



Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE YEAR ENDED
MARCH 31, 2008**

MAY 29, 2008

MANAGEMENTS' DISCUSSION AND ANALYSIS

The following discussion and analysis of financial information and related data concerning Emerald Bay Energy, Inc. is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and should be read in conjunction with the audited financial statements for the year ended December 31, 2007.

Non-GAAP Measures – The terms "cash flow from operations" and "cash outflow," which are expressed before changes in non-cash working capital, are used by the Corporation to analyze operating performance, leverage and liquidity. The term "field netback" is also used by the Corporation to analyze performance. Field netback is calculated by deducting from revenue the amount related to royalties, operating costs and transportation. These terms do not have any standardized meaning prescribed by GAAP and therefore might not be comparable with the calculation of a similar measure for other companies. The reconciliation between net earnings and cash flow from operations can be found in the consolidated statements of cash flows in the consolidated financial statements. The Corporation also presents cash flow from operations per share whereby per share amounts are calculated using weighted average shares consistent with the calculation of earnings per share.

Natural gas reserves and volumes are converted to barrels of oil equivalent (boe) on the basis of 6 thousand cubic feet (mcf) of gas to 1 barrel (bbl) of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion of 6 mcf to 1 bbl 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.

Information which is contained herein contains estimates and assumptions which management is required to make concerning future events, and may constitute forward-looking statements under applicable securities laws. Forward-looking statements include plans, expectations, estimates, forecasts and other comments that are not statements of fact. Although such expectations are viewed as reasonable by the Company, no assurance can be given that such expectations will be realized. Such forward-looking statements are subject to risks and uncertainties and may be based on assumption that may cause actual results to differ materially from those implied herein, and therefore are expressly qualified in their entirety by this cautionary statement

OVERVIEW

Emerald Bay Energy, Inc. ("Emerald Bay" or the "Company") is engaged in the business of exploration, development and production of crude oil, natural gas and natural gas liquids.

For the three months ended

	Mar 31 2008 (\$)	Mar 31 2007 (\$)
Revenues (before royalties)	664,830	719,287
Cash flow from operations	116,328	99,148
Total assets	6,233,568	5,979,516
Secured debt	2,511,251	1,843,942

DETAILED REVIEW OF FINANCIAL RESULTS

Net Loss and Cash Flow

For the three months ended

	Mar 31 2008 (\$)	Mar 31 2007 (\$)
Net loss	(18,803)	(119,578)
Per share	(0.00)	(0.01)
Cash flow from operations	116,328	99,148
Per share	0.01	0.01

The Company has recorded a net loss of \$18,803 for the three months ended March 31, 2008, compared to a net loss of \$119,578 for the three months ended March 31, 2007. The majority of the net loss relates to depletion, depreciation and amortization expense.

Revenue

For the three months ended

	Mar 31 2008 (\$)	Mar 31 2007 (\$)
Oil and NGLs	173,460	142,350
Per barrel	92.78	51.21
Natural gas	491,371	576,937
Per mcf	8.34	8.06
Total gross revenue	664,830	719,287
Per boe	56.87	48.89

Gross revenue from natural gas production decreased as compared to 2007 due to a decrease in production. Gross revenue from oil production increased as new production was brought online and significantly higher commodity prices.

Sales Volumes

For the three months ended

	Mar 31 2008	Mar 31 2007
Crude oil – barrels per day	9	15
Natural gas – mcf per day	640	778
NGLs – barrels per day	11	15
BOE – barrels per day	120	160

Sales volumes decreased to 120 boed from 160 barrels per day in first quarter 2007 due to reduction of production from the Twining and Clive wells, and weather related issues during the month of February 2008.

General and administrative expenses

For the three months ended

	Mar 31 2008 (\$)	Mar 31 2007 (\$)
General and administrative expense	263,472	289,377

General and administrative expenses decreased due to a slight reduction in consulting fees in 2008 compared to 2007. The company does not capitalize any administrative costs.

