

# **EMERALD BAY ENERGY INC.**

## **NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

**to be held on Thursday, December 6, 2007**

**at 2:00 p.m. (Calgary time)**

**at the Xchange Conference Centre**

**Suite 200, Standard Life Building**

**639 - 5<sup>th</sup> Avenue S.W.**

**Calgary, Alberta**

## **MANAGEMENT INFORMATION CIRCULAR AND PROXY STATEMENT**

November 6, 2007

**EMERALD BAY ENERGY INC.**

**NOTICE OF ANNUAL AND SPECIAL MEETING OF THE SHAREHOLDERS**

**TAKE NOTICE THAT** an Annual and Special Meeting (the "Meeting") of the shareholders of EMERALD BAY ENERGY INC. (the "Corporation") will be held at the Xchange Conference Centre, Suite 200, Standard Life Building, 639 - 5<sup>th</sup> Avenue S.W., Calgary, Alberta, at 2:00 p.m., on December 6, 2007 for the following purposes:

1. to receive and consider the financial statements of the Corporation as at and for the year ended December 31, 2006, together with the report of the auditors thereon;
2. to elect the directors of the Corporation for the ensuing year;
3. to appoint the auditors of the Corporation for the ensuing year and to authorize the directors of the Corporation to determine the remuneration to be paid to the auditors;
4. to consider and, if deemed advisable, to pass an ordinary resolution, the full text of which is set forth in the accompanying Management Information Circular and Proxy Statement (the "Management Proxy Circular"), ratifying, adopting and approving the stock option plan of the Corporation and authorizing the Corporation's board of directors to make any amendments thereto that may be required for the purpose of obtaining the approval of the TSX Venture Exchange or, if required, the Toronto Stock Exchange; and
5. to transact such other business as may properly come before the Meeting.

Information relating to matters to be acted upon by the shareholders at the Meeting is set forth in the accompanying Management Proxy Circular.

A shareholder may attend the Meeting in person or may be represented at the Meeting by proxy. Shareholders who are unable to attend the Meeting in person and wish to be represented by proxy are requested to date, sign and return the accompanying Instrument of Proxy, or other appropriate form of proxy, in accordance with the instructions set forth in the accompanying Management Proxy Circular and Instrument of Proxy. An Instrument of Proxy will not be valid unless it is deposited at the offices of the Corporation's registrar and transfer agent, Computershare Trust Company of Canada c/o Computershare Investor Services, Proxy Dept., 100 University Avenue 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1 in the enclosed self-addressed envelope, not less than 48 hours (excluding Saturdays, Sundays and statutory holidays) before the time of the Meeting, or any adjournment thereof. A person appointed as proxy holder need not be a shareholder of the Corporation.

Only shareholders of record as at the close of business on November 6, 2007 (the "Record Date") are entitled to receive notice of the Meeting.

**SHAREHOLDERS ARE CAUTIONED THAT THE USE OF THE MAIL TO TRANSMIT PROXIES IS AT EACH SHAREHOLDER'S RISK.**

DATED at Calgary, Alberta as of the 6<sup>th</sup> day of November, 2007.

**BY ORDER OF THE BOARD OF DIRECTORS**

*(signed) Shelby D. Beattie*  
President, Chief Executive Officer and Director

## EMERALD BAY ENERGY INC.

### MANAGEMENT PROXY CIRCULAR

(Unless otherwise stated, information contained herein is given as of November 6, 2007)

#### INFORMATION REGARDING PROXIES AND VOTING AT THE MEETING

##### **Solicitation of Proxies**

This Management Proxy Circular is furnished in connection with the solicitation of proxies by the management of Emerald Bay Energy Inc. (the "Corporation") for use at the Annual and Special Meeting of the holders (the "Shareholders") of common shares ("Common Shares") of the Corporation to be held at the Xchange Conference Centre, Suite 200, Standard Life Building, 639 - 5<sup>th</sup> Avenue S.W., Calgary, Alberta, at 2:00 p.m., on December 6, 2007 (the "Meeting"), for the purposes set forth in the Notice of Annual and Special Meeting (the "Notice") accompanying this Management Proxy Circular. Solicitation of proxies will be primarily by mail, but may also be undertaken by way of telephone, facsimile or oral communication by the directors, officers and regular employees of the Corporation, at no additional compensation. Costs associated with the solicitation of proxies will be borne by the Corporation.

##### **Appointment of Proxyholders**

Accompanying this Management Proxy Circular is an instrument of proxy for use at the Meeting. Shareholders who are unable to attend the Meeting in person and wish to be represented by proxy are required to date and sign the enclosed instrument of proxy and return it in the enclosed return envelope. **All properly executed instruments of proxy for Shareholders must be mailed so as to reach or be deposited at the offices of the Corporation's registrar and transfer agent, Computershare Trust Company of Canada c/o Computershare Investor Services, Proxy Dept., 100 University Avenue 9<sup>th</sup> Floor, Toronto, Ontario, M5J 2Y1 not later than 48 hours (excluding Saturdays, Sundays and statutory holidays in the Province of Ontario) prior to the time set for the Meeting or any adjournment thereof.**

The persons designated in the instrument of proxy are officers and/or directors of the Corporation. **A Shareholder has the right to appoint a person (who need not be a Shareholder) other than the persons designated in the accompanying instrument of proxy, to attend at and represent the Shareholder at the Meeting.** To exercise this right, a Shareholder should insert the name of the designated representative in the blank space provided on the instrument of proxy and strike out the names of management's nominees. Alternatively, a Shareholder may complete another appropriate instrument of proxy.

##### **Signing of Proxy**

The instrument of proxy must be signed by the Shareholder or the Shareholder's duly appointed attorney authorized in writing or, if the Shareholder is a corporation, under its corporate seal or by a duly authorized officer or attorney of the Corporation. An instrument of proxy signed by a person acting as attorney or in some other representative capacity (including a representative of a corporate Shareholder) should indicate that person's capacity (following his or her signature) and should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such instrument has previously been filed with the Corporation).

##### **Revocability of Proxies**

A Shareholder who has submitted an instrument of proxy may revoke it at any time prior to the exercise thereof. In addition to any manner permitted by law, a proxy may be revoked by instrument in writing executed by the Shareholder or by his or her duly authorized attorney or, if the Shareholder is a corporation, under its corporate seal or executed by a duly authorized officer or attorney of the corporation and deposited either: (i) at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournments thereof, at which the instrument of proxy is to be used; or (ii) with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof. In addition, an instrument of proxy may be revoked: (i) by the Shareholder personally attending the Meeting and voting the securities represented thereby or, if the Shareholder

is a corporation, by a duly authorized representative of the corporation attending at the Meeting and voting such securities; or (ii) in any other manner permitted by law.

