SAHARA ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31, 2006

Management's Discussion and Analysis ("MD&A") dated April 17, 2007, 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, 2006. 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 period ended December 31, 2006 and 2005.

Additional information relating to the Corporation, 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 TSX 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, 2006, the Company reported a cash balance of $2,100,405 and a working capital deficiency of $1,298,913. For the year ended December 31, 2006, the Company had net revenues of $692,746 and for the three months ended December 31, 2006, the Company had net revenues of $311,345. The Company had a net loss of $1,604,635 for the year and a net loss of $702,084 for the three months ended December 31, 2006.

Adjusting the net loss for non-cash items of depletion, depreciation, accretion and stock based compensation the Company had a net loss of $271,241 for the year ended December 31, 2006 and net income of $631 for the three months ended December 31, 2006.

During the year, the Company incurred capital expenditures totaling $11,652,911 with expenditures of $4,949,157 for the three month period ended December 31, 2006. During the year the Company spent $2,041,893 on land, $8,535,022 on exploration and development drilling and $1,075,996 on well equipment and facilities. For the three month period ended December 31, 2006 the Company spent $505,267on land, $3,844,273 on exploration and development drilling and $599,617 on well equipment and facilities.

OPERATIONS AT YEAR END

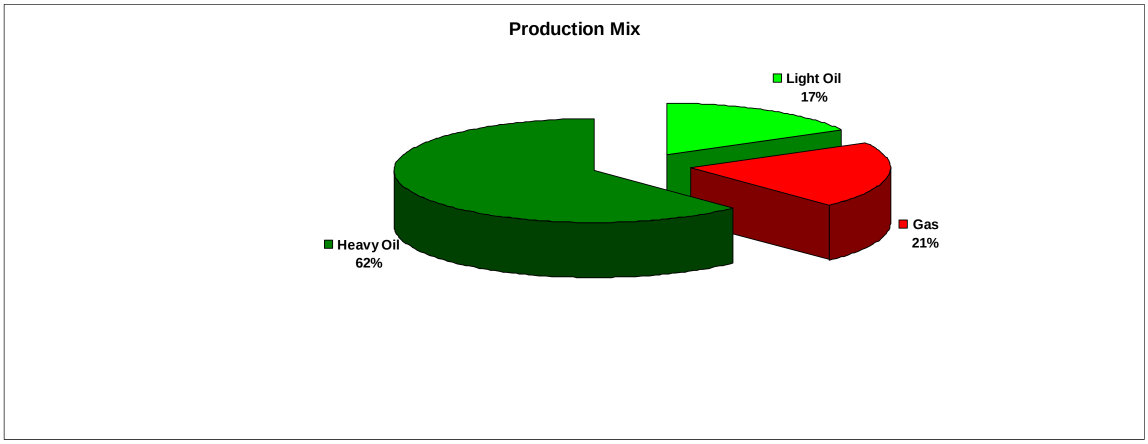
During 2006, Sahara was involved in drilling 47 prospects, resulting in 29 producing heavy oil wells, 2 light oil wells, 3 gas wells, 4 standing wells and 9 dry and abandoned wells. At year end, Sahara was producing 200 bopd (heavy oil), 45 bopd (light), with 4 gas wells at various stages of being placed on production.

The Company is currently producing 320 BOEPD which consists of 200 bpd of heavy oil, 55 bpd light oil and 400 mcfd gas. Sahara has behind pipe production capability of 130 BOEPD consisting of 40 bpd oil and 600 mcfd gas for total production capability of 450 BOEPD.

