax benefits have not been recorded due to uncertainty regarding their utilization.

**14. Segment Information**

The Company operates in a single industry segment. At the year end, assets by geographic location are as follows:

	<b>2011</b>	2010
United States	\$ <b>4,008</b>	\$ 943,725
Canada	<b>346,705</b>	643,384
	<b>\$ 350,713</b>	\$ 1,587,109

The Company has \$NIL (2010 – \$918,209) of oil and gas property interests in the United States.

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**15. Commitments and Contingencies**

The Company is committed to minimum rental payments under an operating lease for its premises, which expires on April 30, 2013. Minimum rental commitments remaining under this lease approximate \$143,000 including approximately \$58,000 due within one year. Minimum rental commitments for successive years approximate:

<b>Year</b>	<b>Amount</b>
2012	58,000
2013	60,000
2014	25,000
	<b>\$ 143,000</b>

**Environmental Contingencies**

The Company's oil and gas activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

**16. Subsequent Events**

- a) On April 5, 2011, the Company completed a private placement issuing 13,287,200 units of the Company at a price of \$0.05 per unit for gross proceeds of \$664,360. Each unit consists of one common share and one-half of one warrant. Each full warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share for a period of 24 months from the date of closing.

As seen in Note 7(e) \$166,835 of these proceeds were received during 2011.

The Company intends to use the net proceeds from the private placement for new projects, acquisitions and development activities, as well as for general working capital.

- b) Subsequent to March 31, 2011, 500,000 stock options at an exercise price of \$0.14 and 300,000 at an exercise price of \$0.18 expired unexercised.