Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX AND NINE MONTHS ENDED SEPTEMBER 30, 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

This management discussion and analysis was filed on December 1, 2008.

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 nine months ended	
	Sep 30 2008 ($)	Sep 30 2007 ($)	**Sep 30 2008 ($)**	Sep 30 2007 ($)
Revenues (before royalties)	**756,783**	498,972	**2,399,505**	1,754,002
Cash flow (loss) from operations	**(13,918)**	(29,018)	**183,589**	15,905
Total assets	**5,914,755**	6,240,621	**5,914,755**	6,240,621
Secured debt	**1,625,000**	2,725,000	**1,625,000**	2,725,000

DETAILED REVIEW OF FINANCIAL RESULTS

Net Loss and Cash Flow

	For the three months ended		For the nine months ended	
	Sep 30 2008 ($)	Sep 30 2007 ($)	**Sep 30 2008 ($)**	Sep 30 2007 ($)
Net loss	**(211,909)**	(222,581)	**(302,941)**	(539,908)
Per share	**(0.001)**	(0.010)	**(0.010)**	(0.010)
Cash flow (loss) from operations	**(13,918)**	(29,018)	**183,589**	15,905
Per share	**(0.001)**	(0.001)	**0.006**	0.001

The Company has recorded a net loss of $221,744 for the nine months ended September 30, 2008, compared to a net loss of $539,908 for the nine months ended September 30, 2007. The net loss relates to depletion, depreciation and amortization expense.

Revenue

	For the three months ended		For the nine months ended	
	Sep 30 2008 ($)	Sep 30 2007 ($)	**Sep 30 2008 ($)**	Sep 30 2007 ($)
Oil and NGLs	**216,507**	148,547	**660,643**	396,568
Per barrel	**76.38**	62.24	**95.75**	53.96
Natural gas	**542,259**	350,425	**1,740,844**	1,357,434
Per mcf	**9.01**	5.88	**9.71**	7.30
Total gross revenue	**758,766**	498,972	**2,401,487**	1,754,002
Per boe	**58.96**	40.48	**65.30**	45.74

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

Sales Volumes

	For the three months ended		For the nine months ended	
	Sep 30 2008	Sep 30 2007	**Sep 30 2008**	Sep 30 2007
Crude oil – barrels per day	**15**	12	**13**	12
Natural gas – mcf per day	**654**	648	**654**	681
NGLs – barrels per day	**16**	14	**13**	15
BOE – barrels per day	**141**	134	**135**	140

Sales volumes decreased to 135 boed from 140 boed for the nine months ended September 30, 2008. For the three months ended September 30, 2008 sales increased to 141 boed from 134 boed.

Operating costs

	For the three months ended		For the nine months ended	
	Sep 30 2008 ($)	Sep 30 2007 ($)	**Sep 30 2008 ($)**	Sep 30 2007 ($)
Operating expenses	**226,390**	198,416	**590,872**	425,143

Operating expenses increased in 2008 compared to 2007 due to new wells being brought online and workovers on existing wells in the third quarter.

General and administrative expenses

	For the three months ended		For the nine months ended	
	Sep 30 2008 ($)	Sep 30 2007 ($)	**Sep 30 2008 ($)**	Sep 30 2007 ($)
General and administrative expense	**320,470**	219,323	**1,012,961**	862,024

General and administrative expenses increased in 2008 compared to 2007 due to an increase in consulting as the company tied-in production from the previous winters drilling activities. Additionally, consulting levels were increased in preparation for the company's summer drilling program The Company does not capitalize any administrative costs.

Depletion, depreciation and site restoration expense

	For the three months ended		For the nine months ended	
	Sep 30 2008 ($)	Sep 30 2007 ($)	**Sep 30 2008 ($)**	Sep 30 2007 ($)
Depletion, depreciation and amortization	**160,276**	253,697	**444,513**	741,005
Asset Retirement Obligation - Accretion	**(43,481)**	674	**(39,180)**	2,022
Total	**116,795**	254,371	**405,333**	743,027

Depletion, depreciation and amortization decreased in 2008 as compared to 2007 due to significantly lower capital costs.

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, as well as cash from operations, to reinvest and also to utilize bank debt.

SHAREHOLDERS EQUITY

As at September 30, 2008, there were 34,034,446 common shares issued and outstanding, and an additional maximum total of 3,403,445 reserved for issuance on the potential exercise of common share purchase options.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company operates it's 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.

