SAHARA ENERGY LTD.

Management's Discussion and Analysis
For the year ended December 31, 2008

This management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company", "Corporation" or "Sahara") for year ended December 31, 2008 contains financial highlights but does not contain the complete financial statements of the Corporation. It should be read in conjunction with the Corporation's audited financial statements for the year ended December 31, 2008. Additional information is available on SEDAR at www.sedar.com. The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). All references to dollar amounts are in Canadian dollars. This MD&A includes events up to October 21, 2009.

Forward-Looking Statements

The matters discussed in this MD&A include certain forward-looking statements. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements. Forward-looking statements may be identified, without limitation, by the use of such words as "anticipates", "estimates", "expects", "intends", "plans", "predicts", "projects", "believes", or words or phrases of similar meaning. In addition, any statement that may be made concerning future performance, strategies or prospects and possible future corporate action, is also a forward-looking statement. Forward-looking statements are based on current expectations and projections about future general economic, political and relevant market factors, such as interest rates, foreign exchange rates, equity and capital markets, and the general business environment, in each case assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable. Accordingly, assumptions concerning future economic and other factors may prove to be incorrect at a future date. Forward-looking statements are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any forward-looking statements made by the Corporation. Any number of important factors could contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition, technological change, changes in government relations, unexpected judicial or regulatory proceedings and catastrophic events. We stress that the above mentioned list of important factors is not exhaustive. We encourage you to consider these and other factors carefully before making any investment decisions and we urge you to avoid placing undue reliance on forward-looking statements. The Corporation disclaims any intention or obligation to update or revise these forward-looking statements as a result of new information, future events or otherwise, except as required under applicable securities laws.

CORPORATION OVERVIEW AND PRINCIPAL BUSINESS RISKS

Sahara Energy Ltd. was incorporated under the Business Corporations Act (Alberta) and is listed on the TSX Venture Exchange ("the Exchange"), under the symbol 'SAH'. The Company is a junior resource exploration company engaged in the acquisition, exploration and development of natural resource properties (primarily oil and gas). The Company's business is presently focused on the exploration and evaluation of various oil and gas properties in Saskatchewan and Alberta.

The Corporation does not have a history of earnings. The Corporation's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and to continue to obtain borrowings from third parties sufficient to meet current and future obligations. During the year ended December 31, 2008, the Company incurred a net loss of $1,530,990 and has an accumulated deficit of $9,565,234. At December 31, 2008, the Company had indebtedness of $1,807,254 and had a working capital deficiency of $3,894,401.

The audited financial statements for the year ended December 31, 2008 do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Corporation were unable to continue its operations.

OVERVIEW AND SIGNIFICANT EVENTS

Effective March 31, 2008 Sahara purchased all of the outstanding shares in the capital of Mirage Energy Ltd. in exchange for 0.5 of a common share of Sahara for each Mirage common share, for a total purchase price of $1,072,312 . The number of common shares issued by Sahara was 13,403,896. Sahara shares with an assigned value of $0.08/share. Under the terms of the acquisition, Sahara acquired all of the issued and outstanding shares of Mirage as well as the obligations pursuant to outstanding convertible debentures of Mirage. This acquisition has been accounted for using the purchase method of accounting with the results from operations included from the closing date of the acquisition. Please refer to notes to financial statements for the details and the purchase equation.

For the year ended December 31, 2008 the Company had net revenues of $1,802,507 and for the three months ended December 31, 2008, the Company had net revenues of $87,963. The Company had a net loss of $1,530,990 for the year and a net loss of $78,794 for the three months ended December 31, 2008.

During the year the Company incurred capital expenditures of $404,495.

A total of 23 wells were sold in 2008, for proceed of $2,601,800, including all the wells in Buzzard area.

As at December 31, 2008, the Company reported a bank balance of $30,574 and a working capital deficiency of $3,894,401. Sahara has been looking at various financing options, including disposal of non-core properties to increase its working capital position.

Subsequent to the reporting period, a total of 15 properties including 9 wells were sold for proceed of $436,000, to pay down the debt, reduce the accounts payable and reduce the abandonment liabilities.

The Corporation has to deal with significantly lower commodity prices by reducing expenditures as much as possible in order to reduce debt and finance ongoing operational expenses. It is management's view that the Corporation has been able to strengthen its financial position since the year end, with various strategic alternatives, such as a sale of assets and debt restructuring program, to improve its working capital position.

