

**SAHARA ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Year ended December 31, 2007

Management's Discussion and Analysis ("MD&A") dated June 7, 2008, is management's assessment of the historical financial position and operating results of Sahara Energy Ltd. ("Sahara" or the "Company") to review financial results for the year ended December 31, 2007. The information has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the audited financial statements for the year ended December 31, 2006.

Additional information relating to the Corporation, the *Annual Information Form* and Sahara's *Statement of Reserves Data and Other Oil and Gas Information* are available on SEDAR at www.sedar.com. Sahara is listed for trading on the Toronto Venture Exchange under the symbol "SAH".

Forward-looking Statements

This disclosure includes statements about expected future events and/or financial results that are forward-looking in nature and subject to substantial risks and uncertainties that may cause the actual results, performance or achievements expressed or implied by such forward-looking statements to differ. These risks include, but are not limited to: petroleum and natural gas price volatility, interest rate fluctuations, availability of services and supplies, market competition, uncertainties in the estimates of reserves, the timing of capital expenditures, production levels and the adequacy of funding for capital investments. Sahara Energy Ltd. cautions that actual performance will be affected by a number of factors, many of which are beyond its control.

Non-GAAP Financial Measures

This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "net petroleum and natural gas revenue" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "funds from (used by) operations" (net loss for the period adjusted for non-cash items in the statement of operations) are not GAAP measures and do not have standardized meanings prescribed by GAAP.

BOE Presentation

The term barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. All boe conversions in this report are derived by converting natural gas to oil in the ratio of six thousand cubic feet of natural gas to one barrel of oil. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Overview

As at December 31, 2007, the Company reported a bank overdraft of \$ 1,013,876 and a working capital deficiency of \$4,382,838. For the year ended December 31, 2007 the Company had net revenues of \$2,027,381 and for the three months ended December 31, 2007, the Company had net revenues of \$677,091. The Company had a net loss of \$6,071,301 for the year and a net loss of \$7,425,610 for the three months ended December 31, 2007.

Adjusting the net loss for non-cash items of depletion, accretion and stock based compensation the Company had a net loss of \$520,490 for the year ended December 31, 2007 and a net income of \$453,752 for the three months ended December 31, 2007. The company has a credit line facility in the

amount of \$1,500,000 of which \$1,013,876 was drawn down at the year ended December 31, 2007. Sahara will dispose of non-core properties to increase its working capital position.

During the year the Company incurred capital expenditures of \$3,389,862 with expenditures of \$453,825 for the three month period ended December 31, 2007. During the year the Company spent \$388,087 on land, \$2,244,190 on exploration and development drilling and \$757,586 on well equipment and facilities. For the three month period ended December 31, 2007 the Company spent \$20,988 on land, \$472,396 on exploration and development drilling and (\$39,559) on well equipment and facilities.

OPERATIONAL ACTIVITY

During the fourth quarter of 2007, Sahara farmed out two wells at Hayter, Alberta, resulting in the drilling of two wells that were cased for McLaren heavy oil production. The wells were not completed as of year end.

The Company averaged 138 boepd which consisted of 88 bopd of heavy oil, 40 bopd light oil and 100 mcf/d gas.

At Tangent, Alberta, our Montney oil discovery continued to produce a net 30 bop/d and the flared gas has now been tied in to sales line. Initial production of 100 mcf/d (30 mcf/d net) will be monitored and optimized with time. The gas was tied in for the full quarter of production. Sahara sold their interest at Tangent in January of 2008. Proceeds were used to pay down debt.

Government approval for a water disposal application resulted in 10 BOPD of medium oil being placed on production at Provost.

Sahara could not get the Simonette gas well tied into a non operated facility thus in December, Sahara sold its interest in this shut in gas well to the operator.

At year end Sahara had behind pipe production capability of 50 BOEPD consisting of 40 bpd oil of heavy oil and 60 mcf/d (10 boepd) gas for total production capability of 188 BOEPD.

During the first quarter of 2008, Sahara as operator of the Lloydminster property will drill 1 heavy oil development well, and work over two recompletions and re-activate one well.

Sahara will continue to add to its prospects through land acquisitions and continue to sell marginal production and stranded gas wells. This will allow Sahara to focus on its operated prospects with high working interests.

