

SAHARA ENERGY LTD. MANAGEMENT'S DISCUSSION AND ANALYSIS

Three months ended March 31, 2007

Management's Discussion and Analysis ("MD&A") dated May 30, 2007, is management's assessment of the historical financial position and operating results of Sahara Energy Ltd. ("Sahara" or the "Company") for the period ended March 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 Company's unaudited interim financial statements presented for the three months ended March 31, 2007 and 2006 and the audited financial statements for the year ended December 31, 2006.

Additional information relating to the Company and its *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 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

Gross revenue for the period totaled \$536,991, compared to \$78,076 for the same period last year; an increase of \$461,915.

As at March 31, 2007, the Company reported a bank overdraft of \$222,713 and a working capital deficiency of \$3,370,190. The Company had a working capital deficiency of \$3,370,190 as of March 31, 2007. Included in the working capital deficiency are \$730,000 convertible debentures that are convertible at \$0.57. Management is of the opinion that these debentures will be converted leaving a working capital deficiency of \$2,640,190. The Company has secured a credit line facility in the amount of \$1.5 million increasing to \$1.8 million in Sept 2007. Sahara may also dispose of non-core properties to increase its working capital position.

The Company had a net loss of \$681,587 for the three months ended March 31, 2007. Adjusting the net loss for non-cash items of depletion, depreciation, accretion and stock based compensation the company had a net loss of \$87,332 for the three months ended March 31, 2007.

For the three month period ended March 31, 2007 the Company had capital expenditures of \$2,130,147 of which \$1,515,676 was spent on drilling and completions, \$483,868 on well equipment and facilities, and \$130,603 on land and other costs.

OPERATIONAL ACTIVITY

During the first quarter of 2007, Sahara was involved in drilling 6 prospects, resulting in 1 light oil well, 1 gas well, 2 standing wells and 2 dry and abandoned wells. Management decided to delay it's drilling program due to excessively high drilling and service industry costs. Going forward, Management expects a decrease in drilling costs, as much as 30 percent from last years costs.

The Company is currently producing 285 boepd which consists of 200 bpd of heavy oil, 55 bpd light oil and 200 mcf/d gas. During the quarter production peaked at 320 boepd, but the average sales production was 140 bopd. The reduced volume was due to an early spring break-up. Extended road bans during March prevented trucking of tanked oil and movement of equipment to perform well work-overs, completions and pipeline installations. Several wells were completed and brought on production during the quarter, but at reduced rates. Production optimization did not occur until road bans were removed and production could be trucked out. Also our Simonette well was shut in for March, due to pipeline issues.

Sahara currently has behind pipe production capability of 165 boepd consisting of 65 bpd oil and 600 mcf/d gas (100 boepd) 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.

CORE AREAS

Lloydminster, Alberta/Lashburn, Saskatchewan (Heavy Oil)

During the first quarter of 2007, Sahara participated in the drilling of 1 heavy oil prospect, resulting in a cased heavy oilwell. The well was perforated in late May and is currently being production tested. The well will be on production in early June.

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 also 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.

Grande Prairie (Gas/Light Oil)

At the Sahara operated Gold Creek 4-26 (20% interest), two zones were perfed and fracture stimulated, and both are capable of gas production. During the quarter, a gas compression facility was installed and a pipeline was constructed to the nearest gas gathering system. Since April 19th, the Halfway gas is producing at a rate of up to 850 mcf/d, and with optimization/clean-up, has the potential to produce 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, 2006, Sahara participated in the spudding of a second well in the Gold Creek area of Alberta (17.5% interest). In early January, 2007, this Halfway oil test well had been drilled and cased. It was completed in March, 2007 and placed on production as a Halfway oilwell producing 85 bopd.. Wet weather and road bans prevented this well from being produced at a stable rate, as oil trucking from this single well battery was sporadic. Sahara and partners have identified two development locations on 3D seismic for this 640 acre light oil prospect. A second oil test well will be drilled on this prospect in the third quarter.

