



Emerald Bay Energy

EMERALD BAY ENERGY, INC.

MANAGEMENT DISCUSSION AND ANALYSIS

**FOR THE QUARTER ENDED
MARCH 31, 2005**

MAY 30, 2005

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 the financial data presented 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 quarter ended March 31, 2005.

Natural gas reserves and volumes are converted to barrels of oil equivalent (boe) on the basis of 6 thousand cubic feet (mcf) of gas to 1 barrel (bbl) of oil. Boe's may be misleading, particularly if used in isolation. A boe conversion of 6 mcf to 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not necessarily represent a value equivalency at the wellhead.

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 results 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 Bay" 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 (the LDD technology). In a February 25, 2005 press release, the Company announced plans to transfer the LDD technology to a subsidiary with the intention of creating an independent, privately owned company with its own management and capital structure. The corporation anticipates that it will not finance development of the LDD, or the general administrative expenses associated with the LDD, past June 30, 2005. In addition, the Company has initiated a review of general and administrative costs and a reorganization of its management group in order to align its organizational structure with its expected future cash flow and activity levels. At the conclusion of this restructuring, Emerald Bay will be a pure oil and gas exploration and production company with a non-controlling equity interest in an oilfield services technology company.

During fiscal 2004 and continuing into the first quarter of 2005, the Company achieved success on both fronts. The LDD technology was advanced through the expenditure of significant funds on the development of the various components of the tool. This work was supported by a National Research Council IRAP grant of \$145,000, received during 2004.

In addition, as discussed below, a successful drilling program was undertaken in the latter half of 2004. The results of that drilling program are partially reflected in the increase in year-end oil and gas reserves of the Company (further testing of the wells indicates larger reserves than estimated at December 31, 2004) and the Company anticipates future increases in production once the wells are tied-in and producing.

For the three months ended

| | Mar 31 2005 (\$) | Mar 31 2004 (\$) |
|------------------------------------|------------------------|------------------------|
| Revenues (before royalties) | 308,444 | 279,604 |
| Research and Development costs | (67,932) | (39,121) |
| Loss | (334,348) | (64,309) |
| Loss per share (basic and diluted) | (0.02) | (0.01) |
| Total assets | 3,751,951 | 2,954,212 |
| Secured term debt | 390,000 | - |

The Company was involved in an extensive exploration program during 2004 and into Q1 2005 that included data collection, geophysical analysis and drilling. Management expects to increase the Company's reserves, production, and cash flow in 2005 as a result of the Company's 2004 drilling programs in Alberta. 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 LDD 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 LDD 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.

RESERVES

Emerald Bay engaged Proven Reserves Exploitation Ltd. ("PRE") to perform an independent reserve evaluation as of March 31, 2005 for the Clive and Twining properties. This evaluation was done subsequent to an independent evaluation done by Gilbert Lausten Jung Associates Limited at December 31, 2004 and reflects production testing activity not considered in the December 31, 2004 report. Based on the PRE reports, the net present value of proved plus probably reserves (before tax, discounted at 10%) increased 31% to \$5.1 million from \$3.9 million as at December 31, 2004. The Company's CBM pilot project in Alberta and Texas properties are not reflected in these values.

DETAILED REVIEW OF FINANCIAL RESULTS

Net Earnings and Cash Flow

| | For the three months ended | |
|--------------------------------|----------------------------|------------------------|
| | Mar 31 2005 (\$) | Mar 31 2004 (\$) |
| Net earnings (loss) | (334,348) | (64,309) |
| Per share | (0.02) | (0.01) |
| Cash flow used from operations | (222,199) | (66,143) |
| Per share | (0.02) | (0.01) |

The Company has recorded a net loss of \$334,348 for the first quarter, compared to a net loss of \$64,309 for the same period the prior year. Substantially increased exploration activities and a

stepped up research and development program, led to a significant increases in general and administration costs, research and development costs and depletion, depreciation and amortization costs to support those efforts. These cost increases are discussed below.

