

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

Quarter ended September 30, 2008

Management's Discussion and Analysis ("MD&A") dated September 30, 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 quarter ended September 30, 2008. 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, 2007.

Additional information relating to the Corporation 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

Gross revenue for the period totalled \$603,599 compared to \$566,756 for the same period last year, an increase of \$ 36,843. The revenue net of royalties for the period was \$560,526 compared to \$427,094 for the same period in 2007 an increase of \$133,432 despite the sale of non-core properties.

As at September 30, 2008, the Company reported a working capital deficiency of \$3,691,887 compared to \$4,337,515 reported in the period ending September 30, 2007. Included in the working capital deficiency is \$1,337,024 in convertible debentures due June 29, 2009 and convertible at \$0.90.

The Company had a loss of \$ 218,696 for the three months ended September 30, 2008. Adjusting the net loss for non-cash items of depletion, depreciation, accretion and stock-based compensation, the Company had a net profit of \$92,920 for the three months ended September 30, 2008.

For the three month period ended September 30, 2008, Sahara sold a property for a total of \$57,600. These funds were used to reduce third party payables.

OPERATIONAL ACTIVITY

During the third quarter of 2008, Sahara was not involved in the drilling of any wells.

For the third quarter, the Company averaged production sales of 75 Boepd, consisting of 57 BOPD of heavy oil, 4 BOPD of light oil and 14 BOEPD of gas.

Sahara has completed a 100% interest heavy oil well at Lloydminster. The completion was farmed out to the WCSB GORR Income Participation 2008-I Corp. (WCSB). WCSB has earned a GORR on the 16B-4 well for funding the completion of the well. The well commenced production on September 18, 2008 and has produced at 30 BOPD. Subsequent to the quarter Sahara has farmed out the completion and tie in of its Soda Lake Gas well, where Sahara will be carried for a 35% working interest in this completion and tie in. Operations on this completion will be done in November.

Sahara has a prospect inventory of 6 low risks, 100% owned heavy oil development locations and two 100% owned heavy oil recompletions. Sahara also owns a 94% interest in a Nisku light oil play at Bashaw. . The company will drill the development wells and recomplete the 2 heavy oil wells depending on future financings. Sahara plans on farming out its Bashaw Nisku oil play.

Sahara will continue to manage to pay down its debt and focus on getting its wells drilled. During the period Sahara was involved in merger discussions with a private oil and gas company but did not proceed. Sahara is evaluating merger candidates and financing alternatives in order to strengthen its balance sheet. Sahara has no Bank debt.

Land

The following table sets out the Sahara's combined (after the Mirage merger) developed and undeveloped land holdings as of September 30, 2008.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	6501.93	3276.16	15060.0	6917.06	21561.93	10193.22
Saskatchewan	2652.24	1208.57			2652.24	1208.57
Montana	-	-	1440.00	1440.00	1440.00	1440.00
Total	9154.17	4484.73	16500.0	8357.06	25654.17	12841.79

CORE AREAS

HEAVY OIL (Lloydminster/Lashburn areas)

During the quarter the company did not participate or operate any wells. As stated above the 100% owned 16B-4 well was completed and placed on production.

RESERVES

The following tables describe Sahara's updated reserves whereby Degolyer and MacNaughton Canada limited has prepared an appraisal and update report as of April 1, 2008 on Sahara. This report is on the current Sahara after its merger with Mirage Energy Ltd.

TOTAL COMPANY	COMPANY SHARE - FORECAST PRICE CASE				
	Undis-	Future Cash Flow Before Income Tax as of April 1, 2008			
		counted	Discounted		
Reserve Category		at 5%	at 10%	at 15%	at 20%
	M\$	M\$	M\$	M\$	M\$
Proved Developed					
Producing	1,162	1,111	1,065	1,021	981
Non-Producing	3,455	2,842	2,416	2,110	1,880
Total Proved Developed	4,617	3,953	3,481	3,131	2,861
Proved Undeveloped	1,474	1,191	955	757	590
Total Proved	6,091	5,144	4,436	3,888	3,451
Probable	10,330	8,437	6,972	5,809	4,868
Total Proved + Probable	16,421	13,581	11,408	9,697	8,319
Possible	2,702	1,782	1,217	852	604
Total	19,123	15,363	12,625	10,549	8,923

	Forecast Price Case				
	Proved				Proved Plus
	Developed	Proved	Total	Proved Plus	Probable
	Producing	Developed	Proved	Probable	Plus Possible
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Future Gross Revenue	3,829	11,070	17,092	48,754	60,427
Royalties	401	2,070	2,963	6,919	8,192
Operating Expenses	1,833	3,427	5,531	17,771	23,365
Processing and other income	-	-	-	-	-
Capital Costs	-	380	1,794	6,275	8,186
Abandonment Costs	433	576	713	1,372	1,564
Future Cash Flows Before Future Income Tax	1,162	4,617	6,091	16,421	19,123
Future Income Tax	-	-	-	-	-
Future Cash Flows After Future Income Tax	1,162	4,617	6,091	16,421	19,123
Present Worth at 5 Percent	1,111	3,953	5,144	13,581	15,363
Present Worth at 10 Percent	1,065	3,481	4,436	11,408	12,625
Present Worth at 15 Percent	1,021	3,131	3,888	9,697	10,549
Present Worth at 20 Percent	981	2,861	3,451	8,319	8,923

NOTE: The numbers in this table may not exactly add due to rounding.

