Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE SIX AND NINE MONTHS ENDED SEPTEMBER 30, 2009

Message to Shareholders

The financial performance for the third quarter of 2009 reflects the global economic downturn. Commodity markets remained challenged during the quarter with oil prices down sharply from the same quarter in 2008, and natural gas prices at the lowest levels since 2002. Notwithstanding the economic conditions, Emerald Bay continued to cautiously move forward with pipeline and facilities operations in Central Alberta, and low-risk, oil drilling in Medina County Texas, and Alliance Alberta.

Highlights

- **Drilled, completed and began flowing our second oil producing well in the Olmos formation at Medina, County, Texas**

- **Tie-in and facilities design and licensing efforts continued on 7 gross wells at Gilby, Chigwell, Joffre, and Lacombe, in Alberta**

- **Drilled, cased, cemented, perforated and tested an oil well at Alliance Alberta. Emerald Bay is currently designing the above ground production facilities to begin production prior to the year-end.**

- **Emerald Bay took steps to help secure its CAPEX budget for 2010 by hedging approximately 75% of its current natural gas production at a collar band minimum price of $6.00, and a maximum of $9.00**

- **Subsequent to the end of the quarter, Emerald Bay completed pipeline construction operations at Chigwell Alberta. A pleasant surprise regarding the oil volume has made us modify our production facilities to handle the fluid, and the well is now back on line and cleaning-up.**

- **Subsequent to the end of the quarter, Emerald Bay received its pipeline construction license at Gilby Alberta. If the construction operations can be concluded before Christmas, we will proceed. If not, we will commence construction operations the 1st week of January.**

- **Subsequent to the end of the quarter, Emerald Bay received its pipeline construction license at Joffre Alberta. If the construction operations can be concluded before Christmas, we will proceed. If not, we will commence construction operations the 2nd week of January.**

- **Subsequent to the end of the quarter, Emerald Bay closed a private placement of 6,250,000 units ("Units"). They were issued at a price of $0.08 per Unit, for aggregate consideration of $500,000 (of which $78,000 originated from Insiders of the Company). Each Unit consisted of one (1) common share of the Company (issued either as a common share or as a "flow-through share" pursuant to the *Income Tax Act* (Canada) (the "Flow-Through Share") at the subscribers option) and one (1) non-transferable share purchase warrant (the "Warrant") (each full Warrant shall entitle the holder thereof to purchase one (1) additional common share of the Company for a period of 12 months from the issuance of the Units at a price of $0.15) (the "Offering"). Of the total 6,250,000 common shares issued under this offering an aggregate 5,812,500 were issued as Flow-Through Shares.**

- **Subsequent to the end of the quarter, and subsequent to the above mentioned closing, Emerald Bay announced a non-brokered private placement offering of up to maximum of 12,500,000 shares (common or flow-through) of the Company, to raise up to $1 million dollars for drilling and exploration in Central Alberta and South Texas.**

In Closing

We will continue to focus on managing financial resources to reduce G&A, and operating costs. Cash flow for 2010 will benefit from Emerald Bay's risk management program. We will continue to pursue a carefully designed capital expenditure program, including acquisitions and dispositions, which would allow us to add production, reserves and cash flow in a cost effective manner while maintaining a level of flexibility in our balance sheet. We are confident that we have prepared ourselves to emerge from this environment operationally strong, and we expect to be well positioned to respond quickly when the business environment improves. Our proven management and dedicated team of professionals are engaged and committed to developing our high-quality asset base.

Best Regards,

Shelby Beattie, President and Chief Executive Officer

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 months ended September 30, 2009 and should be read in conjunction with the audited financial statements for the year ended December 31, 2008 and related notes, and is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Readers should be aware that historical results are not necessarily indicative of future performance. Additional information relating to the Company is available on SEDAR at www.sedar.com and the Company's website **www.ebyinc.com**.

At the time of writing this MD&A, substantially all revenues have been collected for the production period of September 2009. 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.

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 Company to analyze operating performance, leverage and liquidity. The term "field netback" is also used by the Company 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 Company 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 dated on November 27, 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 nine months ended	
	Sep 30 2009 ($)	Sep 30 2008 ($)	**Sep 30 2009 ($)**	Sep 30 2008 ($)
Revenues (before royalties)	**301,107**	756,783	**1,001,987**	2,399,505
Cash flow (loss) from operations	**(141,457)**	(13,918)	**(320,069)**	183,589
Total assets	**6,285,594**	5,914,755	**6,285,594**	5,914,755
Secured debt	**2,974,195**	1,625,000	**2,974,195**	1,625,000

The third quarter of 2009 represented a period of commodity price volatility as we focused on building our reserve base with low-risk development drilling in Central Alberta and Medina County Texas.