OPERATIONAL ACTIVITIES

For the year the Company averaged 61 boepd which consisted of 51 bbls/day of heavy oil and 60 mcf/d (10 boepd) of natural gas.

During the second half of the year, the company negotiated the re-completion of one standing oil well in Lloydminster, which added 20 bbls/d.

During the third quarter, the company negotiated a completion and tie-in farm-out of the Soda Lake 5-22 gas well , where an industry partner paid 100% (net 70%) of costs to earn 50% (net 35%) of the well . The well is now in production at a rate 100 mcf/ day (35 mcf/d net to Sahara)

Divestments

During the first quarter, the company sold its interests in the Gold Creek 14-26 gas well, the Woodriver 10-31 gas well and the marginal Pembina 16-28 oil well. During the second quarter, the company sold its interest in 16 Buzzard oil wells to the operator. The Gold Creek 4-26 gas well and facilities were sold. During the third quarter, undeveloped land in the Little Bow area was sold to a local operator in the area. During the fourth quarter, the Malmo 8-35 gas well was sold to the operator. The standing oil well at Willisden Green 10-06 was sold to an industry partner . The company benefited from these sales by cash and removing substantial abandonment liabilities.

All the proceeds from the sales were used to reduce corporate debt, which resulted in the elimination of all bank debt and a substantial reduction in payables.

Sahara will continue to sell minor properties to reduce corporate debt and continue farming out properties to increase production, without spending additional capital.

Core Area -Heavy Oil – Lloydminster, Alberta

During the reporting period, Sahara did not participate in the drilling of any new wells in our core area. The Sahara 15-14 well was placed on production during the first month of 2008 and has averaged 14 bop/d for the year. The production suggests that two follow up locations are possible on this 100% owned property.

The Sahara 16A-4 standing well was re-completed through a farm-out agreement in April and has averaged 12 bop/d for the year.

During the reporting period, Sahara focused its effort on reducing the operating expenses to increase company netbacks. The average price received for heavy oil averaged $78.00/barrel for the year and the average netback for the year averaged $ 36.11, which is an $11.00 per barrel increase from January 2008.

With the recent stabilization of heavy oil prices, Sahara continues to reduce operating costs and increasing the netback per barrel. Significant operating cost reductions were initiated in late 2008 and the full impact will be felt in the 2009 netback amounts. Sahara will continue to focus on re-completion activities in this 100% operated property.

PRODUCTION RELATED INFORMATION

The following tables summarize certain information in respect of Sahara's production, product prices received, royalties paid, operating expenses and resulting netback for the periods indicated below:

	Quarter Ended - 2008			
	Dec. 31	**Sept. 30**	**Jun. 30**	**Mar. 31**
Average Daily Production				
Oil (bbl/d)	47	66	21	83
NGLs (bbls/d)	-	-	2	1
Gas (Mcf/d)	9	12	43	51
Combined (BOE/d)	48	68	31	92
Average Price Received				
Oil ($/bbl)	42.26	97.94	147.26	65.77
NGLs ($/bbl)	-	-	106.81	78.57
Gas ($/Mcf)	6.25	9.91	10.04	8.91
Royalties Paid				
Combined ($/BOE)	7.00	8.16	-0.86	-2.01
Production Costs				
Combined ($/BOE)	32.65	31.27	69.88	27.75
Netback Received				
Combined ($/BOE)	2.46	58.38	56.50	39.11

SELECTED ANNUAL INFORMATION

	Year ended December 31		
	2008	**2007**	**2006**
Petroleum and natural gas revenue ($)	1,890,718	2,445,248	818,571
Net revenues, after royalties ($)	1,802,016	2,016,592	692,746
Funds from (used by) operations ($)	(217,151)	(1,110,782)	(271,241)
Net loss ($)	(1,530,990)	(6,071,301)	(1,604,635)
Loss per common share –basis and diluted ($)	(0.04)	(0.30)	(0.11)
Total assets ($)	8,309,138	9,900,396	19,794,445
Working capital (deficiency) ($)	(3,894,401)	(4,382,838)	(1,298,912)
Total liabilities ($)	5,220,786	6,428,361	9,331,902
Shareholders' equity ($)	3,088,352	3,472,035	10,462,543
Common shares outstanding - basic	38,036,032	24,632,406	19,368,083

YEAR ENDED DECEMBER 31, 2008 AND FOURTH QUARTER 2008

Petroleum and Natural Gas Revenues

Revenues for the year December 31, 2008 were $1,890,718 and for three months then ended were $224,476. Compared to corresponding periods in the prior year, the revenues were significantly lower, due to production related issues, lower prices for heavy oil and uneconomic heavy oil wells being shut in.