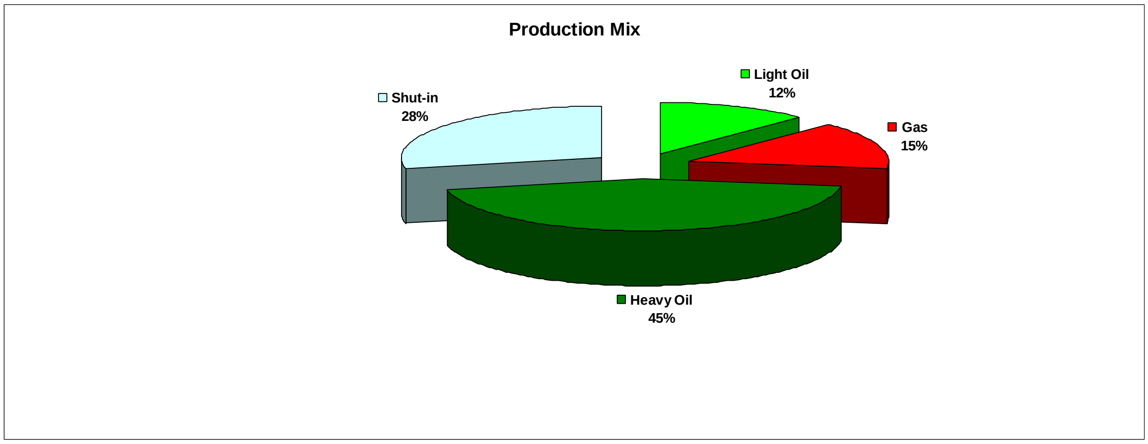
Sahara’s well count is now at 62 wells with an average 38% working interest. Sahara currently has an inventory of 70 locations in inventory, (average 40% working interest) that have been identified with either 2D or 3D seismic.

Product Mix

CURRENT PRODUCTION - 320 boepd



TOTAL CAPABLE PRODUCTION - 450 boepd



CORE AREAS

HEAVY OIL (Lloydminster/Lashburn areas)

During the fourth quarter of 2006, Sahara operated two wells at Lloydminster, Alberta (75% working interest). Sahara also participated in the drilling of 5 heavy oil wells at Buzzard (30% working interest) and 1 heavy oil well at Dee Valley (30% working interest).

Sahara currently has an interest (40%) in 35 producing oilwells in the Lloydminster area of Alberta and the Lashburn/Buzzard areas of western Saskatchewan. After spring break-up, Sahara will operate and drill (50% working interest) 8 heavy oil development locations. The Company may participate in an additional 10 non-operated heavy oil development locations. The Company has identified 32 heavy oil development prospects to be drilled on Company lands.

GAS/LIGHT OIL (Grande Prairie areas)

At the Sahara operated Gold Creek 4-26 (20% interest), two zones were perfed and fracture stimulated. At December 31, the testing and completion of the well had resulted in a Halfway gas reservoir and a Nikannassin gas reservoir. Currently, the Halfway gas is producing at a rate of up to 1 mmcf/d. The Nikanassin zone which was completed, fracture stimulated and production tested, - will be placed on production at a later date.

In December, Sahara participated in a second well in the Gold Creek area of Alberta (17.5% interest). Subsequent to year end, this Halfway oil test well has been cased, completed and placed on production as a confidential Halfway oilwell. Sahara and partners have identified two development locations on 3D seismic for this 640 acre prospect.

During November of 2006, Sahara participated for 15% WI in the drilling of a Cadotte gas well in the Simonette area of Alberta. Initial testing suggested a virgin reservoir with limited drawdown. Subsequent to year end, this well has been tested, completed and tied in at a rate of 1 mmcf/d. The operator is increasing the well to 3 mmcf/d after pipeline issues are resolved in the near future.

In December, Sahara participated for 20% in a Paddy gas test at Sinclair, which was dry and abandoned.

During the year, Sahara operated two light oil prospects west of the Fifth Meridian. At Pembina, one Cardium oil well (75% interest) and at Tangent, one Montney oil well (30% interest). At Tangent, the well is producing 120 bopd (net 36 bopd) of light oil, with two future development locations on this 640 acre prospect. One non-operated well was drilled at Willisden Green (17% interest) which was drilled, cased and completed. Test results indicated a limited gas reservoir in the Ellerslie Formation, which will be tied in at a later date.

GAS/LIGHT OIL (Southern Alberta)

In the Little Bow area of southern Alberta, Sahara evaluated 13 sections of land under a 3D seismic option which identified several Missippian targets. To evaluate this play a well was re-entered at 02/16-35. The Mississippian zone was perfed, resulting in a non-commercial zone. The well is currently being evaluated for uphole shallow gas potential. At Little Bow two additional Sahara operated wells were drilled and cased for Bow Island Gas. Upon completion, both wells encountered non-commercial rates of hydrocarbons and were plugged. The uphole shallow gas potential is being evaluated at this time.