### **Voting of Proxies and Exercise of Discretion by Proxyholders**

All Common Shares represented at the Meeting by properly executed proxies will be voted on any ballot that may be called for and, where a choice with respect to any matter to be acted upon has been specified in the instrument of proxy, the Common Shares represented by the instrument of proxy will be voted in accordance with such instructions. The management designees named in the accompanying instrument of proxy will vote or withhold from voting the Common Shares in respect of which they are appointed in accordance with the direction of the Shareholder appointing him or her on any ballot that may be called for at the Meeting. **In the absence of such direction, such Common Shares will be voted "FOR" the proposed resolutions at the Meetings. The accompanying instrument of proxy confers discretionary authority upon the persons named therein with respect to amendments of or variations to the matters identified in the accompanying Notice and with respect to other matters that may properly be brought before the Meeting.** In the event that amendments or variations to matters identified in the Notice are properly brought before the Meeting or any further or other business is properly brought before the Meeting, it is the intention of the management designees to vote in accordance with their best judgment on such matters or business. At the time of printing this Management Proxy Circular, the management of the Corporation knows of no such amendment, variation or other matter to come before the Meeting other than the matters referred to in the accompanying Notice.

### **INTEREST OF CERTAIN PERSONS OR COMPANIES IN MATTERS TO BE ACTED ON**

Except as disclosed in this Management Proxy Circular, none of the directors or senior officers of the Corporation at any time since the beginning of the Corporation's last financial year, nor any proposed nominee for election as a director of the Corporation, nor any associate or affiliate of any of the foregoing persons, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise in any matter to be acted on, other than the election of directors or the appointment of auditors. Richard Tingle, a former director and Christopher Croteau, a director, were partners in the law firm of TingleMerrett LLP, which provides legal services to the Corporation. The fees paid for legal services in 2006 amounted to \$10,210. Gibson Scott, Chief Operating Officer, is also the President of TrueBore Consulting Inc., which has provided consulting services to the Corporation. TrueBore Consulting Inc. was paid \$222,000 for these services in 2006.

### **VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES**

#### **Voting Shares and Record Date**

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of preferred shares. The record date for the determination of Shareholders entitled to receive notice of and to vote at the Meeting is November 6, 2007 (the "Record Date"). As at the Record Date, there were 27,903,277 Common Shares issued and outstanding as fully paid and non-assessable.

#### **Common Shares**

The holders of Common Shares are entitled to notice of and to vote at all annual and special meetings of shareholders and are entitled to one vote per Common Share. The holders of Common Shares are entitled to receive such dividends as the board of directors of the Corporation (the "Board of Directors" or the "Board") declare and, upon dissolution, to receive such assets of the Corporation as are distributable to holders of Common Shares.

#### **Voting of Common Shares – General**

Only Shareholders whose names are entered in the Corporation's register of shareholders at the close of business on that date and holders of Common Shares issued by the Corporation after such date and prior to the Meeting will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent that: (i) a registered Shareholder has transferred the ownership of any Common Shares subsequent to the Record Date; and (ii) the transferee of those Common Shares produces properly endorsed share certificates, or otherwise establishes that he or she owns the Common Shares and demands, not later than ten days before the Meeting, that his or her name be included on the Shareholder list before the Meeting, in which case the transferee shall be entitled to vote his or her Common Shares at the Meeting.

## **Voting of Common Shares – Advice to Non-Registered Holders**

Only registered holders of Common Shares, or the persons they appoint as their proxies, are permitted to attend and vote at the Meeting. However, in many cases, Common Shares beneficially owned by a holder (a "Non-Registered Holder") are registered either:

- a) in the name of an intermediary (an "Intermediary") that the Non-Registered Holder deals with in respect of the Common Shares. Intermediaries include banks, trust companies, securities dealers or brokers, and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans; or
- b) in the name of a clearing agency (such as The Canadian Depository for Securities or "CDS").

In accordance with the requirements of National Instrument 54-101 of the Canadian Securities Administrators, the Corporation has distributed copies of the Notice, this Management Proxy Circular and the instrument of proxy (collectively, the "Meeting Materials") to the clearing agencies and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward meeting materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Typically, Intermediaries will use a service company (such as ADP Investor Communications ("ADP")) to forward meeting materials to Non-Registered Holders.

Generally, Non-Registered Holders who have not waived the right to receive meeting materials will:

- a) have received as part of the Meeting Materials a voting instruction form which must be completed, signed and delivered by the Non-Registered Holder in accordance with the directions on the voting instruction form; voting instruction forms sent by ADP permit the completion of the voting instruction form by telephone or through the Internet at [www.proxyvotecanada.com](http://www.proxyvotecanada.com); or
- b) less typically, be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Common Shares beneficially owned by the Non-Registered Holder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Holder. In this case, the Non-Registered Holder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it with Computershare Trust Company of Canada, c/o Computershare Investor Services at the address referred to above.

The purpose of these procedures is to permit Non-Registered Holders to direct the voting of the Common Shares they beneficially own. Should a Non-Registered Holder wish to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Holder), the Non-Registered Holder should strike out the names of the persons named in the proxy and insert the Non-Registered Holder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the corresponding instructions on the form. **In either case, Non-Registered Holders should carefully follow the instructions of their Intermediaries and their service companies.**

Only registered Shareholders have the right to revoke a proxy. Non-Registered Holders who wish to change their vote must in sufficient time in advance of the Meeting, arrange for their respective Intermediaries to change their vote and if necessary revoke their proxy in accordance with the revocation procedures set above.

## **Principal Holders of Common Shares**

To the knowledge of the directors and officers of the Corporation, no person or corporation beneficially owns or exercises the control or discretion over Common Shares or preferred shares carrying more than 10% of the votes attached to the securities of the Corporation.

## **STATEMENT OF EXECUTIVE COMPENSATION**

### **Summary Compensation Table**

Executive Compensation is required to be disclosed for each Chief Executive Officer (or individual who served in a similar capacity during the most recently completed financial year), each Chief Financial Officer (or individual who

served in a similar capacity during the most recently completed financial year) and each of the three most highly compensated executive officers (other than the Chief Executive Officer and the Chief Financial Officer) who were serving as executive officers at the end of the most recently completed fiscal year and whose total salary and bonus exceeded \$150,000 (the "Named Executive Officers"). The following table sets forth information concerning the total compensation paid, during the last three financial years, to the Named Executive Officers.

