



Emerald Bay Energy

**Emerald Bay Energy Inc.
Financial Statements
For the three months ended
March 31, 2007
(Prepared by Management - Unaudited)**

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UNAUDITED INTERIM FINANCIAL STATEMENTS

In Accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company Discloses that its auditors have not reviewed the unaudited financial statements for the period ended March 31, 2007

Emerald Bay Energy Inc.
Balance Sheets
Prepared by Management - Unaudited

	March 31 2007	December 31 2006
		Audited
Assets		
Current		
Cash	\$ 75,886	\$ 261,944
Short term investments	60,560	60,560
Accounts receivable	1,070,253	999,101
Prepaid expenses	10,889	10,889
Inventory	6,400	6,400
	1,223,988	1,338,894
Due from related parties	74,670	74,670
Property and equipment (Note 3)	4,618,061	3,911,678
License	38,603	41,177
Deposits	24,194	24,194
	\$ 5,979,516	\$ 5,390,613
Liabilities and Shareholders' Equity		
Current		
Bank demand loan (Note 5)	\$ 1,843,942	\$ 1,107,224
Accounts payable and accrued liabilities	1,512,924	1,494,430
	3,356,866	2,601,654
Future tax liability	327,000	380,000
Asset retirement obligation	150,179	149,505
	3,834,045	3,131,159
Contingencies		
Shareholders' equity		
Share capital (Note 4(b))	4,932,351	5,072,851
Contributed surplus	515,718	369,623
Deficit	(3,302,598)	(3,183,020)
	2,145,471	2,259,454
	\$ 5,979,516	\$ 5,390,613

"Shelby D. Beattie" Director
Shelby D. Beattie

"Gibson C. Scott" Director
Gibson C. Scott

The accompanying notes are an integral part of these financial statements.

Emerald Bay Energy Inc.
Statements of Operations, Comprehensive Loss and Deficit
Prepared by Management - Unaudited

	For the three months ended	
	March 31 2007	March 31 2006
Revenue		
Petroleum and natural gas sales	\$ 719,287	\$ 905,520
Royalties	(158,645)	(273,580)
Alberta Royalty Tax Credits	15,374	32,000
	576,016	661,940
Expenses		
Operating	167,092	162,227
General and administrative	289,377	367,981
Stock option expense	5,595	169,072
Depletion, amortization and accretion	266,132	198,747
Interest	20,959	13,555
	749,155	911,582
Loss from operations	(173,139)	(249,642)
Other income		
Interest	561	3,192
Loss for the period before tax	(172,578)	(246,450)
Income tax		
Future income tax recovery	53,000	-
	53,000	-
Net loss and comprehensive loss for the period	(119,578)	(246,450)
Deficit, beginning of period	(3,183,020)	(2,449,457)
Deficit, end of period	\$ (3,302,598)	\$ (2,695,907)
Loss per common share basic and diluted (Note 5(d))	\$ (0.01)	\$ (0.01)
Weighted average number of shares	27,868,806	27,637,277

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Emerald Bay Energy Inc.
Statements of Cash Flows
Prepared by Management - Unaudited

For the three months ended

	Mar 31 2007	Mar 31 2006
Cash flows from operating activities		
Net loss for the period	\$ (119,578)	\$ (246,450)
Adjustments for:		
Depletion, amortization and accretion	263,559	196,174
Amortization of license fee	2,573	2,573
Future income taxes	(53,000)	-
Stock option expense	5,595	169,072
Cash flow from operations	<u>99,149</u>	<u>121,369</u>
Changes in non-cash operating balances		
Accounts receivable	(71,152)	250,451
Prepaid expenses and deposits	-	-
Accounts payable	87,993	(69,349)
Accrued liabilities	(69,500)	(89,500)
	<u>46,490</u>	<u>91,602</u>
Cash flows from financing activities		
Bank demand loan (repayment)	736,718	-
Repayment of note payable	-	(2,000,000)
Issuance of share capital, net of costs	-	91,987
	<u>736,718</u>	<u>(1,908,013)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(969,266)</u>	<u>(215,410)</u>
Increase (decrease) in cash and equivalents	(186,058)	(1,910,452)
Cash and equivalents, beginning of period	<u>322,504</u>	<u>3,267,698</u>
Cash and equivalents, end of period	\$ 136,446	\$ 1,357,246

Cash and equivalents, end of period

	2007	2006
Cash	\$ 75,886	\$ 1,291,686
Short term investments	60,560	65,560
	<u>\$ 136,446</u>	<u>\$ 1,357,246</u>

The accompanying notes are an integral part of these financial statements.

Emerald Bay Energy Inc.
Notes To Financial Statements
Prepared by Management - Unaudited

March 31, 2007

1. Basis of Presentation

The interim financial statements of Emerald Bay Energy Inc. (the "Corporation") have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are consistent with the presentation and disclosure in the audited financial statements and notes thereto for the year ended December 31, 2006. The interim financial statements contain disclosures which are supplemental to the Corporation's annual financial statements. Certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. The interim financial statements should be read in conjunction with the Corporation's audited financial statements and notes thereof for the year ended December 31, 2006.

2. Adoption of New Accounting Policies

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530 "Comprehensive Income", Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement", Section 3861 "Financial Instruments – Disclosure and Presentation", and Section 3865 "Hedges". As required by the new standards, prior periods have not been restated. The adoption of these standards has had no material impact on the Corporation's new earnings or cash flows. The effects of the implementation of the new standards are discussed below.