In the Simonette area of Alberta, Sahara (15% WI) placed on production a Cadotte gas well. Initial testing suggested a virgin reservoir with limited drawdown. During the quarter the well was and tied in at a produced at a restricted rate of 1 mmcf/d, due to facility bottlenecks. In late March, the well bypassed the facility constraint and produced at 4 mmcf , before being shut-in by the facility owner over pipeline capacity. The operator is currently waiting on road ban removals, before installing additional pipeline into a different gathering system. This well should flow at rates in excess of 3 mmcf/d after the pipeline and facility issues are resolved, expected within the next 60 days.

At Tangent, the Sahara operated well is producing 120 bopd (net 36 bopd) of light oil. The well had limited production days during the quarter due to excess water on the lease, which prevented oil trucking. Sahara has resolved the issue by gravelling the lease and installing improved loading facilities. Management has identified two future development locations to be drilled on this 640 acre light oil property.

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

Southern/Central Alberta (Gas/Light Oil)

Sahara participated (10% WI) in the drilling and casing of a Belly River gaswell at Malmö, Alberta. The well was production tested from three zones at a combined rate in excess of 500 mcf/d. The well is currently waiting on weather before being tied-in to a nearby gathering system.

Sahara participated (20% WI) in the drilling of an Ellerslie gas prospect at Leduc-Woodbend, which was dry and abandoned.

South-East Saskatchewan (Light Oil HORIZONTAL)

Sahara participated for (25% WI to casing point - 12 ½ % after casing point) in the drilling of a horizontal oil well. The well targeted the Midale Vuggy formation, where off-set production defined the structure on this exploitation target. The well was drilled and intermediate casing was set at horizontal point. The horizontal section was drilled underbalanced and penetrated 400 meters of horizontal section and was then open-hole completed. The well was placed on production test, resulting in a large influx of water with low oil cuts. It was shut-in after 10 days of testing due to spring break-up, after road ban removals the well be re-evaluated.

FUTURE OPERATIONS

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

Selected Quarterly Information

Three months ended March 31	2007	2006
(\$ except for share information)		
Petroleum and natural gas revenue	536,991	78,076
Total revenues, net of royalties	456,990	62,099
Funds from (used by) operations	(87,332)	(156,987)
Net loss	(681,587)	(295,145)
Loss per common share – basic and diluted	(0.03)	(0.02)
Total assets	18,362,605	2,927,841
Working capital (deficiency)	(3,370,190)	2,436,130
Total debt	730,000	-
Shareholders' equity	7,443,710	3,074,269
Common shares outstanding:		
- basic	19,571,055	11,641,000

Selected quarterly information

	Net Income (Loss)	Loss per Share	% Gain	Net Production Revenue
(\$ except for share information)				
2007 Q1	(681,587)	(0.03)	46.8	456,990
2006 Q4	(702,084)	(0.05)	44.3	311,344
2006 Q3	(92,590)	(0.01)	108.3	215,746
2006 Q2	(514,816)	(0.03)	66.7	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

Production

Sahara's oil sales volumes during the first quarter averaged 140 boepd, up from 103 bopd in the fourth quarter of 2006. During the first quarter operational difficulties, delayed tie-ins and an early spring break-up caused several production delays. Natural gas sales during the first quarter averaged 67 mcf/d, up from 0 mcf/d in the fourth quarter of 2006.

	Three months ended March 31,	
	2007	2006
Light oil (BOPD)	6	-
Heavy oil (BOPD)	123	75
Natural gas (MCF/D)	67	-
BOEPD (6:1)	140	75

Petroleum and Natural Gas Revenues

Revenues for the three months ended March 31, 2007 increased \$196,083 from \$340,908 generated in the fourth quarter of 2006.

	Three months ended March 31,	
(\$)	2007	2006
Light oil	967	-
Heavy oil	489,944	78,076
Natural gas	46,080	-
Total	\$536,991	\$78,076

Royalties

For the reporting period, royalties totaled \$65,383, in increase of \$32,051 from the fourth quarter of 2006. The increased royalties are attributable to higher sales volumes.

