



Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE YEAR ENDED
DECEMBER 31, 2007**

APRIL 28, 2008

MANAGEMENTS' DISCUSSION AND ANALYSIS

The following discussion and analysis of financial information and related data concerning Emerald Bay Energy, Inc. is as of April 28, 2008 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, 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		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Revenues (before royalties)	596,393	571,507	2,350,396	2,708,995
Research and Development costs	-	-	-	(292)
Net income (loss)	(22,689)	36,300	(562,597)	(733,563)
Net income (loss) per share (basic and diluted)	(0.00)	0.01	(0.02)	(0.03)
Total assets	5,490,398	5,390,613	5,490,398	5,390,613
Secured debt	1,325,000	1,107,224	1,325,000	1,107,224

During 2007, the Company participated in drilling 7 gross wells as part of an active drilling program at Nevis, Ferrybank, Nelson and Joffre, Alberta and these wells have come on line in 2008. In November the Company sold its non-operated, minority interest at Clive, Alberta to Fairborne Energy Ltd. for \$650,162. Production from the property was approximately 12 boe/day.

Revenue

	For the three months ended		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Oil and NGLs	193,457	85,764	590,024	509,262
Per barrel	100.20	39.15	62.39	56.90
Natural gas	402,937	490,752	1,760,372	2,199,733
Per mcf	8.30	10.16	7.46	6.50
Total gross revenue	596,394	576,516	2,350,396	2,708,995
Per boe	59.48	57.51	48.19	44.91

Significantly lower than expected prices and production volume decreases contributed to the decrease in gross revenue for 2007 as compared to 2006. Emerald Bay does not currently have any hedges in place.

Sales Volumes

	For the three months ended		For the twelve months ended	
	Dec 31 2007	Dec 31 2006	Dec 31 2007	Dec 31 2006
Crude oil – barrels per day	2	13	11	13
Natural gas – mcf per day	528	881	646	805
NGLs – barrels per day	11	15	15	21
BOE – barrels per day	101	175	134	168

Sales volumes decreased to 134 boed from 168 barrels per day in 2007 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 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Total royalties	113,622	124,080	482,792	749,817
Per boe	11.34	7.81	9.90	12.22
Percentage of revenue	19.0%	21.5%	20.5%	27.6%

Royalties for the twelve months ended December 31, 2007 decreased due to lower production volumes and the decrease in total revenue as described above.

Additionally, new properties focused primarily on freehold leases with substantially lower royalty rates also contributed to the decrease of royalties in 2007.

Royalties decreased as a percentage of revenue due to the price sensitivity of the Company's royalties. In Q4, royalties increased on a BOE basis as some wells were off line due to routine maintenance and some weather related issues in 2007 versus 2006.

Production Expense

	For the three months ended		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Total production expenses	142,290	149,969	567,433	635,854
Per boe	14.20	9.44	11.64	10.36
Percentage of revenue	23.8%	26.0%	24.1%	23.4%

Production expenses increased on a per BOE basis to \$11.64 from \$10.36 in 2007 as the cost of services in relation to production has increased throughout the industry.

General and administrative expenses

	For the three months ended		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
General and administrative expense	311,097	230,865	1,173,123	1,191,944

In 2007, general and administrative expenses decreased slightly compared to 2006. Increases in staffing levels including geological services, accounting services, and professional fees were offset by decreases in management and consulting fees. The company does not capitalize any administrative costs.

Stock based compensation due to the issuance of 200,000 stock options in the fourth quarter were significantly lower in 2007 compared to 2006 (1,250,000 stock options). Stock option expense for 2007 was \$22,815 as compared to 2006 of \$180,945.

Research and development expenses

	For the three months ended		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Research and development expenditures	-	148	-	292

The company did not incur any research and development expenses for the year ended December 31, 2007. The Company has completed the Alpha test phase of the project and is currently seeking development partners through its subsidiary Reach Energy Innovations.

Depletion, depreciation and site restoration expense

	For the three months ended		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Depletion, depreciation and amortization	108,681	230,636	849,686	919,905
Asset Retirement Obligation - Accretion	674	1,970	2,696	7,879
Total	109,355	232,606	852,382	927,784

Depletion, depreciation and amortization decreased in 2007 as compared to 2006 due to decreased production and increased reserves. Accretion decreased in 2007 as compared to 2006 due to the sale of three (3) wells and no new wells coming on in 2007.

Taxes

	For the three months ended		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Future income tax expense (recovery)	152,191	(306,000)	(380,000)	(306,000)

At December 31, 2007, the Company had a future income tax asset of \$328,000 as compared to the 2006 future income tax asset of \$605,000. A valuation allowance has been set up for the portion of the future income tax asset that is not more likely than not to be realized in the future. A future income tax recovery of \$380,000 has been recorded in the current year.

