



PRESIDENT'S MESSAGE

The financial performance for 2009 reflects the global economic downturn. Commodity markets remained challenged during the year with 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.

2009 Highlights

- ◆ Completed the pipeline construction and tie-in of 3 natural gas wells at Dorenlee, Alberta prior to spring break up.
- ◆ Completed the pipeline construction and tie-in of 1 natural gas well at Kelsey, Alberta prior to spring break up.
- ◆ Drilled, cased, cemented, and placed on production another oil well in Medina County, Texas.
- ◆ Drilled, completed and began flowing our second oil producing well in the Olmos formation at Medina, County, Texas.
- ◆ Drilled, cased, cemented, perforated and tested an oil well at Alliance Alberta. Emerald Bay just completed the above ground production facilities and the fracture stimulation is planned for May 2010.
- ◆ On November 23rd of 2009, 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 Corporation).
- ◆ Emerald Bay took steps to help secure its CAPEX budget for 2010 by entering into a financial instrument of 500 GJ/day at a collar band minimum price of \$6.00, and a maximum of \$9.00

2010 Highlights and Key Objectives:

- ◆ Subsequent to the 2009 year-end, 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 2009 year-end Emerald Bay completed its pipeline construction at Gilby Alberta, and tied-in Gilby 8-33-40-1 W5. Production lifting equipment is currently being planned to handle the hydrocarbons and the production operations should be completed by the end of May, 2010.
- ◆ Subsequent to the 2009 year-end, Emerald Bay received its pipeline construction license at Joffre Alberta. Construction is anticipated to begin in May 2010.
- ◆ Subsequent the 2009 year-end, The Company announce that it and a private partner have acquired 100% of the issued and outstanding securities of Production Resources Inc. ("**PRI**"), a private, Texas based oil company. The Corporation acquired its 50% interest in PRI for USD\$425,000 in Company stock and a small note for \$36,800. This is a big step forward in the Company's plans to transition its development to oil properties. The acquisition with existing wells with up-hole potential in by-passed pay zones, and drilling locations for in-fill drilling in 2010. PRI has the service equipment necessary to be a complete, self-sustaining production operation.
- ◆ Our approach will be to continue to seek out strategic acquisitions in our core areas, including U.S. opportunities, to grow the Company and add value on significant metrics including cash flow, production and reserves.
- ◆ Tie-in the remaining 5 wells located at Lacombe and Joffre Alberta.
- ◆ With the addition of our South Texas oil projects, Emerald Bay's goal in 2010 is to build a balanced production profile to provide a solid base for long term, stable cash flow;

- ◆ Secure additional equity financing to fund the Company's low-risk, "in-fill" CAPEX program and working capital for 2010;
- ◆ One of our strongest assets is the talented team of people we engage. We are committed to attracting, retaining and developing the best people with a significant focus on technical and professional expertise;
- ◆ Employ technology to enhance oil and gas recovery, optimize work processes, increase effectiveness of development and exploration and manage risk appropriately; and
- ◆ Maintain the highest levels of corporate governance. Our directors, officers and employees are committed to the highest level of business ethics. We will conduct our business dealings according to superior corporate governance practices;

Commodity Prices

As the global recession continued, additional downward pressure was placed on natural gas prices throughout 2009. The AECO daily spot price decreased 54 percent from 2008 to an average realized price of \$4.15/mcf. Oil prices decreased 40% from 2008, with an average realized price of US\$52.28/bbl. For a company that is 81% weighted to natural gas, this price decline has had a profound impact on the Company's income stream. To provide near-term and long-term stability, Emerald Bay has transitioned its development focus to oil development. The goal is to be at a 50/50 gas/oil ratio by the end of 2010.

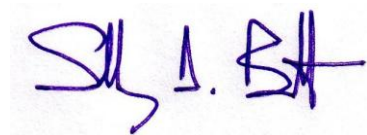
In Closing

The industry and economic environment we are faced with today is very different than it was only a few months ago. We have been building our portfolio of low-cost, low-risk, predictable assets, and fine-tuning our approach to natural gas development in Central Alberta, and oil development in South Texas. Our Canadian development for the past 4 years has followed a financing model to minimize the dilution impact to shareholders. We typically drill and complete with flow-through equity financings, then borrow against a credit facility to construct the pipelines. We then typically lease the "above ground" facilities prior to turning the well into sales lines. This strategy has worked well for the company in the past. Unfortunately with these low gas prices, this type of financing can leave high operating costs relative to commodity prices.

Not all energy-related indicators are negative. Drilling and completion costs have also 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 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,

A handwritten signature in blue ink, appearing to read 'Shelby Beattie', is positioned above the typed name.

Shelby Beattie, President and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with Emerald Bay Energy, Inc.'s ("EBY" or the "Company") audited financial statements for the year ended, December 31, 2009 and the audited financial statements ended December 31, 2008 together with the accompanying notes. Certain information regarding EBY contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements. Forward-looking statements are based on the estimates and opinions of EBY's management at the time the statements were made. EBY assumes no obligation to update forward-looking statements should circumstances or management's estimates change unless these changes are material to the Company.

