

# SAHARA ENERGY LTD.

## Management's Discussion and Analysis For the period ended September 30, 2011

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The following management discussion and analysis ("MD&A") of SAHARA ENERGY LTD. (the "Company" or "Sahara") for three and nine months ended September 30, 2011 contains financial highlights but does not contain the complete financial statements of the Company. It should be read in conjunction with the Company's unaudited condensed interim financial statements and related notes for the period ended September 30, 2011 and the audited financial statements for the year ended December 31, 2010. Additional information is available on SEDAR at [www.sedar.com](http://www.sedar.com). The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS"). All references to dollar amounts are in Canadian dollars. This MD&A includes events up to **November 28, 2011**.

The condensed interim financial statements and comparative information have been prepared in accordance with International Financial Reporting Standard ("IFRS") 1 First - time Adoption of IFRS and with International Accounting Standard 34 Interim Financial Reporting, as issued by the International Accounting Standards Board. Previously the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Unless otherwise noted, 2010 comparative information has been prepared in accordance with IFRS. The adoption of IFRS has had no impact on the Company's operations, strategic decisions or cash flows. The most significant area of impact was the adoption of the IFRS upstream oil and gas accounting principles. Further information on the conversion to IFRS is provided in the Accounting Policies and Estimates Section of this MD&A.

### 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 Company. 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 Company 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.

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### BASIS OF PRESENTATION

Certain financial measures referred to in this discussion, such as funds from (used by) operations and funds from (used by) operations per share, are not prescribed by IFRS. Funds from (used by) operations is a key measure that demonstrates the ability to generate cash to fund capital expenditures. Funds from (used by) operations is calculated by taking the cash flow from (used by) operating activities as presented in the statement of cash flows and adding back the change in non-cash working capital. Funds from (used by) operations per share is calculated using the same methodology for determining net income per share. These non-IFRS financial measures may not be comparable to similar measures presented by other companies. These financial measures are not intended to represent operating profits for the period nor should they be viewed as an alternative to cash flow from (used by) operating activities, net income or other measures of financial performance calculated in accordance with IFRS. The reconciliation between funds from (used by) operations and cash flow from (used by) operating activities for the three and nine months ended September 30, 2011 and 2010 is presented in the table below:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Cash flow from (used by) operating activities	\$ (75,819)	\$ (19,575)	\$ (1,168,196)	\$ (649,104)
Change in non-cash working capital	(223,873)	(176,568)	365,021	139,919
Funds from (used by) operations	\$ (299,692)	\$ (196,143)	\$ (803,175)	\$ (509,185)
Weighted average number of shares outstanding - Basic	72,730,568	6,339,387	70,271,614	6,339,387
Funds from (used by) operations per share	\$ -	\$ (0.03)	\$ (0.01)	\$ (0.08)

Management uses certain industry benchmarks such as field netback to analyze financial and operating performance. Field netback has been calculated by taking petroleum and natural gas sales revenue less royalties and production and operating expenses. This benchmark does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Management considers field netback as an important measure to demonstrate profitability relative to commodity prices.

All barrels of oil equivalent (boe) conversions in this report are derived by converting natural gas to oil at the ratio of six thousand cubic feet (mcf) of natural gas to one barrel (bbl) of oil. Certain financial values are presented on a boe basis and such measurements may not be consistent with those used by other companies. Boe may be misleading, particularly if used in isolation. A boe conversion of six mcf to one boe is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead.

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### CORPORATE 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 Company does not have a history of earnings. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and/or complete equity financings and obtain borrowings from third parties sufficient to meet current and future obligations. During the nine months ended September 30, 2011, the Company incurred a net loss of \$1,467,388 and has an accumulated deficit of \$4,046,297. As at September 30, 2011, the Company had a working capital surplus of \$332,486.

The unaudited condensed interim financial statements for the three and nine months ended September 30, 2011 do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations.

### OVERVIEW AND SIGNIFICANT EVENTS

During the nine months ended September 30, 2011, the Company earned net revenues of \$455,216, and incurred a net loss of \$1,467,388.

During the nine months ended September 30, 2011, the Company incurred \$42,313 of capital expenditures and \$74,552 of decommissioning expenditures. There were no dispositions during the nine months ended September 30, 2011.

As at September 30, 2011, the Company reported a cash balance of \$309,993 and a working capital surplus of \$332,486. Sahara has been looking at various financing options to improve its working capital position.