Royalties

Royalties averaged 4.7% for the year and 27.5% for the fourth quarter, which was lower than corresponding periods in the prior year, due to the reduction in commodity prices.

Production Expenses

Production expenses totalled $830,452 for the year and $122,530 for the three month period ended December 31, 2008. The production costs were lower compared to the same periods last year, as lower volumes were produced as well as lower servicing & decreased well workover costs. Also uneconomic heavy oil wells where shut in to reduce operating costs.

Operating Netback

Operating Netback totalled $48.36 for the year and $46.26 for the three month period ended December 31, 2008. The Operating Netbacks were significantly higher as compared to the same periods last year, due to lower production expenses resulting from lower servicing & decreased well work over costs. Subsequent to the reporting period, Sahara hired new field operators and operating expenses have been reduced substantially.

General and Administrative Costs

General and administrative ("G & A") expenses for the year ended December 31, 2008 were $661,489 and for the three months were $62,268. The G&A costs were significantly higher compared to the same periods last year, as the Company incurred onetime costs related to the acquisition of Mirage Energy Ltd. These onetime costs of $62,150 related to legal, auditing, engineering evaluation, shareholder reports and accounting.

Stock-based compensation

Stock based compensation measures the implicit cost of compensating key personnel through the issuance of stock options. Sahara stock-based compensation expenses incurred for the year ended December 31, 2008 was $232,893 as compared to $634,557 for the year ended December 31, 2007. Stock based compensation for the three months ended December 31, 2008 was $86,393 as compared to $375,425 for the three months ended December 31, 2007. Stock based compensation was lower during 2008 due to the expiry of stock options and lower share prices of the Company.

Interest

Interest expense totalled $257,497 for the year and $113,429 for the three months ended December 31, 2008.

Depletion Depreciation and Accretion

Depletion, depreciation and accretion expenses were $1,080,946 for the year ended December 31, 2008 and ($88,491) for the three months ended December 31, 2008. Depletion costs are significantly lower for the year, due to an impairment charge of $4,300,000 for P&NG properties in 2007, reducing the Company's proven resource base.

Income tax

Sahara does not have current income tax payable and does not expect to pay current income taxes in 2009 as the Company had estimated tax pools available of $10,842,000 at December 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

The Company had a working capital deficiency of $3,894,401 for the year ended December 31, 2008. Included in the working capital deficiency are $1,337,020 convertible debentures that mature on June 29, 2009. The maturity date for these debentures has since been extended to September 30, 2009.

The debentures are convertible at the option of the holder into 1,337,020 units, each unit consisting of one common share and one common share purchase warrant at a price of $0.50 per share. The warrants expire June 29, 2009. The warrants closing date has been extended to September 30, 2009.

COMMITMENTS AND CONTINGENCIES

The following is a summary of commitments and contingencies for the reporting period.

a) Commitments

Flow-through expenditures: During 2008, the Company has renounced resource expenditures to the subscribers for income tax purposes and is committed to renounce qualifying expenditures of this amount by December 31, 2008 and to incur qualifying expenditures of this amount by December 31, 2008. The renunciation of the qualifying resource expenditures to shareholders was filed with the tax authorities in March 2009. During 2008, company utilized qualifying resource expenditures of total $270,685 which relate to Flow-Through Shares issued in 2006.

A future tax liability approximating $157,898 has been recorded in 2008 with a corresponding reduction in share capital.

Premises lease: The Company entered into a lease agreement for a period of five years that calls for annual basic rent payments of $214,900 per year. The Company currently has two sub-lease agreements in place that provides a recovery of $112,389 during 2008. The new lease agreement reduces the Company's commitment to approximately $60,000 per annum. The new lease agreement expires September 2014.

b) Contingencies

During the first two quarters of 2009 four of the Company's creditors filed claims against the Company totalling $190,474. Of this amount, $121,248 has been paid and payment agreements have been reached. Additional payments have been made with the proceeds from the sale of properties. The Company anticipates that the related outstanding will be settled in full by December 31, 2009.

A service contractor entered a Statement of Claim in June 2009 for an unpaid invoice totalling $129,960.74. The Company does not agree with this claim and has entered a counterclaim in the amount of $1,984,705. It is anticipated that the legal proceedings in this matter will commence in the fourth quarter of 2009.

