



CANADA

EBR CN Underperform

Price 11 May 10 C\$0.69

Volatility index Very High

12-month target C\$ 0.60

12-month TSR % -13.0

Valuation C\$ 0.60

- 6.0x 2011 EV/DACF

GICS sector Energy

Market cap C\$m 52

30-day avg turnover C\$m 0.0

Market cap US\$m 51

Number shares on issue m 74.90

Investment fundamentals

Year end 31 Dec		2009A	2010E	2011E	2012E
Sales revenue	m	37.0	37.0	39.8	38.6
EBITDA	m	18.4	19.8	22.5	21.0
Recurring profit	m	-19.0	-15.5	-7.9	-8.6
Reported profit	m	-19.0	-15.5	-7.9	-8.6
Gross cashflow	m	13.2	15.4	19.0	17.3
CFPS	C\$	0.24	0.21	0.25	0.23
CFPS growth	%	-75.5	-15.2	23.3	-8.7
PGCFPS	x	2.8	3.4	2.7	3.0
EPS rec	C\$	-0.36	-0.21	-0.10	-0.11
EPS rec growth	%	nmf	41.9	49.4	-9.7
PER rec	x	nmf	nmf	nmf	nmf
Total DPS	C\$	0.00	0.00	0.00	0.00
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-5.5	-5.0	-2.3	-2.6
ROE	%	-7.5	-6.3	-3.3	-3.8
EV/EBITDA	x	6.9	6.8	6.0	6.4
Net debt/equity	%	32.5	35.2	37.8	41.4
P/BV	x	0.2	0.2	0.2	0.2

EBR CN vs TSX, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, May 2010

(all figures in CAD unless noted)

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12 May 2010

Ember Resources Inc.

1Q10 results in line; leverage remains a concern

Event

- Ember reported 1Q10 financial results this morning before market. Production of 24.0mmcfe/d was previously disclosed, while CFPS of C\$0.06 was 10.8% below our estimate due to a combination of minor variance items. Ember ended 1Q10 with net debt of C\$87.3m (incl. C\$2.2 in capital lease obligations), which is 95% of the company's C\$92m in credit facilities. A review of Ember's credit facilities is expected to conclude on 31 May.
- Ember spent C\$10.0m on development activities in 1Q10, slightly ahead of our C\$7.0m estimate, participating in 31.0 (18.7net) wells. April production averaged 25.5mmcfe/d, which is expected to approximate 2Q10 average production. 2010 production guidance, issued in November 09, has been revised down to 24–25mmcfe/d (from 26–27mmcfe/d), on capital spending of C\$20m (from C\$30m). Updated guidance is in line with our present forecast, which had previously been revised down based on our bearish outlook on natural gas prices.
- We expect Ember's capital program to remain flexible depending on natural gas prices. Given the low capital intensity of Ember's CBM drilling, the company is able to adjust spending rapidly, in small increments. Ember has also hedged ~25% of remaining 2010 gas volumes at a floor of C\$4.50/Gj.

Impact

- Neutral impact.** 1Q10 financial and operational results were largely in line with our forecast. Ember executed successful winter drilling program, pushing corporate production above 25mmcfe/d in April. However, we remain concerned with Ember's leverage, which will likely impact the company's ability to grow production as long as natural gas prices remain soft.

Earnings and target price revision

- Minor changes to estimates, with 2010 CFPS down 2.2% to C\$0.21 and 2011 CFPS down 2.2% to C\$0.25.

Price catalyst

- 12-month price target: C\$0.60 based on a 6.0x 2011 EV/DACF methodology.
- Catalyst: review of bank line expected to conclude by 31 May.

Action and recommendation

- With high leverage expected to inhibit growth for the time being, and the results of a bank line review pending, we maintain our cautious outlook on Ember. We reiterate our C\$0.60 target price and Underperform rating.

