



Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE QUARTER ENDED MARCH 31, 2004

MAY 26, 2004

MANAGEMENTS' DISCUSSION AND ANALYSIS

The following discussion and analysis of financial information and related data concerning Emerald Bay Energy, Inc. is reported in Canadian dollars and has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2004.

Information which is contained herein contains estimates and assumptions which management is required to make concerning future events, and may constitute forward-looking statements under applicable securities laws. Forward-looking statements include plans, expectations, estimates, forecasts and other comments that are not statements of fact. Although such expectations are viewed as reasonable by the Company, no assurance can be given that such expectations will be realized. Such forward-looking statements are subject to risks and uncertainties and may be based on assumption that may cause actual Emeralds to differ materially from those implied herein, and therefore are expressly qualified in their entirety by this cautionary statement

OVERVIEW

Emerald Bay Energy, Inc. ("Emerald" or the "Company") is engaged in the business of exploration, development and production of crude oil, natural gas and natural gas liquids. As a strategic initiative, the Company is also developing technology for down-hole drilling applications, targeting marginal-producing and abandoned wells.

SELECTED QUARTERLY INFORMATION	Mar. 31, 2004 (\$)	Mar. 31, 2003 (\$)
Revenues (before royalties)	279,604	456,672
Income (loss) before income taxes	(98,309)	153,129
Net income (loss)	(64,309)	106,129
Net income (loss) per share (basic and diluted)	(0.005)	0.017
Total assets	1,911,553	1,379,000
Secured term debt	0	412,500

After completing a \$ 1,339,000 flow-through financing in the 4th quarter of 2003, the Company embarked on an active exploration program that included data collection, geophysical analysis and drilling during the first quarter of 2004. Emerald Bay drilled 2 gross wells during the quarter. (1.1 net) At Edson, Alberta the recently-drilled Cardium well was cased and cemented and flow-testing is scheduled to commence after private road-bans have been lifted. The Company anticipates this well to be on stream in the 2nd quarter. At Conrad, Alberta testing operations on a directional well were terminated after failing to encounter economic quantities of oil or natural gas. The Company will evaluate the remaining farmout lands to determine if an option well is warranted.

Management expects to increase the Company's reserves, production, and cash flow during the remainder of this year and into 2005 as a result of the Company's drilling programs in Alberta and Saskatchewan. Management also intends to intensify its pursuit of further acquisition, exploitation and exploration prospects with a view to identifying and capturing opportunities that have the potential to provide an additional core area for the Company.

The development of the Lateral Drainhole Drilling Tool continues at the Company's testing facility in Calgary. Significant progress has been achieved in critical components as we move this tool

closer to a commercial product. The Lateral Drainhole Drilling Tool will enable the Company and other oil and gas producing firms to optimize the performance of their wells by getting beyond formation damage and enhance production in a cost-effective manner.

DETAILED REVIEW OF FINANCIAL RESULTS

Net Earnings and Cash Flow

	Mar 31,2004	Mar 31,2003
	\$	\$
Net earnings (loss)	(64,309)	106,129
Per share	(0.005)	0.017
Cash flow from operations	(66,143)	142,557
Per share	(0.005)	0.022

The Company has recorded a net loss of \$(64,309) for the three months ended March 31, 2004, compared to a \$ 106,129 profit for the period ended March 31, 2003. Substantially increased general and administration and research and development expenses, as well as lower sales revenue, accounted for the majority of the net loss in 2004.

Revenue

	Mar 31,2004	%	Mar 31,2003	%
	\$		\$	
Oil and NGLs	49,152	17.58	68,397	14.98
Per barrel	34.88		39.93	
Natural gas	230,452	82.42	388,275	85.02
Per mcf	6.72		7.46	
Total gross revenue	279,604		456,672	
Per boe	39.25		44.12	

Sales Volumes

	Mar 31,2004	Mar 31, 2003
Crude oil – barrels per day	6	2
Natural gas – mcf per day	381	578
NGLs – barrels per day	10	17
BOE – barrels per day	79	115

Gross revenue decreased in 2004 as compared to 2003, as sales volumes decreased to 79 boed from 115 barrels per day. Revenue from natural gas sales were higher in 2003 due to new flush production from the Clive well which was tied in during the first quarter of 2003. This well has reached payout and therefore Emerald's interest in net production has been decreased by 50% in 2004. Total revenue also decreased due to lower prices received in 2004 compared to 2003. Emerald does not currently have any hedges in place.