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:

On December 31, 2007 the Company had promissory notes payable of $420,000 of which $320,000 is owed to senior management and directors of the Company.

During 2008 consulting fees were paid to a corporation controlled by an officer of the Company of $100,000. Interest of $32,000 was charged on promissory notes payable to certain officers, directors and corporations under their control.

As of December 31, 2008 a related senior manager of the Company was owed $6,538 in salary and expenses. This amount was paid in the first quarter of 2009.

SUBSEQUENT EVENTS

Four of the Company's creditors filed claims against the Company totalling $190,474. Of this amount, $121,248 has been paid and payment agreements have been reached. Additional payments have been made with the proceeds from the sale of properties. The Company anticipates that the related outstanding will be settled in full by December 31, 2009.

The Company sold 15 properties. The proceeds from these sales, $436,000, were used to pay down outstanding engineering evaluations costs and audit fees as well as other various corporate debt.

During the third quarter of 2009 the Company embarked on a debt restructuring plan in which the Company offered an immediate cash settlement payment of 10% of all outstanding balances to certain creditors. Twenty creditors agreed to this offer and received payments totalling $18,006. The Company also offered Sahara common shares at a price of $0.15 as payment on further outstanding debt. The Company proposes to issue 953,099 shares for a debt reduction of $142,965. The proposal is subject to TSXV approval and the Company cannot obtain approval until the stock resumes trading. The total debt write down was $323,025.

The Company's marketing agent went into receivership in July 2008 at which time Sahara still had not received oil revenues for July and August 2008 production. The Company has now written down the outstanding receivable of $316,739 due from their marketing agent to $7,000 based on The Court of Queens bench decision which was handed down on August 24, 2009. The remaining $309,739 was moved to bad debts. This write-down is consistent with other creditors of marketing agent who are also assuming a bad debt as December 31, 2008 on their financial statements.

A service contractor entered a Statement of Claim in June 2009 for an unpaid invoice totalling $129,960.74. The Company does not agree with this claim and has entered a counterclaim in the amount of $1,984,705. It is anticipated that the legal proceedings in this matter will commence in the fourth quarter of 2009.

The Company moved into smaller office space at the same location during the fourth quarter of 2009. The new lease is for $60,000 per year. This represents a saving of $65,000 per year.

CONTROLS AND PROCEDURES

As the Corporation is classified as a Venture Issuer under applicable securities legislation, it is required to file basic Chief Executive Officer and Chief Financial Officer Certifications, which it has done for the year ended December 31, 2008. The Corporation makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under Multilateral Instrument 52-109 as at December 31, 2008.

BUSINESS RISKS

The Corporation is engaged in the exploration and development of crude oil. The Corporation's business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced.

- **Environment**

  All phases of the oil business present environmental risks and hazards and are subject to environmental regulation pursuant to a complex blend of federal, provincial, and municipal laws and regulations. Although the Corporation believes that it is in material compliance with current applicable environmental regulations, no assurance can be given that environmental laws will not result in a curtailment of production or materially increase the costs of production, development, and exploration activities or otherwise adversely affect the Corporation's financial condition, results from operations and or prospects.

- **Financial**

  Financial risks associated with the petroleum industry include fluctuation in commodity prices, interest rates, and currency exchange rates. Other financial risks include, but are not limited to, the availability of funds through equity markets and or debt to invest in capital projects to support the Corporation's growth.

- **Operational**

  Operational risks include competitive environmental factors, reservoir performance uncertainties and dependence upon third parties for commodity transportation and processing and a complex regulatory environment. The Corporation closely follows the applicable government regulations. The Corporation carries insurance coverage to protect itself against those potential losses that could be economically insured against.

  - **Commodity Price Risk Management**

  The Corporation does not have any contracts in place to protect against commodity price changes.

  - **Fair Value of Financial Instruments**

  The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, line of credit, accounts payable and accrued liabilities, and note payable. Management has utilized valuation methodologies available as at the year end and has determined that the carrying amounts of such financial instruments approximate their fair value in all cases due to the short-term maturity of these instruments.

  - **Foreign Currency Exchange Risk**

  The Corporation is exposed to foreign currency fluctuations as crude oil to be received are referenced in United States dollar denominated prices.

