

Ember Resources Inc. - EBR \$0.80

February 5, 2010

	2008a	2009e	2010e	2011e
Production				
Natural Gas - Mmcf/d	14.7	25.5	26.0	27.0
Oil & Liquids - Bbls/d	0	0	0	0
Total - Boe/d	2,450	4,255	4,341	4,500
% Natural Gas	100%	100%	100%	100%
Netbacks				
Realized Wellhead Price - \$/Boe	\$44.07	\$23.96	\$36.42	\$38.58
Total Cash Costs - \$/Boe	\$17.05	\$15.57	\$14.29	\$13.84
Cash Netback - \$/Boe	\$24.03	\$8.78	\$19.51	\$22.22
Earnings Netback - \$/Boe	\$0.14	(\$12.03)	(\$3.06)	(\$1.06)
Financials				
Gross Revenue - \$Mm	\$39.5	\$37.2	\$57.7	\$63.5
CFO* - \$Mm	\$21.5	\$14.7	\$30.9	\$36.6
Net Income - \$Mm	\$0.1	(\$18.7)	(\$4.9)	(\$1.7)
Capex - \$Mm	\$295.4	\$13.0	\$30.0	\$35.0
Net Debt - \$ Mm	\$100.7	\$81.1	\$80.2	\$78.6
LOC - \$ Mm	\$120.0	\$92.0	\$92.0	\$92.0
CFPS - basic	\$0.82	\$0.27	\$0.41	\$0.49
CFPS - diluted	\$0.82	\$0.27	\$0.41	\$0.49
EPS - basic	\$0.00	(\$0.34)	(\$0.06)	(\$0.02)
EPS - diluted	\$0.00	(\$0.34)	(\$0.06)	(\$0.02)
Performance				
Production Growth Per Share	35%	-16%	-26%	4%
Cash Flow Growth per Share	90%	-67%	53%	18%
ROE	0%	-7%	-2%	-1%
ROCE	0%	-4%	-1%	0%
Capital Structure				
Basic Shares - Mm	26.2	54.3	74.9	74.9
Options - Mm	0.4	0.0	0.0	0.0
Warrants - Mm	0.0	0.0	0.0	0.0
Diluted Shares - Mm	26.2	54.4	74.9	74.9
Fully Diluted Shares - Mm	27.4	54.5	74.9	74.9
Market Capitalization - \$Mm	\$32.4	\$60.7	\$59.9	\$59.9
Enterprise Value - \$Mm	\$133.1	\$141.8	\$140.1	\$138.5
Debt to Total Capitalization	76%	57%	57%	57%
Capex/CF	13.7x	0.9x	1.0x	1.0x
D/CF* (forward)	6.9x	2.6x	2.2x	N/A
D/LOC	0.8x	0.9x	0.9x	0.9x
Pricing				
WTI (Nymex) - \$US/Bbl	\$99.73	\$61.86	\$77.00	\$85.00
Edmonton Light - \$C/Bbl	\$102.44	\$66.34	\$78.62	\$85.85
Western Canada Select - \$C/Bbl	\$82.90	\$58.60	\$64.92	\$70.79
Henry Hub (Nymex) - \$US/MmBtu	\$8.90	\$4.16	\$6.50	\$7.00
Aeco Spot - \$C/Mcf	\$8.06	\$3.89	\$6.13	\$6.49
Exchange Rate - \$US/\$C	\$0.94	\$0.88	\$0.96	\$0.97
Valuation				
Closing Price	\$0.63	\$0.81	\$0.80	\$0.80
Net Asset Value (Before Tax, 10%)	\$5.21	\$1.88		
P/NAV	0.1x	0.4x		
Net Asset Value (After Tax, 10%)	\$3.58	\$1.44		
P/NAV	0.2x	0.6x		
P/E	132.5x	-2.4x	-12.3x	-34.4x
P/CF	0.8x	3.0x	1.9x	1.6x
EV/DACF	5.8x	7.9x	4.1x	3.5x
Target EV/DACF	7.3x	9.7x	5.1x	4.3x
EV per Boe/d	\$53,858	\$33,364	\$32,281	\$30,785
Target EV per Boe/d	\$67,161	\$41,132	\$40,045	\$38,274

Ember Field Trip

■ We visited Ember Resource's operations on Thursday, February 4 which included the Company's gas plant at Acme, logging and perforating at one of its well sites and nitrogen fracturing at another well location. Our overall impression of the operations was positive as it demonstrated the relative low-risk nature of Ember's operations as well as its quick drilling turnaround.

Key Takeaways

- Ember recently sold \$2 MM of its drilling credits for \$1.5 MM net to the Company. While we have heard companies discuss the potential of selling drilling credits, we have not heard of any actual formalized transactions before this one. This process appears pretty seamless in that the seller receives the money for the credits up front, in this case \$0.75 to the dollar, while the buyer files the necessary paperwork for the credits. We believe this is interesting in that there is now a bar for a reasonable price for the credits and it has been completed expeditiously, which will likely encourage further transactions. Ember believes it can sell \$5 MM in drilling credits this year, netting about \$3.75 MM (assuming the same metrics as the first transaction). The Company intends to apply the full amount to its debt.
- Ember's all-in drilling costs are around \$0.5 MM per well before incentives. When considering the drilling incentives and low royalties, combined with the sale of additional drilling incentives, the Company can drill at very economic rates.
- Ember recently announced it expanded operations in its Acme core area, where it will also benefit from reduced operating fees. The gas plant we visited is 100% Ember's throughput and operated by AltaGas with max capacity up to 10 MMcf. The gas plant is currently near capacity and will require an additional compressor increasing the capacity to 15 MMcf. This additional capacity will require about \$3 MM in capital, borne by AltaGas.
- We also note the efficiency and speed of operations. Ember's wells are more shallow and the resource is relatively well known, allowing the Company to line