CORE AREAS

HEAVY OIL (Lloydminster/Lashburn areas)

During the fourth quarter of 2007, Sahara did not participate in the drilling of any wells at Buzzard/Lashburn, Saskatchewan (33% working interest). Sahara sold its interest at Buzzard subsequent to the reporting period. Sahara drilled one heavy oil well and re-completed 2 heavy oil wells after the year end at Lloydminster.

GAS/LIGHT OIL (Grande Prairie areas)

At the Sahara operated Gold Creek 4-26 (20% interest), two zones were perfed and fracture stimulated. At year end, the Halfway gas is producing at a rate of up to 300 mcf/d, with a small amount of condensate. The Nikanassin zone which was completed, fracture stimulated and production tested - will be placed on production in the first quarter of 2008.

A non-operated well in the Gold Creek area of Alberta (17.5% interest), was on intermittent production, averaging 10 bopd. The well had been on for several months and appears to be a high pressure, low rate reservoir and was shut in. Sahara sold its interest in this shut-in oil well in January 2008.

During the quarter, Sahara focused on completing and optimizing its oil production and gas well facility issues, and selling non-producing assets and its stranded gas.

Selected Annual Information

Year or period ended December 31, 2007	2007	2006
(\$ except for share information)		
Petroleum and natural gas revenue	2,445,248	818,571
Total revenues, net of royalties	2,016,592	692,746
Funds from (used by) operations	(1,110,782)	(271,241)
Net loss	(9,338,455)	(1,604,635)
Loss per common share – basic and diluted	(0.41)	(0.11)
Total fixed assets	9,130,696	19,794,445
Working capital (deficiency)	(4,382,838)	(1,298,912)
Total debt	1,013,876	785,000
Shareholders' equity	3,475,388	10,462,543
Common shares outstanding:		
- basic	24,632,406	19,368,083

Production

Sahara's oil sales volumes during the fourth quarter averaged 128 bopd. Natural gas sales during the fourth quarter averaged 100mcf/d.

	Three months ended December 31	
	2007	2006
Light oil (BOPD)	40	-
Heavy oil (BOPD)	88	75
Natural gas (BOEPD)	10	-
BOEPD (6:1)	138	75

Petroleum and Natural Gas Revenues

Revenues for the three months ended December 31, 2007 were \$439,057.

Revenue and Royalties

Royalties averaged 23.94%. Revenues continue to increase as production behind pipe is tied in and wells drilled are completed and placed on production.

This will be offset by the selling of non-operated properties which proceeds will be used to pay down debt.

Production Expenses

Production expenses totalled \$368,402 for the three month period ended December 31, 2007 and \$1,790,630 for the year. The production costs were high due to well work over costs and are expected to lessen as the wells no longer require servicing. Also uneconomic heavy oil wells were shut in to reduce operating costs.

General and Administrative Costs

General and administrative (“G & A”) expenses for the three months ended December 31, 2007 were \$406,691 and \$1,162,558 for the year. These expenses for the three month period ended December 31, 2007 included \$79,583 in engineering and land costs associated with the Company’s year end reserve report, as well as \$116,957 in costs related to accounting, legal, shareholding reporting and other costs. The engineering and land costs were \$167,023 and \$415,149 for accounting, legal and shareholding reporting for the year ended December 31, 2007. The company also received overhead recoveries of \$4,304 for the three month period ended December 31, 2007 and \$100,821 for the year.

“G and A” expenses have been reduced since year end due to reduction in staff and cost savings from the merger with Mirage Energy Ltd.

Stock-based compensation

Sahara stock-based compensation expenses incurred for the year ended December 31, 2007 was \$634,557 compared to \$748,406 for the year ended December 31, 2006. Stock based compensation for the three months ended December 31, 2007 was \$375,425 as compared to \$328,989 for the three months ended December 31, 2006. Stock based compensation measures the implicit cost of compensating key personnel through the issuance of stock options.

Interest

Interest expense totalled \$97,691 for the three months ended December 31, 2007 and \$207,120 for the year.

Depletion Depreciation and Accretion

Depletion, depreciation and accretion expenses for the three months ended December 31, 2007 was \$6,596,433 and \$7,570,791 for the year. Depletion costs are expected to decrease as the Company’s proven resource base increases and with the impairment of \$4,300,000 for P&NG properties.