  It is management's opinion that the Corporation is not currently exposed to commodity price risk, credit risk or interest rate risk except as described above. The Corporation does not use derivative instruments to reduce exposure to commodity price or foreign currency exchange risk.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Corporation prepares its financial statements in accordance with GAAP. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the year of the financial statements. Significant accounting policies and methods used in the preparation of the financial statements are described in notes of the audited financial statements for the year ended December 31, 2008, as well as in the *Accounting Policies – Accounting Standards Implemented by the Corporation in 2008* discussed below.

The Corporation evaluates its estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in the financial statements are estimates used in determining the fair value of investments, revenue recognition and other matters. Actual results could differ materially from those estimates and assumptions.

ACCOUNTING POLICIES – ACCOUNTING STANDARDS IMPLEMENTED BY THE CORPORATION IN 2008

The Corporation's accounting policies are disclosed in the notes to the 2008 audited annual financial statements and in the following disclosure of the impact of new accounting standards implemented by the Corporation in the year ended December 31, 2008.

Capital Disclosures

On January 1, 2008, the Corporation prospectively adopted CICA Section 1535 Capital Disclosures. This Section establishes standards for disclosing information about an entity's objectives, policies and processes for managing its capital structure. The disclosures have been included in notes to the audited financial statements for the year ended December 31, 2008.

Financial Instruments

On January 1, 2008, the Corporation prospectively adopted the following two new CICA standards: Financial Instruments - Disclosures (Section 3862) and Financial Instruments - Presentation (Section 3863), which replace Financial Instruments - Disclosure and Presentation (Section 3861). The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward former presentation requirements.

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standards Board ("AcSB") confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises in Canada. In April 2008, the AcSB issued an Omnibus Exposure Draft that publicly accountable enterprises be required to apply IFRS, in full and without modification, on January 1, 2011.

The adoption date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2010, and of the opening balance sheet as at January 1, 2010. The AcSB proposes that CICA Handbook Section – *Accounting Changes,* paragraph 1506.30, which would require an entity to disclose information relating to a new primary source of GAAP that has been issued but is not yet effective and that the entity has not applied, not be applied with respect to Exposure Draft.

The Corporation is continuing to assess the financial reporting impacts of the adoption of IFRS and, at this time, the impact on future financial position and results of operations is not reasonably determinable or estimable. The Corporation does anticipate a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required as well as systems changes that may be necessary to gather and process the information.

QUARTERLY SUMMARY

Below is a summary of the Corporation's financial results for the past eight quarters. This information should be read in conjunction with the unaudited quarterly and audited annual financial statements of the Corporation available at www.sedar.com.

	2008				2007			
Financial ($)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Operating ($)								
Revenues	224,476	603,599	349,905	531,952	677,091	709,224	526,772	532,161
Royalties	(61,751)	(44,412)	4,873	17,634	(106,449)	(142,528)	(99,678)	(80,000)
Other revenue	(74,462)	162	412	74,676	6,393	59	61	4,276
Revenues, net of royalties	162,726	559,349	355,191	624,062	577,035	566,755	427,155	456,437
Production expenses	122,530	195,046	196,168	228,018	526,404	480,852	469,897	313,477
Operating netback ($)	40,196	364,303	159,023	396,044	50,631	85,903	(42,742)	142,960
G & A / other expenses ($)	62,268	268,761	585,035	334,116	879,808	347,631	268,459	508,338
Depletion & depreciation ($)	(88,494)	232,647	237,276	390,102	6,565,256	358,613	297,017	318,908
Net Income (Loss) ($)	(1,530,990)	(137,105)	(663,288)	(328,174)	(7,394,433)	(620,341)	(608,218)	(684,286)
Production								
Average (BOE/day)	48	68	30	92	206	98	133	139
Period End Balances ($)								
Working Capital	(3,894,401)	(1,868,515)	(2,218,069	(2,518,577)	(4,124,328)	(4,792,236)	(3,056,858)	(3,341,673)
Total Assets	8,309,138	10,439,155	11,201,496	12,161,340	14,724,617	27,511,024	28,328224	28,052,388
Total Liabilities	5,220,786	5,821,749	6,369,794	6,551,001	8,713,513	16,350,953	16,181,771	15,667,380
Shareholders' Equity	3,088,352	4,603,007	4,831,702	5,609,710	3,472,035	6,546,850	6,860,046	7,443,710
Shares Outstanding	38,036,032	38,036,032	38,036,032	24,632,406	24,632,406	19,368,083	19,368,083	19,368,083