Additional information relating to the Company is available on SEDAR at www.sedar.com. EBY is listed on the Canadian Stock Exchange under the symbol "EBY". The date of this MD&A is April 30, 2010.

BASIS OF PRESENTATION

The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Application of Accounting Estimates

The significant accounting policies used by EBY are disclosed in note 3 to the audited financial statements. Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management reviews its estimates on a periodic basis. The emergence of new information and changed circumstance may result in actual results or changes to estimated amounts that differ materially from current estimates.

Non-GAAP Measures

Management's Discussion and Analysis contains the following terms, which are not considered to be GAAP and may not be comparable to that reported by other companies:

- a) "Operating netback" - The term "operating netback" is used by the Company as a tool to measure operating performance. It is determined by deducting royalties, production expenses and transportation expenses from sales. This term does not have any standardized meaning prescribed by GAAP and therefore might not be comparable with the calculation of a similar measure for other companies.
- b) "Net debt" - Net debt is calculated by deducting total current liabilities from total current assets.
- c) "Working capital" - working capital includes total current assets and total current liabilities. The working capital ratio is calculated by deducting total current liabilities, reduced by the current portion of the bank loan, from total current assets.

BOE Presentation

The term "barrels of oil equivalent" (boe) may be misleading, particularly if used in isolation. A boe conversion of six thousand cubic feet of natural gas to one barrel of oil (6:1) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers should be aware that historical results are not necessarily indicative of future performance.

Forward Looking Statements

Certain statements contained within the Management's Discussion and Analysis, and in certain documents incorporated by reference into this document, constitute forward looking statements. These statements relate to future events or our 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 "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. 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.

In particular, this MD&A contains the following forward looking statements pertaining to, without limitation, the following:

The Company's future production volumes and the timing of additional production volumes will come on stream; The Company's realized price of commodities in relation to reference prices; the Company's future commodity mix; future commodity prices; the Company's expectations regarding future royalty rates and the realization of royalty incentives; The Company's expectation of future operating costs on a per unit basis; future general and administrative expenses; future development and exploration activities and the timing thereof; the future tax liability of the Company; the expected rate of depletion, depreciation and accretion; the estimated future contractual obligations of the Company; the future liquidity and financial capacity of the Company; and, The Company's ability to fund its working capital and forecasted capital expenditures. In addition, statements relating to "reserves" or "resources" are deemed to be forward looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future.

With respect to the forward looking statements contained in the MD&A, The Company has made assumptions regarding: future commodity prices; the impact of royalty regimes and certain royalty incentives; the timing and the amount of capital expenditures; production of new and existing wells and the timing of new wells coming on-stream; future proved finding and development costs; future operating expenses including processing and gathering fees; the performance characteristics of oil and natural gas properties; the size of oil and natural gas reserves; the ability to raise capital and to continually add to reserves through exploration and development; the continued availability of capital, undeveloped land and skilled personnel; the ability to obtain equipment in a timely manner to carry out exploration and development activities; the ability to obtain financing on acceptable terms; the ability to add production and reserves through exploration and development activities; and, the continuation of the current tax and regulation.

We believe the expectations reflected in those forward looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this Management's Discussion and Analysis, as the case may be. The actual results could differ materially from those anticipated in these forward looking statements as a result of the risk factors set forth below and elsewhere in this Management's Discussion and Analysis: which include volatility in market prices for oil and natural gas; counterparty credit risk; access to capital; changes or fluctuations in production levels; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; stock market volatility and market valuation of The Company's stock; geological, technical, drilling and processing problems; limitations on insurance; changes in environmental or legislation applicable to our operations, and our ability to comply with current and future environmental and other laws; changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry, changes in the regulatory regimes under which the Company operates, changes in the political and social environment that may impact the Company and the other factors discussed under "Risk Factors" in the following annual MD&A. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. The forward looking statements contained in this document speak only as of the date of this document and The Company does not assume any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws. This Management's Discussion and Analysis is dated as of April 30, 2010.

OPERATING RESULTS

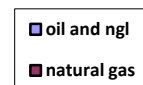
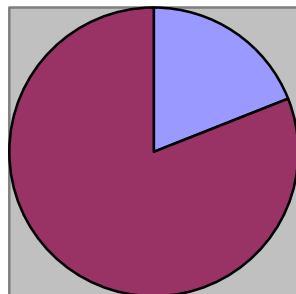
SALES	Average Daily Volumes			Average Prices		
	2009	2008	Percent Change	2009	2008	Percent Change
Natural Gas (mcf)	661	637	+4%	\$4.15/mcf	\$9.09/mcf	-54%
Oil/NGL(bbls)	26	25	+5%	\$52.28/bbl	\$86.49/bbl	-40%
Barrels of Oil Equivalent (boe)	135	131	+3%	\$30.09/ boe	\$60.59 / boe	-50%

Although production increased slightly during 2009 compared to 2008, significant decreases in 2009 compared to 2008 commodity prices resulted in reduced revenues and royalties overall. Specific changes are highlighted by the following:

- For the year ended December 31, 2009 natural gas sales volume rose by 4%, to 661 mcf/d from 637 mcf/d the previous year.
- Natural gas prices decreased an average of 54% during 2009 to \$4.15/mcf versus \$9.09/mcf during 2008.
- Oil and NGL production for the year ended December 31, 2009 increased by 5% to 26 bbls/d from 25 bbls/d for the year ended December 31, 2008.
- During the year ended December 31, 2009, the average price received for oil and NGL's combined was \$52.28/barrel versus \$86.49/barrel during the previous year, a 40% decrease.
- During the year ended December 31, 2009, the average sales volume on a boe/d basis increased by 3% to 135 boe/d compared with 131 boe/d for the year ended December 31, 2008.
- The average sales price on a boe basis was \$30.09/boe in 2009, a 50% reduction from the \$60.59/boe received in 2008.

