



Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

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

APRIL 30, 2009

MANAGEMENTS' DISCUSSION AND ANALYSIS

Management's Discussion and Analysis ("MD&A") is management's assessment of the financial position and operating results of Emerald Bay Energy Inc. for the three and twelve months ended December 31, 2008 and should be read in conjunction with the audited financial statements for the year ended December 31, 2008 and related notes. Readers should be aware that historical results are not necessarily indicative of future performance. Additional information relating to the Corporation is available on SEDAR at www.sedar.com and the Corporation's website www.ebyinc.com.

At the time of writing this MD&A, substantially all revenues have been collected for the production period of December 2008. Management performs analysis on the amounts collected to ensure that the amounts accrued are accurate. Analysis is also performed regularly on royalties and operating costs to ensure that amounts have been accurately accrued.

Production information is commonly reported in units of barrel of oil equivalent ("boe"). 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.

The following discussion and analysis of financial information and related data concerning Emerald Bay Energy, Inc. is as of April 30, 2009 and 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, 2008.

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.

Forward-looking Information and Statements

Information which is contained herein contains estimates and assumptions which Emerald Bay is required to make concerning future events, and may constitute forward-looking statements under applicable securities laws. The forward-looking information and 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.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking information and statements including, without limitation: changes in commodity prices; changes in the demand for or supply of Emerald Bay's products; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matter; changes in development plans of Emerald Bay or by third party operators of certain Emerald Bay properties; increased debt levels or debt service requirements; limited, unfavorable or a lack of access to capital markets; increased costs; and certain other risks detailed from time to time in Emerald Bay's public disclosure documents. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A. Emerald Bay assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.

This management discussion and analysis was filed on April 30, 2009.

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		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
Revenues (before royalties)	491,196	596,393	2,890,701	2,350,396
Research and Development costs	-	-	-	-
Net income (loss)	(419,335)	(22,689)	(722,275)	(562,597)
Net income (loss) per share (basic and diluted)	(0.01)	(0.00)	(0.02)	(0.02)
Total assets	6,506,209	5,490,398	6,506,209	5,490,398
Secured debt	2,275,000	1,325,000	2,275,000	1,325,000

During 2008, the Company participated in drilling 12 gross wells as part of an active drilling program at Doreenlee, Lacombe, Kelsey, and Chigwell, Alberta. It is anticipated that all 12 wells will be tied-in and producing by Q2 2009.

Revenue

	For the three months ended		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
Oil and NGLs	106,318	193,457	776,023	590,024
Per barrel	44.72	100.20	86.49	62.39
Natural gas	384,878	402,937	2,114,678	1,760,372
Per mcf	7.46	8.30	9.09	7.46
Total gross revenue	491,196	596,394	2,890,701	2,350,396
Per boe	44.76	59.48	60.59	48.19

Revenues for the year increased as a result of new production at Nevis and Ferrybank, however significantly lower than expected prices in the later part of the year contributed to the decrease in gross revenue for Q4 2008 as compared to 2007. Emerald Bay does not currently have any hedges in place.

Sales Volumes

	For the three months ended		For the twelve months ended	
	Dec 31 2008	Dec 31 2007	Dec 31 2008	Dec 31 2007
Crude oil – barrels per day	14	2	12	11
Natural gas – mcf per day	561	528	637	646
NGLs – barrels per day	12	11	13	15
BOE – barrels per day	119	101	131	134

Sales volumes decreased to 131 boed from 134 barrels per day in 2008 due to reduced production from the Twining, Dorenlee and the sale of the Clive well.

Royalties

	For the three months ended		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
Total royalties	103,562	113,622	603,125	482,792
Per boe	9.08	11.34	12.62	9.90
Percentage of revenue	20.0%	19.0%	20.9%	20.5%

Royalties for the twelve months ended December 31, 2008 increased due to the increase in total revenues as described above.

Production Expense

	For the three months ended		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
Total production expenses	133,812	142,290	726,409	567,433
Per boe	12.38	14.20	15.20	11.64
Percentage of revenue	21.3%	23.8%	25.1%	24.1%

Production expenses increased on a per BOE basis to \$15.20 from \$11.64 in 2007 as the cost of services in relation to production increased throughout the industry during the first three quarters of the year, however expenses decreased on a per BOE basis during Q4 as service providers reacted to the downturn in the economy.

