

MANAGEMENT'S REPORT

The accompanying financial statements of Ember Resources Inc. are the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information contained throughout the annual report is consistent with these financial statements.

Management has overall responsibility for internal controls and has developed and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded. The policy of the Company is to maintain the highest standard of ethics in all its activities and it has a written code of business conduct.

The Company's Board of Directors has approved the information contained in the financial statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

Ernst & Young LLP, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit the financial statements and provide an independent opinion.



Doug Dafoe
Chief Executive Officer and Chairman of the Board

March 17, 2008



Bruce Ryan
Vice President Finance and Chief Financial Officer

AUDITORS'

REPORT

TO THE SHAREHOLDERS OF EMBER RESOURCES INC.

We have audited the balance sheets of Ember Resources Inc. (the "Company") as at December 31, 2007 and 2006, and the statements of net income (loss), comprehensive income (loss) and retained earnings (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants
Calgary, Canada

March 17, 2008

BALANCE SHEETS

(\$ thousands)	As at December 31, 2007	As at December 31, 2006
ASSETS (note 3)		
Current assets		
Accounts receivable	\$ 4,070	\$ 4,430
Prepaid expenses	282	241
	4,352	4,671
Property and equipment (note 2)	102,193	77,739
Future income taxes (note 6)	1,770	-
	\$ 108,315	\$ 82,410
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,434	\$ 6,876
Bank loan (note 3)	18,599	8,890
	24,033	15,766
Asset retirement obligation (note 4)	3,084	2,527
	27,117	18,293
Commitments (note 9)		
SHAREHOLDERS' EQUITY		
Share capital (note 5)	77,956	62,894
Contributed surplus (note 5)	5,588	3,613
Deficit	(2,346)	(2,390)
	81,198	64,117
	\$ 108,315	\$ 82,410

See accompanying notes to financial statements

On behalf of the Board:



J.W. Peltier
Director



Dennis Balderston
Director

**STATEMENTS OF NET INCOME (LOSS), COMPREHENSIVE INCOME (LOSS)
AND RETAINED EARNINGS (DEFICIT)**

(\$ thousands, except per share amounts)	Year ended December 31, 2007	Year ended December 31, 2006
REVENUE		
Natural gas sales	\$ 13,338	\$ 10,414
Royalties	(917)	(1,057)
Interest income	-	249
	12,421	9,606
EXPENSES		
Operating	2,822	2,615
Transportation	420	365
Interest	583	41
General and administrative	2,502	1,958
Stock-based compensation expense (note 5)	1,317	1,928
Depletion, depreciation and accretion	7,243	6,211
	14,887	13,118
Loss and comprehensive loss before taxes	(2,466)	(3,512)
Future income tax recovery (note 6)	2,510	-
Net income (loss) and comprehensive income (loss)	44	(3,512)
Retained earnings (deficit), beginning of year	(2,390)	1,122
Deficit, end of year	\$ (2,346)	\$ (2,390)
Net income (loss) per share (note 5)		
Basic and diluted	\$ -	\$ (0.12)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

(\$ thousands)	Year ended December 31, 2007	Year ended December 31, 2006
OPERATING ACTIVITIES		
Net income (loss)	\$ 44	\$ (3,512)
Add items not involving cash		
Depletion, depreciation and accretion	7,243	6,211
Stock-based compensation expense	1,317	1,928
Future income tax recovery	(2,510)	-
Abandonment expenditures	(21)	(45)
Change in non-cash working capital related to operating activities (note 8)	247	532
	6,320	5,114
FINANCING ACTIVITIES		
Proceeds on issuance of share capital, net of share issuance costs	14,961	-
Bank loan advances	9,709	8,890
Repurchase and cancellation of private placement shares (note 5)	-	(7)
	24,670	8,883
INVESTING ACTIVITIES		
Short-term investments	-	10,000
Additions to property and equipment	(20,987)	(34,842)
Acquisition of property and equipment	(8,633)	-
Change in non-cash working capital related to investing activities (note 8)	(1,370)	(6,751)
	(30,990)	(31,593)
Decrease in cash and cash equivalents	-	(17,596)
Cash and cash equivalents, beginning of year	-	17,596
Cash and cash equivalents, end of year	\$ -	\$ -