From the above summary points it is clear that the most significant operating event in 2009 was the reduced commodity price. Volumes increased for all commodities and yet revenues are roughly half of their 2008 level.

On a barrel of oil equivalent basis, during 2009 oil and NGL accounted for 19% of total sales and natural gas accounted for 81% of total sales, compared to 2008 when natural gas accounted for 81% of total sales, with oil and NGL accounting for 19%.



FINANCIAL RESULTS

Revenue from the sale of petroleum and natural gas is recorded on a gross basis when title passes to an external party and is recognized based on volumes delivered to customers at contractual delivery points and rates. The costs associated with the delivery, including production, transportation and production-based royalty expenses are recognized in the same period in which the related revenue is earned and recorded.

Petroleum and natural gas revenue declined 49% to \$1,487,795 for the year ended December 31, 2009 from revenue of \$2,890,701 during the year ended December 31, 2008. The reduction of 49% was primarily due to the lower commodity prices during 2009 compared to 2008. Revenue on a boe basis decreased by 50% to \$30.09/boe from \$60.59 during 2008 due to the drop in world energy demand which resulted in lower prices for all commodities.

Royalties decreased by 64% to \$216,462 from \$603,125 in 2008, which is consistent with the decline in revenue due to falling commodity prices.

Production expenses in the year ended December 31, 2009 increased 30% to \$945,678 compared to \$726,409 respectively. This increase compared to revenue was primarily due to an increased focus of optimizing producing properties and workover expenses on certain wells. As a result operating costs/boe increased by 26% to \$19.13/boe from \$15.20/boe in 2008.

Operating netback from petroleum and natural gas sales decreased by 79% to \$325,655 during 2009 from \$1,561,167 during 2008,

Operating netback/boe fell by 80% to \$6.58/boe from \$32.77/boe. This decrease resulted from weak prices for both petroleum and natural gas through most of 2009 and the increases in operating costs.

Year ended December 31	2009	2008	Percent Change
Petroleum and natural gas revenue	\$1,487,795	\$2,890,701	-49
Royalties, petroleum and natural gas	\$216,462	\$603,125	-64
Production expenses, petroleum and natural gas	\$945,678	\$726,409	+30
Operating netback, petroleum and natural gas	\$325,655	\$1,561,167	-79
Net (loss) income	(\$1,634,427)	(\$722,275)	+126
Net (loss) income per share (basic and diluted)	(\$0.05)	(\$0.02)	+150
Revenue per boe	30.09	60.59	-50
Royalty per boe	4.38	12.62	-65
Operating costs per boe	19.13	15.20	+26
Operating netback per boe	6.58	32.77	-80
Total assets	\$6,361,967	\$6,506,209	-2
Total long-term liabilities	\$199,676	\$104,942	+90

GENERAL & ADMINISTRATIVE EXPENSES

After recoveries, general and administrative expenses ("G&A") remaining relatively unchanged with a small increase of 2% to \$1,242,824 in 2009 from \$1,219,252 in 2008. However, with the increased production during 2009, the net G&A costs per boe were reduced by 2% to \$25.14/boe from \$25.56/boe during 2008.

GENERAL & ADMINISTRATIVE EXPENSES			
Year ended December 31	2009	2008	Percent Change
Net G&A Expenses	\$1,242,824	\$1,219,252	+2
Net average costs per boe	\$25.14	\$25.56	-2

INTEREST EXPENSE

During 2009 the interest expense decreased by 21% to \$112,390 from \$142,055 in 2008, which was due to lower interest rates.

INCOME TAXES

Future income taxes arise from differences between the accounting and tax basis of the Company's assets and liabilities. The future income tax recovery of \$336,000 from \$nil during 2008 was the result of renouncing certain tax benefits to the holders of flow through shares during 2009.

DEPLETION, DEPRECIATION & ACCRETION EXPENSES

Depletion and depreciation expense, an accounting measure of our finding and on-stream costs, is calculated using the ratio of capital costs to proven reserves. Capital costs include the net book value of historical costs incurred and estimated future expenditures to develop proved reserves less the estimated net realizable value of production equipment and facilities after proved reserves are fully developed.

Asset retirement obligation is the present value of management's estimate of future costs to be incurred to properly abandon and reclaim the properties held by the Company. Accretion expense is the increase in the asset retirement obligation resulting from the passage of time.