Fig 1 Ember's 1Q10 results vs Macquarie estimates

	Est. 1Q10	Act. 1Q10	Variance	4Q09	Q/Q	1Q09	Y/Y
Production							
Oil & Liquids (mb/d)	0	0	nmf	0	nmf	0	nmf
Natural Gas (mmcf/d)	23.9	24.0	0.7%	23.6	1.8%	27.2	-11.6%
Total (mboe/d)	4.0	4.0	0.7%	3.9	1.8%	4.5	-11.6%
Financial							
CFPS (diluted)	\$0.07	\$0.06	-10.8%	\$0.05	32.5%	\$0.14	-53.7%
EPS (diluted)	(\$0.02)	(\$0.03)	65.5%	(\$0.06)	-41.6%	(\$0.07)	-53.7%
Cash Flow (\$mm)	\$5.4	\$4.8	-10.8%	\$3.1	56.0%	\$7.1	-32.4%
Net Capex (\$mm)	\$7.0	\$10.1	44.2%	\$6.4	58.6%	\$6.2	63.5%
Net Debt / (Cash) (\$mm)	\$85.0	\$87.3	2.7%	\$83.4	4.7%	\$101.2	-13.8%
Operating							
Realized Gas Price (\$/boe)	\$4.96	\$4.86	-2.0%	\$4.45	9.2%	\$5.02	-3.2%
Royalties (%)	7.0%	7.5%	6.9%	6.5%	14.7%	8.0%	-6.1%
Operating Costs (\$/boe)	(\$7.98)	(\$8.04)	0.7%	(\$10.19)	-21.1%	(\$7.33)	9.7%
G&A (\$/boe)	(\$2.79)	(\$1.91)	-31.6%	(\$1.80)	6.1%	(\$2.55)	-25.2%
Interest (\$/boe)	(\$2.48)	(\$3.62)	45.6%	(\$3.97)	-8.9%	(\$2.01)	79.7%

Source: Company Reports, Macquarie Research, May 2010

Fig 2 Changes to Macquarie estimates

	2010E			2011E			2012E		
	Revised	Previous	Chg %	Revised	Previous	Chg %	Revised	Previous	Chg %
Production									
Oil & Liquids (mb/d)	0.0	0.0		0.0	0.0		0.0	0.0	
Natural Gas (mmcf/d)	<u>24.4</u>	<u>24.4</u>	0.0%	<u>23.7</u>	<u>23.9</u>	-0.9%	<u>23.2</u>	<u>23.3</u>	-0.2%
Total (mboe/d)	4.1	4.1	0.0%	3.9	4.0	-0.9%	3.9	3.9	-0.2%
Financial									
Net Capex (\$mm)	20.1	20.0	0.5%	22.5	22.5	0.0%	22.5	22.5	0.0%
Cash Flow (\$mm)	15.4	15.7	-2.2%	19.0	19.4	-2.2%	17.3	18.0	-3.5%
Net Debt (\$mm)	86.7	87.6	-1.1%	90.2	90.7	-0.6%	95.4	95.3	0.1%
Debt/CF	5.6x	5.6x	1.2%	4.8x	4.7x	1.6%	5.5x	5.3x	3.8%
CFPS	\$0.21	\$0.21	-2.2%	\$0.25	\$0.26	-2.2%	\$0.23	\$0.24	-3.5%
EPS	-\$0.21	-\$0.14	44.9%	-\$0.10	-\$0.10	1.2%	-\$0.11	-\$0.11	4.5%

Source: Company Reports, Macquarie Research, May 2010

Ember Resources (EBR CN, Underperform, Target price: C\$0.60)

