

ANNUAL INFORMATION FORM

EMERALD BAY ENERGY INC.
(the "**Corporation**")

For the Fiscal Year Ended December 31, 2004

July 26, 2005

TABLE OF CONTENTS

Item 1 - CORPORATE STRUCTURE	1
1.1 Name, Address and Incorporation	1
1.2 Intercorporate Relationships	1
Item 2 - GENERAL DEVELOPMENT OF THE BUSINESS.....	1
2.1 Three Year History	1
2.2 Significant Acquisitions and Significant Dispositions	2
Item 3 – DESCRIPTION OF THE BUSINESS	2
3.1 General	2
3.2 Risk Factors	3
3.3 Principal Oil and Gas Producing Properties	8
3.4 Oil and Gas Reserves Data and Other Information	9
Item 4 - DIVIDENDS	14
Item 5 – CAPITAL STRUCTURE	14
5.1 General Description of Capital Structure	14
Item 6 – MARKET FOR SECURITIES	14
6.1 Trading Price and Volume	14
Item 7 – DIRECTORS AND OFFICERS	15
7.1 Name, Occupation and Security Holdings	15
7.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions	16
7.3 Conflicts of Interest.....	16
Item 8 – PROMOTERS	16
8.1 Promoters	16
Item 9 – LEGAL PROCEEDINGS.....	16
9.1 Legal Proceedings	16
Item 10 - INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	17
10.1 Interest of Management and Others in Material Transactions.....	17
Item 11 - TRANSFER AGENTS AND REGISTRARS	17
11.1 Transfer Agents and Registrars	17
Item 12 – AUDITORS	17
12.1 Auditors.....	17
Item 13 – INTERESTS OF EXPERTS	17
13.1 Name and Interest of Experts	17
Item 14 – ADDITIONAL INFORMATION.....	18
14.1 Additional Information.....	18
14.2 Audit Committee Information	18
SCHEDULE A -	Form 51-101F2 Report on Reserves Data (GLJ)
SCHEDULE B -	Form 51-101F2 Report on Reserves Data (Clevenger)
SCHEDULE C -	Form 51-101F3 Report of Management and Directors on Oil and Gas Disclosure

PRELIMINARY NOTES

Forward Looking Statements

Certain statements in this Annual Information Form ("AIF"), including statements which may contain words such as "could", "expect", "believe", "will", and similar expressions, and statements related to matters that are not historical facts, are forward-looking statements. Such forward-looking statements involve known and unknown risks and uncertainties which may cause the actual results, performances, or achievements of the Corporation to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements.

These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement to the Corporation's services and products; expectations concerning future revenue and earnings; market opportunities; general economic and business conditions; loss of key employees; integration of acquisitions; stock market volatility; supply and demand for services and products offered by the Corporation, changes in laws and regulations; the Corporation's ability to compete successfully, adapt to technological advances, changing industry standards and other factors.

All forward-looking statements in this Annual Information Form are based on management's reasonable beliefs, intentions, and expectations with respect to future events and are subject to certain risks, uncertainties, and assumptions as of the date of this release. In light of the many risks and uncertainties that may cause future results to differ materially from those expected, the Corporation cannot give assurance that the forward-looking statements contained in this Annual Information Form will be realized. Forward-looking statements are not guarantees of future performance. The Corporation assumes no obligation to update its forward-looking statements to reflect subsequent information or events.

Effective Date of Information

This AIF is dated July 26, 2005 and the information contained herein is correct as of such date, other than certain financial information which is current as of December 31, 2004, being the date of the Corporation's most recently completed financial year.

Incorporation of Other Information

This AIF will be supplemented by, and the following documentation is hereby incorporated by reference as part of this AIF: (i) the Corporation's annual financial statements as at December 31, 2004, together with the auditors' report thereon; (ii) the most recent management proxy information circular of the Corporation dated May 14, 2004; (iv) all material change reports and quarterly financial statements as have been or may be filed with the Alberta Securities Commission in accordance with the requirements of the *Securities Act* (Alberta). See Item 14 for further particulars for obtaining copies of these documents. These documents are also available for viewing at www.sedar.com.

All financial information in this AIF is prepared in accordance with accounting principles generally accepted in Canada. All dollar amounts are expressed in Canadian dollars unless otherwise stated.

Abbreviations

Crude Oil and Natural Gas Liquids

bbls	barrels
bbls/d	barrels per day
mbbls	thousand barrels
boe	barrels of oil equivalent of natural gas, unless otherwise indicated
boe/d	barrels of oil equivalent per day
mboe	thousand boe
NGLS	natural gas liquids
mmbtu	million British thermal units
stb	standard stock tank barrel
mstb	thousand stock tank barrels

Natural Gas

mcf	thousand cubic feet
mmcf	million cubic feet
bcf	billion cubic feet
mcf/d	thousand cubic feet per day
mmcf/d	million cubic feet per day
GJ	gigajoule

Item 1 - CORPORATE STRUCTURE

1.1 Name, Address and Incorporation

Emerald Bay Energy Inc. was incorporated under the *Business Corporations Act* (Alberta) on May 9, 1997. The registered office of the Corporation is located at 1250, 639 – 5th Avenue SW, Calgary, Alberta T2P 0M9. The head office of the Corporation is located at Suite 1505, 777-8th Avenue SW, Calgary, Alberta, T2P 3R5.

The Corporation is a reporting issuer in Alberta and British Columbia.

1.2 Intercorporate Relationships

Reach Energy Innovations Ltd. ("**Reach**"), a private corporation under the laws of the Province of Alberta, is a wholly owned subsidiary of the Corporation.

Item 2 - GENERAL DEVELOPMENT OF THE BUSINESS

2.1 Three Year History

The Corporation was listed on the Alberta Stock Exchange (now the TSX Venture Exchange (the "**TSXV**")) as a junior capital pool corporation in April 1998. The Corporation's "Major Transaction" was the acquisition of certain resource interests from Karl Oil & Gas Ltd. It was approved by the shareholders of the Corporation on July 31, 1998. The resource interests were comprised of assets in the Edson region of west-central Alberta.

The original business plan of the Corporation was to fund the research and development of a production optimization technology called the Lateral Drainhole Drilling Tool ("**LDD**"). Unfortunately the Corporation had to initiate litigation with respect to previous intellectual property ownership and this hampered the Corporation's ability to raise development capital. However, with limited funds generated through cash flow, the Corporation continued its development efforts while managing the litigation from 1999 to 2003.

In an effort to diversify and increase cash flow, the Corporation formed an Exploration and Production business unit and in 2002 completed its first gas well in Western Canada. The R&D business unit continued the LDD development as well during this time period.

In March of 2003 the Corporation's efforts increased significantly across both business units. Milestones achieved in 2003 included:

- Lateral Drainhole Drilling Technology patent litigation is settled.

- Gibson Scott is appointed member of Board of Directors

- Company completes Private Placement financing to fund LDD development -\$310,000

- LDD development efforts escalate

- Company completes Flow-Through share offering of \$1,340,000

The Corporation made excellent strides in 2004 as the Corporation continued to expand its exploration and production activities and continue the LDD development. Specific highlights were:

- Flow-through qualifying expenditures spent as planned

- 5 wells drilled, cased, and cemented

- 1 well still shut-in for evaluation (Edson)

- 1 Drilled and abandoned

- 10 prospective zones identified

Great reserve potential

130 boe/d + is projected to be added to production from flow-through drilling results

Completions and tie-ins expected to be completed by mid-2005

Secured IRAP Development grant for continued LDD development

As detailed in the Corporation's current reserve report prepared by Gilbert Lausten Jung Associates Limited ("GLJ") at the end of 2004, total proved plus probable reserves increased 42% over the previous year to 340 thousand boe from 239 thousand boe, and the net present value of proved plus probable reserves (before tax, discounted at 10%) increased 86% to \$3.9 million as at December 31, 2004 from \$2.1 million as at December 31, 2003. Subsequent to the date of the GLJ report, the Corporation has received updated evaluations as of March 31, 2005 for the Clive and Twining properties as prepared by Proven Reserves Exploitation Ltd. The Clive and Twining upside review reflects production testing activity not considered in the GLJ report. Based on these latter reports, the incremental proved plus probable reserves is currently in excess of 316 thousand boe and \$1.2 million over the year-end results of the GLJ report.