DEPLETION, DEPRECIATION & ACCRETION			
Year ended December 31	2009	2008	Change Percent
Depletion, depreciation and accretion	\$905,864	\$857,022	+6
Average costs per BOE (\$/boe)	18.32	17.96	+3
Asset retirement obligation at year end	\$131,757	\$104,942	+26

During the year ended December 31, 2009, depletion, depreciation and accretion (DD&A) expenses were 26% higher to \$905,864 compared to \$857,022 during 2008. On a boe basis the DD&A costs increased by % to \$18.32/boe from \$17.96/boe. The increase is a result of a ceiling test write down of US oil & gas properties. Subsequent to the year end additional US properties were acquired which were not included in the year end reserve evaluation of properties.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations increased by 26 % from \$104,942 during 2008 to \$131,757 during 2009. The increase was due to the addition of three recently drilled wells.

CASH FLOWS FROM OPERATING ACTIVITIES

During the year ended December 31, 2009, cash flows provided from operations decreased to \$(1,083,013) from \$170,117 during 2008. This decrease is almost entirely a result of significantly lower commodity prices and the resultant reduction in petroleum and natural gas revenue.

Funds from operations during the year ended December 31, 2009 decreased to \$ (\$0.03)/share) from the previous year's \$ (\$0.01/share). The decreased cash flow was the result of significantly lower commodity prices. Funds from operations on a boe basis were \$(21.90)/boe compared to \$3.56/boe in 2008.

CAPITAL EXPENDITURES

Year ended Dec 31	2009	2008	Percent Change
Total expenditures	\$1,262,675	\$1,215,875	+4

During the year capital was expended in tying in several wells at Dorenlee and Kelsey, Alberta.

One well was drilled at Alliance, Alberta for Viking oil. This well was perforated in 2010 and completion activities are still underway.

In addition, 2 wells at Rainbow Lake, Alberta were re-entered to evaluate the potential of additional zones.

The tie ins and workover activity were able to add sufficient production to overcome normal well decline. The production to be added by the Alliance well is not yet known.

LIQUIDITY & CAPITAL RESOURCES

EBY had established a \$3.25 million demand revolving production loan with its principal lender, the terms of which are reviewed twice each year. The next review is scheduled for May 2010.

The Company had a negative working capital of \$1,396,927 excluding bank debt of \$2,935,019 at December 31, 2009 versus a negative working capital of \$366,688 and \$2,275,000 at December 31, 2008.

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 December 31, 2009, the Company was in violation of this bank covenant.

In order to resolve its working capital ratio and to access additional share equity, the Company will be emphasizing development of its U.S. properties. The Company has received preliminary expressions of interest from third parties, interested in investing substantial sums in the Company if it focuses on its US properties. The Company's US prospect should produce better returns due to higher oil prices compared with natural gas, it has greater drilling potential and more locations. Given Emerald Bay's recurring operating losses it is critical that the Company refocus to an area with the potential of growth and positive cash flow and income that the U.S. has.

The Company has also received some expressions of interest in certain of its Canadian properties. A sale of some of these properties may dovetail very well with refocusing on the US assets. Also, should the Company be unable to raise additional equity such a sale would allow the Company to meet its capital requirements and still pursue US projects.

OUTSTANDING SHARE DATA

EBY had 45,159,446 shares issued and outstanding at December 31, 2009. There are 2,940,617 options outstanding with a weighted average exercise price of \$.20/share.

On November 20, 2009 the Company completed a private placement through the issuance of 6,250,000 units (the "Unit") for total proceeds of \$500,000 (\$0.08/share). Of the total units issued under the private placement, 5,812,500 were issued as flow through shares. Each unit consists of one common share or one flow through share and one non-transferable share purchase warrant (the "Warrant"). Each full warrant entitles the holder to purchase one additional common share of the Company for a period of 12 months from the date of issue of the unit at a price of \$0.15. Share issue costs of \$35,000 were charged against the value of the private placement.

On December 31, 2009 the Company completed the first tranche of a larger private placement. Pursuant to the private placement, 1,875,000 units were issued for gross proceeds of \$150,000 (\$0.08/share). Each unit consists of one flow through share and one share purchase warrant. Share issue costs of \$31,050 were charged against the value of the private placement. The fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following assumptions: dividend yield (Nil), expected volatility (55%), risk-free interest rate of (1.5%), and weighted average life of 1 year. A total estimated value of \$80,000 was assigned as the fair value of the warrants issued pursuant to each private placement. The estimated value of \$4,775 (2008-\$25,996) for agent options granted in the year, has been charged to share issue costs with a corresponding credit to contributed surplus.

As at December 31, 2009, the Company has met its commitment to spend the total flow through funds raised in 2008 of \$1,219,375 and renounced in full to the shareholders by year end.

In 2009 the Company committed to incur \$650,000 on qualifying exploration and development expenditures prior to December 31, 2010 relating to flow-through share agreements issued in 2009. This amount remains to be incurred at December 31, 2009 and will likely be the extent of the Company's Canadian spending in 2010.

OFF BALANCE SHEET ARRANGEMENTS

EBY is not party to any arrangements that would be excluded from the balance sheet.

RELATED PARTIES

The Company maintains a small staff and only has two individuals on payroll. The balance of the individuals (including three directors) who work for the company do so on a non-exclusive basis as consultants. As a result much of the general and administrative spending of the Company is to a related party. 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.