Opinion: MARKET PERFORM
12 MONTH TARGET PRICE: \$1.25

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Ranking System: Top Pick (T) Outperform (O) Market Perform (M) Underperform (U) Speculative Buy (SB) Tender (X) Page 1 of 3

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up services faster than otherwise would be possible. For example, the well can be drilled and cased without the need to be tested, allowing the loggers and perforators to gain early access and the tie-in pipe to be ready before the well is completed.

Outlook

- As previously announced, Ember expects 2010 production of 26 to 27 MMcf/d and plans to spend \$30 MM drilling 60 to 65 net Horseshoe Canyon CBM wells. We forecast cash flow in line with Company guidance at \$30.9 MM, but believe there could be upside to this with drilling credits and cost efficiencies.
- While Ember's debt levels remain higher compared to the group with 2011e net debt to forward cash flow of 2.2x versus the sector average of 0.9x, we believe the Company will focus on improving its balance sheet in 2010. We are maintaining our Market Perform rating and target price of \$1.25. This target price equates to 5.1x 2010 DACF.

Quarterly Information		2008a	2009e	2010e	2011e
Gas - Mmcf/d	Q1	8.0	27.2	26.2	26.7
	Q2	8.0	26.0	26.0	26.8
	Q3	13.7	24.5	25.8	26.9
	Q4	28.9	24.4	26.2	27.6
	Avg.	14.7	25.5	26.0	27.0
Oil & Liquids - Bbl/d	Q1	0	0	0	0
	Q2	0	0	0	0
	Q3	0	0	0	0
	Q4	0	0	0	0
	Avg.	0	0	0	0
Total Production - Boe/d	Q1	1,327	4,528	4,367	4,454
	Q2	1,341	4,341	4,334	4,466
	Q3	2,286	4,088	4,302	4,477
	Q4	4,822	4,072	4,362	4,602
	Avg.	2,450	4,255	4,341	4,500
CFPS - \$/Share	Q1	\$0.18	\$0.14	\$0.09	\$0.12
	Q2	\$0.32	\$0.06	\$0.10	\$0.11
	Q3	\$0.19	\$0.00	\$0.11	\$0.12
	Q4	\$0.18	\$0.07	\$0.12	\$0.15
	Total	\$0.82	\$0.27	\$0.41	\$0.49
EPS - \$/Share	Q1	\$0.00	(\$0.07)	(\$0.02)	(\$0.01)
	Q2	\$0.06	(\$0.09)	(\$0.02)	(\$0.01)
	Q3	(\$0.00)	(\$0.14)	(\$0.01)	(\$0.01)
	Q4	(\$0.03)	(\$0.05)	(\$0.01)	\$0.01
	Total	\$0.00	(\$0.34)	(\$0.06)	(\$0.02)

* - CFPS and EPS are calculated on a diluted basis.
Source: FirstEnergy Capital Corp.

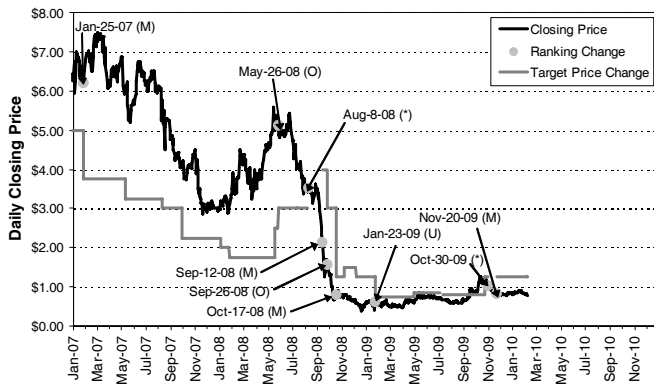
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Ember Resources Inc. (TSX: EBR)
Ranking and Target Changes 2007 - 2010



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Source: FirstEnergy Capital Corp. & Bloomberg

Opinion: MARKET PERFORM
12 MONTH TARGET PRICE: \$1.25

	<u>Ranking</u> <u>Distribution</u>	<u>% Investment</u> <u>Banking Clients</u>
Top Picks	7%	3%
Outperforms	50%	30%
Market Performs	31%	16%
Underperforms	3%	1%
Speculative Buys	3%	1%
Under Review	2%	1%
Restricted Companies	2%	2%
Tenders	1%	0%
Not Rated	0%	0%
Total	100%	0%

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- A *Top Pick* (Buy) rating represents a security expected to provide a return materially higher than the peer group average.
- An *Outperform* (Buy) rating represents a security expected to provide a return greater than the peer group average.
- A *Market Perform* (Hold) rating represents a security expected to provide a return in line with the peer group average.
- An *Underperform* (Sell) rating represents a security expected to provide a return less than the peer group average.
- A *Speculative Buy* (Buy) rating represents a security where the return potential is high, but the risk of a significant loss is material.
- A *Tender* (X) represents a security where investors are guided to tender to the terms of the takeover offer.

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