2.2 Significant Acquisitions and Significant Dispositions

There have been no significant acquisitions completed by the Corporation during its most recently completed financial year, and no Forms 51-102F4 have been filed since the Corporation's previous AIF.

It is essential that the Corporation always look for growth by acquisition if the price is fair and the property is strategic to the Corporation's business plan. Using the Corporation's stock to purchase can be attractive if the Corporation feels its price point is adequate. The Corporation will continue to pursue and evaluate potential acquisitions as they are found. Specific targets would be small companies (preferably private) who may have 50 to 100 BOEPD and have maximized their potential.

Item 3 – DESCRIPTION OF THE BUSINESS

3.1 General

Summary

The Corporation was incorporated December 1997 as a junior capital pool corporation with the goal of investing in and developing a down-hole drilling tool referred to as the "lateral drain hole drilling tool". As its major transaction it acquired certain oil and gas rights as well. For the last year and a half it has tried to be both a technology company and an exploration and production ("**E&P**") company – but this has confused the market which has given very little value to the technology and as well it has not allowed management to focus on success in any one area. Great advances have been made in the tool. However, it would appear that the market is much more ready to recognize and award the Corporation as an E&P company than as a hybrid.

On February 25th the Board of Directors decided to transfer the LDD tool to a wholly-owned subsidiary, Reach Energy Innovations Ltd. ("**Reach**"), with a view to turning Reach into an independent privately-owned company, with its own management and capital structure. The LDD has been developed to a stage where the new corporate structure will allow this innovative well optimization tool to attract investors and development partners on its own.

The Corporation anticipates that it will not fund development of the LDD or the general administrative expenses associated with the LDD past June 30th 2005, as it is expected that the management of Reach will procure the necessary capital to continue the LDD development to commercial viability. This reorganization should clarify the Corporation's character as an oil and gas exploration and development company and create an environment whereby the investment community can evaluate the Corporation under a true E&P business model. The Corporation's updated cash flow projection reflects the new structure and compares favorably to other E&P companies of its similar size.

The Corporation will retain, as a passive investment, a significant shareholding in Reach. It is assumed that the valuation of the LDD technology will be established by an independent 3rd party, and the royalty and ownership interest to the Corporation will be determined at that time.

Competitive Conditions

The oil and natural gas industry is intensely competitive and the Corporation must compete in all aspects of its operations with a substantial number of other corporations that have greater technical or financial resources. With the maturing nature of the Western Canadian Sedimentary Basin, the access to new prospects is becoming more and more competitive and complex. The Corporation intends to continue to explore and develop new production and reserves with an objective of increasing its cash flow and reserve base.

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreement among the governments of Canada, Alberta, British Columbia and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the Corporation's operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted.

Employees

As of the date of this document, the Corporation had 4 employees and 4 contractors. Some management, technical, accounting and legal functions are performed for the Corporation by consultants or contractors.

3.2 Risk Factors

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration by the Corporation will result in new discoveries of oil or natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Corporation currently has a limited number of specific identified exploration or development prospects. Management will continue to evaluate prospects on an ongoing basis in a manner consistent with industry standards and their past practices. The long-term commercial success of the Corporation depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Corporation will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, the Corporation may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While close well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blow-outs, cratering, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Data and future Net Revenue Estimates

There are numerous uncertainties inherent in estimating quantities of oil and natural gas reserves, including many factors beyond the Corporation's control. The reserve data incorporated herein represents estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as product prices, future operating and capital costs, historical production from the properties and the assumed effects of regulation by government agencies, all of which may vary considerably from actual results. All such estimates are to some degree uncertain, and classifications of reserves are only attempts to define the degree of uncertainty involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recover and estimates of future net revenues expected therefrom, prepared by different engineers or by the same engineers at different times, may vary substantially. The Corporation's actual production, revenues, taxes and development and operating expenditures with respect to our reserves may vary from such estimates, and such variances could be material.

Insurance

The Corporation's involvement in the exploration for and development of oil and gas properties may result in the Corporation becoming subject to liability for pollution, blow-outs, property damage, personal injury or other hazards. Although the Corporation has obtained insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain he circumstances, the Corporation may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to the Corporation. The occurrence of a significant event that the Corporation is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on the Corporation's financial position, results of operations or prospects.

Estimates with respect to reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves, rather than upon production history. Estimates based on these methods generally are less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history will result in variations, which may be material, in the estimated reserves.

Prices, Markets and Marketing of Crude Oil and Natural Gas

Oil and natural gas are commodities whose prices are determined based on world demand, supply and other factors, all of which are beyond the control of the Corporation. World prices for oil and natural gas have fluctuated widely in recent years. Any material decline in prices could result in a reduction of net production revenue. Certain wells or other projects may become uneconomic as a result of a decline in world oil prices and natural gas prices, leading to a reduction in the volume of the Corporation's oil and gas reserves. The Corporation might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in the Corporation's future net production revenue, causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings available to the Corporation are in part determined by the borrowing base of the Corporation. A sustained material decline in prices from historical average prices could limit or reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation, and could require that a portion of any existing bank debt of the Corporation be repaid.

In addition to establishing markets for its oil and natural gas, the Corporation must also successfully market its oil and natural gas to prospective buyers. The marketability and price of oil and natural gas which may be acquired or discovered by the Corporation will be affected by numerous factors beyond its control. The Corporation will be affected by the differential between the price paid by refiners for light quality oil and the grades of oil produced by the Corporation. The ability of the Corporation to market its natural gas may depend upon its ability to acquire space on pipelines which deliver natural gas to commercial markets. The Corporation will also likely be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing facilities and related to operational problems with such pipelines and facilities and extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. The Corporation has limited direct experience in the marketing of oil and natural gas.

Development of the Technology

The Corporation has not yet field-tested its lateral downhole drilling technology and such technology should accordingly be considered as being experimental. There is no assurance that the technology will become fully operational and if so, whether such technology will be purchased by the oil and gas industry on commercially reasonable terms.

Substantial Capital Requirements; Liquidity

The Corporation anticipates that it will in the future make substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves. If the Corporation's revenues or reserves decline, the Corporation may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. Moreover, future activities may require the Corporation to alter its capitalization significantly. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's financial condition, results of operations or prospects.

Competition

The Corporation actively competes for reserve acquisitions, exploration leases, licences and concessions and skilled industry personnel with a substantial number of other oil and gas companies, many of which have significantly greater financial resources than the Corporation. The Corporation's competitors include major integrated oil and natural gas companies and numerous other independent oil and natural gas companies and individual producers and operators.

The oil and gas industry is highly competitive. The Corporation's competitors for the acquisition, exploration, production and development of oil and natural gas properties, and for capital to finance such activities, include companies that have greater financial and personnel resources available to them than the Corporation.