- a) The following amounts are due from related parties:

	Dec 31, 2009	Dec 31, 2008
Due from related party		
Note receivable from officer (i)	\$ 218,500	\$ 218,500
Fair value allowance (ii)	(206,710)	(206,710)
	11,790	11,790
Advance fees (iii)	51,448	59,473
	<u>\$ 63,238</u>	<u>\$ 71,263</u>

- (i) Note receivable from officer - A promissory note bearing interest at 3% per annum and repayable by December 31, 2012 unless the officer's employment is terminated or he is petitioned into bankruptcy wherein the note and accrued interest becomes immediately payable. The note is secured by 393,000 common shares of the Company which had a fair value of \$35,370 at December 31, 2009.
- (ii) The fair value allowance was determined in 2008, based on the market value at December 31, 2008 of the secured shares. The Company has not provided an additional allowance in 2009 as the estimated fair value of the 393,000 common shares held as security at December 31, 2009 of \$35,370 exceeded the \$11,790 carrying amount.
- (iii) A director was advanced fees totaling \$nil (2008 - \$59,473) in relation to efforts to finance and advance the Company's drilling technology. At December 31, 2009 \$51,448 (2008 - \$59,473) remains outstanding. There is no guarantee that such effort will be successful and if such efforts are not successful, the full balance will be repaid by December 31, 2010.

- b) Except as disclosed elsewhere, the Company was involved in the following related party transactions for the year ended December 31, 2009.

- (i) Directors and officers, have charged the Company \$276,569 (2008 - \$278,300) for management services related to managing the day to day operations of the Company in Canada and the United States, inclusive of filling the role of Company President.
- (ii) A law firm in which a director is a partner has charged the Company \$33,200 (2008 - \$59,685) in legal fees for normal corporate matters.
- (iii) An oil and gas completions, operations, geological and consulting firm owned 100% by a director has charged the Company \$187,319 (2008 - \$166,950) in consulting fees.
- (iv) A U.S. corporation, owned and controlled by an officer and a director has charged the Company \$77,000 (2008 - \$159,500) for costs it incurred for operation of the Company's U.S. properties.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's significant accounting policies are summarized in note 3 to the audited consolidated financial statements for the years ended December 31, 2009 and 2008. Changes to the accounting policies are also summarized in note 3 and discussed below.

Certain of these policies require that Management make judgments, assumptions and estimates that have a significant impact on the financial results of the Company as follows:

Petroleum and Natural Gas Reserves

Reserves estimates and revisions to those reserves are not reported as part of the Company's financial statements. However, they have a significant impact on net earnings as a result of their impact on depletion, depletion rates, asset retirement obligations, asset impairments and ceiling tests. One hundred percent of the Company's proved plus probable petroleum and natural gas reserves were evaluated in Canada and reported on by independent petroleum engineers (GLJ) in accordance with National Instrument 51-101. US properties owned at year end were evaluated by US engineers. However, petroleum and natural gas reserves are complex and subject to many known and unknown variables that interact. The process of estimating reserve volumes is subject to these uncertainties and to various interpretations. Estimating reserves requires significant judgments based on available geological and reservoir data, past production and operating performance and forecasted economic and operating conditions. These estimates may change substantially as additional data from ongoing development, testing and production becomes available and as unforeseen changes occur in economic and reserve conditions which impact petroleum and natural gas prices and costs.

Full Cost Accounting

The Company follows the full cost method of accounting for petroleum and natural gas activities. Using the full cost method of accounting, all costs of acquiring, exploring and developing petroleum and natural gas properties are capitalized, including unsuccessful drilling costs and administrative costs associated with acquisitions and development.

In accordance with full cost accounting, a ceiling test is performed on a quarterly basis to test for asset impairment. An impairment loss is recorded if the sum of the undiscounted cash flows expected from the production of the proved reserves plus the lower of cost and market of unproved properties does not exceed the carrying values of the petroleum and natural gas assets. The cash flow used in testing for impairment is based on the estimates of remaining proved and probable reserves, future commodity prices and future operating costs.

Capitalized costs are depleted using the unit-of-production method based on estimated proved reserves of petroleum and natural gas before royalties as determined by independent petroleum engineers. Costs relating to unproved properties are excluded from depletion and depreciation until it is determined whether or not proved reserves exist or if impairment occurs. Proved natural gas reserves and production are converted to equivalent volumes of crude petroleum based on the approximate relative energy content ratio of six thousand cubic feet of natural gas to one barrel of crude oil. This conversion is an industry accepted estimation that may not reflect the relative economic value of the different products.

Asset Retirement Obligation

Management calculates the asset retirement obligation based on estimated costs to abandon and reclaim its net ownership interest in all wells and facilities and the estimated timing of the costs to be incurred in future periods. The fair value estimate is capitalized to property, plant and equipment as part of the cost of the related asset and amortized over its useful life. Significant estimates included in this calculation are the cost of the retirement, the inflation in these costs until retirement and the timing of such retirement.

