

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

**Quarter ended September 30, 2007**

Management's Discussion and Analysis ("MD&A") dated November 29, 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 quarter ended September 30, 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 period 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](http://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**

Gross revenue for the period totaled \$717,621 compared to \$262,825 for the same period last year, an increase of \$ 454,796.

As at September 30, 2007, the Company reported a bank overdraft of \$ 1,711,089 and a working capital deficiency of \$3,775,969 compared to \$3,643,003 reported in the second quarter. Included in the working capital deficiency is \$520,000 in convertible debentures converted at \$0.57 that mature December 31, 2007. Additional convertible debentures of \$680,000 that mature June 29, 2009 and convert at \$0.90 in June /2009. The company has a credit line facility in the amount of \$1,500,000 which is included in the deficiency. Sahara will dispose of non-core properties to increase its working capital position.

The Company had a loss of \$ 647,226 for the three months ended September 30, 2007. Adjusting the net loss for non-cash items of depletion, depreciation, accretion and stock-based compensation, the Company had a net loss of \$ 279,943 for the three months ended September 30, 2007.

For the three month period ended September 30, 2007, the Company had capital expenditures of \$244,007 of which \$135,973 which was spent on drilling and completion, \$88,310 on well equipment and facilities, and \$ 19,724 on land and other costs.

## **OPERATIONAL ACTIVITY**

During the third quarter of 2007, Sahara was involved in drilling 3 prospects, two wells at Buzzard, Saskatchewan and one well at Lashburn, Saskatchewan, resulting in 2 producing wells and 1 well waiting on completion.

The Company is currently producing 175 boepd which consists of 100 bopd of heavy oil, 45 bopd light oil and 200 mcf/d gas. During the quarter, the Company averaged production sales of 160 boepd, up from 150 boepd in the prior quarter. Marginal wells were either reworked to increase productivity or shut-in to reduce costs.

At Tangent, Alberta, our Montney oil discovery continued to produce at 90 gross bopd, 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 late in the quarter and recorded minimal sales.

Government requirements for a water disposal application resulted in 10 BOPD of medium oil being shut in. This application should be approved before year end and production will double to 20 bopd. Negotiations continue with respect to allowing gas to be processed at a non-operated facility for our Simonette gas well – resulting in 400 mcf/d being shut-in. At Malmo, Alberta, a Belly River well (12% WI) is in the processing of being tied in, at a rate of 300 mcf/d (36 mcf/d net).

Sahara has behind pipe production capability of 120 BOEPD consisting of 20 bpd oil and 600 mcf/d (100 boepd) gas for total production capability of 295 BOEPD.

During the next 3 months, depending on future financings, Sahara will operate the drilling of 1 heavy oil development wells. In Alberta, 2 test wells were farmed out to an industry partner at Hayter (50%), and 1 test well was farmed-out at Lloydminster (75%). Both Hayter wells have been drilled and cased as potential oilwells. These wells will be completed immediately, Sahara owns 50% or a net 20% farmed out carried working interest in these 2 wells. The operator has options to drill 2 additional wells at Hayter under the same terms.

Sahara will continue to add to its prospects inventory through land acquisitions. At Bashaw, Alberta a half section of land was acquired with a Nisku reef prospect, with potential oil reserves of 500,000 barrels. Sahara operates and owns 50% of this high impact light oil play.

## **CORE AREAS**

### **HEAVY OIL (Lloydminster/Lashburn areas)**

During the third quarter of 2007, Sahara participated in the drilling of three wells at Buzzard/Lashburn Saskatchewan (33% working interest). All 3 wells were cased as oilwells with 1 well awaiting completion.

### GAS/LIGHT OIL (Grande Prairie areas)

At the Sahara operated Gold Creek 4-26 (20% interest), two zones were perfed and fracture stimulated. As of April 19, 2007, the Halfway gas is producing at a rate of up to 600 mcf/d, with a small amount of condensate. The Nikanassin zone which was completed, fracture stimulated and production tested - will be placed on production at a later date.

A non-operated well in the Gold Creek area of Alberta (17.5% interest), is currently on intermittent production, averaging 10 bopd. The well has been on for several months and appears to be a high pressure, low rate reservoir. A recently drilled offsetting well indicates with positive results suggest that an uphole zone will be perfed and fracture stimulated in 2008.

During the quarter, Sahara focused on completing and optimizing its oil production and gas well facility issues.

### **Selected Quarterly Information**

Three months ended September 30 (\$ except for share information)	2007	2006
Petroleum and natural gas revenue	717,621	262,825
Total revenues, net of royalties	566,697	215,744
Cash Flow from operations	132,451	0
Net loss (before Non-Cash Items)	279,943	92,590
Loss per common share – basic and diluted	(0.03)	(0.04)
Total fixed assets	15,327,071	13,354,901
Working capital (deficiency)	3,775,969	1,288,913
Total debt	1,711,089	-
Shareholders' equity	6,546,850	10,462,543
Common shares outstanding:		
- basic	20,106,626	19,368,083

### **Production**

Sahara's oil sales volumes during the third quarter averaged 140 bopd.

Natural gas sales during the third quarter averaged 130 mcf/d.

	<b>Three months ended September 30</b>	
	<b>2007</b>	<b>2006</b>
Light oil (BOPD)	<b>40</b>	-
Heavy oil (BOPD)	<b>100</b>	75
Natural gas (BOEPD)	<b>21</b>	-
BOEPD (6:1)	<b>161</b>	75

### **Petroleum and Natural Gas Revenues**

Revenues for the three months ended September 30, 2007 where \$771,700.