Certain of the Corporation's customers and potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect the Corporation's ability to sell or supply oil or gas to these customers in the future. The Corporation's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with its future industry partners and joint operators and its ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of international conventions and state and municipal laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to foreign governments and third parties and may require the Corporation to incur costs to remedy such discharge. No assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect the Corporation's financial condition, results of operations or prospects.

Changes in Government Regulation Affecting the Oil and Gas Industry

The oil and gas industry is subject to regulation and intervention by governments in such matters as the awarding of exploration and production interests, the imposition of specific drilling obligations, environmental protection controls, control over the development and abandonment of fields (including restrictions on production) and

possibly, expropriation or cancellation of contract rights. As well, governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and gas industry could reduce demand for gas and crude oil, increase our costs and may have a material adverse impact on us.

Environmental Legislation

All phases of the oil and natural gas business are subject to environmental regulation pursuant to a variety of Canadian, U.S. and other federal, provincial, territorial, state and municipal laws and regulations (collectively, "**environmental legislation**").

Environmental legislation imposes, among other things, restrictions, liabilities and obligations in connection with the generation, handling, use, storage, transportation, treatment and disposal of hazardous substances and waste and in connection with spills, releases and emissions of various substances to the environment. Environmental legislation also requires that wells, facility sites and other properties associated with our operations, be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. In addition, certain types of operations, including exploration and development projects and changes to certain existing projects, may require the submission and approval of environmental impact assessments or permit applications. Compliance with environmental legislation can require significant expenditures, including expenditures for clean up costs and damages arising out of contaminated properties and failure to comply with environmental legislation may result in the imposition of fines and penalties. Although it is not expected that the costs of complying with environmental legislation will have a material adverse effect on our financial condition or results of operations, no assurance can be made that the costs of complying with environmental legislation in the future will not have such an effect.

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol (the "**Protocol**") which requires nations to reduce their emissions of carbon dioxide and other greenhouse gases. In December 2002, the Canadian federal government ratified the Protocol and in February 2005 the Protocol entered into force internationally. As a result, Canada is required to reduce its greenhouse gas (GHG) emissions to 6% below 1990 levels over the period beginning in 2008 and ending in 2012. Currently the upstream oil and gas sector is in discussions with various provincial and federal levels of government regarding the development of greenhouse gas regulations for the industry. It is premature to predict what impact these potential regulations could have on the oil and gas sector but it is possible that the Corporation would face minor increases in operating costs in order to comply with a GHG emissions target. The federal government has stated that these costs would not exceed \$15/tonne of carbon dioxide emissions reduced and that the industry would not be required to reduce our GHG emissions per unit of production by more than 15%. The federal government has also committed to several important principles that will continue to protect the competitiveness of the oil and gas industry beyond 2012, including a ten-year target lock-in period for new projects and additional flexibility mechanisms for achieving compliance.

It is expected that the other changes in environmental legislation may also require, among other things, reductions in emissions to the air from operations and result in increased capital expenditures. Evolution of environmental legislation is expected to be relatively slow and no material changes are foreseen prior to the termination of the offering of Shares under this prospectus. Although it is not expected that future changes in environmental legislation will result in materially increased costs, such changes could occur and result in stricter standards and enforcement, larger fines and liability, and increased capital expenditures and operating costs, which could have a material adverse effect on the Corporation's financial condition or results of operations.

Business Interruption

The Corporation's business is subject to all of the operating risks normally associated with the exploration for and production of oil and gas and the operation of midstream facilities. These risks include blowouts, explosions, fire, gaseous leaks, migration of harmful substances and oil spills, any of which could cause personal injury, result in damage to or destruction of, oil and gas wells or formations or production facilities and other property, equipment and the environment, as well as interrupt operations. In addition, all of the Corporation's operations will be subject to all of the risks normally incident to the transportation, processing and development of oil and gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, equipment failures and other accidents, sour gas releases, uncontrollable flows of oil, natural gas or well fluids, adverse weather conditions, pollution and other environmental risks.

The occurrence of a significant event against which the Corporation is not fully insured could have a material adverse effect on its financial position.

Reserve Replacement

The Corporation's future oil and natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on the Corporation successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Corporation may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in the Corporation's reserves will depend not only on the Corporation's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that the Corporation's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of oil and natural gas.

Reliance on Operators and Key Employees

The Corporation may not be the operator of certain oil and gas properties in which it acquires an interest. To the extent the Corporation is not the operator of its oil and gas properties, the Corporation will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of the Corporation will be largely dependent upon the performance of its management and key employees. The Corporation does not have any key man insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on the Corporation.

Corporate Matters

To date, the Corporation has not paid any dividends on its outstanding Common Shares. Certain of the directors and officers of the Corporation may also become directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the *Business Corporations Act* (Alberta).

Permits and Licenses

The operations of the Corporation may require licenses and permits from various governmental authorities. There can be no assurance that the issuer will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Additional Funding Requirements

The Corporation's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available on favourable terms.

Issuance of Debt

From time to time, the Corporation may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed partially or wholly with debt, which may increase the Corporation's debt levels above industry standards. Neither the Corporation's articles nor its by-laws limit the amount of indebtedness that the Corporation may incur. The level of the Corporation's indebtedness from time to time could impair the Corporation's ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Availability of Drilling Equipment and Access Restrictions

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Corporation and may delay exploration and development activities.

3.3 Principal Oil and Gas Producing Properties

The following is a description of the Corporation's principal oil and gas producing properties as at December 31, 2004.

Edson Developed Properties

The Corporation has net profit interest in twelve producing wells in and a working interest in two wells in the Edson, Alberta area. The following table provides a description and locations of the locations of the twelve wells in which the Corporation has a net profit interest, along with the interest accompanying each well:

Lands and Wells	NPI
07-24-51-17W5M	41.423%
14-09-52-17W5M	33.138%
16-08-53-17W5M	41.423%
15-09-53-17W5M	41.423%
06-01-54-18W5M	41.423%
14-01-54-18W5M	41.423%
04-14-54-18W5M	41.423%
14-15-54-18W5M	41.423%
04-17-54-18W5M	41.423%
04-18-54-18W5M	41.423%
10-10-53-18W5M	41.423%
16-17-53-17W5M	41.423%

The Corporation has working interests described below in the following two (2) wells:

Lands and Wells	Working Interest
07-07-51-16W5M	20.711%
E1/2 OF 07-32-50-16W5M	41.423%

Production on the fourteen (14) wells is from the cardium formation at an average depth of 2,000 metres. The cardium pools are typically long, narrow beach bars of sand which trend in the northwest to southeast direction. In general the cardium consists of two sands, the upper ("Cardium A") and a lower ("Cardium B"), which are commingled in some wells. Production from the wells consists primarily of liquid rich solution gas in addition to the production light sweet crude.

Gas produced from the wells is processed at 3 facilities which are operated by, respectively, one major oil and gas producer and two junior oil and gas producers. The majority of the gas is sold to TransCanada Gas Services Ltd. with the balance sold on the spot market.

Clive Property

The Clive property is located in Sections 10 and 14, Township 39, Range 24 W4M, approximately 14 miles east of Red Deer, Alberta. The Corporation holds a 20% working interest in section 14 and 66% before payout and 63% after payout in section 10. The Corporation has drilled 2 Belly River gas wells (1 in section 10 and 1 in section 14), and 2 Coalbed Methane ("**CBM**") wells in section 14. Currently the Corporation is producing 1 Belly River in section 14 and is in the process of completing the Belly River well in section 10 and the 2 CBM wells in section 14. All 4 are expected to be producing by the end of August, 2005.

Somerset Property

The Somerset property is located in the Bexar and Atascosa Counties in Texas. The Corporation holds between a 70 – 85% percent working interest (before payout) in the 56 wells that make up the property.