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(tabular amounts in thousands unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

Ember Resources Inc. (“Ember” or the “Company”) was incorporated on June 3, 2005 under the Business Corporations Act (Alberta), and commenced commercial operations on July 7, 2005 following the completion of a Plan of Arrangement (the “Arrangement”) involving Thunder Energy Inc. (“Thunder”), Mustang Resources Inc. (“Mustang”), Forte Resources Inc. (“Forte”), Thunder Energy Trust, and the Company. Pursuant to the Arrangement, Ember acquired certain natural gas coalbed methane properties previously held by Thunder. At the time of this transaction, Ember and Thunder were related companies resulting in the transfer of assets to Ember from Thunder at their carrying values.

Ember is engaged in the acquisition of, exploration for and development and production of natural gas coalbed methane properties in Alberta. The financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

Joint Operations

Exploration, development, and production activities may be conducted jointly with others and, accordingly, the Company only reflects its proportionate interest in such activities.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of natural gas properties and equipment and the provision for asset retirement obligations are based on estimates. In addition, the cost recovery ceiling test is based on estimates of proved reserves, production rates, natural gas prices, future costs, and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Natural Gas Properties

The Company follows the full cost method of accounting for natural gas operations. All costs related to the acquisition of, exploration for and development of natural gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges of non-producing property, costs of drilling both productive and non-productive wells, and the cost of natural gas production equipment. The Company also capitalizes direct general and administrative costs related to acquisition and development activities.

Gas assets are evaluated on an annual basis to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves (which includes future development costs) and the lower of

cost and market of unproved properties exceed the carrying value of the gas assets. If the carrying value of the gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

Proceeds from the disposition of gas properties are credited to the capitalized costs except for dispositions that would change the rate of depletion and depreciation by 20% or more, in which case a gain or loss would be recorded.

The Company capitalizes initial production activities for all Mannville wells to recognize significant de-watering of the coals prior to achieving commercial gas production. Ember believes that a policy of capitalizing these de-watering efforts (including all expenses and incidental revenue) on a well by well basis, is more representative of the costs of bringing these assets on production. Under the policy, certain pre-production costs including expenses and incidental revenue are included in the full cost pool and depleted.

Depletion and Depreciation

Capitalized costs, together with estimated future capital costs associated with proved reserves, are depleted using the unit-of-production method based on estimated gross proved reserves of natural gas as determined by qualified independent engineers. For purposes of this calculation, reserves and production are converted to equivalent units of oil based on relative energy content of six thousand cubic feet of gas to one barrel of oil. Costs of significant unproved properties, net of impairment, are excluded from the depletion and depreciation calculation until it is determined whether or not proven reserves are attributable to the property or impairment occurs.

Other assets are recorded at cost and depreciated over their useful life on a straight line basis using the following rates:

Computer software	2 years
Computer hardware	3 years
Office furniture and fixtures	5 years

Asset Retirement Obligations

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related assets known as the asset retirement cost, which is depleted on a unit-of-production basis over the life of the reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual abandonment expenditures are charged against the abandonment liability.

Revenue Recognition

Revenues from the sale of natural gas are recorded when title passes to an external party.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

Stock-based Compensation Plan

The Company follows the fair value method of valuing stock option grants and Performance Share issues. Under this method, compensation cost, attributable to share options granted and Performance Shares issued to employees, contractors, officers and directors of Ember is measured at fair value at the date of grant and either capitalized or expensed over the vesting period with a corresponding increase to contributed surplus. Capitalized amounts are charged to earnings as depletion over the life of estimated reserves. Upon the exercise of the stock options and the conversion of Performance Shares, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

The Company does not incorporate an estimated forfeiture rate for stock options and Performance Shares that will not vest; rather, the Company will account for actual forfeitures as they occur.