Capital Expenditures

Capital Expenditures (\$)	Total to December 31, 2007	Three months ended December 31,2007
Land acquisitions	453,825	49,115
Drilling & completion	2,244,190	373,330
Well Equipment	757,586	383,679
Capitalized G & A	472,396	(28,127)
Total capital expenditures	\$3,389,862	\$777,797

Cash Flow from Operations

	Year Ended December 31, 2007	Three Months December 31, 2007
Gross revenues	\$2,456,037	\$677,091
Royalties	\$ 428,656	\$ 106,449
Operating Expenses	<u>\$ 1,790,630</u>	<u>\$ 526,404</u>
Net Cash Flow from Operations	\$236,751	\$ 44,238

Future Taxes

Balance at December 31, 2006	\$ 1,159,948
Flow through share renouncement	\$ 2,107,207
Balance at December 31, 2007	<u>\$ 3,267,155</u>

Liquidity and Capital Resources

The Company had a bank indebtedness of \$1,013,876 and a working capital deficiency of \$4,472,838 for the year ended December 31, 2007. Included in the working capital deficiency are \$ 640,569 convertible debentures that mature on June 29, 2009 and \$420,000 due to shareholders. 2007.

The company has issued the following flow-through shares through private placements in the year ended December 31, 2007:

Date	Number of shares	Price per share	Value received	Flow-through Renounced Classification 2007
June 28, 2007	270,000	\$ 1.00	\$ 270,000	CDE \$ 270,000
Dec 28, 2007	<u>1,718,689</u>	<u>\$ 0.13</u>	<u>\$ 223,430</u>	<u>CDE \$232,429</u>
	1,988,689		\$ 493,430	\$ 493,430

During the year ended December 31, 2007 the company raised \$1,456,820 through private financings (\$770,000 debentures priced at \$0.90 and \$270,000 in CDE flow though shares priced at \$1.00, \$193,390 in common shares at \$0.11 and \$223,430 in CDE flow through shares at \$0.13). The company is actively seeking financing to drill its 8 well heavy oil development program in the Hayter and Lloydminster areas of Alberta. Sahara operates and has a 50% interest in this program which if successful would add sizeable reserves and cash flows.

On January 26, 2006, the Company issued 1,035 10% convertible Debentures at a price of \$1,000 per Debenture for aggregate gross proceeds of \$1,035,000. The Debentures mature on December 31, 2007 and are convertible, in whole or in part, at any time prior to maturity at the option of the holder. The Debentures are also automatically convertible at the option of the holder at any time and in the event that the Company fails to pay interest or fails to repay the principal amount and accrued interest on the maturity date. When converted, the Debentures shall be convertible into units comprised of common shares and common share purchase warrants on the basis of \$0.57 per common share together with one warrant for each common share issued. Each warrant shall be convertible into one common share of the Company at a

price of \$0.57 until December 31, 2007. The holder may also convert the Debentures into cash at any time after December 31, 2006 on the basis of repayment of the principal amount together with accrued and unpaid interest to the date of conversion. The December 31, 2007 debentures were refunded by the Company except for \$420,000 due to senior management.

During the year ended December 31, 2007, \$129,997 of debentures were exercised and converted into 228,065 common shares of the company by holders of the debentures.

Commitments

The Company entered into an office lease agreement for a period of five years that calls for annual basic rent payments of \$116,728 a year of which approximately \$75,000 is recovered through a sub-leasing agreement with a third party.

Related party transactions

The Company had the following related party transactions during the 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:

A related company by virtue of common directors owes \$450,589 (2006-\$700,760) which is included in accounts receivable for costs associated with joint venture operations during the year. The related company also reimbursed \$91,575 for general and administrative costs incurred during the year and \$69,709 for office rent.

Subsequent events

On February 19, 2008, company sold its 30% working interest in an oil property located in the Tangent area of Alberta for \$806,014.51. The proceeds from the sale were used to pay down company's bank debt. In addition, company sold a 17% working interest in a section of Nikanassin rights in the Gold Creek area of Alberta for \$101,079.95. The proceeds from this sale were used to pay down other existing trade payables and bank debt.