Name and Principal Position	Year Ended Dec. 31	Annual Compensation			Long-term Compensation			
		Salary (Cdn\$)	Bonus (Cdn\$)	Other Annual Compensation (Cdn\$)	Securities Under Options/SARs <sup>(7)</sup> Granted (#)	Shares or Units Subject to Resale Restrictions (#)	LTIP Payouts <sup>(8)</sup> (Cdn\$)	All Other Compensation (Cdn\$)
Leonard D. Rice, Chief Executive Officer <sup>(1)</sup>	2006	n/a	n/a	\$18,800	n/a	n/a	n/a	n/a
	2005	\$28,700	Nil	\$106,062	Nil	Nil	Nil	Nil
	2004	\$77,900	\$57,800	\$62,495 <sup>(3)</sup>	Nil	Nil	Nil	Nil
Shelby D. Beattie, President, Chief Executive Officer and Chief Financial Officer <sup>(2)</sup>	2006	\$212,630	Nil	Nil	Nil	Nil	Nil	Nil
	2005	\$159,800	\$35,000	Nil	Nil	Nil	Nil	Nil
	2004	\$134,050	\$3,000	\$13,500 <sup>(4)</sup>	Nil	Nil	Nil	Nil
Gibson Scott, Chief Operating Officer <sup>(5)</sup>	2006	Nil	Nil	\$222,000	Nil	Nil	Nil	Nil
	2005	\$26,875	Nil	\$220,215 <sup>(6)</sup>	Nil	Nil	Nil	Nil
	2004	Nil	Nil	\$127,810 <sup>(6)</sup>	Nil	Nil	Nil	Nil

**Notes:**

- (1) Mr. Rice ceased to be the Chief Executive Officer of the Corporation on February 25, 2005. \$106,062 represents the compensation paid to Mr. Rice after February 25, 2005 for services rendered to the Corporation in his capacity as employee and director.
- (2) Mr. Beattie was appointed President and Chief Executive Officer of the Corporation on February 25, 2005. Mr. Beattie ceased to be the Chief Financial Officer of the Corporation on February 25, 2005.
- (3) Mr. Rice was paid \$62,495 in 2004 for services to the Corporation completed in prior years.
- (4) Mr. Beattie was paid \$13,500 in 2004 for services to the Corporation completed in prior years.
- (5) Mr. Scott was appointed Chief Operating Officer of the Corporation on February 25, 2005.
- (6) Mr. Scott is also the President of TrueBore Consulting Inc. ("TrueBore") which has provided consulting services to the Corporation. TrueBore was paid \$222,000 for these services in 2006 and was paid \$220,215 for these services in 2005, including \$25,715 for moving and relocation expenses. In 2004, Mr. Scott was paid \$39,000 for services rendered to the Corporation as an employee and TrueBore received \$88,810.
- (7) "SAR" or "Stock Appreciation Right" means any right granted by the Corporation as compensation for services rendered, to receive a payment of cash or issue or transfer securities based wholly or in part on changes in the trading price of publicly traded securities of the Corporation.
- (8) "LTIP" or "Long Term Incentive Plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include options or stock appreciation right plans or plans for compensation through restricted shares or restricted share units.

**Long-Term Incentive Plan Awards**

The Corporation has no long-term incentive plans. Accordingly, no such compensation was paid or distributed to the Named Executive Officers during the financial year ended December 31, 2006.

**Options/SARs Granted During the Most Recently Completed Financial Year**

During the financial year ended December 31, 2006, no stock options were issued to any Named Executive Officers.

## Aggregated Option/SAR Exercises During the Most Recently Completed Financial Year and Financial Year-End Option/SAR Values

The following table sets forth certain information respecting the numbers and accrued value of unexercised stock options as at December 31, 2006 and options exercised by the Named Executive Officers during the financial year ended December 31, 2006:

	Securities Acquired on Exercise (#)	Aggregate Value Realized (Cdn\$)	Unexercised Options/SARs as at December 31, 2006 (#)		Value of Unexercised In-the-Money Options/SARs as at December 31, 2006 <sup>(1)</sup> (Cdn\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
			Shelby D. Beattie	Nil	Nil	625,000
Gibson Scott	Nil	Nil	500,000	Nil	Nil	Nil

### Note:

- (1) Value is calculated upon the difference between the exercise price of the options and the closing price of the Common Shares on the TSX Venture Exchange on December 29, 2006, which closing price was \$0.19.

## Termination of Employment, Change in Responsibilities and Employment Contracts

At present, there is neither a compensatory plan for termination of employment or change in responsibility, nor a pension plan in operation for the benefit of any Named Executive Officers of the Corporation.

## Compensation of Directors

The Corporation does compensate its directors in their capacity as a director of the Corporation. Each non-management director receives \$3,500.00 annually and a \$1,000.00 fee per meeting.

Each director is eligible to receive stock options of the Corporation. The Corporation has compensated the directors with stock options.

The Corporation has purchased, at its expense, a directors' and officers' liability insurance policy, which expires July 4, 2008. This covers the directors and officers of the Corporation against liability incurred by them in their capacities as directors and officers of the Corporation. The coverage has an aggregate limit of \$1,000,000 million. There is a deductible of \$50,000. Premiums paid by the Corporation for the directors and officers liability insurance are \$10,200.

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table sets out information as at the end of the Corporation's most recently completed financial year with respect to compensation plans under which equity securities of the Corporation are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	2,429,904	\$0.26	360,423
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
<b>Total</b>	2,429,904	\$0.26	360,423

## INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

An officer of the Corporation as of December 31, 2005 was indebted to the Corporation in the amount of \$74,670. Security has been obtained by the Corporation in connection with such indebtedness over 393,300 Common Shares of the Corporation and such indebtedness is also secured by a personal guarantee from another officer of the Corporation.

## INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as disclosed in this Management Proxy Circular, none of the informed persons of the Corporation (as defined in National Instrument 51-102), nor any proposed nominee for election as a director of the Corporation, nor any person who beneficially owns, directly or indirectly, shares carrying more than 10% of the voting rights attached to the issued shares of the Corporation, nor any associate or affiliate of the foregoing persons has any material interest, direct or indirect, in any transaction since the commencement of the Corporation's most recently completed financial year or in any proposed transaction which, in either case, has or will materially affect the Corporation and none of such persons has any material interest in any transaction proposed to be undertaken by the Corporation that will materially affect the Corporation. Richard Tingle, a former director and Christopher Croteau, a director, were partners in the law firm of TingleMerrett LLP which also provides legal services to the Corporation. The fees paid for legal services in 2006 amounted to \$10,210. Gibson Scott, Chief Operating Officer, is also the President of TrueBore Consulting Inc. ("TrueBore"), which has provided consulting services to the Corporation. TrueBore was paid \$222,000 for these services in 2006.

## MANAGEMENT CONTRACTS

There are no management functions of the Corporation that are to any substantial degree performed by a person or company other than the directors or officers (or private companies controlled by them, either directly or indirectly) of the Corporation. The Corporation is currently negotiating employment agreements with Shelby Beattie and Gibson Scott.

## CORPORATE GOVERNANCE

Please see the attached Schedule "A" for information on the Corporation's Corporate Governance (Form 58-101F2).

## AUDIT COMMITTEE

### *Audit Committee Charter*

The Charter of the Corporation's Audit Committee is attached to this Management Proxy Circular as Schedule "B".

### *Composition of the Audit Committee*

The following are the members of the Committee:

Shelby D. Beattie	President and Chief Executive Officer	Financially literate <sup>(1)</sup>
W. Howard Blacker	Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>
Christopher Croteau	Independent <sup>(1)</sup>	Financially literate <sup>(1)</sup>

### **Note:**

(1) As defined by Multilateral Instrument – *Audit Committees* ("MI 52-110").