General and administrative expenses

	For the three months ended		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
General and administrative expense	206,303	311,097	1,219,262	1,173,123

In 2008, general and administrative expenses increased slightly compared to 2007, as the company prepared for a very active Q4 drilling program. The Company does not capitalize any administrative costs.

Depletion, depreciation and site restoration expense

	For the three months ended		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
Depletion, depreciation and amortization	402,080	230,636	846,594	919,905
Asset Retirement Obligation - Accretion	49,608	1,970	10,428	7,879
Total	451,688	232,606	857,022	927,784

Depletion, depreciation and amortization decreased in 2008 as compared to 2007 due to decreased production and increased reserves.

Taxes

	For the three months ended		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
Future income tax expense (recovery)	-	152,191	-	(380,000)

DETAILED REVIEW OF FINANCIAL RESULTS

Net Earnings and Cash Flow

	For the three months ended		For the twelve months ended	
	Dec 31 2008 (\$)	Dec 31 2007 (\$)	Dec 31 2008 (\$)	Dec 31 2007 (\$)
Net earnings (loss)	(419,355)	(22,688)	(722,275)	(562,597)
Per share	(0.01)	(0.01)	(0.02)	(0.02)
Cash flow used from operation	24,581	24,581	170,117	(39,890)
Per share	0.00	0.00	0.01	(0.00)

The Company has recorded a net loss of \$722,275 for the twelve months ended December 31, 2008, compared to a net loss of \$562,597 for the year ended December 31, 2007. The majority of the net loss relates to the depletion, depreciation and amortization expense as well as interest expenses.

SELECTED ANNUAL INFORMATION

Financial Highlights

	2008	2007	2006
Total revenue, net of royalty	2,287,576	1,867,604	2,066,516
Cash flow (deficiency) from operations	170,117	(39,890)	212,996
Per share – basic and diluted	0.01	(0.01)	0.01
Net loss	(722,275)	(562,597)	(733,563)
Per share – basic and diluted	(0.02)	(0.02)	(0.03)
Net capital expenditures	(1,215,875)	(1,242,431)	(2,466,977)
Total Assets	6,506,209	5,490,398	5,390,613
Net working capital (deficit)	(2,641,688)	(2,536,069)	(1,262,760)
Common shares – Weighted average	30,012,753	27,903,277	27,868,806

SELECTED QUARTERLY INFORMATION

Financial Highlights

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue, net of royalty	392	567	798	535	483	409	400	576
Cash Flow (deficiency) from operations	170	(14)	88	116	(56)	(29)	(54)	99
Per share – basic and diluted	(0.02)	(0.00)	(0.00)	(0.00)	(0.001)	(0.003)	(0.003)	0.004
Net earnings (loss)	(420)	(212)	(72)	(18)	(23)	(223)	(197)	(120)
Per share – basic and diluted	(0.02)	(0.00)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)
Net capital expenditures	439	428	274	74	401	(257)	(415)	(969)
Total assets	6,506	5,915	5,813	6,233	5,490	6,241	5,550	5,980
Net working capital (deficit)	(2,641)	(2,301)	(2,697)	(2,494)	(2,536)	(400)	481	737

LIQUIDITY AND CAPITAL RESOURCES

In order to support Emerald Bay's growth oriented business plan, the Company's strategy is to fund its 2009 low risk "in-fill" drilling capital expenditure program of approximately \$1,500,000 through an equity financing by issuing common and flow-through shares. As the capital expenditure program is in large part dependent on this financing, the program will be adjusted accordingly based on the success of the offering upon its closing. Additionally, the Company will continue to use cash flow and utilize bank debt for operations and for the working capital needs of the Company.

SHAREHOLDERS EQUITY

As at December 31, 2008, there were 37,034,446 common shares issued and outstanding, and an additional maximum total of 2,525,000 reserved for issuance on the potential exercise of common share purchase options.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

At year end the Company operated its office under lease arrangement for Three (3) years commencing October 1, 2006 and ending September 30, 2009 with a 90 day termination clause. Subsequent to the year end the company terminated its lease and entered into a new lease arrangement for Five (5) years commencing April 1, 2009 and ending March 31, 2014, calling for monthly payments of \$5,191 for annual totals of \$62,292.