Per Share Information

Per share information is calculated on the basis of the weighted average number of Common Shares outstanding during the fiscal period. Diluted per share information reflects the potential dilution that could occur if securities or other contracts to issue Common Shares were exercised or converted to Common Shares. Diluted per share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon exercise of in-the-money stock options plus the unamortized stock-based compensation expense would be used to buy back Common Shares at the average market price for the period. Performance Shares (contingently issuable shares) are based on the shares that would be issuable, if the end of the reporting period were the end of the contingency period, and the result would be dilutive.

New Standards

On January 1, 2007, Ember adopted the Canadian Institute of Chartered Accountants (CICA) handbook section 1530 "Comprehensive Income," section 3251 "Equity," section 3855 "Financial Instruments – Recognition and Measurement" and section 3865 "Hedges." These standards result in changes in the accounting for financial instruments and hedges as well as introduce comprehensive income as a separate component of shareholders' equity. As required, these standards have been adopted prospectively and comparative amounts for the prior periods have not been restated.

(i) Comprehensive income

Comprehensive income is comprised of net earnings or loss and other comprehensive income (OCI). OCI represents the change in equity for a period that arises from unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivative instruments designated as cash flow hedges. Ember does not currently have any transactions that give rise to OCI, therefore Ember's net income (loss) and comprehensive income (loss) are the same amount.

(ii) Equity

This section establishes the standards for presentation of equity and changes in equity during the period. The section requires separate presentation of changes in equity for the period arising from net income, OCI, contributed surplus, retained earnings, share capital and reserves. Accumulated OCI is included in the consolidated balance sheet as a separate component of shareholders' equity.

(iii) Financial instruments

This section establishes standards for the recognition and measurement of financial instruments, which are comprised of financial assets, financial liabilities, derivatives and non-financial derivatives.

A financial asset is cash or a contractual right to receive cash or another financial asset, including equity, from another party or a contractual right to exchange financial instruments with another party under conditions that are potentially favourable. A financial liability is the contractual obligation to deliver cash or another financial asset to another party or a contractual right to exchange financial instruments with another party under conditions that are potentially unfavourable.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date. An embedded derivative is a derivative that is a part of a non-derivative contract with economic characteristics and risks that are not directly related to that contract. Under this standard, embedded derivatives must be accounted for as a separate financial instrument when certain criteria are met. A non-financial derivative is a contract that can be settled net in cash or another financial instrument.

Under this standard, all financial instruments are initially recorded at fair-value and are subsequently accounted for based on one of five classifications: held for trading, held-to-maturity, other financial liabilities, loans and receivables or available-for-sale. The classification of a financial instrument depends on its characteristics and the purpose for which it was acquired.

A) Held for trading

Held for trading financial instruments are financial assets or financial liabilities that are purchased with the intention of selling or repurchasing in the near term. Any financial instrument can be designated as held for trading as long as its fair value can be reliably measured. A derivative is classified as held for trading unless designated as and considered an effective hedge. Held for trading instruments are recorded at fair value with any subsequent gains or losses from changes in the fair value included in earnings.

Currently, Ember has no held for trading financial instruments.

B) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that Ember has the intent and ability to hold to maturity. These financial assets are measured at amortized cost using the effective interest method. Any gains or losses arising from the sale of a held-to-maturity investment are included in earnings. All of Ember's periodic cash equivalents and short-term investments are designated as held-to-maturity investments.

Currently Ember has no held to maturity investments.

C) Other financial liabilities

Items classified as other financial liabilities would be accounted for at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in earnings.

Currently, Ember has no other financial liabilities.

D) Loans and receivables

Items classified as loans and receivables in Ember's financial statements are accounted for at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in earnings.

The fair value of bank loans, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments.

E) Available-for-sale

Available-for-sale assets are those financial assets that are not classified as held for trading, held-to-maturity or loans and receivables. Available-for-sale instruments are recorded at fair value. Any gains or losses arising from the change in fair value is recorded in OCI and upon the sale of the instrument or other-than-temporary impairment, the cumulative gain or loss is included in earnings.

Ember has not designated any financial instruments as available-for-sale assets.