### *Education and Experience*

Shelby D. Beattie has been involved in the oil and gas business as a director or member of executive management since 1980. Working as a landman from 1980 to 1982, he was Vice President of mineral leasing for Newport Oil & Gas, Inc., a private oil and gas company. From 1982 to 1992, he was Director, Vice President of Phoenix Oil and Gas, and project-managed the development of over 200 oil and gas wells and associated mineral leases. While remaining a member of the Board of Phoenix, from 1992 to 2002 Mr. Beattie consulted as a Sr. Project Manager and Special Liaison for companies such as Maximum Video Systems, AT&T Broadband, and Microsoft. Mr. Beattie's varied and extensive experience in the oil and gas and technology sectors have been instrumental as he has served as

a Director of the Corporation since 1997, as Chief Financial Officer of the Corporation from 1997 to 2005, as President since September 2001, and CEO since February 2005.

W. Howard Blacker has over 16 years of industry experience and is currently the Chief Financial Officer of Zapata Energy Corporation. Mr. Blacker earned his chartered accountant's designation in Alberta in 1987 and remained in public practice until 1990 when he left to become the Chief Financial Officer of a company specializing in oil and gas basin evaluations. Over the past 16 years, he has been the Chief Financial Officer of three corporations, primarily in the energy services sector. All of these companies had significant involvement in research and development. Mr. Blacker earned his B. Comm. in 1983 from the University of Calgary.

Christopher Croteau has practiced corporate securities law in Calgary, Alberta, Canada since 2001 and has assisted both public and private companies. Mr. Croteau received his B.Comm. in 1998 and LL.B. in 2001 from the University of Alberta.

Through such business experience, the members of the Audit Committee review financial statements and gain an understanding of financial reporting controls and procedures.

***Audit Committee Oversight***

At no time since the commencement of the Corporation's most recently completed financial year was a recommendation of the Committee to nominate or compensate an external auditor not adopted by the Board of Directors.

***Reliance on Certain Exemptions***

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on the exemption in Section 2.4 of MI 52-110 (*De Minimis Non-Audit Services*), or an exemption from MI 52-110, in whole or in part, granted under Part 8 of Multilateral Instrument 52-110.

***Pre-Approval Policies and Procedures***

The Audit Committee must pre-approve all non-audit services to be provided to the Corporation by its external auditors.

***External Auditor Service Fees (By Category)***

The aggregate fees billed by the Corporation's external auditors in each of the last two fiscal years for audit fees are as follows:

<b>Financial Year Ending</b>	<b>Audit Fees</b>	<b>Audit Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees</b>
2006	\$26,924	\$40,861	Nil	Nil
2005	\$53,000 <sup>(1)</sup>	\$39,500 <sup>(2)</sup>	Nil	Nil

**Note:**

- (1) The auditors of the Corporation changed in December, 2005. \$35,000 was paid to BDO Dunwoody LLP for services rendered in 2005 and MacKay LLP accrued \$18,000 in fees from its date of appointment to December 31, 2005.
- (2) The Corporation retained the services of Pricewaterhousecoopers LLP to assist in the preparation of the Corporation's financial statements.

### **Exemption**

The Corporation is relying on the exemption provided in Section 6.1 of MI 52-110 and, as such, the Corporation is exempt from Parts 3 (Composition of the Audit Committee) and 5 (Reporting Obligations) of MI 52-110.

## **PARTICULARS OF MATTERS TO BE ACTED UPON**

### **Financial Statements**

The financial statements of the Corporation for the year ended December 31, 2006 and the Auditors' Report thereon accompanying this Management Proxy Circular will be placed before the Shareholders at the Meeting for their consideration. Shareholders who wish to receive interim financial statements are encouraged to send the enclosed notice, in the addressed envelope to the Corporation.

### **Election of Directors**

The term of office of each of the present directors expires at the Meeting. The number of directors to be elected at the Meeting has been fixed at five. Management of the Corporation proposes to nominate the persons named below for election as directors of the Corporation at the Meeting to serve until the next annual meeting of the Shareholders of the Corporation, unless his office is earlier vacated. All of the nominees are currently members of the board of directors of the Corporation.

Approval of the election of directors will require the affirmative votes of the holders of not less than half of the votes cast in respect thereof by Shareholders present in person or by proxy at the Meeting. **Unless otherwise directed, the management designees named in the accompanying instrument of proxy intend to vote in favour of the election, as directors, of the nominees whose names are set forth below.** In the event that prior to the Meeting, any vacancies occur on the slate of nominees submitted herewith, it is intended that discretionary authority will be granted to vote proxies solicited by or on behalf of management for the election of any other person or persons as directors. Management is not currently aware that any such nominees would not be willing to serve as director if elected.

The following information concerning the proposed nominees has been furnished by each of them:

<b>Name, Residence and Present Office Held</b>	<b>Principal Occupation or Employment</b>	<b>Director Since</b>	<b>Number of Common Shares Beneficially Owned or Controlled<sup>(1)</sup> and percentage of total issued and outstanding</b>
LEONARD D. RICE <sup>(3)</sup> Calgary, Alberta <i>Director and Promoter</i>	Chairman and Chief Executive Officer of the Corporation from August 1997 to February 2005. Currently the President and Chief Executive Officer of Prairie Oil and Gas, Inc.	May 15, 1997	847,128 3.0%
SHELBY D. BEATTIE <sup>(2)(3)</sup> San Antonio, Texas <i>President and Chief Executive Officer and Director</i>	President of the Corporation since September 2001, Chief Executive Officer of the Corporation since February 2005, and Chief Financial Officer of the Corporation from August 1997 to February 2005. Consultant with DVA Group, Inc. since 1997. Prior thereto, Vice President of Phoenix Oil & Gas Inc. since 1982.	May 15, 1997	302,389 1.1%

<b>Name, Residence and Present Office Held</b>	<b>Principal Occupation or Employment</b>	<b>Director Since</b>	<b>Number of Common Shares Beneficially Owned or Controlled<sup>(1)</sup> and percentage of total issued and outstanding</b>
GIBSON C. SCOTT <sup>(3)</sup> Edmonton, Alberta <i>Chief Operating Officer and Director</i>	Chief Operating Officer of the Corporation since February 2005. Currently the President of TrueBore Consulting Inc. Prior thereto, Mr. Scott was employed with Sperry-Sun Drilling Services, a global oilfield service provider.	April 15, 2003	415,000 1.5%
W. HOWARD BLACKER <sup>(2)(3)</sup> Calgary, Alberta <i>Director</i>	Currently the Chief Financial Officer of Zapata Energy Corporation. Chief Financial Officer of three corporations in the energy services sector from 1990 to 2004.	May 18, 2004	70,000 0.25%
CHRISTOPHER CROTEAU <sup>(2)(3)</sup> Calgary, Alberta <i>Director</i>	Partner, TingleMerrett LLP, Barristers and Solicitors since 2007. Associate, TingleMerrett LLP, Barristers and Solicitors 2003 to 2006. Associate, Stikeman Elliott LLP, Barristers and Solicitors, 2001 to 2003	August 28, 2007	12,000 0.04%

**Notes:**

- (1) The information as to the number of Common Shares beneficially owned, not being within the knowledge of the Corporation, has been furnished by the respective nominees. These figures do not include any securities that are convertible into or exercisable for Common Shares.
- (2) The Corporation's Audit Committee is currently comprised of Messrs. Blacker, Beattie and Croteau.
- (3) The Corporation's Executive Compensation Committee is comprised of the entire Board of Directors.