## Revenue and Royalties

Royalties averaged 21.03%. Revenues continue to increase as production behind pipe is tied in and wells drilled are completed and placed on production.

## Production Expenses

Production expenses for the period totaled \$434,246, a decrease of \$35,651 from the previous quarter. The production costs were reduced with the shutting-in of non-profitable wells during the quarter.

## General and Administrative Costs

General and administrative (“G & A”) expenses for the three months ended September 30, 2007 were \$359,543 an increase of \$175,149 compared to the same period of the previous year. These expenses include \$40,834 in engineering and land costs associated with the Company’s year end reserve report, as well as \$165,938 in costs related to accounting, legal, shareholding reporting and other costs. The legal costs included in the \$165,938 totaled \$37,152 for the third quarter. These costs are one-time annual charges related to Sahara’s 2007 financings. The company also received overhead recoveries of \$96,518 for the quarter. Management has decided to reduce management salaries by 40% going forward.

General and Administrative Expenses (\$)	Three months ended September 30	
	2007	2006
Gross expense	359,543	184,394
Overhead recoveries	(96,518)	(130,164)
Capitalized expense	-	-
<b>Net expense</b>	<b>\$ 263,025</b>	<b>\$54,230</b>

## Stock-based compensation

Sahara stock-based compensation expense totaled \$-0- at the period ended September 30, 2007 compared to \$135,747 in the quarter of the prior year. Stock based compensation measures the implicit cost of compensating key personnel through the issuance of stock options.

## Interest

Interest expense of \$61,923 for the three months ended September 30, 2007 was higher than in the same period of the prior year due to financing charges related to the revolving bank loan.

## Depletion Depreciation and Accretion

Depletion, depreciation and accretion expenses for the three months ended September 30, 2007 were \$369,283, an increase of \$313,205 compared to the same period of the previous year. This increase is attributed to higher production rates.

Depletion, Depreciation and Accretion (\$)	Three months ended September 30	
	2007	2006

Depletion and depreciation of P&NG Assets	353,766	54,031
Depreciation of Other Assets	4,847	1,349
Depreciation and accretion of asset retirement obligations	10,670	690
<b>Net expense</b>	<b>\$369,283</b>	<b>\$56,078</b>

### Capital Expenditures

During the second quarter of 2007, the Company spent \$244,007 compared to \$4,543,969 in the same period of 2006. The majority of the expenditures were for drilling, completions and equipping of wells.

Capital Expenditures (\$)	Three months ended September 30	
	2007	2006
Land acquisitions	19,724	394,774
Seismic	-	-
Drilling & completion	135,973	3,649,420
Well Equipment	88,310	499,775
Office Equipment	-	-
Capitalized G & A	-	-
<b>Total capital expenditures</b>	<b>\$244,007</b>	<b>\$4,543,969</b>

### Cash Flow from Operations

	Three Months September 30, 2006	Year Ended December 31, 2006
<b>Gross revenues</b>	\$717,621	\$526,772
Royalties	\$ 150,924	\$ 99,678
Operating Expenses	<u>\$ 434,246</u>	<u>\$ 469,897</u>
Net Cash Flow from Operations	\$ 132,451	\$ (42,803)

### Future Taxes

Balance at December 31, 2006	\$ 1,159,948
Flow through share renouncement	\$ 2,728,377
Balance at June 30, 2007	<u>\$ 3,888,325</u>

## Liquidity and Capital Resources

The Company had a working capital deficiency of \$3,775,969 as of September 30, 2007. Included in the working capital deficiency are \$ 520,000 convertible debentures that are convertible at \$0.57 which are exercisable prior to December 31, 2007.

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	\$ 1.33	\$1,999,950	CDE	\$1,999,950
Nov 01, 2006	1,000,000	\$ 1.30	\$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
June 28, 2007	<u>145,000</u>	<u>\$ 1.00</u>	<u>\$ 145,000</u>	CDE	<u>nil</u>
	4,690,892		\$ 5,490,842		\$ 4,242,599

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

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

During the nine month period ending September 30, 2007 the company raised \$950,000 through private financings (\$680,000 debentures priced at \$0.90 and \$270,000 in CDE flow though shares priced at \$1.00).

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. Additional convertible debentures were issued during the period for \$620,000 that are converted at \$.90 and mature June 29, 2009.

## Commitments

The Company entered into an office lease agreement for a period of five years that calls for annual basic rent payments of \$211,741 a year of which \$82,389 is recovered by a sub lease of office space. Additional recoveries of \$37,152 are received from a related third party. The net office lease to Sahara is \$92,200 per annum.

### **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 \$293,604, which is included in accounts receivable for costs associated with joint venture operations during the period. The related company also reimbursed \$78,825 for general and administrative costs incurred during the period including \$55,421 for office rent.

### **Subsequent events**

Subsequent to the end of the quarter, the Company entered into a Promissory Note and a debenture with a supplier with respect to accounts payable totaling \$ 532,242.00. The terms of the agreement state that these accounts payable will be repaid in installments of \$25,000 per month over 20 months with interest at 10% per annum, calculated daily.

### **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 has certified that the controls over financial reporting are effective. expenditure transactions volume has increased significantly requiring the addition of accounting staff that have been hired.

### **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.