Price Assumption		2009A	2010E	2011E	2012E	Quarterly Forecast		1Q10E	2Q10E	3Q10E	4Q10E
Oil-WTI	US\$/b	61.85	86.95	90.00	98.00	Oil-WTI	US\$/b	78.80	84.50	91.75	92.75
Oil-Edmonton Par	\$/b	66.35	89.39	92.65	96.02	Gas-Henry Hub	US\$/mmbtu	5.38	4.40	4.10	4.30
Oil-Lloyd Heavy Blend	\$/b	58.40	77.50	78.13	78.84	US\$/C\$	\$	0.96	0.95	0.95	0.95
Gas-Henry Hub	US\$/mmbtu	3.95	4.55	5.10	5.55	Liquids Realization	\$/b	75.50	81.84	89.47	90.53
Gas-AECO	\$/mcf	4.05	4.25	4.90	4.85	Gas Realization	\$/mcf	5.14	4.21	3.97	4.10
US\$/C\$	\$	0.88	0.95	0.95	1.00						
Income Statement		2009A	2010E	2011E	2012E	Oil & Liquids	kb/d	0.0	0.0	0.0	0.0
Oil & Liquids	kb/d	0.0	0.0	0.0	0.0	Natural Gas	mmcf/d	24.0	25.2	24.9	23.7
Natural Gas	mmcf/d	25.3	24.4	23.7	23.2	Total Production	kboe/d (@ 6:1)	4.0	4.2	4.1	4.0
Total Production	kboe/d (@ 6:1)	4.2	4.1	3.9	3.9	Gas Production Ratio	%	100.0	100.0	100.0	100.0
Gas Production Ratio	%	100.0	100.0	100.0	100.0	Revenue (net of hedging & transp.)	m	10.7	9.2	8.6	8.5
Production per Share Growth YoY	%	-18.3	-29.8	-3.1	-1.9	EBITDA	m	6.3	4.9	4.3	4.3
Revenue (net of hedging & transp.)	m	37.0	37.0	39.8	38.6	Net Income	m	(2.5)	(4.2)	(4.6)	(4.3)
Royalties	m	(1.6)	(2.5)	(2.9)	(3.0)	EPS (basic)	m	(0.03)	(0.06)	(0.06)	(0.06)
Operating Costs	m	(13.3)	(11.9)	(11.2)	(11.0)	EPS (diluted)	m	(0.03)	(0.06)	(0.06)	(0.06)
G&A Costs	m	(3.6)	(2.8)	(3.2)	(3.6)	Adjusted EPS (diluted)	m	(0.03)	(0.06)	(0.06)	(0.06)
EBITDA	m	18.4	19.8	22.5	21.0	Cash Flow from Operations	m	4.8	3.9	3.3	3.3
Interest Costs	m	(4.9)	(4.0)	(3.2)	(3.4)	CFPS	m	0.06	0.05	0.04	0.04
DD&A, Others Costs, & Tax	m	(32.6)	(31.3)	(27.1)	(26.2)	Production per Share Growth YoY	%	-39.4	-33.6	-30.5	-14.6
Net Income	m	(19.0)	(15.5)	(7.9)	(8.6)	Production per Share Growth QoQ	%	-15.3	6.2	-0.3	-4.6
EPS (basic)	m	(0.35)	(0.21)	(0.10)	(0.11)	CFPS Growth YoY	%	-53.7	-9.1	4654.9	-7.8
EPS (diluted)	m	(0.35)	(0.21)	(0.10)	(0.11)	CFPS Growth QoQ	%	32.5	-18.3	-15.2	0.4
Adjusted EPS (diluted)	m	(0.35)	(0.21)	(0.10)	(0.11)	Revenue/boe	\$/boe	29.60	24.03	22.60	23.37
Dividend Per Share	m	NA	NA	NA	NA	Royalties/boe	\$/boe	(2.18)	(1.47)	(1.58)	(1.65)
Revenue per Share Growth YoY	%	-55.1	-27.4	7.7	-3.0	Operating costs/boe	\$/boe	(8.04)	(7.98)	(7.98)	(7.98)
EBITDA per Share Growth YoY	%	-62.9	-22.1	13.9	-6.7	Operating Netback/boe	\$/boe	19.38	14.58	13.03	13.74
Basic WA Shares OS	m	54.5	74.9	74.9	74.9	G&A/boe	\$/boe	(1.91)	(1.80)	(1.81)	(1.89)
Diluted WA Shares OS	m	54.5	74.9	74.9	74.9	Interest/boe	\$/boe	(3.62)	(2.32)	(2.30)	(2.45)
						Cash Netback/boe	\$/boe	13.86	10.46	8.93	9.40
Balance Sheet		2009A	2010E	2011E	2012E	Cashflow Analysis		2009A	2010E	2011E	2012E