FUTURE OPERATIONS

After break up, Sahara will operate the drilling of 8 oil heavy oil test wells. In Alberta, 2 test wells will be drilled at Hayter (50%), 2 test wells at Blackfoot (50%), 2 test wells at Lloydminster (75%) and 2 wells (50%) at Soda Lake, Saskatchewan. In the next 6 months Sahara may also participate in the drilling of 10 non-operated wells (30%) in the Buzzard/Lashburn area of western Saskatchewan, with one Ellerslie gas test well planned at Wood River, Alberta (12% interest).

Selected Annual Information

Year or period ended December 31, 2005	2006	2005[1]
($ except for share information)		
Petroleum and natural gas revenue	818,571[2]	Nil[2]
Total revenues, net of royalties	692,746[2]	Nil[2]
Funds from (used by) operations	(271,241)	(117,599)
Net loss	(1,604,635)	(358,308)
Loss per common share – basic and diluted	(0.11)	(0.09)
Total assets	19,794,445	4,040,572
Working capital (deficiency)	(1,298,912)	2,050,099
Total debt	785,000	-
Shareholders’ equity	10,462,543	3,758,580
Common shares outstanding:		
- basic	19,368,083	10,716,000

[1] The Company commenced operation on January 5, 2005.
[2] The Company commenced oil and gas sales in January 2006.

Selected quarterly information

	Net Income (Loss)	Loss per Share	Net Production Revenue
($ except for share information)			
2006 Q4	(702,084)	(0.05)	311,344
2006 Q3	(92,590)	(0.01)	215,746
2006 Q2	(514,816)	(0.03)	103,557
2006 Q1	(295,145)	(0.02)	62,099
2005 Q4	(316,202)	(0.08)	Nil
2005 Q3	(44,151)	(0.01)	Nil
2005 Q2	1,195	0.00	Nil
2005 Q1	850	0.00	Nil

Production

Sahara's sales volumes during the year averaged 55 BOPD and for the fourth quarter averaged 103 BOPD, up from 85 BOPD in the third quarter. During the fourth quarter operational difficulties and tie-ins caused several production delays. Sahara's December 31, 2006 exit rate totaled 240 bopd, consisting of 200 bopd of heavy oil and 40 bbls/d of light oil. The Company is currently producing 320 BOEPD which consists of 200 bpd of heavy oil, 55 bpd light oil and 400 mcfd gas. Sahara has behind pipe production capability of 130 BOEPD consisting of 40 bpd oil and 600 mcfd gas for total production capability of 450 BOEPD. Sahara's well count is now at 62 wells with an average 38% working interest.

Revenue and Royalties

Oil sales represented 100% of the total gross revenues for the first year. Crown royalties averaged 7.3% of gross sales and all other royalties averaged 8.1%. Revenues continue to increase as production behind pipe is tied in and wells drilled are completed and placed on production.

Production Expenses

Production expenses totaled $183,238 for the three month period ended December 31, 2006 and $420,276 for the year. The production costs are expected to lessen as the wells are no longer in start up phase.

General and Administrative Costs

General and administrative ("G & A") expenses for the three months ended December 31, 2006 were $116,989 and totaled $449,427 for the year. The Company also received overhead recoveries of $170,886 for the year.

Depletion Depreciation and Accretion

Depletion costs were $329,368 for the Quarter ended December 31, 2006 and $540,630 for the year. Depletion costs are expected to decrease as the Company's proven reserve base increases.