*Corporate Cease Trade Orders or Bankruptcies*

Other than as set forth below, no director or proposed director of the Corporation is, or has been within the past ten years, a director or officer of any other company that, while such person was acting in that capacity:

- (i) was the subject of a cease trade or similar order or an order that denied the company access to any exemptions under securities legislation for a period of more than 30 consecutive days;
- (ii) was subject to an event that resulted, after that individual ceased to be a director or officer, in the company being the subject of a cease trade or similar order or an order that denied the company access to any exemptions under securities legislation for a period of more than 30 consecutive days; or
- (iii) within a year of that individual ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

*Individual Bankruptcies*

No director or proposed director of the Corporation is or has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

## **Appointment of Auditors**

Unless otherwise directed, the management designees named in the accompanying instrument of proxy intend to vote in favor of the appointment of MacKay LLP, Chartered Accountants as auditors of the Corporation, to hold office until the close of the next annual meeting, at a remuneration to be determined by the board of directors of the Corporation. Approval of the appointment of the auditors will require the affirmative votes of the holders of not less than half of the votes cast in respect thereof by Shareholders present in person or by proxy at the Meeting. **Unless instructed otherwise, the management designees in the accompanying Instrument of Proxy intend to vote FOR the resolution.**

## **Approval of Stock Option Plan**

At the 2006 Annual General and Special Meeting of shareholders of the Corporation, the Corporation's current stock option plan, attached hereto as Schedule "C", was adopted (the "Plan"). Pursuant to Policy 4.4 of the TSX Venture Exchange (the "Policy"), Corporations that have a rolling stock option plan reserving a maximum of 10% of the issued and outstanding shares of the Corporation must receive yearly shareholder approval of such stock option plan. This approval of the Plan is being sought at the Meeting.

The approval by Shareholders requires a favourable vote of a majority of the Common Shares voted in respect thereof at the Meeting. **Unless instructed otherwise, the management designees in the accompanying instrument of proxy intend to vote FOR the resolution to ratify, adopt and approve the Plan.**

The text of the resolution regarding this matter is as follows:

### **"BE IT RESOLVED THAT:**

1. The Plan of the Corporation be, and is hereby ratified, and approved in substantially the form attached as Schedule "C" to the Management Proxy Circular prepared for the purposes of this Meeting;
2. Any director or officer be and is hereby authorized to amend the Plan should such amendments be required by applicable regulatory authorities including, but not limited to, the TSX Venture Exchange or, if required, the Toronto Stock Exchange;
3. Any director or officer be and is hereby authorized to execute and deliver all such deeds, documents and other writings and perform such acts as may be necessary in order to effect the Plan and the board of directors of the Corporation from time to time, be authorized to grant options in the capital stock of the Corporation pursuant to and in accordance with the provisions of the Plan; and
4. Notwithstanding the approval of the shareholders of the Corporation as herein provided, the board of directors of the Corporation may, in its sole discretion, revoke this resolution before it is acted upon, without further approval of the shareholders of the Corporation."

### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at [www.sedar.com](http://www.sedar.com). Financial information on the Corporation is provided in the comparative financial statements and management discussion and analysis of the Corporation which can also be accessed at [www.sedar.com](http://www.sedar.com) or which may be obtained upon request from the Corporation at #1505, 777-8<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3R5.

**SCHEDULE "A"**

**CORPORATE GOVERNANCE POLICY**

**CORPORATE GOVERNANCE DISCLOSURE (FORM 58-101F2)**

**1. Board of Directors** — Disclose how the board of directors (the "Board") facilitates its exercise of independent supervision over management, including

(i) the identity of directors that are independent, and

*Howard Blacker and Christopher Croteau*

(ii) the identity of directors who are not independent, and the basis for that determination.

*Leonard Rice, Shelby Beattie and Gibson Scott are not independent as they are members of the management of the Corporation.*

*In determining whether a director is independent, the Corporation chiefly considers whether the director has a relationship which could, or could be perceived to interfere with the director's ability to objectively assess the performance of management.*

**2. Directorships** — If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.

*The following current and proposed directors of the Corporation presently serve as directors of other reporting issuers as follows:*

<b>Director</b>	<b>Reporting Issuer</b>
Leonard D. Rice	--
Shelby D. Beattie	--
Gibson C. Scott	--
Howard Blacker	--
Christopher Croteau	--

**3. Orientation and Continuing Education** — Describe what steps, if any, the Board takes to orient new Board members, and describe any measures the Board takes to provide continuing education for directors.

*The Board of the Corporation takes the following measures to ensure that all new directors receive a comprehensive orientation regarding the role of the Board, its committees and its directors, and the nature and operation of the Corporation:*

*a. each new director brings a different skill set and professional background, and with this information, the Board is able to determine what orientation to the nature and operations of the Corporation's business will be necessary and relevant to each new director; and*

*b. the Corporation is currently drafting a Board policy manual, which will provide a comprehensive introduction to the Board and its committees.*

*The Board takes the following measures to provide continuing education for its directors in order that they maintain the skill and knowledge necessary for them to meet their obligation as directors:*

*a. the Board policy manual will be reviewed on an annual basis and a revised copy will be given to each director;*

and

- b. *there is a technical presentation at Board meetings, focusing on either a particular property or a summary of various properties. The question and answer portions of these presentations are a valuable learning resource for the non-technical directors.*

**4. Ethical Business Conduct** — Describe what steps, if any, the board takes to encourage and promote a culture of ethical business conduct.

*The Board of the Corporation intends to adopt a written code of business conduct & ethics (the "Code") for its directors, officers, employees and consultants. As one measure to ensure compliance with the proposed Code, the Board has established a whistleblower policy which details complaint procedures for financial concerns.*

*The Board must comply with the conflict of interest provisions of the Business Corporations Act (Alberta) and Business Corporations Act (British Columbia), as well as the relevant securities regulatory instruments, in order to ensure that directors exercise independent judgment in considering transaction and agreements in respect of which a director or executive officer has a material interest.*

*In addition to the Code, the Board intends to adopt a communications and corporate disclosure policy, a policy on stock trading and use of material information, and a code of employee conduct to encourage and promote a culture of ethical business conduct.*

**5. Nomination of Directors** — Disclose what steps, if any, are taken to identify new candidates for Board nomination, including:

- (i) who identifies new candidates, and
- (ii) the process of identifying new candidates.