A decline in benchmark natural gas prices in Q3 impacted the price the Company received for its production. Emerald Bay's realized average natural gas price for the three months ended September 30, 2009 was $2.59/mcf, a fall of 71 percent from an average realized natural gas price of $9.01/mcf for the three months ended September 30, 2008. The Company's average realized oil and natural gas liquids price for the three months ended September 30, 2009 declined 30 percent from the same period last year.

Not all energy-related indicators are negative. Drilling and completion costs have declined sharply and continue to drop, which continues to provide favourable well economics on development drilling. Technology advances in both drilling and completion operations are also generating higher flow rates than previous methods.

We are confident that we have prepared ourselves to emerge from this environment operationally strong, and we expect to be well positioned to respond quickly when the business environment improves. Our proven management and dedicated team of professionals are engaged and committed to developing our high-quality asset base.

DETAILED REVIEW OF FINANCIAL RESULTS

Net Loss and Cash Flow

	For the three months ended		For the nine months ended	
	Sep 30 2009 ($)	Sep 30 2008 ($)	**Sep 30 2009 ($)**	Sep 30 2008 ($)
Net loss	**(281,336)**	(211,909)	**(629,374)**	(302,941)
Per share	**(0.01)**	(0.001)	**(0.02)**	(0.010)
Cash flow (loss) from operations	**(141,457)**	(13,918)	**(320,069)**	183,589
Per share	**(0.01)**	(0.001)	**(0.01)**	0.006

The Company has recorded a net loss of $629,374 for the nine months ended September 30, 2009, compared to a net loss of $302,941 for the nine months ended September 30, 2008. The net loss relates to significantly lower commodity prices, depletion, depreciation and amortization expense.

Revenue

	For the three months ended		For the nine months ended	
	Sep 30 2009 ($)	Sep 30 2008 ($)	**Sep 30 2009 ($)**	Sep 30 2008 ($)
Oil and NGLs	**142,182**	216,507	**314,460**	660,643
Per barrel	**52.82**	76.38	**41.91**	95.75
Natural gas	**158,925**	542,259	**687,527**	1,740,844
Per mcf	**2.59**	9.01	**4.13**	9.71
Total gross revenue	**301,107**	758,766	**1,001,987**	2,401,487
Per boe	**23.29**	58.96	**28.41**	65.30

Gross revenue from natural gas production decreased as compared to 2008 due to significantly lower commodity prices. Gross revenue from oil production also decreased as a result of lower commodity prices.

Sales Volumes

	For the three months ended		For the nine months ended	
	Sep 30 2009	Sep 30 2008	**Sep 30 2009**	Sep 30 2008
Crude oil – barrels per day	**14**	15	**14**	13
Natural gas – mcf per day	**668**	654	**610**	654
NGLs – barrels per day	**15**	16	**14**	13
BOE – barrels per day	**140**	141	**129**	135

Sales volumes decreased to 129 boed from 135 boed for the nine months ended September 30, 2009.

Operating costs

	For the three months ended		For the nine months ended	
	Sep 30 2009 ($)	Sep 30 2008 ($)	**Sep 30 2009 ($)**	Sep 30 2008 ($)
Operating expenses	**178,365**	226,390	**481,210**	590,872

Operating expenses decreased in 2009 compared to 2008.

General and administrative expenses

	For the three months ended		For the nine months ended	
	Sep 30 2009 ($)	Sep 30 2008 ($)	**Sep 30 2009 ($)**	Sep 30 2008 ($)
General and administrative expense	**184,556**	320,470	**956,753**	1,012,961

General and administrative expenses decreased in 2009 compared to 2008 due to an decrease in consulting as the company was not actively drilling new wells during Q3. 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 2009 ($)	Sep 30 2008 ($)	**Sep 30 2009 ($)**	Sep 30 2008 ($)
Depletion, depreciation and amortization	**136,756**	160,276	**301,476**	444,513
Asset Retirement Obligation - Accretion	**3,123**	(43,481)	**7,829**	(39,180)
Total	**139,879**	116,795	**309,305**	405,333

Depletion, depreciation and amortization decreased in 2009 as compared to 2008 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, 2009, there were 37,034,446 common shares issued and outstanding, and an additional maximum total of 3,703,445 reserved for issuance on the potential exercise of common share purchase options.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

The Company has an office lease arrangement for Five (5) years commencing April 1, 2009 and ending March 31, 2014.

As at September 30, 2009, the Company has a remaining commitment to spend approximately $157,119 of the total flow through funds raised in 2008 of $1,219,675 and renounced in full to the shareholders by year end.