The Somerset property currently produces 15bbls/d in aggregate from the 56 wells located in the Bexar and Atascosa Counties in Texas. These wells commenced production in 1983 at an initial rate of 20bbls/d per well.

Additional locations are currently under review and reasons of interest include:

- Management has been active in the region since 1980 – drilling over 200 wells.
- The Corporation already has operations in the region.
- Minimal barriers to entry.
- Land owners are typically the mineral owners – making it much easier to negotiate surface issues.
- Drilling and completion costs are comparable to Western Canada – when considering exchange rate.
- More production dollars make it to the bottom line. For example; if the Corporation farms-in and drills a 10 BOEPD well in Western Canada – the Corporation nets about 6.5 BOEPD before pay-out – after a GORR and Crown Royalty. After pay-out that number drops to about 3 BOEPD after the GORR converts to a 50% WI and Crown Royalty. That same well drilled in South Texas nets us about 8 BOEPD before **AND** after pay-out. This makes for very compelling economics.
- Currently the Corporation has identified 27 drilling locations with 80 to 84% net revenue interests – ready for drilling. An additional 50+ locations are currently under review.

Additional Lands

Lottie Lake - Located northeast of Edmonton. The Corporation has a 100% working interest in 2880 acres of undeveloped land, and will be targeting the Cooking Lake Formation with average drilling depths anticipated to range from 500 to 950 metres. The Corporation is currently negotiating lease opportunities on additional lands in the area. The seismic strategy is to acquire one or two lines at a projected cost of \$15,000 to \$30,000.

Edson – The Corporation has varied interests in a few sections in the Edson area as a result of our major transaction. The Corporation plans to study the up-hole potential in each of its working interest wells in the latter part of Q2. The Corporation will adjust its drilling plans should its research indicate something worthwhile.

3.4 Oil and Gas Reserves Data and Other Information

Engineering reports on the Corporation's interests were completed by Gilbert Lausten Jung Associates Ltd. effective December 31, 2004 (the "**GLJ Report**") and Paul Clevenger as of January 1, 2005 (the "**Clevenger Report**"). Attached as Schedule "A" is the Report on Reserves Data in the Form 51-101F2 by Gilbert Lausten Jung Associates Ltd. Attached as Schedule "B" is the Report on Reserves Data in the Form 51-101F2 by Paul Clevenger. Attached as Schedule "C" is the Report of Management and Directors on Oil and Gas Disclosure in the Form 51-101F3.

Canadian Reserves (based on GLJ Report Summary)

A summary of the reserves and cash flow projections is as follows based on a constant pricing model:

	<u>Proved Producing</u>	<u>Proved Developed Non- Producing</u>	<u>Probable</u>	<u>Total Established</u>
MARKETABLE RESERVES				
<u>Oil - MSTB</u>				
Corporation Interest	3	-	0.5	3.5
Net After Royalty	3	-	0.5	3.5
<u>Gas - MMCF</u>				
Corporation Interest	880	322	611	1813
Net After Royalty	769	246	482	1497
<u>Natural Gas Liquids – MSTB</u>				
Corporation Interest	31	-	7	38
Net After Royalty	20	-	4	25
<u>Oil Equivalent – MSTB</u>				
Corporation Interest	181	54	109	343
Net After Royalty	151	41	85	278
BEFORE TAX PRESENT VALUE - \$M				
0.0%	4593	1004	2017	7615
5.0%	3415	893	1378	5686
8.0%	2966	836	1140	4942
10.0%	2730	802	1017	4549
12.0%	2532	770	914	4216
15.0%	2288	726	789	3803
20.0%	1981	662	635	3277
FIRST 6 YEARS BEFORE TAX CASH FLOW - \$M				
2005	620	92	(6)	706
2006	510	387	198	1095
2007	437	235	165	837
2008	376	146	131	652
2009	322	89	96	507
2010	289	30	155	474

U.S. Reserves (based on Clevenger Report)

	<u>Gross</u>	<u>Net</u>
Proved Producing		
Somerset Oil – mbbbl	15	11

Present Value of Cash Flow Discounted (\$1,000 U.S.)

Discounted at the Rate of

	0%	10%	15%	20%
Proved Producing	\$ 239	\$ 180	\$ 160	\$ 145

Note:

- (1) **"Proved Producing"** Reserves are those proved reserves that are actually in production and could be recovered from existing wells or facilities if or, if facilities have not been installed, that would involve a small investment relative to cash flow. In multi-well pools involving a competitive situation, reserves may be subdivided into producing and non producing reserves in order to reflect allocation of reserves to specific wells and their respective development status.
- (2) **"Proved"** Reserves are those reserves estimated as recoverable with a high degree of certainty under current technology and existing economic conditions in the case of constant price and cost analysis and anticipated economic conditions in the case of escalated price and cost analysis, from that portion of a reservoir which can be reasonably evaluated economically productive on the basis of analysis of drilling, geological, geophysical and engineering data, including the reserves to be obtained by enhanced recovery processes demonstrated to be economic and technically successful in the subject reservoir.
- (3) **"Probable"** Reserves are those reserves which the analysis of drilling, geological, geophysical and engineering data does not demonstrate to be proved, but where such analysis suggests the likelihood of their existence and future recover under current technology an existing or anticipated economic conditions. Probable additional reserves to be obtained by the application of enhanced recovery processes will be the increased recovery over and above that estimated in the proved category which can realistically be estimated for the pool on the basis of enhanced recovery process which can reasonably expected to be instituted in the future.

The Engineering Reports also provide summaries of the reserve and cash flow projections based on an escalating pricing model. Copies of the Engineering Reports will be made available by the Corporation for review during normal business hours at its office located at 1505, 777 - 8 Avenue SW, Calgary, Alberta.

Production History

The following table shows the average daily net production of the Corporation, before deduction of royalties payable to others, for the periods indicated.

Year	Crude Oil and NGL (bbls/d)	Natural Gas (mcf/d)	Equivalent (boe/d)
2005 (3 months ended March 31)	16	368	78
2004 (12 months ended Dec. 31)	16	376	79
2003 (12 months ended Dec. 31)	18	439	91

Operations History

The following table sets forth the daily sales volumes and netbacks for the Corporation on a quarterly basis for fiscal 2004 and 2003.

	1 st Q 2004	2 nd Q 2004	3 rd Q 2004	4 th Q 2004	Year 2004
Daily Sales Volumes					
Oil and NGL (bbls/d)	16	17	15	16	16
Gas (mcf/d)	381	368	370	385	376
Total Daily Volume (boe/d)	79	78	77	80	79

Total Products

Netbacks (\$/boe)					
Sales Price	39.25	43.80	41.85	44.43	42.35
Royalty	8.04	2.83	8.67	8.84	7.07
Production Expense	5.62	13.69	14.43	0.06	8.36
Netback (\$/boe)	25.59	27.28	18.75	35.53	26.92
	1st Q 2003	2nd Q 2003	3rd Q 2003	4th Q 2003	Year 2003
Daily Sales Volumes					
Oil and NGL (bbls/d)	19	23	10	16	18
Gas (mcf/d)	578	353	410	419	439
Total Daily Volume (boe/d)	115	83	78	85	91
Total Products					
Netbacks (\$/boe)					
Sales Price	44.12	37.92	36.97	33.86	39.94
Royalty	10.08	12.29	6.68	10.01	9.74
Production Expense	6.58	1.89	8.79	17.77	8.57
Netback (\$/boe)	27.46	23.74	21.50	6.08	21.63

Net Oil and Gas Capital Expenditures

The following table shows gross capital expenditures for the Corporation in the categories and for the periods indicated:

	Three Months Ended March 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Land & Acquisition	\$793,000	\$1,117,000	\$293,000
Geological & Geophysical	(49,000)	461,000	(7,000)
Drilling & Exploration	--	21,000	2,000
Office	2,000	5,000	10,000
Total	\$746,000	\$1,604,000	\$298,000

Drilling Activity

Clive – The key for development in Clive relies on the success of the CBM production after tie-in. When the Corporation begins producing economic volumes of Coalbed Methane in the 2 wells in section 14 – it opens-up numerous opportunities such as:

From 3 to 6 additional locations on section 14.