*In order to identify new candidates for nomination to the Board, the Board of the Corporation considers the advice and input of the entire Board, regarding:*

- a. *the appropriate size of Board, the necessary competencies and skills of the Board as a whole and the competencies and skills of each director individually; and*
- b. *the identification and recommendation of new individuals qualified to become a new Board member. New nominees must have a track record in general business management, special expertise in an area of strategic interest to the Corporation, the ability to devote the time required and a willingness to serve.*

**6. Compensation** — Disclose what steps, if any, are taken to determine compensation for the directors and CEO, including:

- (i) who determines compensation; and
- (ii) the process of determining compensation.

*The Compensation Committee, the members of which are listed herein, recommends to the Board of the Corporation the compensation of the Corporation's directors and the CEO which the Compensation Committee feels is suitable, primarily by comparison of the remuneration paid by other reporting issuers that the Compensation Committee feels are similarly placed within the same business of the Corporation.*

**7. Other Board Committees** — If the Board has standing committees other than the audit and compensation identify the committees and describe their function.

*At present, the Board does not feel it necessary to establish any committees other than the audit committee and the executive compensation committee, however, the Board remains open to such a possibility as the Corporation continues to grow in the future. The Board believes that the Corporation's size is sufficiently small to facilitate a direct management structure without the need to delegate decision making or authority to a committee.*

- 8. Assessments** — Disclose what steps, if any, that the board takes to satisfy itself that the board, its committees, and its individual directors are performing effectively.

*The entire Board will evaluate the effectiveness of the Board, its committees and individual directors. To facilitate this evaluation, each committee will conduct an annual assessment of its performance, consisting of a review of its charter, the performance of the committee as a whole and the performance of the committee chair. In addition, the Board will conduct an annual review of its performance.*

## SCHEDULE "B"

### EMERALD BAY ENERGY INC. AUDIT COMMITTEE CHARTER

#### 1. A. Audit Committee Overview, Purpose and Authority

The Audit Committee (the "**Committee**") is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities and is responsible to the Board of Directors. The Committee monitors, evaluates, advises or makes recommendations, in accordance with this Charter and any other directions of the Board of Directors, on matters affecting the external, internal or special audits of the financial and operational control policies and practices relating to the Corporation.

The Committee has the authority to investigate any activity of the Corporation. The primary purpose of the Committee includes:

- a) recommending to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing audit reports for the Corporation and the compensation for such services;
- b) directly overseeing the work of the Corporation's external auditors engaged for the purpose of preparing or issuing auditors' reports;
- c) reviewing the Corporation's financial statements, MD&A and annual and interim earnings press releases prior to public disclosure;
- d) overseeing and monitoring the integrity of the Corporation's financial reporting process and systems of internal controls regarding finance, accounting, legal and regulatory compliance;
- e) assessing the processes related to identification of the Corporation's risks and effectiveness of the Corporation's response to control or otherwise mitigate these risks; and
- f) providing an avenue of communication among the external auditors, management, internal audit staff and the Board of Directors.

The Committee shall have unrestricted access to Company personnel and documents and will be provided with the resources necessary to carry out its responsibilities.

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties, to set and pay the compensation for any such advisors and to communicate directly with internal and external auditors.

#### B. Audit Committee Structure

The Committee shall be composed of three members or such other number of members as may be specified by the Board of Directors. A majority of the Committee members shall be independent directors within the meaning of Multilateral Instrument 52-110 ("**MI 52-110**"), such that they shall have no direct or indirect material relationship with the Corporation. In addition, a majority of the members of the Committee must be "unrelated directors" – an unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding.

At least one member of the Committee shall be financially literate such that he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those raised in the Corporation's financial statements.

All members of the Board of Directors shall be free to attend any meetings of the Committee and participate but only those members of the Committee shall be entitled to vote on any questions before the Committee. Other than members of the Board of Directors, entitlement to attend all or a portion of any Committee meetings shall be determined by the Chair of the Committee or its members.

The Committee shall meet at least four times per year and may call special meetings as required. A quorum at meetings of the Committee shall be a majority of the members. The Committee Chair shall prepare and/or approve an agenda in advance of each meeting.

The minutes of the Committee meetings shall accurately record the decisions reached by the Committee and shall be distributed to Committee members and Board members, with copies to the Chief Financial Officer (CFO), the external auditors and others as directed by the Committee

### **C. Audit Committee Duties and Responsibilities**

#### *I. Review Procedures – General*

Review and assess the adequacy of this Charter at least annually. Submit the Charter to the Board of Directors for approval.

Review the Corporation's audited annual financial statements together with the MD&A thereon before such statements are submitted to the Board of Directors for approval. Review should include discussion with management and external auditors of significant issues regarding accounting principles, practices and judgments.

In consultation with management, external auditors and internal audit staff, consider the integrity of the Corporation's financial reporting processes and controls. Discuss financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the external auditors and the internal audit staff together with management responses.

Review and recommend for approval by the Board of Directors the quarterly financial statements of the Corporation along with related MD&A communication and any related press releases.

Review the financial content of the Corporation's annual report and any other reports of a financial nature which require approval by the Board of Directors prior to the release thereof.

Review annually with management, the external auditors and, if necessary, legal counsel, any material litigation, claim or other contingency that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these will be disclosed in the financial statements.

Review annually the adequacy of the Corporation's procedures relating to the review of all public disclosure documents containing audited or unaudited financial information before its release, including any prospectus, offering memorandum, annual information form or other report.

Monitor the appropriateness of accounting policies, especially critical accounting policies and financial reporting used by the Corporation to review any actual and prospective significant changes in financial reporting and accounting policies and practices to be adopted by the Corporation and to review and assess any new or proposed developments in accounting and reporting standards that may affect or have an impact on the Corporation.

Review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of its present and any former external auditors.

#### *II. Review Procedures - External Auditors*

The external auditors are ultimately accountable to the Audit Committee and the Board of Directors, as representatives of the shareholders. Review the annual appointment of external auditors for recommendation to the Board of Directors for approval, giving consideration to matters such as:

- a) their independence and whether to retain such auditors for each future fiscal year after consultation with appropriate management;
- b) the fees paid to the external auditors on an annual basis; and
- c) any non-auditing services performed by the external auditors.

On an annual basis, review and discuss with the external auditors all significant relationships they have with the Corporation that could impair such auditors' independence.

Review the planning and results of the external audit, including:

- a) the auditors' engagement letter;
- b) the reasonableness of the estimated audit fees;
- c) the scope of the audit, including materiality, audit reports required, areas of audit risk, deadlines and coordination with internal audit staff;
- d) the post-audit management letter together with management's responses; and
- e) any other matters the external auditors bring to the attention of the Committee.

Meet with the external auditors, at least annually and preferably at each Committee meeting, or as requested by the auditors, without management representatives present.

Receive and review all follow-up action or status reports relating to the recommendations of the external auditors and internal audit staff.

### *III. Internal Audit Function*

The Committee should periodically request from management a review of the need for an internal audit function, and, on the basis of this review, determine whether such a function should be instituted.

### *IV. Risk Management Oversight*

Assess whether management has implemented policies ensuring that the Corporation's risks are identified and that controls are adequate, in place and functioning properly.