DUE FROM RELATED PARTIES AND RELATED PARTY TRANSACTIONS

a) The following amounts are due by related parties:

	Sep 30, 2008	Dec 31, 2007
Due from related party		
Note receivable from officer (i)	**$ 218,500**	$ 218,500
Fair value allowance	**(171,340)**	(171,340)
	$ 47,160	$ 47,160

(i) Note receivable from officer
Promissory note bearing interest at 3% per annum and repayable by December 31, 2009. The note is secured by 393,000 common shares of the Company.

(ii) For financial statement purposes the Corporation has provided an allowance to the estimated fair value of the underlying security $47,160 (2007 - $47,160)

b) Except as disclosed elsewhere in the financial statements, the Company was involved in the following related party transactions for the year ended December 31, 2007.

(i) Directors and officers, have charged the Company for the nine months ended September 30, 2008 $176,713 (2007 - $129,471) for services.

(ii) A law firm in which a director is a partner has charged the Company for the nine months ended September 30, 2008 $57,021 (2007 - $9,315) in legal fees.

(iii) An oil and gas completions, operations, geological and consulting firm owned 100% by a director has charged the Company for the nine months ended September 30, 2008 $118,650 (2007 - $93,280) in consulting fees.

(iv) A director was advanced fees totaling $20,961 (2007 – $27,500) 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 2008. The above amount is included in accounts and cash call receivable at year end.

(v) 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 has charged the Company $76,282 (2007 - $151,276). Included in accounts receivable is $10,686 of advances to the corporation for future expenses

Transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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. Subsequent to the quarter end an agreement was reached regarding this action between the insurance providers of the involved parties. As such the Company will have no outflow and will recover previously paid legal fees in the amount of $19,856.

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.

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.

Included in accounts receivable is $ 162,393 due from SemCanada Crude Company. SemCanada Crude Company entered into CCAA proceedings on July 21, 2008. The results of the CCAA proceedings are undeterminable at this time. The company has taken a 50% provision of $81,196 against this receivable.

(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 September 30, 2008, the Corporation was not in violation of any bank covenants.

SELECTED QUARTERLY INFORMATION

Financial Highlights

$000's except per share amounts	**Sep 30, 2008**	**Jun 30, 2008**	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006
Total revenue, net of royalty	**567**	**797**	535	483	409	400	576	485
Cash Flow (deficiency) from operations	**184**	**88**	116	(56)	(29)	(54)	99	83
Per share – basic and diluted	**(0.00)**	**(0.01)**	(0.00)	0.01	(0.003)	(0.003)	(0.01)	0.01
Net loss	**(211)**	**(72)**	(18)	(261)	(164)	(367)	(120)	(261)
Per share – basic and diluted	**(0.00)**	**(0.01)**	(0.00)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Capital expenditures	**428**	**275**	74	1,457	(198)	1,017	969	1,457
Total assets	**5,915**	**5,813**	6,233	5,391	4,072	4,305	5,980	5,391
Net working capital (debt)	**(2,301)**	**(2,697)**	(2,494)	(1,263)	(388)	(782)	(2,132)	(1,263)

Forward Looking Statements

Certain statements contained within this document, and in certain documents incorporated herein by reference, constitute forward looking statements. These statements relate to future events or the Corporation's future performance. All statements other than statements of historical fact may be forward looking statements. Forward looking statements are often, but not always, identified by the use of words such as: expect, will, would, seek, anticipate, budget, continue, plan, forecast, may, estimate, intend, could, might, should, believe, potential, target or other similar expressions or phrases. These statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward looking statements. Management believes the expectations reflected in such forward looking statements to be reasonable based on information reviewed at the time of writing, but no assurance can be given that these expectations will prove to be correct or will lead to the expected result, and such forward looking statements included in, or incorporated by reference into, this document should not be unduly relied upon. These forward looking statements speak only as of the date of this document, or as of the date specified in the documents incorporated into this document by reference, as the case may be.

In particular, this document (and the documents incorporated herein by reference) contains forward looking statements pertaining to the following:

- oil and natural gas production levels;
- the size of the Corporation's oil and natural gas reserves;
- forecast market prices and costs;
- supply and demand for oil and natural gas;
- expectations related to future operations and capital activity;
- changes to governmental regulations and taxation; and
- future performance of existing oil and natural gas reservoirs.

The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth earlier in this document. Readers are cautioned that the risk factors listed in this document are not exhaustive.

Statements related to reserves data and future production are inherently forward looking as they involve the implied assessments, based on certain estimates, assumptions and models that the reserves exist and can be profitably produced in the future.

The forward looking statements contained in the document and the documents incorporated by reference are expressly qualified by this cautionary statement. Management and the Corporation do not undertake any obligation to publicly update or revise any forward looking statements except as required by securities law.