### **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.

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### OPERATIONAL ACTIVITIES

#### Field netback

Per boe	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue	\$ 61.31	\$ 60.24	\$ 61.62	\$ 56.89
Royalties	(16.42)	(3.76)	(11.19)	(5.89)
Production and operating expenses	(33.40)	(44.36)	(37.91)	(30.23)
<b>Field netback</b>	<b>\$ 11.49</b>	<b>\$ 12.12</b>	<b>\$ 12.52</b>	<b>\$ 20.77</b>

Variances in the Company's field netbacks are explained by changes in the following components:

#### (a) Production volumes and revenues

Production by product	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Oil (bbls/d)	32	16	32	22
Natural gas (mcf/d)	–	2	7	14
<b>Total (boe/d) (6:1)</b>	<b>32</b>	<b>16</b>	<b>33</b>	<b>24</b>

Oil production increased in the 2011 periods due to the recovery of production in February and March after repairs were completed. Production in the third quarter of 2011 was up slightly from the second quarter (27 boe/d) which was affected by poor weather conditions which prevented the hauling of oil on wet roads.

Revenue by product	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Oil	\$ 177,909	\$ 85,814	\$ 549,313	\$ 360,925
Natural gas	–	645	6,908	11,847
<b>Total</b>	<b>\$ 177,909</b>	<b>\$ 86,459</b>	<b>\$ 556,221</b>	<b>\$ 372,772</b>

Pricing by product	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Oil (\$/bbl)	\$ 61.31	\$ 60.78	\$ 63.17	\$ 62.68
Natural gas (\$/mcf)	–	3.34	3.47	3.12
<b>Total (\$/boe)</b>	<b>\$ 61.31</b>	<b>\$ 60.24</b>	<b>\$ 61.62</b>	<b>\$ 56.89</b>

Average product prices for the 2011 nine-month period were higher than those earned in 2010 due to a spike in oil prices in the second quarter of 2011 followed by a slight decline in the third quarter. The increase in production in the third quarter of 2011 was offset by the decline in oil prices which resulted in third quarter revenue unchanged from the second quarter (\$177,870).

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#### (b) Royalties

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Royalties	\$ 47,637	\$ 5,391	\$ 101,005	\$ 35,950
As a % of oil and natural gas revenue	26.8%	6.2%	18.2%	10.4%
Per boe (6:1)	\$ 16.42	\$ 3.76	\$ 11.19	\$ 5.89

Royalties increased in the third quarter of 2011 due to an increase in compensatory royalties.

#### (c) Production and operating expenses

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Production and operating expenses	\$ 96,903	\$ 63,662	\$ 342,248	\$ 198,057
Per boe (6:1)	\$ 33.40	\$ 44.36	\$ 37.91	\$ 30.23

During the first quarter of 2011, the Company incurred costs to repair several of its wells. As a result, production and operating costs per boe improved in the second and third quarters of 2011 as repair work was no longer required and costs reduced to normal levels.

Production and operating expenses are lower in the 2010 comparative nine-month period due to one-time credits received from an Operator of some of Sahara's non-operated wells in the second quarter of 2010 due to audit adjustments to periods prior to the current reporting period.

#### General and administrative expenses

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
General and administrative expenses	\$ 259,271	\$ 213,604	\$ 843,206	\$ 614,270
Per boe (6:1)	\$ 89.35	\$ 148.83	\$ 93.41	\$ 93.75

General and administrative expenses are higher in 2011 due to the expenses paid for reorganization, auditing, and legal fees, which were higher than amounts previously accrued. The Company also increased travel and promotional activities in 2011 to promote the Company and improve investor relations. Additional consulting fees were incurred on the review analysis of strategic business opportunities. An overall increase in 2011 general and administrative expenses is also attributed to an improvement in processes and procedures as a result of the reorganization.

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	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Consulting and professional fees	\$ 160,359	\$ 118,604	\$ 521,991	\$ 345,826
Salaries and benefits	44,282	49,696	134,876	149,237
Office and general	39,854	27,704	118,361	71,592
Shareholder and regulatory	11,477	13,873	39,029	37,086
Travel and business promotion	3,299	3,727	28,949	10,529
<b>Total</b>	<b>\$ 259,271</b>	<b>\$ 213,604</b>	<b>\$ 843,206</b>	<b>\$ 614,270</b>

#### Depletion and depreciation

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Depletion and depreciation	\$ 38,890	\$ 20,137	\$ 120,407	\$ 81,673
Per boe (6:1)	\$ 13.40	\$ 14.03	\$ 13.34	\$ 12.46

Depletion and depreciation expense per boe was relatively unchanged in all periods.

#### Share-based compensation

Share-based compensation measures the implicit cost of compensating key personnel through the issuance of stock options. Share-based compensation for the three and nine months ended September 30, 2011 was \$124,900 and \$603,237, respectively, related to stock options granted in February 2011.