(iv) Hedges

The Company may use derivative financial instruments from time to time to hedge its exposure to commodity prices and foreign exchange fluctuations. The Company does not enter into derivative financial instrument contracts for trading or speculative purposes.

The Company may enter into hedges of its exposure to natural gas commodity prices by entering into natural gas swap contracts, options or collars, when it is deemed appropriate. Realized gains and losses on these contracts would be recognized in natural gas revenue and cash flows in the same period in which the revenues associated with the hedged transactions are recognized. Premiums paid or received would be deferred and amortized to earnings over the term of the contract.

Hedge accounting is optional and Ember may designate any qualifying hedging instrument as a hedge for accounting purposes. When hedge accounting is not applied, the derivative financial instrument is recorded on the balance sheet at fair-value and changes in fair value of the derivative instrument are included in earnings. Ember has no current hedging instruments.

To qualify for hedge accounting, the hedging relationship between the hedged item and the hedging instrument must be designated and formally documented at the inception of the hedging instrument. The documentation includes the risk management policy, the relationship between the hedging instrument and the hedged item and whether or not the hedging relationship is effective in offsetting the changes associated with the hedged risk. Effectiveness must be tested on an ongoing basis throughout the life of the hedging relationship. Hedge accounting is discontinued if the hedging relationship is no longer considered effective or is terminated. The hedging relationship can either be measured as a cash flow hedge or a fair value hedge.

Future Accounting Changes

The CICA issued several new accounting standards, section 1400 “General Standards of Financial Statement Presentation”, section 1535 “Capital Disclosures”, section 3031 “Inventories”, section 3064 “Goodwill and Intangible Assets”, section 3862 “Financial Instruments – Disclosures”, and section 3863 “Financial Instruments – Presentation”. These standards become effective for Ember in the first quarter of 2008.

CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity’s ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect the adoption of this standard to have an impact on its financial statements.

Section 1535 requires the disclosure of Ember’s objectives, policies and processes for managing capital. This includes qualitative information regarding Ember’s objectives, policies and processes for managing capital and quantitative data about what Ember manages as capital.

Sections 3862 and 3863 replace section 3861 “Financial Instruments – Disclosure and Presentation” which revises and enhances financial instruments disclosure requirements and leaves unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how those risks are managed.

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of the International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP for those enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS.

2. PROPERTY AND EQUIPMENT

December 31, 2007	Cost (\$)	Accumulated depreciation (\$)	Net book value (\$)
Natural gas properties	116,092	(13,954)	102,138
Office and computer	449	(394)	55
Total	116,541	(14,348)	102,193

December 31, 2006	Cost (\$)	Accumulated depreciation (\$)	Net book value (\$)
Natural gas properties	84,626	(7,114)	77,512
Office and computer	445	(218)	227
Total	85,071	(7,332)	77,739

As at December 31, 2007, the depletion calculation excluded unproved properties of \$22,929,000 (2006 – \$37,030,000). These properties consist of undeveloped land and assets with no assigned reserves that are held for future development. At December 31, 2007 a total of \$29,289,000 of future development costs were included in the depletion calculation (2006 – \$8,413,000). General and administrative expenses totalling \$755,000 (2006 – \$654,000) were capitalized during the year. Stock-based compensation costs totalling \$759,000 (2006 – \$1,099,000) were capitalized during the year.

Application of the ceiling test did not result in an impairment to the carrying value of property and equipment. The prices used in the ceiling test of the Company's natural gas reserves at December 31, 2007 were:

Natural gas – AECO C

Year	(\$/mcf)
2008	\$ 6.51
2009	\$ 7.22
2010	\$ 7.69
2011	\$ 7.70
2012	\$ 7.61
Thereafter	Plus 2.0%

3. BANK LOAN

The Company has a \$25,000,000 demand revolving operating credit facility with a Canadian chartered bank. The facility is available in two tranches: Tranche A, a revolving \$15,000,000 operating facility for general corporate purposes; and Tranche B, a non-revolving \$10,000,000 development facility for the development of the Company's Acme property. The credit facility provides that advances may be made by way of direct advances and Bankers' Acceptances for both Tranches, or standby letters of credit/guarantees for Tranche A only.