Cash	m	0.0	0.0	0.0	0.0	Cash Flow from Operations	m	13.2	15.4	19.0	17.3
Debt	m	82.9	84.5	88.0	93.2	Chgs in Working Cap	m	(6.2)	0.7	0.0	0.0
Net Debt	m	83.6	86.7	90.2	95.4	Net Cash Flow from Operations	m	7.0	16.1	19.0	17.3
Bank Lines	m	92.0	92.0	92.0	92.0	Cash Flow from Investing	m	(7.1)	(17.8)	(22.5)	(22.5)
Net Debt as % of Bank Lines	%	90.9	94.2	98.0	103.7	Cash Flow from Financing	m	0.1	1.6	3.5	5.2
Total Assets	m	366	350	343	338	Increase in Cash	m	0.0	(0.0)	(0.0)	0.0
Total Liabilities	m	111	110	111	113	Free Cash Flow ¹	m	(1.1)	(4.7)	(3.5)	(5.2)
Total S/H Equity	m	255	240	233	225	Debt Adjusted Cash Flow (DACF)	m	18.0	19.4	22.2	20.7
Ratios Analysis		2009A	2010E	2011E	2012E	CFPS		0.24	0.21	0.25	0.23
ROA	%	nmf	nmf	nmf	nmf	Development Capital Expenditures	m	14.3	20.1	22.5	22.5
ROCE	%	nmf	nmf	nmf	nmf	Total Capex (incl. Acq'n/Disph)	m	11.7	20.1	22.5	22.5
ROE	%	nmf	nmf	nmf	nmf	Capex/Cash Flow	x	1.1	1.3	1.2	1.3
Net Debt/Equity	%	32.8	36.1	38.7	42.4						
Net Debt/CF	x	6.3	5.6	4.8	5.5						
Price/Book	x	0.2	0.2	0.2	0.2						
Book Value		3.4	3.2	3.1	3.0						
Valuation		2009A	2010E	2011E	2012E	Per Boe Statistics		2009A	2010E	2011E	2012E
P/E	x	nmf	nmf	nmf	nmf	Revenue/boe	\$/boe	24.02	24.85	27.63	27.31
P/CF	x	2.8	3.4	2.7	3.0	Royalties/boe	\$/boe	(1.04)	(1.71)	(2.02)	(2.14)
Enterprise Value	m	135	138	142	147	Operating costs/boe	\$/boe	(8.65)	(7.99)	(7.80)	(7.80)
EV/DACF	x	7.5	7.1	6.4	7.1	Operating Netback/boe	\$/boe	14.33	15.14	17.81	17.37
EV/Reserves ⁴	\$/boe	4.79				G&A/boe	\$/boe	(2.36)	(1.85)	(2.19)	(2.51)
EV/Production ⁴	\$/boe/d	27.1	28.8	30.6	32.6	Interest/boe	\$/boe	(3.15)	(2.66)	(2.25)	(2.39)
Reserve/Production (2P)	years	13.6				Capital Tax/boe	\$/boe	(0.05)	(0.16)	(0.21)	(0.21)
Dividend Yield	%	0.0	0.0	0.0	0.00	Cash Netback/boe	\$/boe	8.78	10.47	13.17	12.25
Core Net Asset Value (PV10AT) ⁵		0.70				Depletion and Depreciation/boe	\$/boe	(23.55)	(25.08)	(20.00)	(20.00)
P/NAV	x	1.0				Stock based compensation/boe	\$/boe	(0.55)	(0.60)	(0.42)	(0.42)
						Other Non-cash/boe	\$/boe	(1.29)	0.27	(0.67)	(0.68)
						Cash Taxes/boe	\$/boe	0.00	0.00	0.00	0.00
						Deferred Taxes/boe	\$/boe	4.27	4.51	2.47	2.77
						Earnings Netback/boe	\$/boe	(12.34)	(10.43)	(5.45)	(6.09)
Sensitivities (Adjusted Cash Flow)		2009A	2010E	2011E	2012E	Capital Efficiencies		2008	3-Year		
Oil WTI +/- US\$1.00/b	%	0.0	0.0	0.0	0.0	F&D (Proven) ³	\$/boe	26.68	20.18		
Gas +/- C\$0.25/mcf	%	16.7	13.5	10.6	11.3	FD&A (2P) ³	\$/boe	20.30	19.68		
Oil +/- 100 b/d	%	13.8	16.7	14.2	16.1	Recycle Ratio - (2P) ³	x	1.3	1.3		
Gas +/- 1.0 mmmcf/d	%	6.6	6.0	6.1	6.5						