The Company did not grant any stock options in 2010, therefore, no share-based compensation was recognized in the 2010 comparative periods.

#### Finance Expense

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Interest income	\$ (786)	\$ (55)	\$ (1,639)	\$ (62)
Interest expense	24	-	5,188	33,742
Decommissioning liability accretion	3,405	2,786	9,957	10,230
	<b>\$ 2,643</b>	<b>\$ 2,731</b>	<b>\$ 13,506</b>	<b>\$ 43,910</b>

Interest expense for the nine months ended September 30, 2011 was \$5,188 as compared to \$33,742 for the 2010 comparative period. Interest expense was lower in 2011 due to the corporate reorganization and the settlement of the promissory note in the first quarter. 2010 interest expense also includes interest on convertible debentures which were settled as part of the corporate reorganization.

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### Income tax

Sahara does not have current income tax payable and does not expect to pay current income taxes in 2011 as the Company had estimated tax pools available of \$8,810,000 at December 31, 2010.

### Capital Expenditures

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Land	\$ 14,428	\$ 878	\$ 16,376	\$ 27,021
Geological and geophysical	–	–	–	–
Well completions and workovers	–	–	–	11,798
Well and office equipment	–	41,455	25,937	43,075
	14,428	42,333	42,313	81,894
Dispositions	–	–	–	(299,586)
Net capital expenditures	\$ 14,428	\$ 42,333	\$ 42,313	\$ (217,692)

Land expenditures in 2011 include \$14,000 of costs related to the farm-out of certain properties.

In 2010, the Company sold a non-producing property in the Lloydminster area and used well equipment in the Hayter area for total proceeds of \$299,586.

### LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010, the Company had a \$100,000 promissory note payable to China Great United Petroleum Investment Co. Ltd. ("CGUP"), an unrelated third party prior to the corporate reorganization. The note bore interest at 21% per annum, was repayable on demand and secured by a first priority charge on all assets of the Company. In January 2011, the Company agreed with CGUP to settle the promissory note of \$100,000 and accrued interest through the issuance of 967,029 common shares at a price of \$0.109 per share, the discounted market price as determined by the closing price of the common shares on January 6, 2011, the day before the initial announcement of the common share issuance by Sahara. These shares were issued on March 21, 2011.

As at September 30, 2011, the Company had a working capital surplus of \$332,486 compared to \$1,077,974 at December 31, 2010. The change in working capital is due to \$803,175 of funds used by operations and \$42,313 of capital expenditures partially offset by the settlement of the \$100,000 promissory note through the issuance of shares.

### COMMITMENTS AND CONTINGENCIES

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

Premises lease: The Company entered into a lease agreement on September 1, 2009 for a period of five years that calls for annual basic rent payments of \$62,000 per year. The new lease agreement expires September 2014.

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The Company has not entered into any off-balance sheet arrangements.

### RELATED PARTY TRANSACTIONS

The Company had the following related party transactions during the period, which is the amount established and agreed to by the related parties and which are similar to those negotiable with third parties:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Consulting fees paid to corporations controlled by officers and former officers	\$ 20,500	\$ 37,500	\$ 143,500	\$ 105,500
Operating costs paid to a corporation controlled by a director	\$ -	\$ -	\$ -	\$ 21,000
Interest charged on promissory notes payable to certain officers, directors and corporations under their control	\$ -	\$ -	\$ 5,164	\$ 7,274

### SUBSEQUENT EVENTS

- In November 2011, the Company issued 5,000,000 common shares on the exercise of the same number of warrants at \$0.05 per common share for gross proceeds of \$250,000.
- The Company's directors approved a resolution to amend the exercise price of 6,400,000 stock options from \$0.21 per share to \$0.10 per share based on the market price of the common shares at the time of the resolution. All other terms of the amended stock options remain unchanged. The amendment is subject to shareholder approval at the Company's Annual General Meeting on November 29, 2011. The financial statement effect of the amendment will be determined and accounted for when approved.

### SHARE CAPITAL

#### Common shares

As at December 31, 2010, the Company had 64,339,387 common shares outstanding. In March 2011, the Company issued 7,424,152 common shares as part of the Creditors' Proposal for secured creditors and 967,029 common shares as settlement of a promissory note.

As at September 30, 2011, the Company had 72,730,568 common shares outstanding.

In November 2011, the Company issued 5,000,000 common shares on the exercise of the same number of warrants. As at the date of this MD&A, the Company has 77,730,568 common shares outstanding.

#### Warrants

As at December 31, 2010 and September 30, 2011, the Company had 10,110,000 warrants outstanding and exercisable.

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In November 2011, 5,000,000 warrants were exercised, reducing the number of warrants outstanding as of the date of this MD&A to 5,110,000.