Production Expenses

Production expenses for the period totaled \$315,214, an increase of \$156,453 from the previous quarter. Production expenses are higher than expected due to high start up costs inherent to heavy oil well operations. Sahara anticipates these costs will decline once the new heavy oil wells have stabilized which is normally a three month period.

General and Administrative Costs

General and administrative ("G & A") expenses for the three months ended March 31, 2007 were \$145,209, a decrease of \$27,221 compared to the same period of the previous year. These expenses include \$32,134 in engineering costs associated with the company's year end reserve report.

General and Administrative Expenses (\$)	Three months ended March 31,	
	2007	2006
Gross expense	276,314	182,837
Overhead recoveries	(71,186)	-
Capitalized expense	(59,919)	(10,407)
Net expense	\$145,209	\$172,430

Stock-based compensation

Sahara stock-based compensation expense totaled \$1,145,616 as at the period ended March 31, 2007 compared to \$88,084 in the same quarter of the prior year. Stock based compensation increased \$275,347 for the three month period ended March 31, 2007. Stock based compensation measures the implicit cost of compensating key personnel through the issuance of stock options and special performance units.

Interest

Interest expense of \$18,759 for the three months ended March 31, 2007 was similar in the same period of the prior year. This was due to a higher principal amount of Convertible debentures which was offset by a reduction in the number of days that interest was paid on for the period ended March 31, 2006.

Depletion Depreciation and Accretion

Depletion, depreciation and accretion expenses for the three months ended March 31, 2007 were \$318,908, an increase of \$262,834 compared to the same period of the previous year. This increase is attributed to higher production rates.

Depletion, Depreciation and Accretion (\$)	Three months ended March 31,	
	2007	2006
Depletion and depreciation of P&NG Assets	303,916	
Depreciation of Other Assets	4,552	
Depreciation and accretion of asset retirement obligations	10,440	3,558
Net expense	\$318,908	\$56,074

Capital Expenditures

During the first quarter of 2007 the Company spent \$2,130,147 compared to \$1,819,760 in the same period of 2006. The majority of the expenditures were for drilling, completions and equipping of wells. During the first quarter of 2006, \$680,494 was spent on land acquisitions which added to the Company's inventory of prospects.

Capital Expenditures (\$)	Three months ended March 31,	
	2007	2006
Land acquisitions	47,808	680,494
Seismic	22,877	-
Drilling & completion	1,508,722	1,047,314
Well Equipment	483,868	91,952
Office Equipment	6,954	-
Capitalized G & A	59,918	-
Total capital expenditures	\$2,130,147	\$1,819,760

Cash Flow from Operations

(\$)	Three months ended March 31,	
	2007	2006
Gross revenue	536,991	78,076
Royalties	80,001	15,977
Operating expenses	315,214	42,216
Net cash flow from operations	\$141,776	\$19,883

Future Taxes

Balance at December 31, 2006	\$1,159,948
Flow through share renouncement (\$8,115.074)	<u>\$2,728,287</u>
Balance at March 31, 2007	<u>\$3,888,235</u>

Liquidity and Capital Resources

The Company had a working capital deficiency of \$3,370,190 as of March 31, 2007. Included in the working capital deficiency are \$730,000 convertible debentures that are convertible at \$0.57. Management is of the opinion that these debentures will be converted leaving a working capital deficiency of \$2,640,190. The Company has secured a credit line facility in the amount of \$1.5 million increasing to \$1.8 million in Sept 2007. Sahara may also dispose of non-core properties to increase its working capital position.

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, \$54,996 in debentures were exercised and converted into 96,484 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 \$608,920 (2006 - \$700,760) which is included in accounts receivable for costs associated with joint venture operations during the year. The related company also reimbursed \$38,100 for general and administrative costs incurred during the year.

Subsequent events

The Company obtained a revolving operating loan for \$1.5 million, increasing to \$1.8 million in September, 2007. The loan has an interest rate of prime plus 1% and is due on demand being secured by a general security agreement.

Subsequent to the period, the Company cancelled 375,000 previously vested options and redeemed \$125,000 of debentures from a former director and officer at its face value.

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 have certified that the controls over financial reporting are effective.

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.