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, 2009		Dec 31, 2008
Due from related party				
Note receivable from officer (i)	**$**	**218,500**	$	218,500
Fair value allowance		**(206,710)**		(206,710)
	$	**11,790**	$	11,790

(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 Company has provided an allowance to the estimated fair value of the underlying security $11,790 (2007 - $47,160)

b) Except as disclosed elsewhere in the financial statements, the Company was involved in the following related party transactions for the third quarter ended September 30, 2009

(i) Directors and officers, have charged the Company for the nine months ended September 30, 2009 $217,425 (2008 - $176,713) for services.

(ii) A law firm in which a director is a partner has charged the Company for the nine months ended September 30, 2009 $8,742 (2008 - $57,021) 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, 2009 $70,250 (2008 - $118,650) in consulting fees.

(iv) A director was advanced fees totaling $Nil (2008 – $20,961) 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.

(v) A U.S. Company, 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 $41,580 (2008 - $76,282). Included in accounts receivable is $32,391 of advances to the Company 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, 2008 and December 31, 2007. Emerald follows policies that are in accordance with Canadian generally accepted accounting principles.

LEGAL MATTERS

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 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

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 Company 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 Company'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 Company 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 Company 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 Company's management of capital, whether the requirements have been complied with, or consequence of noncompliance and an explanation of how the Company is meeting its objectives for managing capital. In addition, quantitative disclosures regarding capital are required.

In addition, the Company 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 Company.

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 Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company 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 Company's net earnings or the value of financial instruments. These risks are generally outside the control of the Company.

b) Credit risk

The majority of the Company's accounts receivable are due from joint venture partners in the oil and gas industry and from purchasers of the Company's petroleum and natural gas production and are subject to the same industry factors such as commodity price fluctuations and escalating costs. The Company 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 Company 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 Company's oil and natural gas production are from major marketing companies. The Company 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 Company 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.

The Company had a receivable from SemCanada Crude which entered into CCAA proceedings in July 21 2008. The Company's receivable has been written down to $846. The net loss to the Company was $19,992 which was recognized in the 4th quarter 2008.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company'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 Company 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 Company'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 Company's debt.

CAPITAL MANAGEMENT

The Company's capital consists of shareholders' equity, bank debt and working capital. The Company 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 Company's objective for managing capital is to maximize long-term Shareholder value by ensuring adequate capital to achieve the Company's objectives.

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

The Company 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, 2009, the ratio was .53 to 1.0.

SUBSEQUENT EVENT

Subsequent to the quarter end, the Company closed a Private Placement. Pursuant to the private placement, 6,250,000 units ("Units") were issued at a price of $0.08 per Unit, for aggregate consideration of $500,000 (of which $78,000 originated from Insiders of the Company). Each Unit consisted of one (1) common share of the Company (issued either as a common share or as a "flow-through share" pursuant to the Income Tax Act (Canada) (the "Flow-Through Share") at the subscribers option) and one (1) non-transferable share purchase warrant (the "Warrant") (each full Warrant shall entitle the holder thereof to purchase one (1) additional common share of the Company for a period of 12 months from the issuance of the Units at a price of $0.15) (the "Offering"). Of the total 6,250,000 common shares issued under this Offering an aggregate 5,812,500 were issued as Flow-Through Shares. A finder's fee of $17,500 and a due diligence fee of $17,500 (plus GST) was paid to First Canadian Securities Inc., a division of Limited Market Dealer Inc. of Toronto, Ontario along with the issuance of 437,500 finder's options (the "Finder's Options"). A finder's fee of $3,200 was paid to Brandt Securities Limited of Toronto, Ontario along with the issuance of 40,000 Finder's Options. Each Finder's Option is exercisable into one Unit (on a non-flow-through basis) of the Company (on the same terms and conditions as those received by the subscribers under this Offering).

SELECTED QUARTERLY INFORMATION

Financial Highlights

$000's except per share amounts	**Sep 30, 2009**	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007
Total revenue, net of royalty	**301**	264	353	392	567	798	535	483
Cash Flow (deficiency) from operations	**(141)**	(328)	149	170	(14)	88	116	(56)
Per share – basic and diluted	**(0.01)**	(0.02)	0.01	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)
Net loss	**(281)**	(450)	102	(420)	(212)	(72)	(18)	(23)
Per share – basic and diluted	**(0.01)**	(0.02)	0.01	(0.02)	(0.00)	(0.01)	(0.00)	(0.00)
Capital expenditures	**176**	252	388	439	428	274	74	401
Total assets	**6,285**	6,296	7,054	6,506	5,915	5,813	6,233	5,490
Net working capital (debt)	**(4,055)**	(3,798)	(3,219)	(2,641)	(2,301)	(2,697)	(2,494)	(2,536)