Farm-in on section 29 (directly north of 14) with Devon.

Provides a good business model for a small-cap company like the Corporation that would focus on smaller blocks of CBM farm-in land in the Horseshoe Canyon field.

Holding for down-spacing has been acquired in section 14 and 23.

Belly River down-spacing could provide at least 2 additional locations in sections 14 and 16.

Lottie Lake – The Corporation currently owns from Base of Mannville to Basement on 4 ½ sections of land in 58-11 W4M which was purchased as part of a play developed in-house. The Corporation felt that this area has Cooking Lake potential at about 1000 meters. Our near-term strategy is as follows:

Review the analysis and develop geophysical program to have additional data.

Farm-in on Viking rights.

With good seismic and the Viking rights - it then provides us a good basis for a Cooking Lake test well in Q3.

Chauvin – The Corporation is currently negotiating a farm-in in the Chauvin area to drill a Devonian test well. The test well has good well control and seismic purchased. Sparky oil and Viking gas are potential bail-outs. Our strategy is as follows:

Negotiate reasonable farm-in terms.

Drilling priority based on Lottie Lake and Clive plans.

8 potential locations (16 BOEPD/well – risked)

Somerset-Von Ormy – Exploration in the U.S. and Western Canada can most often be "counter-cyclical" in terms of exploration opportunities. Currently in Western Canada small-cap companies like the Corporation are competing at land sales with larger companies with large land budgets. This leaves the smaller companies aggressively competing for farm-in opportunities. In certain areas of South Texas leases and drilling locations can still be acquired by smaller companies. Justification points for exploration in South Texas include:

Management has been active in the region since 1980 – drilling over 200 wells.

The Corporation already has operations in the region.

Minimal barriers to entry.

Land owners are typically the mineral owners – making it much easier to negotiate surface issues.

Drilling and completion costs are comparable to Western Canada – when considering exchange rate.

More production dollars make it to the bottom line. For example; if the Corporation farms-in and drills a 10 BOEPD well in Western Canada – the Corporation nets about 6.5 BOEPD before pay-out – after a GORR and Crown Royalty. After pay-out that number drops to about 3 BOEPD after the GORR converts to a 50% WI and Crown Royalty. That same well drilled in South Texas nets us about 8 BOEPD before AND after pay-out. This makes for very compelling economics.

Currently the Corporation has identified 27 drilling locations with 80 to 84% net revenue interests – ready for drilling. An additional 50+ locations are currently under review.

Edson – The Corporation has varied interests in a few sections in the Edson area as a result of our major transaction. The Corporation plan to study the up-hole potential in each of its working interest partners in Q3. The Corporation will adjust its drilling plans should research indicate something worthwhile.

Other Assets

The lateral downhole drilling technology (the "**Technology**") is the subject of Canadian Patent Application No. CA2,254,441, filed November 20, 1998 and U.S. Patent No. 6,220,372 issued on April 24, 2001 (collectively, the "**Patents**"). There are a large number of existing oil and gas wells that have significant damage around the well bore. An operator's problem begins with the fact that they must get past the damage and into the hydrocarbon-producing area of the formation. This proprietary enhanced-recovery tool will be designed to function within an existing "cased" well bore. The tool being developed will consist of a hybrid bit attached to helical contra-wound coils which are driven by a high-speed motor and suspended by tubing. The tool is lowered into an elbow, then directed laterally, boring a 1 ½ to 2 inch hole through the casing – getting past the damage and pressure-drop and continuing

into the formation. Litigation between the Corporation and certain other parties relating to ownership and the terms of any licenses to the Technology was settled by the granting to the Corporation of a non-exclusive license to exploit the Technology for the life of the Patents. The owner of the Technology may, itself, exploit the Technology or it may nominate one other person to do so in its stead. The Corporation must pay a 5% royalty on the gross revenue generated from the commercial exploitation of the Technology to one of the individuals responsible for developing the Technology. The Corporation has not yet field-tested the Technology.

Item 4 - DIVIDENDS

The Corporation has not paid any dividends since the date of incorporation and has no present intention of paying dividends on its common shares. The Corporation anticipates that all available funds will be invested to finance the growth of the business.

Item 5 – CAPITAL STRUCTURE

5.1 General Description of Capital Structure

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of Preferred Shares.

The holders of the Corporation’s Common Shares are, subject to the rights, privileges, restrictions and conditions attaching to any other class, entitled to dividends as and when declared by the Board of Directors of the Corporation, to one vote per share at meetings of shareholders of the Corporation except meetings at which only holders of a specified class of shares are entitled to vote and, upon liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares.

The Preferred Shares are issuable in series. The Preferred Shares have priority over the Common Shares of the Corporation with respect to payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, to the extent fixed in the case of each respective series, and may also be given such other preferences over the Common Shares of the Corporation as may be fixed in the case of each such series.

Item 6 – MARKET FOR SECURITIES

The Corporation's common shares are listed on the TSX Venture Exchange (symbol EBY).

6.1 Trading Price and Volume

Emerald Bay Energy Inc. TSXV Share Price Information FY 2004			
Month	Max	Min	Total Volume
January 2004	\$0.385	\$0.29	192,800
February 2004	\$0.35	\$0.265	552,150
March 2004	\$0.38	\$0.27	367,328
April 2004	\$0.32	\$0.25	156,200
May 2004	\$0.29	\$0.20	198,000
June 2004	\$0.25	\$0.19	134,000
July 2004	\$0.28	\$0.20	314,100
August 2004	\$0.22	\$0.145	98,800
September 2004	\$0.205	\$0.15	37,000
October 2004	\$0.20	\$0.10	107,300
November 2004	\$0.245	\$0.145	268,900
December 2004	\$0.23	\$0.16	311,227

Item 7 – DIRECTORS AND OFFICERS

7.1 Name, Occupation and Security Holdings

The following table sets forth the names and residences of all directors and officers of the Corporation, the positions and offices with the Corporation held by such persons, their principal occupations and the number and percentage of Common Shares beneficially owned by such persons as at the date of this AIF:

Name, Residence and Office(s) held	Principal Occupation or Employment for the Last Five Years	Became a Director / Officer⁽¹⁾	Common Shares Beneficially Owned	Percentage of Issued and Outstanding Common Shares
Leonard D. Rice Calgary, Alberta Director and Promoter	Chairman and Chief Executive Officer of the Corporation from August 1997 to February 2005. Currently the President and Chief Executive Officer of Prairie Oil and Gas, Inc.	August 18, 1997	1,376,128	7.9%
Shelby D. Beattie ⁽²⁾ Sunnyvale, California President and Chief Executive Officer and Director	President of the Corporation since September 2001, Chief Executive Officer of the Corporation since February 2005, and Chief Financial Officer of the Corporation from August 1997 to February 2005. Consultant with DVA Group, Inc. since 1997. Prior thereto, Vice President of Phoenix Oil & Gas Inc. since 1982.	August 18, 1997	282,389	1.7%
Gibson C. Scott Edmonton, Alberta Chief Operating Officer and Director	Chief Operating Officer of the Corporation since February 2005. Currently the President of TrueBore Consulting Inc. Prior thereto, Mr. Scott was employed with Sperry-Sun Drilling Services, a global oilfield service provider.	April 15, 2003	400,000	2.3%
Richard D. Tingle ⁽²⁾ Calgary, Alberta Director	Partner, TingleMerrett LLP, Barristers and Solicitors since 1993.	August 18, 1997	150,778	1.3%
Howard Blacker ⁽²⁾ Calgary, Alberta Director	Currently the Controller of Zapata Energy Corporation. Chief Financial Officer of three corporations in the energy services sector from 1990 to 2004.	May 18, 2004	50,000	0.3%

Notes:

- (1) All directors hold office until the earlier of their resignation or the date of the Corporation's next annual general meeting of Shareholders at which directors are elected, unless a director ceases to hold office or his office is vacated.
- (2) The Corporation's Audit Committee is currently comprised of Messrs. Blacker, Beattie and Tingle.