Depletion, depreciation and site restoration expense

For the three months ended

	Mar 31 2008 (\$)	Mar 31 2007 (\$)
Depletion, depreciation and amortization	126,284	265,458
Asset Retirement Obligation - Accretion	2,150	674
Total	128,434	266,132

Depletion, depreciation and amortization decreased in 2008 as compared to 2007 due to higher capital costs and increases in reserves related to new wells.

LIQUIDITY AND CAPITAL RESOURCES

In order to support Emerald's growth oriented business plan, the Company's strategy is to fund its capital expenditure program by issuing common and flow-through shares, to reinvest its cash flow, and to utilize bank debt.

SHAREHOLDERS EQUITY

As at March 31, 2008, there were 27,903,277 common shares issued and outstanding, and an additional maximum total of 2,790,328 reserved for issuance on the potential exercise of common share purchase options.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company operates its office under lease arrangement for Three (3) years commencing October 1, 2006 and ending September 30, 2009.

OFF-BALANCE SHEET ARRANGEMENTS

Emerald did not enter into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Other than payment of interest on a note due from a related party there have been no related party transactions.

ACCOUNTING POLICIES

Emerald's accounting policies are stated in Note 2 to the audited Financial Statements for the years ended December 31, 2007 and December 31, 2006. Emerald follows policies that are in accordance with Canadian generally accepted accounting principles.

LEGAL MATTERS

In 2005, an oilfield service provider commenced legal action against the Company relating to the loss of a tool in the well bore of one of the Company's wells claiming total damages of \$193,121. As a result of this incident the Company has counterclaimed for \$760,000 plus additional damages. In the opinion of management, the outcome of this action is not determinable at this time and will have no material outflow or recovery.

BUSINESS RISKS

The oil and gas industry is subject to risks in (among others):

- finding and developing reserves,
- commodity prices received for such reserves,
- availability of equipment, manpower and supplies,
- availability and cost of capital to achieve projected growth,
- effect of weather on drilling and production, and
- operating in an environmentally appropriate fashion.

Emerald Bay mitigates these business risks by:

- Having assets in several diverse fields.
- Maintaining cost-effective operations.

- Operating our own properties were possible to control the amount and timing of capital expenditures.
- Using new technology to maximize production and recoveries and reduce operating costs.
- Drilling wells in areas with multiple zone potential.

POLITICAL, REGULATORY AND ENVIRONMENTAL RISKS

Separate from the business risks above are political, regulatory and environmental risks. Emerald Bay mitigates environmental risk directly related to its own operation through its insurance program and by diligent care and attention in the field. However, Emerald Bay is unable to mitigate political, regulatory and environmental risks that stem from sources outside its own operations.

DISCLOSURE CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurances that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), and that management has evaluated the effectiveness of the Corporation’s disclosure controls and procedures as defined in Multilateral Instrument 52-109 of the Canadian Securities Administrators and has concluded that such disclosure controls and procedures are effective. However, they do not expect that the disclosure controls and procedures or internal control over financial reporting will prevent all errors or fraud. An economically feasible control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and CFO of Emerald Bay Energy are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The company assessed the design of its internal control over financial reporting as of December 31, 2006. During this process, management identified certain weaknesses in internal controls over financial reporting which are as follows:

- Due to the limited number of staff at Emerald Bay, it is not economically feasible to achieve complete segregation of incompatible duties.
- Due to the limited number of staff, the Corporation does not have a sufficient number of financial personnel with the technical accounting knowledge to address all complex and non-routine accounting transactions that may arise.

These weaknesses in internal controls over financial reporting result in a possibility that a material misstatement would not be prevented or detected. Management and the board of the directors work to mitigate the risk of a material misstatement in financial reporting. However, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

Financial Instruments – Disclosures and Presentation

Effective January 1, 2008, the Corporation adopted two new Canadian Institute of Chartered Accountants (“CICA”) standards. Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation. These Handbook Sections replaced existing Handbook Section 3861, Financial Instruments – Presentation and Disclosure. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Specifically, section 3862 requires disclosure of the significance of financial instruments on the Corporation’s financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. The new presentation standard carries forward the former presentation requirements.