As at December 31, 2008, the company has a remaining commitment to spend approximately \$600.00 on the total flow through funds raised in 2008 of \$1,219,375 and renounced in full to the shareholders by year end.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

Emerald Bay's initial significant shareholders have continued to support the Company's growth oriented business plan by investing additional funds by way of participating in Emerald Bay's ongoing equity issues. As Emerald Bay executes its growth plan, it is the Company's intention to continue to diversify its shareholder base by attracting new shareholders to participate in future offerings.

Listed below are Emerald Bay's related party transactions as disclosed in Note 8 of the financial statements:

Directors and officers, inclusive of Leonard D. Rice and Shelby D. Beattie have charged the Company \$278,300 (2007 - \$266,668) for services.

A law firm in which a director, Christopher Croteau, is a partner has charged the Company \$59,685(2007 - \$12,821) in legal fees.

An oil and gas completions, operations, geological and consulting firm owned 100% by a director, Gibson Scott has charged the Company \$166,950 (2007 - \$241,707) in consulting fees.

A director, Leonard D. Rice, was advanced fees totaling \$59,473 (2007 - \$58,513) in relation to efforts to finance and advance the Company's drilling technology. There is no guarantee that such effort will be successful. If such efforts are not successful, the full balance will be repaid in 2009. The above amount is included in accounts and cash call receivable at year end.

A U.S. corporation, providing field operation services in relation to operating the company's U.S. properties, owned and controlled by an officer and a director, Shelby D. Beattie and Leonard D. Rice has charged the Company \$159,500 (2007 - \$224,817). Included in accounts receivable is \$34,811 of advances to the corporation for future expenses

ACCOUNTING POLICIES

Emerald Bay's accounting policies are stated in Note 2 to the audited Financial Statements. Emerald Bay follows policies that are in accordance with Canadian generally accepted accounting principles.

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.

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.

Future accounting changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These new standards are effective January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentations, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company is assessing the impact of these new standards on the financial statements.

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS

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. Subsequent to the year end the action was settled by the Company's insurance provider.

In 2008, an oilfield service provider commenced legal action against the company relating to disputed cost overruns during drilling operations totalling \$110,675. As a result of the incident the company has counterclaimed for \$246,437 plus additional damages. In the opinion of management, the outcome of this action is not determinable at this time and as the Company has only an 18% interest in the action it 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 POLITICAL

In addition to business risks, Emerald Bay also faces political, regulatory and environmental risks. Emerald Bay mitigates environmental risks 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. In the past year there have been strong examples of all of the above. Most importantly, political risks became clear with a number of recent announcements.

First, on October 31, 2006, the federal government announced its intention to tax income trusts. This event resulted in a significant erosion of value in the trust sector. As the trust sector had been the main exit strategy for junior oil and gas companies, this also resulted in a significant drop in the market value of the junior oil and gas sector.

Second, the Alberta government cancelled the Alberta Royalty Tax Credit effective January 1, 2007.

Third, the Alberta government released a New Royalty Framework (“NRF”), which summarized the government’s decision on Alberta’s new royalty regime pertaining to oil and gas resources. The NRF was the Alberta government’s response to the recommendations recently put forth by the Alberta Royalty Review Panel. The new royalty regime will take effect on January 1, 2009. The final legislation is not yet available but internal mechanical updates of Emerald Bay’s reserve report based on information now available have indicated that Emerald Bay may be marginally better off under the new regime. However, Emerald Bay’s primary concern is that the new royalty regime will be damaging to Alberta as a whole and will reduce the attractiveness of Alberta and Alberta based oil and gas companies to investors. This would directly affect Emerald Bay’s valuation in the market and its ability to raise investment capital.

Regulatory risk has been observed in the increased time required to obtain approvals. Delays result in projects being brought on production later than planned. Another significant risk facing the industry in the coming years is related to environmental policies. Carbon taxes, or other green

taxes or measures, could adversely affect the industry. Emerald Bay complies with all environmental regulations. However, Emerald Bay would be remiss not to mention the significant adverse effect hasty legislation may have on the industry and, therefore, the Corporation.

OUTLOOK

Management expects to increase the Company's reserves, production, and cash flow during the remainder of 2008 and into 2009 as a result of the Company's optimization and drilling programs in Alberta. Management also intends to intensify its pursuit of further acquisition, exploitation and exploration prospects with a view to identifying and capturing opportunities that have the potential to provide an additional core area for the Company.