All figures CAD unless noted and production and reserve figures are gross of royalties

1) Cash flow from Operations (before chg in WC) Less Development Capex and Dividends; 2) Excludes Revisions; 3) Includes changes in Future Development Capital;

4) Excludes non-producing assets; 5) Strip pricing

Source: Company data, Macquarie Research, May 2010

Important disclosures:

<p>Recommendation definitions</p> <p>Macquarie - Australia/New Zealand Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie – Asia/Europe Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie First South - South Africa Outperform – expected return >+10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie - Canada Outperform – return >5% in excess of benchmark return Neutral – return within 5% of benchmark return Underperform – return >5% below benchmark return</p> <p>Macquarie - USA Outperform (Buy) – return >5% in excess of Russell 3000 index return Neutral (Hold) – return within 5% of Russell 3000 index return Underperform (Sell)– return >5% below Russell 3000 index return</p> <p>Recommendations – 12 months</p> <p>Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>Volatility index definition*</p> <p>This is calculated from the volatility of historical price movements.</p> <p>Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year. * Applicable to Australian/NZ/Canada stocks only</p>	<p>Financial definitions</p> <p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit / average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>																																
<p>Recommendation proportions – For quarter ending 31 March 2010</p> <table border="1"> <thead> <tr> <th></th> <th>AU/NZ</th> <th>Asia</th> <th>RSA</th> <th>USA</th> <th>CA</th> <th>EUR</th> <th></th> </tr> </thead> <tbody> <tr> <td>Outperform</td> <td>50.55%</td> <td>62.20%</td> <td>42.25%</td> <td>42.39%</td> <td>62.16%</td> <td>46.74%</td> <td>(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)</td> </tr> <tr> <td>Neutral</td> <td>36.63%</td> <td>19.02%</td> <td>47.89%</td> <td>50.35%</td> <td>31.89%</td> <td>34.78%</td> <td>(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)</td> </tr> <tr> <td>Underperform</td> <td>12.82%</td> <td>18.78%</td> <td>9.86%</td> <td>7.27%</td> <td>5.95%</td> <td>18.48%</td> <td>(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)</td> </tr> </tbody> </table>				AU/NZ	Asia	RSA	USA	CA	EUR		Outperform	50.55%	62.20%	42.25%	42.39%	62.16%	46.74%	(for US coverage by MCUSA, 6.53% of stocks covered are investment banking clients)	Neutral	36.63%	19.02%	47.89%	50.35%	31.89%	34.78%	(for US coverage by MCUSA, 9.62% of stocks covered are investment banking clients)	Underperform	12.82%	18.78%	9.86%	7.27%	5.95%	18.48%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)
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