TOTAL COMPANY	COMPANY SHARE - FORECAST PRICE CASE							
	Remaining Reserves as of April 1, 2008							
	Light Crude Oil		Heavy Crude Oil		Natural Gas		NGL	
	Gross Mbbl	Net Mbbl	Gross Mbbl	Net Mbbl	Gross MMcf	Net MMcf	Gross Mbbl	Net Mbbl
Proved Developed								
Producing	4	4	50	46	87	75	3	2
Non-Producing	6	5	60	46	391	294	7	5
Proved Undeveloped	-	-	116	99	-	-	-	-
Total Proved	10	9	226	191	478	369	10	7
Probable	4	3	598	528	136	99	2	1
Total Proved + Probable	14	12	824	719	614	468	12	8
Possible	-	-	228	205	-	-	-	-
Total	14	12	1,052	924	614	468	12	8

Selected Quarterly Information

Three months ended June 30 (\$ except for share information)	2008	2007
Petroleum and natural gas revenue	603,599	526,772
Total revenues, net of royalties	560,526	427,094
Cash Flow from operations	(218,861)	(42,803)
Net gain (Loss before Non-Cash Items)	97,922	(313,900)
Loss per common share – basic and diluted	(0.01)	(0.03)
Total fixed assets	10,213,079	23,636,062
Working capital (deficiency)	(3,721,748)	(4,263,287)
Total debt	3,691,887	648,843
Shareholders' equity	10,202,139	12,417,384
Common shares outstanding:		
- basic	38,036,302	42,734,649

Production

Sahara's oil sales volumes during the third quarter averaged 61 bopd, and Natural gas sales during the second quarter averaged 14 BOEPD for a total of 75 BOEPD.

	Three months ended June 30	
	2008	2007
Light oil (BOPD)	4	20
Heavy oil (BOPD)	57	100
Natural gas (BOEPD)	14	30
BOEPD (6:1)	75	150

Petroleum and Natural Gas Revenues

Revenues net of royalties for the three months ended September, 2008 where \$560,526.

Revenue and Royalties

Royalties averaged (8.24%) for the period ending September 30, 2008. This rate reflects the Alberta Petroleum Marketing Commission royalty rebate and the aforementioned adjustments pertaining to the Buzzard sale. It is anticipated that the royalty rate will remain near 20% in the upcoming quarters.

Production Expenses

Production expenses for the three month period totalled \$195,046, a decrease of \$239,200 from the period ending September 30, 2007. The production costs were reduced with the shutting-in of non-profitable wells during the quarter as well as the sale of non-core properties. Sahara will focus on operating in the Lloydminster area of Alberta where it has an inventory of prospects.

General and Administrative Costs

General and administrative (“G & A”) expenses for the three months ended September 30, 2008 were \$222,384 a decrease of \$125,891 compared to the same period of the previous year. These expenses include (\$10,000) in engineering and land costs associated with the Company’s year end reserve report, as well as \$55,056 in costs related to accounting, legal, shareholding reporting.

General and Administrative Expenses (\$)	Three months ended June 30 2008	2007
Gross expense	222,384	326,296
Overhead recoveries	-	(13,684)
Capitalized expense	-	-
Net expense	\$ 222,384	\$312,612

Stock-based compensation

Sahara stock-based compensation expense totalled \$0 for the three month period ended September 30, 2008 compared to a similar amount for the same quarter of 2007. Stock based compensation measures the implicit cost of compensating key personnel through the issuance of stock options.

Interest

Interest expense of \$50,087 for the three months ended September 30, 2008 was \$23,013 lower than in the same period of the 2007 due to the paying down of the revolving bank loan.

Depletion Depreciation and Accretion

Depletion, depreciation and accretion expenses for the three months ended September 30, 2008 were \$311,615, a decrease of \$57,668 compared to the same period of the previous year.

Capital Expenditures

During the third quarter of 2008, the Company sold P&NG properties for \$57,600. The funds from these sales were used to reduce Company debt. Capital Expenditures for the three months ending September 30, 2008 were \$50,338. Tangible Completions were \$50,338.

Cash Flow from Operations

	Three Months Sept. 30, 2008	Nine Months Sept. 30, 2008	Year Ended December 31, 2007
Gross revenues	\$603,599	\$1,656,354	\$3,733,964
Royalties	(\$43,074)	\$58,190	\$ 762,435
Operating Expenses	<u>\$ 195,046</u>	<u>\$707,922</u>	<u>\$ 2,534,078</u>
Net Cash Flow from Operations	\$ 365,479	\$1,006,622	\$ 437,451

Future Taxes

Balance at December 31, 2007	\$ 1,175,454
Flow through share renouncement	\$ -
Balance September 30, 2008	<u>\$ 1,175,454</u>

Liquidity and Capital Resources

The Company had a working capital deficiency of \$3,721,748 as of September 30, 2008. Included in the working capital deficiency are \$ 1,337,024 convertible debentures that are convertible at \$0.90 which are exercisable prior to June 29, 2009 and \$392,500 due to shareholders.

Commitments

The Company entered into an office lease agreement for a period of five years on June 1, 2006 that calls for annual basic rent payments of \$214,900 a year of which \$141,600 is recovered by sub leases of office space. The net office lease to Sahara is \$73,300 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:

As of September 30, 2008, \$392,500 pertaining to debentures that came due on December 31, 2007 of which \$320,000 is owed to senior management of the Company.

Subsequent Events

- Sahara has completed the 16B-4 Lloydminster 100% owned oil well. This 100% owned and operated well is now on production at 30 BOPD
- Sahara has farmed out the completion and tie in of its Soda Lake gas well, Sahara will be carried for a 35% working interest in this well.

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.