### Stock options

As at December 31, 2010, the Company had 79,167 stock options outstanding. During the nine months ended September 30, 2011, the Company granted 6,400,000 stock options, 60,833 stock options expired and 1,418,334 stock options were forfeited in conjunction with the resignations of officers and consultants.

As at September 30, 2011 and the date of this MD&A, the Company had 5,000,000 stock options outstanding, of which 1,666,667 are exercisable.

### QUARTERLY SUMMARY

Below is a summary of the Company'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 Company available at [www.sedar.com](http://www.sedar.com).

	3rd Quarter 2011 IFRS	2nd Quarter 2011 IFRS	1st Quarter 2011 IFRS	4th Quarter 2010 IFRS
<b>Net Revenue</b>	\$ 130,272	\$ 148,901	\$ 176,043	\$ 47,205
<b>Net Loss</b>	(392,335)	(410,713)	(644,340)	(181,179)
<b>Loss per share</b>				
Basic	(0.005)	(0.006)	(0.010)	(0.007)
Fully Diluted	(0.005)	(0.006)	(0.010)	(0.007)
Weighted Average Number of Shares In Thousands	72,731	72,731	65,271	24,796
	3rd Quarter 2010 IFRS	2nd Quarter 2010 IFRS	1st Quarter 2010 IFRS	4th Quarter 2009 Canadian GAAP
<b>Net Revenue</b>	\$ 81,123	\$ 60,391	\$ 195,370	\$ 274,710
<b>Net Loss</b>	(219,066)	(205,472)	(176,550)	(3,680,127)
<b>Loss per share</b>				
Basic	(0.035)	(0.032)	(0.028)	(0.0581)
Fully Diluted	(0.035)	(0.032)	(0.028)	(0.0581)
Weighted Average Number of Shares In Thousands	6,339	6,339	6,339	6,339

### CONTROLS AND PROCEDURES

As the Company 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 three and nine months ended September 30, 2011. The Company makes no assessment relating to establishment and maintenance of disclosure controls and procedures as defined under National Instrument 52-109 as at September 30, 2011.

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### BUSINESS RISKS

The Company is engaged in the exploration and development of crude oil. The Company'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 Company 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 Company'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 Company'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 Company closely follows the applicable government regulations. The Company carries insurance coverage to protect itself against those potential losses that could be economically insured against.

- **Commodity Price Risk Management**

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

- **Fair Value of Financial Instruments**

The Company's financial instruments consist of cash, trade and other receivables and trade and other payables. 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 Company is exposed to foreign currency fluctuations as crude oil to be received are referenced in United States dollar denominated prices.

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

### SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

#### Explanation of transition to IFRS

The Company has adopted IFRS which replaced Canadian GAAP for years beginning on or after January 1, 2011. Accordingly, the unaudited condensed interim financial statements for the three and nine months ended September 30, 2011, including required comparative information, have been prepared in accordance with IFRS 1, First-time Adoption of IFRS, and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board.

The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions or internal controls. The most significant area of impact is on the accounting treatment of full cost oil and gas assets, depletion, flow-through shares, share-based payment transactions and decommissioning liabilities.

On transition to IFRS on January 1, 2010, the Company used the IFRS mandatory exception for the retrospective application of certain IFRS whereby hindsight was not used to create or revise estimates and accordingly, the estimates previously made by the Company under GAAP are consistent with their application under IFRS.

The Company applied the following exemptions to full retrospective application of IFRS in accordance with IFRS 1:

- Deemed cost of property, plant and equipment

The Company has elected to apply the exemption under IFRS 1 allowing the measurement of oil and gas assets at the date of transition to IFRS to be determined based on the amounts disclosed under the full cost method of accounting in accordance with GAAP.

- Decommissioning liability

The exemption provided in IFRS 1 from the full retrospective application of IFRS 1 has been applied and the difference between the net book values of the Company's decommissioning liability as measured under IFRS and their net book values under GAAP as of January 1, 2010 has been recognized directly in opening deficit.

- Share-based payments

The Company has elected not to apply IFRS 2 Share-based Payments to equity instruments granted after November 7, 2002 that had not vested by the transition date.

- Borrowing costs

The Company has applied the borrowing cost exemption in IFRS 1. It has applied the requirement of IAS 23 Borrowing Costs to borrowing costs relating to qualifying assets on a prospective basis from the date of transition to IFRS.

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The remaining IFRS 1 exemptions were not applicable or material to the preparation of the Company's Statement of Financial Position at the date of transition on January 1, 2010.

The reconciliations to IFRS from the Canadian GAAP financial statements are summarized in note 19 in the Company's September 30, 2011 unaudited condensed interim financial statements.