Capital Expenditures

	Total to December 31, 2006	Three months Ended December 31, 2006
Land acquisitions	$ 2,041,893	$ 505,267
Exploration & Development drilling	$ 8,535,022	$ 3,844,273
Well equipment and facilities	$ 1,075,996	$ 599,617
Total	**$ 11,652,911**	**$ 4,949,157**

Cash Flow from Operations

	Year Ended December 31, 2006	**Three Months December 31, 2006**
Gross revenues	**$818,571**	**$340,908**
Royalties	$ 125,825	$ 33,332
Operating Expenses	$ 420,276	$ 183,238
Net Cash Flow from Operations	$ 272,470	$ 124,338

Future Taxes

Balance at December 31, 2005	$ 135,000
Flow through share renouncement ($3,038,000)	$1,024.948
Balance at December 31, 2006	$1,159,948

Reserves

The Company's reserves were evaluated at December 31, 2006 by DeGolyer & McNaughton which are summarized below.

- Total Proved reserves of 544 M boa
- Total Proved plus probable reserves of 1,188 M boa
- Total proved, probable and possible reserves of 1,427 Moe

SUMMARY OF RESERVES AS OF DECEMBER 31, 2006

Reserve Category	*Light Oil* (Mbbls)	*Heavy Oil* (Mbbls)	*Natural Gas* (mmscf)	*NGL* (Mbbls)
Developed Producing	*28*	*207*	*-*	*-*
Developed Non-Producing	*-*	*12*	*610*	*3*
Undeveloped	*-*	*188*	*26*	*-*
TOTAL PROVED	*28*	*407*	*636*	*3*
Probable	*13*	*597*	*197*	*1*
TOTAL PROVED + PROBABLE	*41*	*1,004*	*833*	*4*
Possible	*-*	*239*	*-*	*-*
TOTAL PROVED + PROBABLE + POSSIBLE	*41*	*1,243*	*833*	*4*

Note:
The aforementioned reserve report does not include the recently drilled and producing halfway oil well at Gold Creek.

Liquidity and Capital Resources

The Company had a cash balance of $2,100,405 and working capital deficiency of $1,298,912 as of December 31, 2006. Included in the working capital deficiency are $785,000 convertible debentures that are convertible at $0.57. Management is of the opinion that the debentures will be converted if they stay in the money leaving a deficiency of $503,912. The Company is in the process of securing a credit line facility that will be sufficient to meet all commitments to which it is currently committed.

The Company has issued the following flow-through shares through private placements:

Date	Number of shares	Price per share	Value received	Flow-through Classification	Renounced 2006
May 15, 2006	1,500,000	$1.3333	$1,999,950	CDE	$1,999,950
Nov 01, 2006	1,000,000	$ 1.33	$1,300,000	CEE	$1,330,000
Nov 01, 2006	1,200,000	$ 1.20	$1,200,000	CDE	$ 360,000
Dec 29, 2006	281,964	$ 1.70	$ 281,964	CEE	$ 281,964
Dec 29, 2006	563,928	$ 1.60	$ 563,928	CDE	$ 270,685
	4,545,892		$ 5,345,842		$ 4,242,599

The Company is committed to renounce the remaining CDE expenditures as follows:

30% in 2007
30% in 2008
10% in 2009

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.

During the period, $250,000 in debentures were exercised and converted into 438,589 Common shares by the holders of the debentures.

Commitments

The Company entered into a lease agreement for a period of five years that calls for annual basic rent payments of $199,000 per year of which approximately half is recovered from a related Company.

Related party transactions

The Company had the following related party transactions during the year 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 $700,760 (2005 - $Nil) which is included in accounts receivable for costs associated with joint venture operations during the year. The related Company also reimbursed $85,536 for general and administrative costs incurred during the year.

During the year ended December 31, 2006, the Company was charged $660,873(2005 - $Nil) by a Company which was controlled by an officer and director of Sahara for engineering supervision of drilling, completion and field services. For the year ended December 31, 2006, $139,720 (2005 – $Nil) of the above amount is in accounts payable and accrued liabilities. This director resigned from the board of directors December 19, 2006.

A Company controlled by a director of the Company owes $99,034 (2005 - $(3,308)) with respect to joint venture operations on non-operated wells.

Subsequent events

The Company granted 450,000 stock options at an exercise price of $1.30 for a term of five years with vesting provisions.
The Company obtained a revolving operating loan at an interest rate of prime plus 1%. The loan is due on demand and is secured by a general security agreement.

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 administrated, 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 have 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.