Revenue

| | For the three months ended | |
|---------------------|-----------------------------------|---------|
| | Mar 31 | Mar 31 |
| | 2005 | 2004 |
| | (\$) | (\$) |
| Oil and NGLs | 72,053 | 49,152 |
| Per barrel | 49.59 | 34.88 |
| Natural gas | 252,048 | 230,452 |
| Per mcf | 7.60 | 6.72 |
| Total gross revenue | 324,101 | 279,604 |
| Per boe | 46.44 | 39.25 |

Sales Volumes

| | For the three months ended | |
|-----------------------------|-----------------------------------|--------|
| | Mar 31 | Mar 31 |
| | 2005 | 2004 |
| Crude oil – barrels per day | 7 | 6 |
| Natural gas – mcf per day | 368 | 381 |
| NGLs – barrels per day | 9 | 10 |
| BOE – barrels per day | 78 | 79 |

Gross revenue increased for the quarter as compared to 2004, as a result of increased prices. Sales volumes remained constant from the prior year.

Royalties

All of Emerald Bay's royalties are paid to the Crown. During the first quarter, Emerald Bay's royalties of \$71,213 represented 25.2% of revenues, up from \$57,242 and 20.5% of revenues in the same period the prior year.

Production Expense

Production expenses of \$61,982 in the first quarter were incurred at a rate of \$8.88 per BOE of sales volume, up from \$40,029 and \$5.62 in the same period the prior year as a result of increased gas gathering and processing and operating costs.

General and administrative (“G&A”) expenses

G&A costs of \$327,093 in the first quarter were up 49% from \$219,640 in the same period the prior year. The increase reflects Emerald Bay's increased activity levels resulting from the company's five year plan, which required the company to substantially increased staffing levels and consulting services relating to exploration activities and research and development. Additionally, new regulatory requirements have increased administrative expense. The Company expects these costs will decrease significantly once the LDD project is transferred to a new company as Emerald Bay will no longer be required to support those activities.

Research and development (“R&D”) expenses

R&D costs of \$67,932 in the first quarter increased 74% from \$39,121 in the same period the prior year. In addition to increased consulting services the Company has employed two persons in during 2004 in its efforts to complete development of the LDD technology. The Company increased its development efforts substantially in 2004 which has carried into 2005 after settlement of the intellectual property litigation in 2003. Such activity was supported by an IRAP grant of \$145,000 which was received in 2004.

Significant progress has been made on the LDD tool and in the first quarter successful Alpha tests of a prototype tool were completed. This milestone is expected to allow the Company to attract direct participation in the tool by investors interested in bringing the tool to a commercial status. In order to position itself for this possibility, the Company announced its intention to transfer the LDD technology to a newly formed subsidiary in order to create an independent company with its own management and capital structure.

Depletion, depreciation and site restoration expense

Depletion, depreciation and amortization (“DD&A”) costs of \$104,807 were incurred in the first quarter, up from \$32,166 in the same period the prior year. The significant increase is mainly due to \$1.7 million of oil and gas property additions in the last quarter of 2004 and the first quarter of 2005 which are being amortized over a reserve base as determined from the year end engineering review of the Company’s properties.

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.

The company reports that there have been no off balance sheet transactions.

TAXES

Emerald Bay is not subject to current income tax. At March 31, 2005, its estimated tax pools were approximately \$3.8 million.

SHAREHOLDERS EQUITY

As at March 31, 2005, there were 17,629,971 common shares issued and outstanding, and an additional maximum total of 579,904 reserved for issuance on the potential exercise of common share purchase options. In addition, 5,728,833 common shares may be issued on the exercise of warrants associated with various private placements. Details of Emerald Bay’s equity instruments are provided in note 5 to the financial statements.

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 8 of the audited Financial Statements for the fiscal year ended December 31, 2004 fully detail Emerald's related party transactions.

ADDITIONAL INFORMATION

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