Income Taxes

Income taxes are calculated for the corporate subsidiaries using the liability method whereby tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between amounts reported in the financial statements and their respective tax base using substantively enacted income tax rates. The effect of a change in income tax rates or income tax legislation on future tax liabilities and assets is recognized in income in the period in which the change occurs. The determination of income and other tax liabilities requires interpretation of complex laws and regulations. All tax filings are subject to audit and assessment by taxing authorities often after considerable time has passed. As a result, the actual income tax liability may differ from that recorded. As the Company has recurring operating losses, the likelihood of it benefitting from all tax pools is in question. As a result a future tax asset has not been recorded.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2008 the Company adopted the following Canadian Institute of Chartered Accountant ("CICA") Handbook Sections:

Goodwill and Intangible Assets – CICA Handbook Section 3064

The CICA issued the new Handbook Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets. The new standard establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred. There has been no impact upon adoption in the financial statements.

Financial Instruments – Disclosures – CICA Handbook Section 3862

The CICA amended Handbook Section 3862 to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurement. Fair values of assets and liabilities in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. The amendments were adopted on December 31, 2009 and result in increased note disclosures for financial instruments.

Financial Statement Concepts – CICA Section 1000

Section 1000 "Financial Statement Concepts" has been amended to focus on the capitalization of costs that truly meet the definition of an asset and de-emphasizes the matching principle. The amendments were adopted on January 1, 2009 and had no impact on the Company.

FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company is currently assessing the impact of the conversion from Canadian GAAP to IFRS on its results of operations, financial position, and disclosures and is in the process of developing an IFRS changeover plan. The plan includes an assessment of differences between Canadian GAAP and IFRS, accounting policy choices under IFRS, internal controls over financial reporting, potential system changes required, potential corporate governance changes and effects on internal controls and processes including resources and training required for employees. Initial activities have included training sessions, identification of significant differences between Canadian GAAP and IFRS and acquisition of written standards and examples of IFRS disclosure. The Company will provide additional disclosures

of the key elements of its plan and progress on the project as the information becomes available during the transition period. The Company has completed a conversion of its accounting system to one which can provide the necessary IFRS inputs. This project was completed over the 3rd and 4th quarters of 2009 and the first quarter of 2010. An assessment of necessary modifications to the converted system is the next step and will be completed during the second and third quarters of 2010.

As the Company has not yet finalized its accounting policy choices, it is unable to quantify the impact on the financial statements at this time. In addition, due to possible changes to IFRS and International Accounting Standards prior to adoption of IFRS, management's plans are subject to change based on new facts and circumstances that arise after the date of this MD&A. The transition from Canadian GAAP to IFRS is a significant undertaking that will change the way we report our results and our financial position. The Company will provide further disclosures of the key elements of its plan and progress on the project as it progresses through the 2010 transition period. The final impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued CICA Handbook Sections 1582: Business Combinations, Section 1601: Consolidations, and Section 1602: Non-controlling Interest. These sections replace the former CICA Handbook Section 1581: Business Combinations and Section 1600: Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, Business Combinations (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, Consolidated and Separate Financial Statements (January 2008).

CICA Handbook Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year.

All three sections must be adopted concurrently.

Equity

In August 2009, the AcSB issued amendments to CICA Handbook Section 3251: Equity as a result of issuing CICA Handbook Section 1602: Non-controlling Interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602 and are not expected to have an impact on the Company's financial statements.

Comprehensive Revaluation of Assets and Liabilities

In August 2009, the AcSB issued amendments to CICA Handbook Section 1625: Comprehensive Revaluation of Assets and Liabilities for consistency with new CICA Handbook Section 1582: Business Combinations. The amendments apply prospectively to comprehensive revaluations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011 and are not expected to have an impact on the Company's financial statements.

Accounting changes

In June 2009, the AcSB issued an amendment to CICA Handbook Section 1506: Accounting Changes which is effective for fiscal years beginning on or after July 1, 2009. The amendment excludes from the scope of CICA Handbook Section 1506 changes in accounting policies upon the complete replacement of an entity's primary basis of accounting, as will occur when an entity adopts IFRS.

RISK FACTORS AND RISK MANAGEMENT

The oil and gas industry is subject to risks in (among others):

Commodity Price Risk

Historically the Company has sold all of its product on the spot market. However, the Company was concerned about the near future value of natural gas and therefore, in 2010, the Company will be subject to a financial instrument collaring the received price of natural gas between \$4.53/GJ and \$7.53/GJ for 500 GJ/day for 2010.

Management remains optimistic about future prices in the longer term particularly for oil. Accordingly, the Company will be emphasizing oil in its future development plans.

Production Risk

EBY believes it has a stable production base from a variety of wells. However EBY remains subject to the risk that a significant decrease in production from some wells could result in a material decrease in the Company's production and associated cash flow.

Reserve Replacement Risk

EBY's production is subject to natural declines and the Company plans to replace production with acquisitions and developing new reserves. To remain financially viable, the Company must be able to replace reserves at a lesser cost on a per unit basis than its cash flow on a per unit basis. The Company closely monitors the capital expenditures made for the purpose of increasing its petroleum and natural gas reserves.

Regulatory Risk

Government royalties, income tax laws, environmental laws and regulatory requirements can have a significant impact on EBY's finances and operations. EBY strives to remain knowledgeable regarding changes to the regulatory regime under which it operates. All EBY properties are currently located Alberta, Canada and Texas, USA. Sudden regulatory or royalty changes by future government action is unpredictable and cannot be forecast by the Company.