7.2 Cease Trade Orders, Bankruptcies, Penalties or Sanctions

- (a) No director or officer of the Corporation, or to the best of the Corporation's knowledge, shareholder holding a sufficient number of securities of the Corporation to materially affect the control of the Corporation:
- (i) is, as of the date of the AIF or has been, within the 10 years preceding the date of this AIF, a director or officer of any issuer that, while that person was acting in that capacity:
 - (A) was the subject of a cease trade or similar order, or an order that denied the issuer access to any exemptions under Canadian securities legislation, for a period of more than 30 consecutive days;
 - (B) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the issuer being the subject of a cease trade or similar order or an order that denied the issuer access to any exemption under Canadian securities legislation, for a period of more than 30 consecutive days; or
 - (C) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
 - (ii) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement, or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, officer or shareholder.
- (b) No director or officer of the Corporation, or to the best of the Corporation's knowledge, shareholder holding a sufficient number of securities of the Corporation to materially affect the control of the Corporation, has been subject to:
- (i) any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or
 - (ii) been subject to any other penalties or sanctions imposed by a court or a regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

7.3 Conflicts of Interest

There are no existing or potential material conflicts of interest between the Corporation and any director or officer of the Corporation.

Item 8 – PROMOTERS

8.1 Promoters

The only current promoter of the Corporation is Leonard D. Rice. For details of Mr. Rice's shareholdings in the Corporation, see Section 7.1 above.

Item 9 – LEGAL PROCEEDINGS

9.1 Legal Proceedings

In 2000, the Corporation commenced legal action against a joint venturer claiming underpayment of a net profit royalty in the amount of approximately \$139,000. The joint venturer has issued a counterclaim for \$15,000,

claiming an overpayment of this royalty. In the opinion of management, the outcome of these claims is not determinable at this time.

In 2003, Alberta Revenue issued Notices of Reassessment to the Corporation disallowing claims for Alberta Royalty Tax Credits ("ARTC") made in the Alberta Corporate Income tax returns for the years 1998 – 2001. The Corporation disagrees with these reassessments and the Corporation's lawyers have filed a Notice of Objection with Alberta Revenue. A provision for \$280,305 has been recorded in the Corporation's 2004 annual financial statements for the repayment of these ARTC's and related interest. The final outcome of this matter is not determined at this time.

Other than as disclosed above, there are no other legal proceedings underway that involve the Corporation, and it is not aware of any legal proceedings that are contemplated involving the Corporation.

Item 10 - INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

10.1 Interest of Management and Others in Material Transactions

Richard Tingle, a director, is a partner at TingleMerrett LLP, which also provides legal services to the Corporation. The fees paid to TingleMerrett for legal services in 2004 amounted to \$19,510. Gibson Scott, a director, is the President of TrueBore Consulting Inc. which has provided consulting services to the Corporation. TrueBore Consulting Inc. charged the Corporation \$83,000 for these services in 2004. Shelby Beattie and Leonard Rice, directors, are the controlling shareholders of Phoenix Oil & Gas Inc., which charged the Corporation \$72,928 in 2004 with respect to operations costs.

Except as set out above, the Corporation has not had any material transactions that involve:

- (a) a director or executive officer of the Corporation;
- (b) a person or corporation that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of any class or series of the outstanding voting securities of the Corporation; and
- (c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) and (b) above.

Item 11 - TRANSFER AGENTS AND REGISTRARS

11.1 Transfer Agents and Registrars

The Corporation's transfer agent is Computershare Trust Corporation of Canada, 600, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8.

Item 12 – AUDITORS

12.1 Auditors

The Corporation's auditors are BDO Dunwoody LLP, 1900, 801 – 6th Avenue SW, Calgary, Alberta T2P 3W2.

Item 13 – INTERESTS OF EXPERTS

13.1 Name and Interest of Experts

Gilbert Lausten Jung Associates Ltd. and Paul Clevenger acted as the Corporation's independent qualified reserves evaluator with respect to the Corporation's oil and gas properties. Gilbert Lausten Jung Associates Ltd. prepared a reserves report on the Corporation's Canadian properties dated December 31, 2004 and Paul Clevenger a reserves report on the Corporation's United States properties dated January 1, 2005, from which certain reserves information in this document is derived.

BDO Dunwoody LLP are the Corporation's auditors and prepared the Corporation's audited financial statement for the year ended December 31, 2004, from which certain financial information in this document is derived.

The partners and associates of BDO Dunwoody LLP, Gilbert Lausten Jung Associates Ltd. and Paul Clevenger, collectively, as a group, own none of the issued and outstanding securities in the capital of the Corporation.

Item 14 – ADDITIONAL INFORMATION

14.1 Additional Information

The Corporation will provide to any person, upon request to the Secretary of the Corporation at Suite 1505, 777-8th Avenue SW, Calgary, Alberta, T2P 3R5.

- (1) When the securities of the Corporation are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,
 - (a) One copy of this Annual Information Form of the issuer, together with one copy of any document, or the pertinent pages of any document, incorporated by reference herein;
 - (b) One copy of the comparative financial statements of the Corporation for its most recently completed financial year together with the accompanying report of the auditor and one copy of any interim financial statements of the Corporation subsequent to the financial statements for its most recently completed financial year;
 - (c) One copy of the information circular of the Corporation in respect of its most recent annual meeting of shareholder that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate; and
 - (d) One copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (a) and (c) above; or
 - (e) At any other time, one copy of any other document referred to in (1)(a) to (c) above, provided the Corporation may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Corporation.
- (2) Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Corporation's securities, options to purchase securities and interests of insiders in material transactions, where applicable, is contained in the Corporation's information circular for its most recent annual meeting of shareholders that involved the election of directors, and that additional information is provided in the Corporation's comparative financial statements and MD&A for its most recently completed financial year.

Additional information relating to the Corporation may be found on SEDAR at www.sedar.com

14.2 Audit Committee Information

Audit Committee Charter

A. Audit Committee Overview, Purpose and Authority

The Audit Committee (the "**Committee**") is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities and is responsible to the Board of Directors. The Committee monitors, evaluates, advises or makes recommendations, in accordance with this Charter and any other directions of the Board of Directors, on matters affecting the external, internal or special audits of the financial and operational control policies and practices relating to the Corporation.

The Committee has the authority to investigate any activity of the Corporation. The primary purpose of the Committee includes:

recommending to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing audit reports for the Corporation and the compensation for such services;

directly overseeing the work of the Corporation's external auditors engaged for the purpose of preparing or issuing auditors' reports;

reviewing the Corporation's financial statements, MD&A and annual and interim earnings press releases prior to public disclosure;

overseeing and monitoring the integrity of the Corporation's financial reporting process and systems of internal controls regarding finance, accounting, legal and regulatory compliance;

assessing the processes related to identification of the Corporation's risks and effectiveness of the Corporation's response to control or otherwise mitigate these risks; and

providing an avenue of communication among the external auditors, management, internal audit staff and the Board of Directors.