DETAILED REVIEW OF FINANCIAL RESULTS

Net Earnings and Cash Flow

	For the three months ended		For the twelve months ended	
	Dec 31 2007 (\$)	Dec 31 2006 (\$)	Dec 31 2007 (\$)	Dec 31 2006 (\$)
Net earnings (loss)	(22,688)	(118,986)	(562,597)	(733,563)
Per share	(0.01)	(0.00)	(0.02)	(0.03)
Cash flow used from operation	24,581	(679)	(39,890)	212,996
Per share	0.001	(0.001)	(0.002)	(0.01)

The Company has recorded a net loss of \$562,597 for the twelve months ended December 31, 2007, compared to a net loss of \$733,563 for the year ended December 31, 2006. The majority of the net loss relates to the depletion, depreciation and amortization expense as well as interest expenses. In addition a future tax recovery of \$380,000 in 2007 (2006 – \$306,000).

SELECTED ANNUAL INFORMATION

Financial Highlights

Total revenue, net of royalty	2007 1,867,604	2006 2,066,516	2005 1,777,127
Cash flow (deficiency) from operations	(39,890)	212,996	(260,876)
Per share – basic and diluted	(0.01)	0.01	(0.05)
Net loss	(562,597)	(733,563)	(863,310)
Per share – basic and diluted	(0.02)	(0.03)	(0.05)
Net capital expenditures	(1,239,638)	(2,466,977)	(64,343)
Total Assets	5,490,398	5,390,613	6,705,341
Net working capital (deficit)	(2,536,069)	(1,262,760)	893,691
Common shares – Weighted average	27,903,277	27,868,806	16,158,956

SELECTED QUARTERLY INFORMATION

Financial Highlights

\$000's except per share amounts	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue, net of royalty	483	409	400	576	485	532	388	662
Cash Flow (deficiency) from operations	(56)	(29)	(54)	99	84	104	(96)	121
Per share – basic and diluted	(0.001)	(0.003)	(0.003)	0.004	0.012	(0.003)	(0.003)	0.004
Net earnings (loss)	(23)	(223)	(197)	(120)	43	(164)	(367)	(246)
Per share – basic and diluted	(0.00)	(0.00)	(0.01)	(0.01)	0.01	(0.01)	(0.01)	(0.01)
Net capital expenditures	401	(257)	(415)	(969)	(1,433)	198	(1,017)	(215)
Total assets	5,490	6,241	5,550	5,980	5,391	4,072	4,305	4,563
Net working capital (deficit)	(2,536)	(400)	481	737	(1,263)	(388)	(782)	(1,910)

LIQUIDITY AND CAPITAL RESOURCES

In order to support Emerald Bay's growth oriented business plan, the Company's strategy is to fund its 2008 capital expenditure program of approximately \$2,000,000 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, 2007, there were 27,903,277 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. During 2007 there were 200,000 options granted.

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 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 \$266,668 (2006 - \$263,477) for services.

A law firm in which a director, Christopher Crouteau, is a partner has charged the Company \$12,821(2006 - \$10,210) in legal fees.

An oil and gas completions, operations, geological and consulting firm owned 100% by a director, Gibson Scott has charged the Company \$241,707 (2006 - \$222,000) in consulting fees.

A director, Leonard D. Rice, was advanced fees totaling \$58,513 (2006 – Nil) 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.

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 \$224,817 (2006 - \$154,056). Included in accounts receivable is \$24,601 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

On January 1, 2007, the Company adopted CICA Handbook Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities, and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value upon initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for sale, held-to-maturity, loans or receivables, or other financial liabilities. Financial assets and financial liabilities held for-trading are measured at fair value with changes in those fair values recognized in net earnings. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Cash is designated as “held-for-trading”. Accounts receivable are designated as “loans or receivables”. The revolving operating loan and accounts payable and accrued liabilities are designated as “other liabilities”.

Comprehensive income (loss) and accumulated other comprehensive income (loss)

On January 1, 2007, the Company adopted CICA Handbook Section 1530 “Comprehensive Income” which consists of net earnings and other comprehensive income (“OCI”). OCI represents changes in shareholder’s equity during a period arising from transactions and changes in prices, markets, interest rates, and exchange rates. OCI includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized translation gains and losses arising from self-sustaining foreign operations net of hedging activities and changes in the fair value of the effective portion of cash flow hedging instruments. The Company did not have any other comprehensive income for the year ended December 31, 2007.

Hedges

On January 1, 2007, the Company adopted CICA Handbook Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 “Hedging Relationships”, and the hedging guidance in Section 1650 “Foreign Currency Translation” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company has elected not to apply hedge accounting to its financial instruments.

Accounting changes

On January 1, 2007, the Company adopted CICA Handbook Section 1506 provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in an accounting policy are to be made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

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 news 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. In the opinion of management, the outcome of this action is not determinable at this time.

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.

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.

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.