

(For the Three Months ended March 31, 2003)

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis, as provided by the management of Emerald Bay, should be read in conjunction with the audited financial statements and Management Discussion and Analysis for the year ended December 31, 2002. Where amounts are expressed on a barrel of oil equivalent basis (BOE), gas volumes have been converted to barrels of oil at six thousand cubic feet per barrel.

Q1 2003 Operating Results

| | Q1 2003 | Q1 2002 |
|------------------------------------|----------------|----------------|
| Petroleum and natural gas revenue | \$456,672 | \$221,810 |
| Net income (loss) | \$106,731 | \$(14,811) |
| Net income per common share | \$0.02 | \$(0.01) |
| Natural gas selling price (\$/mcf) | \$7.51 | \$3.17 |
| Production (BOE/d) | 115 | 105 |

Petroleum and natural gas sales was \$456,672 for the first quarter of 2003 compared to \$221,810 during the comparable period of 2002. The average daily production was 115 BOE/day for the quarter (105 BOE/day in the 2001 period). General and Administrative expenditures for the quarter include higher-than-normal professional fees associated with the LDD intellectual property settlement that was completed during the quarter.

For the three months ending March 31, 2003 the highlights are as follows:

- Settlement reached on LDD intellectual property litigation.
- Revitalized LDD development effort continues based on completion of settlement negotiations.
- Proceeding with acquisition of South Texas properties for LDD test-bed activities

Natural Gas Prices:

- Cold weather in early 2003 combined with low storage levels and supply concerns drove the NYMEX natural gas prices over US \$10 per mmbtu in February 2003.
- Prices have receded from these highs during March and April but have remained above US \$5.00. Warmer weather has decreased demand. Inventory levels remain at historically low levels.

In summary, given the inherently volatile and uncertain nature of energy markets, we will continue to focus on the things we can control – our costs, and the execution of our business strategy for each business unit. A consistent commitment to this strategy will provide us with foundation for continuous improvement in the company's financial and operating results.

Leonard D. Rice
Chairman Of The Board