On March 31, 2008, the company acquired all of the issued and outstanding common shares of Mirage Energy Ltd ("Mirage") in exchange for the common shares of the company such that each shareholder of Mirage received 0.5 of the company's share for each Mirage share held as of the effective date of the arrangement. Upon completion of the arrangement, Mirage became a wholly-owned subsidiary of the company. In addition, company assumed Mirage's obligations pursuant to outstanding convertible debentures of Mirage such that the debentures are now convertible into securities of the company.

In April, 2008 the Company agreed to a payment schedule for the payment of Debentures due December 31, 2007 in the amount of \$100,000 to the former Chief Financial Officer of the Company. Under the terms and conditions of this agreement a monthly payment will see the debt retired in October 2008.

On April 24, 2008, company sold non-operated heavy oil property in Western Saskatchewan for settlement of the \$1,387,141 outstanding to the Operator. The Company also sold its working interest in an oil well for \$187,700. Proceeds from the sale were used to reduce outstanding bank debt by \$60,000 to \$295,000. These transactions reduced company's reported debt as at December 31, 2007 by \$1,574,841.

Subsequent to year-end, the Company issued 1,145,000 shares to settle payables of \$229,000.

Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

Full Cost

The Company follows the full-cost method of accounting for oil and natural gas properties, whereby all costs associated with the exploration for, and development of, petroleum and natural gas reserves, whether productive or unproductive, are capitalized in cost centers. Costs capitalized include land acquisitions costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. Proceeds from disposition of property are credited to the net book value of the property and equipment. Gains and losses are not recognized upon disposition of oil and gas properties, unless the disposition would significantly alter the rate of depletion.

Costs capitalized are depleted and amortized using the unit-of-production method based on gross proved oil and gas reserves as determined by independent engineers. For purposes of the depletion calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of the relative energy content of 6,000 cubic feet of natural gas per barrel of oil.

In applying the full cost method, the Company calculates a ceiling test for each cost centre whereby the carrying value of property and equipment is compared at each reporting period to the sum of the undiscounted cash flows expected to result from the future production of proved reserves and the sale of unproved properties. Cash flows are estimated using third party quoted forward prices, adjusted for transportation and quality, less estimated costs directly associated with the development, production and sale of reserves. Should the ceiling test result in an excess carrying value, the Company would then measure the amount of impairment for the cost centre by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the sale of unproved properties. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying amount would be recorded as a permanent impairment.

Stock-based Compensation

The Company uses the fair value method of accounting for options granted to employees and consultants. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Multilateral instrument 52-109

Effective March 2006, all reporting issuers in Canada are subject to new disclosure requirements as per Multilateral Instrument 52-109 ("MI 52-109"). As a result of MI 52-109 the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") have to certify that they have designed internal controls over financial reporting to provide reasonable assurance over the reliability of financial reporting and the preparation of external financial statements in compliance with GAAP. In addition, they are subject to a second certification that they have ensured disclosure of changes in internal control that has had or may have a material effect on the Company's internal control.

Disclosure Controls and Procedures

The Company has disclosure controls and procedures to ensure that information required to be disclosed by Sahara is assembled and communication to management. The Company's CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the annual filings, that disclosure controls and procedures are effective to provide reasonable assurance that material information related to Sahara is made known to them by others within the organization, except as noted below. Though the CEO and CFO certify that Sahara's disclosure controls and procedures are effective to provide a reasonable level of assurance, they are not able to conclude that the disclosure controls and procedures are capable of preventing all frauds and errors. A control system, no matter how well conceived or administered, can provide only reasonable, not absolute, assurance that the objective of the control system are met.

Internal Controls over Financial Reporting

The CEO and CFO of Sahara are responsible for designing internal controls over financial or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in a accordance with Canadian GAAP. Management has assessed the design of the Company's internal control over financial reporting as of the end of the period by the annual filings and has certified that the controls over financial reporting are effective.

Through the review of the records by the CEO and CFO the company has identified that the recording of joint venture receivable, payable and expenditure transactions volume has increased significantly requiring the addition of accounting staff. The company is actively recruiting qualified personnel.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, which even with a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Sahara will result in new discoveries of oil and natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Sahara depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Sahara will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Sahara may determine that current markets, terms of acquisition and participations or pricing conditions make such acquisitions or participations uneconomic. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recover of drilling, completion and operating cost. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rate over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.