### *V. Legal Compliance*

On at least an annual basis, review with the Corporation's counsel any legal matters that could have a significant impact on the Corporation's financial statements, the Corporation's compliance with applicable laws and regulations and inquiries received from regulators or government agencies.

Review all reports concerning any significant fraud or regulatory non-compliance that occurs at the Corporation. This review should include consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future.

### *VI. Non-Audit Services*

The Committee must pre-approve all non-audit services to be provided to the Corporation by its external auditors.

### *VII. Whistle-Blowing*

The Committee must annually establish and review procedures relating to the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Corporation's current policy in this regard is as follows. The Committee will establish the following procedure for the receipt and treatment of any complaint received by the Corporation regarding accounting, internal accounting controls or auditing matters:

- a) The Corporation will distribute to all of its employees and field contractors the name and contact information of an independent member of the Committee for the purpose of receiving complaints regarding accounting, internal accounting controls or auditing matters;

- b) Copies of complaints received will be sent to the members of the Committee;
- c) All complaints will be investigated by the Corporation's finance and legal staff in the normal manner, except as otherwise directed by the Committee. The Committee may request that outside advisors be retained to investigate any complaint; and
- d) The status of each complaint will be reported on a quarterly basis to the Committee and, if the Committee so directs, to the board of directors.

*VIII. Reporting Requirements*

The Audit Committee shall include in the Corporation's Information Circular and, if applicable, Annual Information Form, the information required by MI 52-110 and any applicable forms thereto.

*IX. Other Responsibilities*

Periodically perform a self-assessment of Committee performance.

Review financial and accounting personnel succession planning within the Corporation.

Annually review policies and procedures as well as audit results associated with directors' and officers' expense accounts and perquisites; annually review a summary of director and officers' related party transactions and potential conflicts of interest.

Perform any other activities consistent with this Charter, the Corporation's by-laws and governing law as the Committee or the Board of Directors deems necessary or appropriate.

**D. Audit Committee Meetings**

Committee meetings may be called by the Committee Chair or by a majority of the Committee members. In addition, the external auditors have the right to call a Committee meeting, usually through the Committee Chair. The Chair of the Committee shall be a voting member and questions will be decided by a majority of votes.

Meetings may be called with one day's notice, which notice may be waived by members. All members of the Committee are entitled to receive notice of every meeting. However, it should be standard practice to give Committee members at least five business days' notice of all meetings.

Meetings are chaired by the Committee Chair or in the Chair's absence, by a member chosen by the Committee amongst themselves.

Agendas will be set by the Chair of the Committee with assistance from management, other Committee members, external auditors and internal audit staff, if requested or required. Agendas should be circulated with the materials for consideration at the meeting to all members, the Chair of the Board of Directors, the President and CEO and the CFO no later than the day prior to the date of the meeting. However, it should be standard practice to deliver the agenda and the materials for consideration at the meeting at least five business days prior to the proposed meeting, except in unusual circumstances.

Except as herein provided, the Chair of the meeting may establish rules of procedures to be followed at meetings.

Meetings may be conducted with the participation of a member by telephone or any other voice and/or video teleconferencing device which permits all persons participating in the meeting to communicate with each other. A member participating in a meeting by that means is deemed to be present at the meeting.

The duties of the Committee may be exercised at a meeting at which a majority of the members of the Committee are present or by resolution in writing signed by all members of the Committee who would have been entitled to vote on the resolution at the meeting of the Committee. In case of an equality of votes, the person acting as Chair of the Committee meeting shall be entitled to a second or casting vote.

A resolution in writing may be signed and executed in separate counterparts by members and the signing or execution of a counterpart shall have the same effect as the signing or execution of the original. An executed copy of a resolution in writing or counterpart thereof transmitted by any means of recorded electronic transmission shall be valid and sufficient.

Attendance at all or a portion of Committee meetings by Company personnel will be determined by the Committee and may, at the request of the Committee, include the President and CEO, CFO and a recording Secretary.

The Recording Secretary shall keep minutes of the proceedings of all meetings of the Committee which following Committee approval are available to any member of the Board of Directors. All minutes will at a minimum be circulated to the Chair of the Board of Directors and should be circulated to all those receiving the agenda. Minutes will be retained by the Board of Directors.

**E. Effective Date**

In compliance with clause 9.1 (2) of Multilateral Instrument 51-110, this Charter is made effective June 28, 2005.

## SCHEDULE "C"

### EMERALD BAY ENERGY INC.

#### STOCK OPTION PLAN

#### ARTICLE 1 – INTRODUCTION

##### 1.1 Purpose

The purpose of this Stock Option Plan (the "Plan") is to establish a plan pursuant to which Designated Participants, as herein defined, are granted options ("Options") to purchase common shares ("Common Shares") in the capital of EMERALD BAY ENERGY INC. (the "Corporation") on the terms and conditions set forth in this Plan and in a resolution of either the board of directors or the shareholders of the Corporation.

##### 1.2 Designated Participants

"Designated Participants" entitled to participate in the Plan shall be those directors, officers, employees or consultants of the Corporation, or any of its affiliates, who are designated as Designated Participants by resolution of the board of directors of the Corporation from time to time.

#### ARTICLE 2 – TERMS RELATING TO THE PLAN

##### 2.1 Participants

The participants in the Plan will be Designated Participants who must be bona fide directors, officers, employees or consultants of the Corporation, or of an affiliate, provided, in the case of a consultant, he is engaged on an ongoing basis to provide services of value to the Corporation or to an affiliate. In the case of a consultant, a stock exchange on which the Corporation's shares are listed may require shareholder approval before exercise.

##### 2.2 Number and Price of Optioned Common Shares

The number of Common Shares subject to an Option to a Designated Participant and the Option Price per Common Share shall be determined in the resolution of the board of directors, provided that: (a) Options may be granted for no more than 10% of the issued and outstanding Common Shares of the Corporation (on a non-diluted) basis; (b) no Designated Participant (excluding Consultants) shall be granted an Option which exceeds 5% of the issued and outstanding Common Shares of the Corporation (on a non-diluted basis) in any 12 month period and no consultant or employee conducting investor relations activities shall be granted an Option which exceeds 2% of the issued and outstanding Common Shares of the Corporation in any 12 month period; and (c) the Option price per Common Share shall not be less than such Option price as may be acceptable to any stock exchange on which the Corporation's shares are listed.

##### 2.3 Option Period, Consideration and Payment

- (a) The Option Period shall be a maximum of five years from the date the Option is granted, provided that the Option Period shall be reduced with respect to any Option as provided in sections 2.5 and 2.6 covering cessation as a director, officer, employee or consultant of the Corporation or death of the Designated participant.
- (b) An Option shall vest and may be exercised (in each case to the nearest full Common Share) in whole or in part during the Option Period at any time after the date of the grant provided in the resolution of the board of directors of the Corporation. To the extent required by the TSX Venture Exchange, no Options may be exercised under this Plan until this Plan has been approved by a resolution duly passed by the shareholders of the Corporation.
- (c) Except as set forth in sections 2.5 and 2.6, no Option may be exercised unless the Designated Participant is at the time of such exercise a director, officer, employee or consultant to the Corporation or an affiliate.
- (d) The exercise of any Option will be contingent upon receipt by the Corporation at its head office of a written notice of exercise, specifying the number of Common Shares with respect to which the Option is being exercised, accompanied by cash payment, certified cheque or bank draft payable to the Corporation for the full purchase price of such Common Shares with respect to which the Option is exercised. No Designated Participant or his legal representatives, legatees or distributees will be, or will be deemed to be, a holder of any

Common Shares subject to an Option under this Plan, unless and until certificates for such Common Shares are issued to him or them under the terms of the Plan.