Direct advances for Tranche A bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent upon the Company's debt to trailing cash flow ratio. The Bankers' Acceptances for Tranche A bear interest at the applicable Bankers' Acceptance rate plus an explicit stamping fee based upon the Company's debt to trailing cash flow ratio. Tranche B borrowing bears interest at the Tranche A rate plus 150 basis points.

The effective interest rate on Tranche A borrowings during the year ended December 31, 2007 was 6.13% (2006 – 6.0%). The effective interest rate on Tranche B borrowings during the year ended December 31, 2007 was 7.82% (2006 – nil). A fixed and floating charge debenture on the assets of the Company have been provided as collateral. At December 31, 2007 the Company had drawn \$12,449,000 on Tranche A of the facility and \$6,150,000 on Tranche B.

4. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the cost to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the retirement obligation is approximately \$7,017,000 (2006 – \$4,749,000) which will be incurred over the next 14 years with the majority of costs incurred between 2017 and 2018. A credit adjusted risk-free rate of 8.5% and an inflation rate of 2.0% were used to calculate the present value of the asset retirement obligation.

The following table reconciles the Company's asset retirement obligations:

(\$000s)	Year ended December 31, 2007	Year ended December 31, 2006
Balance, beginning of year	\$ 2,527	\$ 1,952
Liabilities incurred	965	537
Liabilities settled	(21)	(45)
Accretion expense	227	186
Revisions	(614)	(103)
Balance, end of year	\$ 3,084	\$ 2,527

5. SHARE CAPITAL

Authorized

An unlimited number of voting Common Shares, without nominal or par value
1,400,000 non-voting Performance Shares, without nominal or par value

Issued	Number of shares (000s)	Amount (\$000s)
Common Shares		
Outstanding as at December 31, 2005	30,419	62,887
Private placement shares cancelled	(4)	(7)
Outstanding as at December 31, 2006	30,415	62,880
Private placement shares issued	5,660	15,000
Common Shares issued on conversion of Performance Shares	28	2
Reclassified from contributed surplus on conversion of Performance Shares	-	101
Share issue costs	-	(39)
Outstanding as at December 31, 2007	36,103	77,944
Performance Shares		
Outstanding as at December 31, 2005	1,400	14
Performance Shares cancelled	(30)	-
Outstanding as at December 31, 2006	1,370	14
Performance Shares cancelled	(56)	-
Performance shares converted to Common Shares	(114)	(2)
Outstanding as at December 31, 2007	1,200	12
Total share capital as at December 31, 2007		77,956

Issue of Common Shares and Performance Shares

On March 1, 2007 the Company issued 5,660,000 Common Shares by way of a private placement at \$2.65 per Common Share for cash consideration of \$15.0 million before share issue costs.

On July 6, 2005, prior to the completion of the Arrangement, Ember completed a private placement of 3,109,000 non-voting Common Shares at a price of \$1.93 per share, and 1,400,000 non-voting Performance Shares at a price of \$0.01 per share for total gross proceeds of \$6,015,000. Pursuant to the Arrangement, the outstanding non-voting Common Shares of Ember were exchanged for Common Shares.

100% of the shares issued pursuant to the private placement were acquired by contractors, employees, officers or directors of the Company, or Thunder ("Deemed Service Providers"). For Deemed Service Providers, Common Shares acquired through the private placement were held in escrow and were released equally on each of January 9, 2006, July 10, 2006, and July 5, 2007. No securities were to be released from escrow after the date the shareholder ceases to be a service provider. Upon the shareholder ceasing to be a service provider,

Ember repurchased for cancellation all of the securities of the shareholder then held in escrow at a price equal to the lesser of \$1.93 per share and the market price of the Common Shares of Ember on the last day of trading immediately prior to the shareholder ceasing to be a service provider. During 2007 Ember repurchased and cancelled no private placement shares (4,000 – 2006).