The Committee shall have unrestricted access to Company personnel and documents and will be provided with the resources necessary to carry out its responsibilities.

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties, to set and pay the compensation for any such advisors and to communicate directly with internal and external auditors.

B. Audit Committee Structure

The Committee shall be composed of three members or such other number of members as may be specified by the Board of Directors. A majority of the Committee members shall be independent directors within the meaning of Multilateral Instrument 52-110 ("**MI 52-110**"), such that they shall have no direct or indirect material relationship with the Corporation. In addition, a majority of the members of the Committee must be "unrelated directors" – an unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding.

At least one member of the Committee shall be financially literate such that he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to those raised in the Corporation's financial statements.

All members of the Board of Directors shall be free to attend any meetings of the Committee and participate but only those members of the Committee shall be entitled to vote on any questions before the Committee. Other than members of the Board of Directors, entitlement to attend all or a portion of any Committee meetings shall be determined by the Chair of the Committee or its members.

The Committee shall meet at least four times per year and may call special meetings as required. A quorum at meetings of the Committee shall be a majority of the members. The Committee Chair shall prepare and/or approve an agenda in advance of each meeting.

The minutes of the Committee meetings shall accurately record the decisions reached by the Committee and shall be distributed to Committee members and Board members, with copies to the Chief Financial Officer (CFO), the external auditors and others as directed by the Committee

C. Audit Committee Duties and Responsibilities

I. Review Procedures – General

Review and assess the adequacy of this Charter at least annually. Submit the Charter to the Board of Directors for approval.

Review the Corporation's audited annual financial statements together with the MD&A thereon before such statements are submitted to the Board of Directors for approval. Review should include discussion with management and external auditors of significant issues regarding accounting principles, practices and judgments.

In consultation with management, external auditors and internal audit staff, consider the integrity of the Corporation's financial reporting processes and controls. Discuss financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the external auditors and the internal audit staff together with management responses.

Review and recommend for approval by the Board of Directors the quarterly financial statements of the Corporation along with related MD&A communication and any related press releases.

Review the financial content of the Corporation's annual report and any other reports of a financial nature which require approval by the Board of Directors prior to the release thereof.

Review annually with management, the external auditors and, if necessary, legal counsel, any material litigation, claim or other contingency that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these will be disclosed in the financial statements.

Review annually the adequacy of the Corporation's procedures relating to the review of all public disclosure documents containing audited or unaudited financial information before its release, including any prospectus, offering memorandum, annual information form or other report.

Monitor the appropriateness of accounting policies, especially critical accounting policies and financial reporting used by the Corporation to review any actual and prospective significant changes in financial reporting and accounting policies and practices to be adopted by the Corporation and to review and assess any new or proposed developments in accounting and reporting standards that may affect or have an impact on the Corporation.

Review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of its present and any former external auditors.

II. Review Procedures - External Auditors

The external auditors are ultimately accountable to the Audit Committee and the Board of Directors, as representatives of the shareholders. Review the annual appointment of external auditors for recommendation to the Board of Directors for approval, giving consideration to matters such as:

- their independence and whether to retain such auditors for each future fiscal year after consultation with appropriate management;

- the fees paid to the external auditors on an annual basis; and

- any non-auditing services performed by the external auditors.

On an annual basis, review and discuss with the external auditors all significant relationships they have with the Corporation that could impair such auditors' independence.

Review the planning and results of the external audit, including:

- the auditors' engagement letter;

- the reasonableness of the estimated audit fees;

- the scope of the audit, including materiality, audit reports required, areas of audit risk, deadlines and coordination with internal audit staff;

- the post-audit management letter together with management's responses; and

- any other matters the external auditors bring to the attention of the Committee.

Meet with the external auditors, at least annually and preferably at each Committee meeting, or as requested by the auditors, without management representatives present.

Receive and review all follow-up action or status reports relating to the recommendations of the external auditors and internal audit staff.

III. Internal Audit Function

The Committee should periodically request from management a review of the need for an internal audit function, and, on the basis of this review, determine whether such a function should be instituted.

IV. Risk Management Oversight

Assess whether management has implemented policies ensuring that the Corporation's risks are identified and that controls are adequate, in place and functioning properly.

V. Legal Compliance

On at least an annual basis, review with the Corporation's counsel any legal matters that could have a significant impact on the Corporation's financial statements, the Corporation's compliance with applicable laws and regulations and inquiries received from regulators or government agencies.

Review all reports concerning any significant fraud or regulatory non-compliance that occurs at the Corporation. This review should include consideration of the internal controls that should be strengthened to reduce the risk of a similar event in the future.

VI. Non-Audit Services

The Committee must pre-approve all non-audit services to be provided to the Corporation by its external auditors.

VII. Whistle-Blowing

The Committee must annually establish and review procedures relating to the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and the confidential anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Corporation's current policy in this regard is as follows. The Committee will establish the following procedure for the receipt and treatment of any complaint received by the Corporation regarding accounting, internal accounting controls or auditing matters:

The Corporation will distribute to all of its employees and field contractors the name and contact information of an independent member of the Committee for the purpose of receiving complaints regarding accounting, internal accounting controls or auditing matters;

Copies of complaints received will be sent to the members of the Committee;

All complaints will be investigated by the Corporation's finance and legal staff in the normal manner, except as otherwise directed by the Committee. The Committee may request that outside advisors be retained to investigate any complaint; and

The status of each complaint will be reported on a quarterly basis to the Committee and, if the Committee so directs, to the board of directors.

VIII. Reporting Requirements

The Audit Committee shall include in the Corporation's Information Circular and, if applicable, Annual Information Form, the information required by MI 52-110 and any applicable forms thereto.

IX. Other Responsibilities

Periodically perform a self-assessment of Committee performance.

Review financial and accounting personnel succession planning within the Corporation.

Annually review policies and procedures as well as audit results associated with directors' and officers' expense accounts and perquisites; annually review a summary of director and officers' related party transactions and potential conflicts of interest.

Perform any other activities consistent with this Charter, the Corporation's by-laws and governing law as the Committee or the Board of Directors deems necessary or appropriate.

D. Audit Committee Meetings

Committee meetings may be called by the Committee Chair or by a majority of the Committee members. In addition, the external auditors have the right to call a Committee meeting, usually through the Committee Chair. The Chair of the Committee shall be a voting member and questions will be decided by a majority of votes.

Meetings may be called with one day's notice, which notice may be waived by members. All members of the Committee are entitled to receive notice of every meeting. However, it should be standard practice to give Committee members at least five business days' notice of all meetings.

Meetings are chaired by the Committee Chair or in the Chair's absence, by a member chosen by the Committee amongst themselves.

Agendas will be set by the Chair of the Committee with assistance from management, other Committee members, external auditors and internal audit staff, if requested or required. Agendas should be circulated with the materials for consideration at the meeting to all members, the Chair of the Board of Directors, the President and CEO and the CFO no later than the day prior to the date of the meeting. However, it should be standard practice to deliver the agenda and the materials for consideration at the meeting at least five business days prior to the proposed meeting, except in unusual circumstances.

Except as herein provided, the Chair of the meeting may establish rules of procedures to be followed at meetings.

Meetings may be conducted with the participation of a member by telephone or any other voice and/or video teleconferencing device which permits all persons participating in the meeting to communicate with each other. A member participating in a meeting by that means is deemed to be present at the meeting.