Climate Change Risk

North American climate change policy is evolving and changing at both regional and national levels. EBY expects that some of its operations may be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse gas. The exact scope and timing of new climate change measures is difficult to predict.

FINANCIAL INSTRUMENTS

a) Fair values

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The fair values of these financial instruments approximate their carrying value due to their short-term nature.

Effective December 31, 2009, the Company adopted the amendments to CICA Section 3862 "Financial Instruments – Disclosures". These amendments require the Company to present information about financial instruments measured at fair value in accordance with a three level hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair values of the financial assets and liabilities. The fair value hierarchy has the following levels:

- (i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the finance financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. For the year ended December 31, 2009, the Company did not hold any financial instruments subject to the valuation through the hierarchy.

b) Credit risk

Credit risk is the risk of financial loss to the Company if the customer or counterparty to a financial instrument fails to meet its contractual obligation and arises principally from joint venture partners and natural gas marketers.

Portions of the Company's accounts receivable are with joint venture partners in the oil and gas industry and are subject to normal industry credit risks. The Company sells the majority of its production to two oil and natural gas marketers and therefore is subject to concentration risk. Purchasers of the Company's oil and natural gas products are subject to an internal credit review designed to mitigate the risk of non-payment. The Company has long standing relations with its purchasers who have consistently met their contractual obligations.

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 in certain circumstance may elect to cash call a joint venture partner in advance of the work. However, the receivables are from participants in the oil and gas sector and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalation costs and the risk of unsuccessful drilling. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners, However, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

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 ensures, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions without incurring unacceptable losses or harm to the Company's reputation.

The Company prepares annual capital expenditure budgets which are regularly monitored and updated as considered necessary. The Company also utilizes authorization for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving reserve-based credit facility (note 6) that is reviewed at least annually by the lender. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month.

Accounts payable are considered due to suppliers in one year or less. Bank debt is subject to review starting on April 1, 2010. The Company has begun to supply the Bank with the appropriate documentation necessary for the reviews.

The Company's net current liabilities and other liabilities and the manner in which they are expected to be met are as follows:

Net working capital deficiency	\$1,396,927	This amount is anticipated to be met out of additional share issuance in the 2010 fiscal period.
Bank debt (Note 7)	\$2,935,019	The Company anticipates issuing additional share capital to reduce this amount in 2010. This amount is secured by the Company's oil and gas assets which have value sufficient such that the Company has no reason to believe that the bank will require repayment within the next fiscal period.
Long term debt	\$67,919	This amount will be paid over five years out of normal cash flow.

d) **Market risk**

Market risk is the risk that changes in foreign exchange rates, commodity prices, and interest rates will affect the Company's net income or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Currently the Company does not use financial derivatives or physical delivery sales contracts to manage market risks. If in the future management determines market risk warrants the use of financial derivatives or physical delivery sales contracts any such transactions would be approved by the Board of Directors.

(i) **Commodity price risk**

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of exploration and; development properties and level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. A \$.50/mcf increase or decrease in the price received for natural gas would result in approximately a \$14,000 increase or decrease in monthly Petroleum and Natural Gas sales. In the past the Company has sold all of its gas on the spot market which historically has outperformed many corporation's active hedging programs. However, in order to reduce risk in 2010, the Company has entered into a financial instrument collaring the received price of natural gas between \$4.53/GJ and \$7.53/GJfor 500 GJ/day.

(ii) **Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears a floating rate of interest. If the interest rate on the bank loan were to change by 1% it is estimated that annual cash flow would change by approximately \$26,000.

The Company had no interest rate swaps or financial contracts in place during the year ended December 31, 2009.

CONTINGENCIES AND COMMITMENTS

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.

Office lease

Under a lease arrangement for five (5) years commencing April 1, 2009 and ending March 31, 2014 the Corporation was committed to payments of \$5,420 per month under a rental agreement for office space.

Long-term debt – Vehicle Leases

The Company has entered into various vehicle lease agreements with estimated minimum annual payments of \$17,359 per year through 2015.

SELECTED ANNUAL INFORMATION

	2009	2008	2007
Petroleum and natural gas sales	\$1,487,795	\$2,890,701	\$2,350,396
Net loss	1,634,427	722,275	562,597
Net loss per share			
Basic and Diluted	(0.05)	(0.05)	(0.02)
Cash flow from operating activities	(1,083,013)	170,117	(39,890)
Total assets	6,361,967	6,506,209	5,490,398
Current net debt	4,331,946	2,692,927	2,536,069

Discussion of variance

The most significant driver of this variation is the commodity price. With commodity prices this year roughly half of what they were last year, revenues are down correspondingly and losses have increased. This has been reflected in increased net debt.

OUTLOOK

The financial performance for 2009 reflects the global economic downturn. Commodity markets remained challenged during the year with 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.

As the global recession continued, additional downward pressure was placed on natural gas prices throughout 2009. The AECO daily spot price decreased 54 percent from 2008 to an average realized price of \$4.15/mcf. Oil prices decreased 40% from 2008, with an average realized price of US\$52.28/bbl. For a company that is 81% weighted to natural gas, this price decline has had a profound impact on the Company's income stream. To provide near-term and long-term stability, Emerald Bay has transitioned its development focus to oil development. The goal is to be at a 50/50 gas/oil ratio by the end of 2010.