Royalties

	Mar 31,2004	Mar 31,2003
Total royalties	57,242	104,291
Per boe	8.04	10.08

Percentage of revenue	20%	22.8%
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Royalties decreased due the decrease in total revenue as described above. Royalties decreased as a percentage of revenue due to the price sensitivity of the Company's royalties. The royalty decreased on a BOE basis due to the higher price per BOE in 2003 versus 2004. Higher sales values generally attract a higher royalty rate.

Production Expense

	Mar 31, 2004	Mar 31, 2003
Total production expenses	40,029	68,124
Per boe	5.62	6.58
Percentage of revenue	14.3%	14.9%

Production expenses decreased on a per boe basis to \$5.62 from \$6.58 in 2003.

General and administrative expenses

	Mar 31, 2004	Mar 31, 2003
General and administrative expense	219,640	136,511

In order to carry out the increased activity levels resulting from Emerald's five year plan, Emerald also increased its staffing levels which resulted in higher overall administrative costs. Emerald does not capitalize any administrative costs.

Research and development expenses

	Mar 31, 2004	Mar 31, 2003
Research and development expenditures	39,121	-

Research and development expenses increased substantially in the period ended March 31, 2004, compared to the period ended March 31, 2003. The Company increased it's development efforts after settlement of the intellectual property litigation as discussed in the annual report.

Depletion, depreciation and site restoration expense

	Mar 31, 2004	Mar 31, 2003
Depletion, depreciation and amortization	29,531	13,415
Asset Retirement Obligation	2,635	1,013
Total	32,166	14,428

Depletion, depreciation and amortization increased to \$29,531 in 2004 versus \$13,415 in 2003 due to lower reserve volumes arising from the year end engineering review of the Company's properties. Site restoration increased to \$2,635 in 2004 from \$1,013 in 2003 due to the ownership of an increased number of oil and natural gas wells and related facilities in 2004.

Taxes

	Mar 31, 2004	Mar 31, 2003
Future income tax expense (recovery)	(34,000)	47,010

The future tax recovery in 2004 as compared to a tax liability in 2003 is due in part to the loss reported in 2004 and as a consequence of changes to the income tax provisions effecting resource companies. Under the terms of the Company's flow-through share agreements, Emerald has committed to incur \$1.4 million of qualifying oil and natural gas exploration and development expenses between January 1, 2004 and December 31, 2004. Emerald has already renounced the income tax benefits of these expenditures to the flow-through shareholders. The future tax impact of the renunciation of flow through shares has been reflected in equity and the future tax balance on the balance sheet.

LIQUIDITY AND CAPITAL RESOURCES

In order to support Emerald's growth oriented business plan, the Company's strategy is to fund its capital expenditure program by issuing common and flow-through shares, to reinvest its cash flow, and to utilize bank debt.

On March 31, 2004 the Company had access to \$280,000 as a revolving credit facility with a Canadian chartered bank.

SHAREHOLDERS EQUITY

As at March 31, 2004, there were 11,708,304 common shares issued and outstanding, and an additional maximum total of 620,000 reserved for issuance on the potential exercise of common share purchase options. In addition, 1,108,000 common shares may be issued on the exercise of warrants associated with a December 2003 private placement.

CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

Under the terms of the Company's flow-through share agreements, Emerald has committed to incur \$1.4 million of qualifying oil and natural gas exploration and development expenses between January 1, 2004 and December 31, 2004. Emerald has already renounced the income tax benefits of these expenditures to the flow-through shareholders.

OFF-BALANCE SHEET ARRANGEMENTS

Emerald did not enter into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Emerald's initial significant shareholders have continued to support the Company's growth oriented business plan by investing additional funds by way of participating in Emerald's ongoing equity issues. As Emerald executes its growth plan, it is the Company's intention to continue to diversify its shareholder base by attracting new shareholders to participate in future offerings. Note 7 of the unaudited Financial Statements fully detail Emerald's related party transactions.

ACCOUNTING POLICIES

Emerald's accounting policies are stated in Note 2 to the audited Financial Statements. Emerald follows policies that are in accordance with Canadian generally accepted accounting principles.