Each Performance Share is convertible into a fraction of a Common Share equal to the closing trading price of the Common Shares on the Toronto Stock Exchange on the day prior to such conversion, less \$1.93, if positive, divided by the Common Share closing price. One-third of the Performance Shares may be converted, at the option of the holder, into Common Shares on each of the first, second, and third anniversaries of the closing of the Plan of Arrangement, which was July 6, 2005, provided the shareholder is an Ember service provider at that date. Upon a holder of Performance Shares ceasing to be a service provider, the Company may, subject to applicable law, redeem each Performance Share at a redemption price of \$0.01 per share. During 2007 56,000 Performance Shares were redeemed (30,000 – 2006).

Earnings (Loss) Per Share

The following table summarizes the Common Shares used in calculating the earnings (loss) per Common Share:

Weighted average Common Shares (000s)	Year ended December 31, 2007	Year ended December 31, 2006
Basic and diluted	35,158	30,417

Stock Options

Ember's shareholders have approved the Company's stock option plan. The number of Common Shares reserved for options granted under the stock option plan, together with any Common Shares reserved for issuance pursuant to the exercise of the Performance Shares, may not be more than 10% of the aggregate number of the then issued and outstanding Common Shares. As a result, the 3,610,000 shares authorized under the plan are reduced by the 1,200,000 Common Shares issuable on the exercise of the Performance Shares, leaving 2,410,000 available for other share options.

During the third quarter Ember cancelled 410,000 options to certain non-insider employees that had exercise prices ranging from \$5.79 to \$7.90 and a remaining term of 3.3 to 3.6 years. The same employees were issued 410,000 replacement options with a new term of five years, new vesting provisions, vesting equally over three years commencing from the date of re-grant, and a strike price of \$2.25.

During the fourth quarter Ember cancelled 675,000 options to certain officers and directors that had exercise prices ranging from \$7.25 to \$7.90 and a remaining term of 2.75 to 3.0 years.

Share options issued have a term of five years, and vest equally over a period of three years. At December 31, 2007 outstanding share options had a remaining contractual life of 4.38 years (4.03 years – 2006), and were exercisable at prices ranging from \$2.19 to \$3.59 (\$2.55 to \$7.90 – 2006). At December 31, 2007 33,000 options and 800,000 Performance Shares had vested and were exercisable (328,000 options and 457,000 Performance Shares – 2006).

The following table sets forth a reconciliation of stock option plan activity through to December 31, 2007.

	Number of options (000s)	Weighted average exercise price (\$)
Balance, December 31, 2005	1,140	7.74
Granted	308	5.13
Cancelled	(155)	(7.47)
Balance, December 31, 2006	1,293	7.15
Granted	1,483	2.47
Cancelled	(1,226)	(7.32)
Balance, December 31, 2007	1,550	2.54

The following table summarizes information regarding stock options at December 31, 2007.

Exercise price	Options outstanding			Options exercisable	
	Number outstanding (000s)	Weighted average remaining life (years)	Weighted average exercise price (\$)	Number exercisable (000s)	Weighted average exercise price (\$)
2.00 to 2.24	50	4.39	2.19	-	N/A
2.25 to 2.49	575	4.68	2.26	-	N/A
2.50 to 2.74	825	4.28	2.63	-	N/A
2.75 to 4.00	100	3.55	3.59	33	3.59
	1,550	4.38	2.54	33	3.59

Stock-based Compensation

Ember incurred stock-based compensation expense during the period from its regular share option plan and ongoing costs from the Performance Share plan.

The following table reconciles the Company's contributed surplus balance:

(\$000s)	Year ended December 31, 2007	Year ended December 31, 2006
Opening balance	\$ 3,613	\$ 586
Stock-based compensation expensed	1,317	1,928
Capitalized to property and equipment	759	1,099
Reclassified to share capital on conversion of performance shares	(101)	-
Ending balance	\$ 5,588	\$ 3,613

The fair value of each option and Performance Share granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Year ended December 31, 2007	Year ended December 31, 2006
Risk free interest rate (%)	3.93 - 4.64	3.84 - 4.42
Expected life stock options (years)	4.00	4.00
Expected volatility (%)	57 - 60	60 - 67
Dividends	Nil	Nil
Results (per share)		
Fair value of options granted	\$ 1.11	\$ 2.56

6. TAXES

Future Income Tax Recovery

The combined provision for taxes in the statements of net income (loss), comprehensive income (loss) and retained earnings (deficit) reflects an effective tax rate which differs from the expected statutory tax rate.