**2.4 Transferability**

All benefits, rights and Options accruing to any Designated Participant in accordance with the terms and conditions of the Plan shall not be transferable or assignable unless specifically provided herein. During the lifetime of a Designated Participant any benefits, rights and Options may only be exercised by the Designated Participant.

**2.5 Ceasing to be a Director, Officer, Employee or Consultant**

If a Designated Participant shall cease to be a director, officer or employee of the Corporation or of an affiliate for any reason (other than death), he may exercise his Option to the extent that he was entitled to exercise it at the date of such cessation, but only within the ninety (90) days following his ceasing to be a director, officer or employee.

Nothing contained in the Plan, nor in any Options granted pursuant to the Plan, shall as such confer upon any Designated Participant any right with respect to continuance as a director, officer or employee of the Corporation or of any affiliate.

If a consultant shall cease to be a consultant or if the Optionholder was engaged in investor relation activities, his Option shall expire thirty (30) days following the date he ceases to act as a consultant and is thereafter void and of no effect.

**2.6 Death of Designated Participant**

In the event of the death of a Designated Participant, the Option previously granted to him shall be exercisable only within the twelve (12) months next succeeding such death and then only:

- (a) by the person or persons to whom the Designated Participant's rights under the Option shall pass by the Designated Participant's will or the laws of descent and distribution; and
- (b) if and to the extent that he was entitled to exercise the Option at the date of his death.

**2.7 Adjustment in Common Shares Subject to the Plan**

In the event there is any change in the Common Shares of the Corporation through the declaration of stock dividends or stock subdivisions or consolidations or reconstruction, reorganization or recapitalization of the Corporation (other than issuance of additional shares), the number of Common Shares available for Option, the Common Shares subject to any Option, and the Option price thereof shall be adjusted appropriately by the board of directors of the Corporation and such adjustment shall be effective and binding for the purposes of the Plan.

**2.8 Amendment or Termination of the Plan**

The board of directors of the Corporation reserves the right to amend, modify or terminate the Plan at any time if and when it is advisable in the absolute discretion of the board of directors, except with respect to any Options then outstanding under the Plan.

**2.9 Adjustment of Option Price**

Any reduction in the Option price originally established in a grant of Options hereunder to an Insider (as that term is defined in applicable securities legislation) of the Corporation must be approved by a vote of the disinterested shareholders at a regularly constituted meeting of the shareholders of the Corporation.

**ARTICLE 3 – GENERAL**

**3.1 Record Keeping**

The Corporation shall maintain a register in which shall be recorded the name and address of each Designated Participant and the number of Options granted to a Designated Participant and the number of Options outstanding.

**3.2 Necessary Approvals**

The obligation of the Corporation to issue and deliver Common Shares in accordance with the Plan is subject to any approvals which may be required from any regulatory authority or stock exchange having jurisdiction

over the securities of the Corporation. If any Common Shares cannot be issued to any Designated Participant for whatever reason, the obligation of the Corporation to issue such Common Shares shall terminate and any funds paid to the Corporation by the Designated Participant for the exercise of such Options will be returned to the Designated Participant.

**3.3 Common Shares**

As used in the Plan, "Common Shares" means common shares without nominal or par value in the capital of the Corporation as constituted June 30, 1997, subject to sections 2.7 and 3.4.

**3.4 Amalgamation or Merger**

If the Corporation amalgamates or merges with or into another corporation, which it reserves the right to do, any Option granted under the Plan shall continue in full force and effect unless the amalgamation agreement otherwise provides, in which event the Option shall expire and be of no further force or effect immediately prior to the record date applicable to such amalgamation or merger.

**3.5 Decision of Directors**

For the purposes of the Plan, but subject to applicable corporate law, those Designated Participants who are eligible for selection as persons to whom Common Shares may be issued or to whom Options or rights may be granted pursuant to the Plan entitling the participants therein to acquire Common Shares, shall be eligible to and may participate in the decision of the board of directors of the Corporation to issue any Common Shares or grant any Options under the Plan.

**3.6 Administration of the Plan**

The Plan will be administered by the senior officers of the Corporation subject to direction and supervision by the board of directors. The Corporation shall effect the grant of Options under the Plan by execution of an option agreement in the form approved by the signing officers of the Corporation thereto, and which shall give effect to the provisions of this Plan. The board of directors is authorized to interpret the Plan and may, from time to time, amend or rescind rules and regulations required for carrying out the Plan. Any such interpretation or construction of any provision of the Plan shall be final and conclusive. All administration costs of the Plan shall be paid by the Corporation. The senior officers of the Corporation are authorized and directed to do all things and execute and deliver all instruments, undertakings and applications and writing as they in their absolute discretion consider necessary for the implementation of the rules and regulations established for administering the Plan.

**3.7 No Representation or Warranty**

The Corporation makes no representation or warranty as to the future market value of any Common Shares issued in accordance with the provision of the Plan nor in regard to the tax implications thereof.

**3.8 Interpretation**

The Plan will be governed by and construed in accordance with the laws of Canada and of the Province of Alberta.

**3.9 Stock Exchange Rules**

The rules of any stock exchange upon which the Corporation's Common Shares are listed shall be applicable relative to options granted to Designated Participants.

**3.10 Escrow and Restriction on Transferability**

Common Shares to be issued upon exercise of an Option shall be escrowed or legended as to restrictions on transferability if required by any applicable legislation, regulatory body or stock exchange, and the Designated Participant shall, upon request by the Corporation, execute an escrow agreement in form required or requested by such legislation, regulatory body, stock exchange or the Corporation, and no Common Shares shall be issued on exercise of an Option if a required escrow agreement is not entered into by the Designated Participant.

**3.11 Affiliate**

The term "affiliate" when used herein shall have the same meaning as the definition thereof in the *Securities Act* (Alberta).

**3.12 Approval of Directors and Shareholders**

This Stock Option Plan was originally approved by the board of directors of Emerald Bay Energy Inc. effective June 30, 1997. The following resolution was approved by its shareholders on June 30, 1997:

"RESOLVED that the Stock Option Plan in the form attached be approved whereby, without further approval of the shareholders, the board of directors may issue directors, officers, employees and consultants options of up to 10% of the number of issued shares from time to time outstanding on such terms and conditions as they may deem appropriate."

CERTIFIED this 30<sup>th</sup> day of June, 1997.

**EMERALD BAY ENERGY INC.**

Per: \_\_\_\_\_