



Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE QUARTER ENDED
SEPTEMBER 30, 2006**

NOVEMBER 29, 2006

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 the financial data presented has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and should be read in conjunction with the unaudited financial statements for the quarter ended September 30, 2006, and the audited financial statements for the year ended December 31, 2005.

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 assumptions 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

OIL AND GAS OPERATIONS

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	
	Sept 30 2006 (\$)	Sept 30 2005 (\$)	Sept 30 2006 (\$)	Sept 30 2005 (\$)
Revenues (before royalties)	675,409	392,840	2,212,363	1,118,359
Net income (loss)	(164,663)	(162,982)	(778,323)	(819,365)
Net income (loss) per share (basic and diluted)	(0.01)	(0.01)	(0.01)	(0.05)
Cash flow from operations	104,009	(36,458)	129,621	(393,710)
Per share	0.003	(0.008)	0.001	(0.008)
Total assets	4,072,086	3,668,533	4,072,086	3,668,533
Secured term debt	350,000	-	350,000	-

The Company has recorded cash flow of \$104,009 for the third quarter compared to cash outflow of \$36,458 for the same period in the prior year. The Company has recorded a net loss of \$164,663 for the third quarter, compared to a net loss of \$162,982 for the same period in the prior year. The Company has recorded a net loss of \$778,323 in 2006 compared to a deficit in 2005 of \$819,365.

During the period the Company continued an exploration program that included data collection and geophysical analysis. Drilling operations commenced early in Q4.

At this writing the Company has recently drilled and completed two Belly River gas wells in Kelsey and Doreenlee, Alberta with combine anticipated initial production of 103 BOE/day. The Company anticipates tie-in of the wells to be completed in the next 2-4 weeks.

Additionally, drilling operations have recently been completed in Southwest Saskatchewan of a test well targeting Oil in the Mississippian Madison Group. Completion and testing of the well is scheduled for the first week of December, with a second test well commencing drilling operations by December 15th.

At Twining, the Company has recently completed an extensive seismic program. This process will be valuable resource to the Company in identifying drilling targets in the Twining area. The Company is in the process of completing the Mannville formation in the 10-18 well and expects to begin production in December.

At Clive, the Company is working to maximize current production and complete and tie-in two CBM wells.

The Company is continuing an active drilling program during the remainder of 2006 with additional results to be announced in the coming weeks.

Emerald Bay's geological, engineering and land team continue to evaluate other development and exploration prospects in Alberta, British Columbia and South Texas.

Management expects to increase the Company's reserves, production, and cash flow during the remainder of 2006 and into 2007 as a result of the Company's 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.

DETAILED REVIEW OF FINANCIAL RESULTS

Oil and Gas Revenue

	For the three months ended		For the nine months ended	
	Sept 30 2006 (\$)	Sept 30 2005 (\$)	Sept 30 2006 (\$)	Sept 30 2005 (\$)
Oil and NGLs	170,839	42,917	605,589	187,508
Per barrel	55.74	56.29	55.73	49.70
Natural gas	467,970	333,174	1,563,355	917,681
Per mcf	6.29	9.02	7.25	8.18
Total gross revenue	638,808	376,091	2,168,944	1,105,189
Per boe	41.31	54.35	48.83	49.16

Gross revenue increased for the quarter as compared to 2005 as a result of increased sales volumes despite a decrease in prices.

Sales Volumes

	For the three months ended		For the nine months ended	
	Sept 30 2006	Sept 30 2005	Sept 30 2006	Sept 30 2005
Crude oil – barrels per day	13	1	13	5
Natural gas – mcf per day	818	402	790	411
NGLs – barrels per day	21	7	27	9
BOE – barrels per day	170	76	171	83

Sales volumes for the quarter as represented by BOE increased as a result of the Company's 2005 drilling programs.

Royalties

All of Emerald Bay's royalties are paid to the Crown. During the third quarter, Emerald Bay's royalties of \$143,329 represented 21.2% of revenues, down from \$93,205 and 23.7% of revenues in the same period in the prior year.

Production Expense

Production expenses of \$149,759 in the third quarter were incurred at a rate of \$9.66 per BOE of sales volume, up from \$58,566 and \$7.45 in the same period in the prior year as a result of services performed on certain wells.

General and administrative (“G&A”) expenses

G&A costs of \$304,231 in the third quarter were comparable to \$259,866 in the same period in the prior year, due to additional staffing on an increase in drilling activities for 2006.

Stock Option Expense

No further stock options were issued in the second quarter.

Depletion, depreciation and accretion

Depletion, depreciation and accretion (“DD&A”) costs of \$231,068 were incurred in the third quarter, up from \$96,162 in the same period in the prior year. This represents an increase to \$14.94 per BOE from \$13.80 per BOE in the third quarter of 2005.

LIQUIDITY AND CAPITAL RESOURCES

In order to support Emerald Bay’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. The company has a \$2.2 million credit facility available of which \$350,000 has been used.

TAXES

Emerald Bay is not subject to current income tax. At September 30, 2006, its estimated tax pools were approximately \$4.5 million.

SHAREHOLDERS EQUITY

As at September 30, 2006, there were 27,903,277 common shares issued and outstanding, and an additional maximum total of 2,429,904 reserved for issuance on the potential exercise of common share purchase options. In addition, 7,250,500 common shares may be issued on the exercise of warrants.

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’s 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. Note 6 of the audited Financial Statements for the fiscal year ended December 31, 2005 fully detail Emerald Bay’s related party transactions.