Comprehensive Income

The Corporation does not have any items to be accounted as components of other comprehensive income ("OCI") and as a result comprehensive income equals net (loss) earnings.

Financial Instruments

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities" as defined by the standard. Financial assets and financial liabilities "held-for-trading" are measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are measured at fair value, with changes in those fair values recognized in OCI. Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are measured at amortized cost using the effective interest method of amortization. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the expected purchase, sale or usage exemption. All changes in their fair value are recorded in earnings unless hedge accounting is applied in which case changes in fair value related to the effective portion of cash flow hedges is recognized in OCI.

Emerald Bay Energy Inc.
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2. Adoption of New Accounting Policies

As a result of the adoption of these new standards, the Corporation has classified its accounts receivable as "loans and receivables". Deposits have been classified as "held-to-maturity". Accounts payable and accrued liabilities, distributions payable and bank debt have been classified as "other financial liabilities". The Corporation does not use derivative instruments.

The Corporation, also adopted Section 1506 – Accounting Changes the only impact of which is to provide disclosure of when an entity has not applied a new source of GAAP that has been issued but is not yet effective. This is the case with Section 1535 "Capital Disclosures" which are required to be adopted for fiscal years beginning on or after October 1, 2007. The Corporation will adopt this standard on January 1, 2008 and it is expected the only effect on the Corporation for adopting Section 1535 will be increased disclosure surrounding its objectives, policies and processes for managing capital.

3. Property and Equipment

	March 31, 2007		
	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 6,970,104	\$ 2,405,765	\$ 4,564,339
Office furniture and equipment	<u>135,021</u>	<u>81,299</u>	<u>53,722</u>
	<u>\$ 7,105,125</u>	<u>\$ 2,487,064</u>	<u>\$ 4,618,061</u>
	December 31, 2006		
	<u>Cost</u>	<u>Accumulated Depletion and Depreciation</u>	<u>Net Book Value</u>
Petroleum and natural gas properties	\$ 6,003,487	\$ 2,147,011	\$ 3,856,476
Office furniture and equipment	<u>132,371</u>	<u>77,169</u>	<u>55,202</u>
	<u>\$ 6,135,858</u>	<u>\$ 2,224,180</u>	<u>\$ 3,911,678</u>

No general administrative expenses have been capitalized to property and equipment.

The company applied the ceiling test to its petroleum and natural gas properties at December 31, 2006 and determined that there was no impairment of costs requiring a write down in either of its cost centres.

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Notes To Financial Statements
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March 31, 2007

4. Equity Instruments

- a) Authorized
 Unlimited number of common voting shares
 Unlimited number of preferred shares, issuable in series.

- b) Issued

	March 31, 2007	
	Number of Shares	Amount
Common shares issued and issuable for cash		
Balance, beginning of period	27,903,277	\$ 4,729,137
Subscription received		
Balance, end of period	27,903,277	4,729,137
Warrants outstanding beginning of period	6,434,500	343,714
Warrants issued		
Warrants expired	(2,810,000)	(140,500)
Balance, end of period	3,624,500	203,214
Equity instruments balance March 31, 2007	\$	4,932,351

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March 31, 2007

4. Equity Instruments - continued

c) Stock options

The Company has established a stock option plan whereby the Company may grant directors, officers, employees and consultants up to a maximum of 10% of the issued common shares. The stock options granted on March 29, 2004 vest evenly over a 3 year period from the date of grant and expire 5 years after the date of grant. All other stock options granted vest immediately after the date of grant and expire 5 years after the date of grant.

	March 31, 2007		December 31, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted Average Exercise price
Stock options, beginning of period	2,429,904	\$ 0.26	1,179,904	\$ 0.27
Granted			1,250,000	0.25
Expired				
Stock options outstanding, end of period	2,429,904	\$ 0.26	2,429,904	\$ 0.26
Exercisable, end of period	2,288,237	\$ 0.26	2,288,237	\$ 0.26

The stock options outstanding as at March 31, 2007 are as follows:

<u>Exercise prices</u>	<u>Options outstanding</u>			<u>Options exercisable</u>	
	Options outstanding	Weighted average remaining term (years)	Weighted average exercise price	Options exercisable	Weighted average exercise price
\$0.19	104,904	1.8	\$ 0.19	104,904	\$ 0.19
\$0.25	1,900,000	4.3	0.25	1,900,000	0.25
\$0.32	425,000	2.7	0.32	283,333	0.32
	2,429,904	3.9	\$ 0.26	2,288,237	\$ 0.26

d) Diluted loss per share

The exercise of options and warrants would be anti-dilutive.

5. Bank Loan

The Company has a \$2,200,000 (2005 - \$Nil) revolving operating demand loan, of which \$1,843,942 (2005 - Nil) plus accrued interest, has been drawn at March 31, 2006. Interest is calculated at the bank's prime rate plus 1.0%. The Company increased this loan from \$2,200,000 to \$3,000,000 effective May 24, 2007

Security for the loan consists of a \$10,000,000 Debenture with a floating charge over all assets of the Company with a Negative Pledge and Undertaking to provide fixed charges on the Borrower's major producing petroleum properties at the request of the bank.