Differences were accounted for as follows:

(\$000s)	Year ended December 31, 2007	Year ended December 31, 2006
Loss before income taxes	\$ (2,466)	\$ (3,512)
Statutory income tax rate	32.12%	34.50%
Expected income tax recovery	\$ (792)	\$ (1,212)
Add (deduct):		
Non-deductible Crown charges	-	89
Resource allowance	-	(20)
Stock-based compensation	423	665
Recognition of previously unrecorded tax benefit from temporary differences	(3,552)	-
Rate adjustments and other	1,411	1,099
	(2,510)	621
Less: valuation allowance	-	(621)
Future income tax recovery	\$ (2,510)	\$ -

Future Income Taxes

(\$000s)	Balance as at December 31, 2007	Balance as at December 31, 2006
Property and equipment	\$ 340	\$ 2,991
Asset retirement obligation	796	770
Attributed Canadian royalty income	109	-
Share issue cost	429	696
Tax loss carry-forwards	6,310	5,309
	7,984	9,766
Less: valuation allowance	(6,214)	(9,766)
Future income tax asset	\$ 1,770	\$ -

As at December 31, 2007, the Company had tax deductions of approximately \$129,237,000 that are available to shelter future taxable income (\$105,710,000 – 2006). Included in this amount are non-capital losses totalling \$24,458,000 (\$17,419,000 – 2006). Of this amount \$2,252,000 expires in 2015, \$9,176,000 expires in 2026, and \$13,030,000 expires in 2027.

7. FINANCIAL INSTRUMENTS

The carrying value of accounts receivable, accounts payable and bank loan approximated their fair values as at December 31, 2007 due to the immediate or short-term maturity of these instruments and the floating interest rate on the bank loan.

Credit Risk

Ember's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A portion of Ember's production is currently sold through a joint venture partner to purchasers under normal industry sale and payment terms; the balance is sold to purchasers also under normal industry terms. Ember generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

8. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital were comprised of the following:

(\$000s)	Year ended December 31, 2007	Year ended December 31, 2006
Accounts receivable	\$ 360	\$ (1,114)
Prepaid expenses	(41)	(96)
Accounts payable and accrued liabilities	(1,442)	(5,009)
Net change	\$ (1,123)	\$ (6,219)
Net change by activity:		
Operating	\$ 247	\$ 532
Investing	(1,370)	(6,751)
Net change	\$ (1,123)	\$ (6,219)
Cash interest paid	\$ 509	\$ 11
Cash taxes paid	\$ -	\$ 36

9. COMMITMENTS

In May 2007, the Company entered into an agreement with AltaGas Operating Partnership ("AltaGas") for the processing of natural gas in Ember's Acme area located at Acme, Alberta. The agreement requires AltaGas to construct gathering and processing facilities to enable the delivery and sale of natural gas by Ember and other third parties, in exchange for a commitment from Ember to pay the greater of, a fee calculated as monthly volumes at an established rate per mcf, or an established minimum monthly processing fee. The minimum monthly fee is based on an estimate of gas throughput ranging from 5 to 9 mmcf/d. The commitment ends on the earlier of November 1, 2013 or the delivery of a total of 16.8 bcf. Committed payments are outlined in the table below as processing commitments.

As at December 31, 2007 (\$000s)	Processing commitments	Office lease	Total
2008	\$ 1,926	\$ 294	\$ 2,220
2009	2,697	221	2,918
2010	3,419	-	3,419
2011	3,452	-	3,452
2012	3,418	-	3,418
2013	2,483	-	2,483
Total	\$ 17,395	\$ 515	\$ 17,910