2010 Highlights and Key Objectives:

- ◆ Subsequent to the 2009 year-end, 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 2009 year-end Emerald Bay completed its pipeline construction at Gilby Alberta, and tied-in Gilby 8-33-40-1 W5. Production lifting equipment is currently being planned to handle the hydrocarbons and the production operations should be completed by the end of May, 2010.
- ◆ Subsequent to the 2009 year-end, Emerald Bay received its pipeline construction license at Joffre Alberta. Construction is anticipated to begin in May 2010.
- ◆ Subsequent the 2009 year-end, The Company announced that it and a private partner have acquired 100% of the issued and outstanding securities of Production Resources Inc. ("**PRI**"), a private, Texas based oil company. The Company acquired its 50% interest in PRI for USD\$425,000 in Company stock and a small note for \$36,800. This is a big step forward in the Company's plans to transition its development to oil properties. The acquisition with existing wells with up-hole potential in by-passed pay zones, and drilling locations for in-fill drilling in 2010. PRI has the service equipment necessary to be a complete, self-sustaining production operation.
- ◆ Our approach will be to continue to seek out strategic acquisitions in our core areas, including U.S. opportunities, to grow the Company and add value on significant metrics including cash flow, production and reserves.
- ◆ Tie-in the remaining 5 wells located at Lacombe and Joffre Alberta.
- ◆ With the addition of our South Texas oil projects, Emerald Bay's goal in 2010 is to build a balanced production profile to provide a solid base for long term, stable cash flow;
- ◆ Secure additional equity financing to fund the Company's low-risk, "in-fill" CAPEX program and working capital for 2010;
- ◆ One of our strongest assets is the talented team of people we engage. We are committed to attracting, retaining and developing the best people with a significant focus on technical and professional expertise;
- ◆ Employ technology to enhance oil and gas recovery, optimize work processes, increase effectiveness of development and exploration and manage risk appropriately; and
- ◆ Maintain the highest levels of corporate governance. Our directors, officers and employees are committed to the highest level of business ethics. We will conduct our business dealings according to superior corporate governance practices;

QUARTERLY FINANCIAL INFORMATION

The following is a summary of selected quarterly information that has been derived from the unaudited financial statements of Emerald Bay Energy Inc. This summary should be read in conjunction with unaudited financial statements of EBY as contained in the public record.

Emerald Bay Energy Inc.

Quarterly Financial Information	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
(\$'000 except per share and unit values)	2009	2009	2009	2009	2008	2008	2008	2008
Petroleum and natural gas sales	486	301	316	384	392	567	798	535
Net income (loss)	(1,005)	(281)	(450)	102	(420)	(212)	(72)	(18)
Net income (loss) per share								
Basic and diluted	(0.03)	(0.01)	(0.02)	0.01	(0.02)	(0.00)	(0.01)	(0.00)
Average daily sales								
Natural gas (mcf/d)	781	668	606	585	561	654	750	640
Oil/NGL (bbls/d)	19	29	26	27	26	31	28	20
Barrels of oil equivalent (boe/d)	149	140	128	124	119	141	153	120
Average sales prices								
Natural Gas (\$/mcf)	4.36	2.59	4.17	5.68	7.46	9.01	10.43	8.34
Oil/NGL (\$/bbl)	96.22	52.82	35.54	35.39	44.72	76.38	104.90	92.78
Barrels of oil equivalent (\$/boe)	35.47	23.29	27.23	34.35	44.76	58.96	70.31	56.87
Operating costs(\$/boe)	33.92	13.80	16.10	10.33	12.38	17.59	16.83	11.30
Royalty Expense (\$/boe)	6.63	3.25	4.53	2.76	9.08	14.71	12.96	11.12
Operating netback (\$/boe)	(5.08)	6.24	6.60	21.26	23.30	26.66	40.52	34.45

Explanation of Quarterly Variances

On a quarter by quarter basis production volumes have generally trended upwards throughout 2009. Unfortunately, during the same time period prices were much lower than in 2009 resulting in lower Petroleum and natural gas sales. The net loss in the fourth quarter of 2009 is largely the result of two significant factors. The first is a write down of our US oil and gas assets of approximately \$300 thousand dollars. The second is increased workover related operating costs as the Company worked to improve volume. Both of these items should not be incurred in future quarters to this extent.

SUBSEQUENT EVENT

On March 4, 2010, the Corporation announced that it and a private partner had acquired a 100% of the shares of a private Texas based oil company, Production Resources Inc. (PRI). The Corporation will issue five million of its common shares at \$0.08 CDN per share) along with an 18 month consulting agreement totaling \$36,800 US to the seller for a 50% interest in PRI for consideration of \$425,000 US. PRI's assets are 75 oil wells providing approximately 30 barrels of oil per day with development prospects.

DATE

This MD&A is dated April 30, 2010.

ADDITIONAL INFORMATION

Additional information regarding the Corporation is available on SEDAR at www.sedar.com