The duties of the Committee may be exercised at a meeting at which a majority of the members of the Committee are present or by resolution in writing signed by all members of the Committee who would have been entitled to vote on the resolution at the meeting of the Committee. In case of an equality of votes, the person acting as Chair of the Committee meeting shall be entitled to a second or casting vote.

A resolution in writing may be signed and executed in separate counterparts by members and the signing or execution of a counterpart shall have the same effect as the signing or execution of the original. An executed copy of a resolution in writing or counterpart thereof transmitted by any means of recorded electronic transmission shall be valid and sufficient.

Attendance at all or a portion of Committee meetings by Company personnel will be determined by the Committee and may, at the request of the Committee, include the President and CEO, CFO and a recording Secretary.

The Recording Secretary shall keep minutes of the proceedings of all meetings of the Committee which following Committee approval are available to any member of the Board of Directors. All minutes will at a minimum be circulated to the Chair of the Board of Directors and should be circulated to all those receiving the agenda. Minutes will be retained by the Board of Directors.

E. Effective Date

In compliance with clause 9.1 (2) of Multilateral Instrument 51-110, this Charter is made effective June 28, 2005.

Composition of Audit Committee

The Audit Committee of the Corporation is currently comprised of Shelby D. Beattie, Richard D. Tingle and W. Howard Blacker.

Relevant Education and Experience

All members of the Audit Committee are considered to be independent and financially literate:

Shelby D. Beattie

Shelby D. Beattie has been involved in the oil and gas business as a director or member of executive management since 1980. Working as a landman from 1980 to 1982, he was Vice President of mineral leasing for Newport Oil & Gas, Inc., a private oil and gas company. From 1982 to 1992, he was Director, Vice President of Phoenix Oil and Gas, and project-managed the development of over 200 oil and gas wells and associated mineral leases. While remaining a member of the Board of Phoenix, from 1992 to 2002 Mr. Beattie consulted as a Sr. Project Manager and Special Liaison for companies such as Maximum Video Systems, AT&T Broadband, and Microsoft. Mr. Beattie's varied and extensive experience in the oil and gas and technology sectors have been instrumental as he has served as a Director of Emerald Bay since 1998, as President since September 2001 and President and CEO since March 2005.

Richard D. Tingle, Q.C.

Richard D. Tingle has practiced law in Calgary, Alberta, Canada since 1964 and was a partner of a medium sized Calgary law firm until 1993 when he left to begin TingleMerrett LLP. He received his Queen's Counsel designation in 1981. He has served as a director of several public companies and is currently a director of Intermap Technologies Ltd., Venpath Investments Inc. and Zi Corporation. Mr. Tingle provides legal services to the Corporation. Mr. Tingle received his B.A. in 1962 and LL.B. in 1963 from the University of Alberta and did postgraduate work at the London School of Economics in 1964.

W. Howard Blacker

W. Howard Blacker has over 14 years of industry experience and is currently the Controller of Zapata Energy Corporation. Mr. Blacker earned his chartered accountant's designation in Alberta in 1987 and remained in public practice until 1990 when he left to become the Chief Financial Officer of a company specializing in oil and gas basin evaluations. Over the past 14 years, he has been the Chief Financial Officer of three corporations, primarily in the energy services sector. All of these companies had significant involvement in research and development. Mr. Blacker earned his B. Comm. in 1983 from the University of Calgary.

Audit Fees

The aggregate fees billed by BDO Dunwoody was \$36,550.00 for the year ended December 31, 2004 and \$32,500.00 for the year ended December 31, 2003.

SCHEDULE "A"

**REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR**

To the board of directors of Emerald Bay Energy Inc. (the "Company"):

1. We have prepared an evaluation of the Company's reserves data as at December 31, 2004. The reserves data consist of the following:
 - (a) (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2004, using forecast prices and costs; and
 - (ii) the related estimated future net revenue; and
 - (b) (i) proved oil and gas reserves estimated as at December 31, 2004, using constant prices and costs; and
 - (ii) the related estimated future net revenue.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2004, and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Description and Preparation Date of [Audit/Evaluation/ Review] Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)			
		Audited	Evaluated	Reviewed	Total
March 14, 2005	Canada	0	\$3900	0	\$3900

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update this evaluation for events and circumstances occurring after the preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Gilbert Laustsen Jung Associates Ltd., Calgary, Alberta, Canada

Dated March 29, 2005

ORIGINALLY SIGNED BY

Doug R. Sutton, P. Eng.

Vice-President

SCHEDULE "B"

FORM 51-101F2
REPORT ON RESERVES DATA
BY
INDEPENDENT QUALIFIED RESERVES
EVALUATOR OR AUDITOR

This is the form referred to in item 2 of section 2.1 of National Instrument 51-101 *Standards of Disclosure for Oil and Gas Activities* ("NI 51-101").

1. Terms to which a meaning is ascribed in *NI 51-101* have the same meaning in this form.¹
2. The report on *reserves data* referred to in item 2 of section 2.1 of *NI 51-101*, to be executed by one or more *qualified reserves evaluators or auditors independent* of the *reporting issuer*, shall in all material respects be as follows:

Report on Reserves Data

To the board of directors of Emerald Bay Energy Inc. (the "Company"):

1. We have evaluated the Company's reserves data as at December 31, 2004. The reserves data consist of the following:
 - (a)
 - (i) proved and proved plus probable oil and gas reserves estimated as at December 31, 2004 using forecast prices and costs; and
 - (ii) the related estimated future net revenue; and
 - (b)
 - (i) proved oil and gas reserves estimated as at December 31, 2004 using constant prices and costs; and
 - (ii) the related estimated future net revenue.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "COGE Handbook") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

¹ For the convenience of readers, Appendix 1 to Companion Policy 51-101CP sets out the meanings of terms that are printed in italics in sections 1 and 2 of this Form or in *NI 51-101*, *Form 51-101F1*, *Form 51-101F3* or the Companion Policy.

4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2004, and identifies the respective portions thereof that we have evaluated and reported on to the Company's management and board of directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Presents Value of Future Net Revenue (before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
Paul Clevenger	An Evaluation of Oil Interests as of December 31, 2005	Atascosa and Bexar county, Texas		US \$179,638	Nil	
Totals			Nil	US \$179,638	Nil	

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

Paul R. Clevenger, Petroleum Engineering Consultant
San Antonio, Texas

Date: July 26, 2005



Paul R. Clevenger P.E.

SCHEDULE "C"

FORM 51-101F3

REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Emerald Bay Energy Inc. (the "**Company**") is responsible for the preparation and disclosure of information with respect to the Company's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which consist of the following:

- (a) (i) proved and proved plus probable oil and gas reserves estimated as at January 1, 2005 using forecast prices and costs; and
- (ii) the related estimated future net revenue; and
- (b) (i) proved oil and gas reserves estimated as at January 1, 2005 using constant prices and costs; and
- (ii) the related estimated future net revenue.

An independent qualified reserves evaluator has evaluated the Company's reserves data. The report of the independent qualified reserves evaluator is presented above.

The Board of Directors of the Company has:

- (a) reviewed the Company's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Board of Directors has reviewed the Company's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The Board of Directors has, approved

- (a) the content and filing with securities regulatory authorities of the reserves data and other oil and gas information;
- (b) the filing of the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) "Shelby Beattie"

President, Chief Executive Officer and Director

(signed) "Gibson Scott"

Chief Operating Officer and Director

(signed) "Richard Tingle"

Director

(signed) "Howard Blacker"

Director

Dated the 26th day of July, 2005.