Comprehensive Income

The Corporation does not have any items to be accounted as components of other comprehensive income (“OCI”) and as a result comprehensive income equals net (loss) earnings.

Capital Disclosures

Effective January 1, 2008, the Corporation adopted Handbook Section 1535, Capital Disclosures which requires companies to disclose their objectives, policies and processes for managing capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Corporation’s management of capital, whether the requirements have been complied with, or consequence of noncompliance and an explanation of how the Corporation is meeting its objectives for managing capital. In addition, quantitative disclosures regarding capital are required.

In addition, the Corporation has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Corporation.

International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of the plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards (“IFRS”) on January 1, 2011. The Corporation continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Corporation has the following financial instruments:

Accounts receivable and deposits are designated as loans and receivables and are measured at amortized cost. Accounts payable and accrued liabilities and bank debt are designated as other financial liabilities and are measured at amortized cost.

a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation’s net earnings or the value of financial instruments. These risks are generally outside the control of the Corporation.

b) Credit risk

The majority of the Corporation's accounts receivable are due from joint venture partners in the oil and gas industry and from purchasers of the Corporation's petroleum and natural gas production and are subject to the same industry factors such as commodity price fluctuations and escalating costs. The Corporation generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes risk is mitigated by the size and reputation of the companies to which they extend credit. The Corporation has not experienced any credit loss in the collection of accounts receivable in 2008.

Receivables from petroleum and natural gas marketers are normally collected on the twenty-fifth day of the month following production. Receivables related to the sale of the Corporation's oil and natural gas production are from major marketing companies. The Corporation historically has not experienced any collection issues with its petroleum and natural gas marketers.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Corporation attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital expenditures prior to expenditure and issuing cash calls on large capital projects from its partners on capital projects before they commence.

(c) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due. The nature of the oil and gas industry is very capital intensive. As a result, the Corporation prepares annual capital expenditure budgets and utilizes authorizations for expenditures for projects to manage capital expenditures. Refer to note 7 for disclosure related to the management of capital.

(d) Fair value of financial instruments

The Corporation's accounts receivable, deposits, bank debt and accounts payable and accrued liabilities approximates their carrying value due to their short terms to maturity and the floating interest rate on the Corporation's debt.

CAPITAL MANAGEMENT

The Corporation's capital consists of shareholders' equity, bank debt and working capital. The Corporation will adjust its capital structure to manage its current and future debt, drilling programs and potential corporate acquisitions through the issuance of shares, increasing the credit facility line and adjustments to capital spending.

The Corporation's objective for managing capital is to maximize long-term Shareholder value by ensuring adequate capital to achieve the Corporation's objectives.

The Corporation monitors capital structure using non-GAAP measures, based on the ratio of net debt to annualized funds flow. The Corporation also monitors capital structure by reviewing net asset value.

The Corporation is bound by certain debt covenants. These covenants include maintaining a Working Capital Ratio of not less than 1.0 to 1.0 at all times. The Working Capital ratio for this purpose is defined as Current Assets (including the un-drawn Availability under the Credit Facility A) to Current Liabilities (excluding any current portion of Bank Debt). As at March 31, 2008, the Corporation was not in violation of any bank covenants.

SELECTED QUARTERLY INFORMATION

Financial Highlights

\$000's except per share amounts	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006	Sep 30, 2006	Jun 30, 2006
Total revenue, net of royalty	665	483	409	400	576	485	532	388
Cash Flow (deficiency) from operations	116	(56)	(29)	(54)	99	83	104	(96)
Per share – basic and diluted	(0.00)	0.01	(0.003)	(0.003)	(0.01)	0.01	(0.003)	(0.003)
Net loss	(18)	(261)	(164)	(367)	(120)	(261)	(164)	(367)
Per share – basic and diluted	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures	74	1,457	(198)	1,017	969	1,457	(198)	1,017
Total assets	6,233	5,391	4,072	4,305	5,980	5,391	4,072	4,305
Net working capital (debt)	(2,494)	(1,263)	(388)	(782)	(2,132)	(1,263)	(388)	(782)