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 Comment*  
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**Ember Resources Inc. <sup>1,8</sup>**

**BUY**

**EBR \$0.86**

**Target: \$1.00**

**What's Changed**

	New	Old
Recommendation	n/c	BUY
Target	n/c	\$1.00
Production 2009 (boe/d) 6:1	n/c	4,200
Production 2010 (boe/d) 6:1	n/c	4,500
CFPS 2009 f.d.d.	n/c	\$0.23
CFPS 2010 f.d.d.	n/c	\$0.36

**Share Data**

Shares – mm (basic/f.d.)	74.9/76.4
52-week high/low	\$1.25/\$0.42
Market capitalization (mm)	\$64
Enterprise value (mm)	\$147
Net debt (mm) – Q4/09E	\$83
Dividend yield	n/a
Total projected return	18%

**Financial Data**

YE Dec. 31	08A	09E	10E
Oil & NGLs (mb/d)	0.0	0.0	0.0
Natural gas (mmcf/d)	14.7	25.2	27.0
Total (mboe/d) 6:1	2.5	4.2	4.5
Equivalent growth	152%	71%	7%
WTI (US\$/b)	99.92	61.99	80.00
NYMEX (US\$/mmbtu)	8.90	4.16	5.75
EPS (f.d.)	\$0.00	(\$0.28)	(\$0.11)
CFPS (f.d.d)	\$0.78	\$0.23	\$0.36
Net debt (mm)	\$101.8	\$82.8	\$84.6
Debt/CF	4.7x	6.0x	3.0x
P/CF		3.7x	2.4x
P/CF (d'ad'd)		8.5x	4.7x

***New agreements expand Acme operations while lowering the cost outlook***

- Successful Q4/09 drilling program with momentum carrying forward into Q1/10
- Two separate agreements that should expand operatorship and reduce operating costs at Acme
- Expanded hedging program for 2010
- No change to 2010 guidance and our estimates are essentially unchanged
- No change to our BUY recommendation and \$1.00 target price

**SUCCESSFUL Q4/09 DRILLING PROGRAM WITH MOMENTUM CARRYING FORWARD INTO Q1/10**

***Successful Q4/09 drilling program***

This morning, before market open, EBR provided an operational update via a press release. The company completed an active and successful Q4/09 drilling program focused on its core Horseshoe Canyon CBM assets at Acme and Bashaw. For the quarter, EBR drilled 28 (20.5 net) wells including 20 (12.5 net) wells at Acme and 8 (8.0 net) wells at Bashaw. All were Horseshoe Canyon CBM wells and given the low risk nature of these wells all were successful. Only 16 (12.2 net) of the wells have been placed on production with the remainder expected on stream by the end of January.

***More aggressive drilling planned for Q1/10***

EBR has budgeted to drill 30 (17.4 net) wells in Q1/10. All will be low risk Horseshoe Canyon CBM wells with 15 (4.9 net) wells in Acme and 15 (12.5 net) in Bashaw. EBR will also expand the processing facility at Bashaw by 5 mmcf/d.



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### ***Successful drilling is driving near-term production growth***

The Horseshoe Canyon CBM is a low risk and predictable asset that delivers consistent results. As such, EBR has been successful on all its Horseshoe Canyon CBM wells through its history and given the more aggressive drilling of late production is expected to grow in the near-term. Q4/09 production averaged 23.5 mmcf/d while Q1/10 production is expected to average 25 mmcf/d.

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## **TWO SEPARATE AGREEMENTS THAT SHOULD EXPAND OPERATORSHIP AND REDUCE OPERATING COSTS AT ACME**

### ***Agreement expands operatorship at Acme***

EBR and an industry partner have agreed to pool their lands over 12 sections at Acme. EBR will have a uniform 25% WI through the land and will be operator. By gaining operatorship through all of this land, EBR expects to save through standard overhead recoveries and more effective development of its land. In addition, this deal should allow EBR to more easily fulfill its second announced agreement which we highlight below.

### ***Another agreement should reduce operating costs by up to \$1.80/boe at Acme***

In a separate agreement with Altagas, EBR has committed to increased drilling activity at Acme in exchange for reduced processing fees. Specifically, EBR will drill 70 gross wells and receive a 15% reduction in processing fees. In a second phase, an additional 70 gross wells can be drilled for a further 15% reduction in processing fees. If fully exercised the reduced costs would save \$1.80/boe and given the growing production in Acme could represent good cost savings on the entire production base. By the end of Q1/10, 35 wells are expected to be drilled in the agreement (20 Q4/09 and 15 in Q1/10).

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## **EXPANDED HEDGING PROGRAM FOR 2010**

### ***EBR extends its hedging program for 2010***

EBR previously announced that it had hedged ~44% of its January and February production at a fixed price of \$5.51/mcf. The company has now extended its hedging program with a costless collar on ~21% of its production from April to December. The floor is \$4.73/mcf and the ceiling is \$6.92/mcf. More hedges are expected in the future as EBR positions to protect from a pricing collapse like we had last year.

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## **NO MAJOR CHANGES TO OUR ESTIAMTES**

### ***2010 guidance unchanged***

In the release EBR reiterated its 2010 guidance. The company continues to target average production of 26-27 mmcf/d based on a \$30 million capital program that will drill 60 – 65 net wells.

### ***Our forecasts are essentially unchanged***

There are essentially no changes to our forecasts. We updated our model for the new hedges and some reduced operating costs (we had already assumed improved costs) with the overall impact being a \$0.1 mm increase to our total 2010 cash flow forecast. A summary of our estimates is in the table on the first page of this comment.



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## VALUATION

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Based on yesterday's closing price of \$0.85, EBR is trading at 2.4x (4.7x on a debt adjusted basis) our 2010 CFPS (f.d.d.) estimate of \$0.36, versus the Small Cap Producers' group average of 4.1x (5.1x debt adjusted). We are retaining our \$1.00 target price based on an unchanged 5.1x 2010 debt adjusted cash flow multiple, which is at a discount to the peer group average of 6.5x debt adjusted given the group average is skewed higher by oil weighted resource companies.

## RECOMMENDATION

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Through the just announced deals EBR essential gains access to more land at Acme but with a lower working interest per section. EBR also gains operatorship and combined this allows the company to drill more gross wells under the same capital allocation which is beneficial under the agreement with Altgas. This is another step in EBR's cost improvement and the company is already one of the lower cost producers in our coverage space. As a 100% dry gas producer EBR benefits the most from recently improved natural gas prices and the company has taken measure to protect from future pricing weakness with new hedges this year. EBR is again focusing on its inventory of 400 net low risk Horseshoe Canyon CBM locations and with the renewed drilling focus is targeting growth this year. **We are maintaining our BUY recommendation and 12 month target price of \$1.00, attainment of which represents 18% upside from yesterday's closing price.**



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