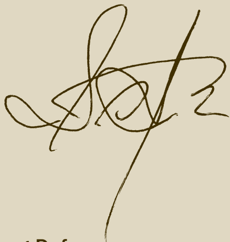
MANAGEMENT'S REPORT

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 on at least 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

Bruce Ryan
Vice President Finance and Chief Financial Officer

March 14, 2007

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, 2006 and 2005, and the statements of income (loss) and retained earnings (deficit) and cash flows for the year ended December 31, 2006 and the period from July 7, 2005 to December 31, 2005. 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, 2006 and 2005, and the results of its operations and its cash flows for the year ended December 31, 2006 and the period from July 7, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Calgary, Canada

March 14, 2007

BALANCE SHEETS

($ thousands)	As at December 31, 2006	As at December 31, 2005
		(Restated – Note 2)
Assets (note 5)		
Current assets		
Cash and cash equivalents	**$ –**	$ 17,596
Short-term investments	**–**	10,000
Accounts receivable (note 3)	**4,430**	3,316
Prepaid expenses	**241**	145
	4,671	31,057
Property and equipment (notes 2, 3, 4)	**77,739**	47,389
	$ 82,410	$ 78,446
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**$ 6,876**	$ 11,885
Bank loan (note 5)	**8,890**	–
	15,766	11,885
Asset retirement obligation (note 6)	**2,527**	1,952
	18,293	13,837
Commitments (note 11)		
Shareholders' Equity		
Share capital (note 7)	**62,894**	62,901
Contributed surplus (note 7)	**3,613**	586
Retained earnings (deficit)	**(2,390)**	1,122
	64,117	64,609
	$ 82,410	$ 78,446

See accompanying notes to financial statements

On behalf of the Board:

J.W. Peltier
Director

Dennis Balderston
Director

STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)

($ thousands, except per share amounts)	**Year ended December 31, 2006**	Period from July 7, 2005 to December 31, 2005
		(Restated – Note 2)
Revenue		
Natural gas sales	**$ 10,414**	$ 4,404
Royalties	**(1,057)**	(354)
Interest income	**249**	347
	9,606	4,397
Expenses		
Operating	**2,615**	621
Transportation	**365**	127
Interest	**41**	–
General and administrative	**1,958**	597
Stock-based compensation expense *(note 7)*	**1,928**	526
Depletion, depreciation and accretion	**6,211**	1,368
	13,118	3,239
Income (loss) before taxes	**(3,512)**	1,158
Capital tax expense	**–**	(36)
Net income (loss) for the period *(note 8)*	**(3,512)**	1,122
Retained earnings, beginning of period	**1,122**	–
Retained earnings (deficit), end of period	**$ (2,390)**	$ 1,122
Earnings (loss) per share *(note 7)*		
Basic and diluted	**$ (0.12)**	$ 0.04

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

($ thousands)	**Year ended December 31, 2006**	Period from July 7, 2005 to December 31, 2005
		(Restated – Note 2)
Operating activities		
Net income (loss) for the period	**$ (3,512)**	$ 1,122
Add items not involving cash		
Depletion, depreciation and accretion	**6,211**	1,368
Stock-based compensation expense	**1,928**	526
Abandonment expenditures	**(45)**	–
Change in non-cash working capital related to operating activities *(note 10)*	**532**	(1,783)
	5,114	1,233
Financing activities		
Proceeds on issuance of share capital, net of share issuance costs	**–**	54,999
Bank loan advances net of repayments	**8,890**	-
Repayment of loan on initial transaction	**–**	(7,249)
Repurchase and cancellation of private placement shares *(note 7)*	**(7)**	–
	8,883	47,750
Investing activities		
Short-term investments	**10,000**	(10,000)
Additions to property and equipment	**(34,842)**	(31,594)
Change in non-cash working capital related to investing activities *(note 10)*	**(6,751)**	10,207
	(31,593)	(31,387)
Increase (decrease) in cash and cash equivalents	**(17,596)**	17,596
Cash and cash equivalents, beginning of period	**17,596**	–
Cash and cash equivalents, end of period	**$ –**	$ 17,596

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006 (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 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 period. Actual results could differ from these estimates. As the Company commenced operations on July 7, 2005, comparative results are for the period from July 7 to December 31, 2005.

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.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with initial maturities of 90 days or less.

Plant and Equipment

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 costs 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 dewatering of the coals prior to achieving commercial gas production. Ember believes that a policy of capitalizing these dewatering 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.

Financial Instruments

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. These derivative contracts, accounted for as hedges, would not be recognized on the balance sheet. 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.

Gains and losses resulting from changes in the fair value of derivative contracts that do not qualify for hedge accounting would be recognized in earnings when those changes occur.

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 enacted or 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.

2. Change in Accounting Policies

a) Capitalized General and Administration and Stock-based Compensation Expenses

Effective July 1, 2006, Ember changed its accounting policy for general and administrative (G&A) and stock-based compensation (SBC) expenses in order to better reflect the cost of bringing assets on production. Previously, Ember included direct costs and stock-based compensation benefits related to acquisition and development activities in G&A expenses. Under the new policy, direct costs and stock-based compensation benefits related to exploration and development are included in the full cost pool and depleted. The effect of this change in accounting policy has been recorded retroactively with restatement of the prior period.

b) Capitalized Mannville Pre-production Costs

Effective July 1, 2006, Ember changed its accounting policy for initial production costs related to Ember's drilling and production operations in Mannville zones. Previously, the Company recorded initial production activities (including all revenues and expenses) for all Mannville wells through the income statement as is typical for more conventional natural gas operations. However, significant revenue generation does not occur in Mannville zones until dewatering of the coals occurs thereby removing a significant amount of an impediment to gas production. Until commercial gas production and revenue generation commences, Ember believes that a policy of capitalizing these dewatering 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 new policy, certain pre-production costs including expenses and incidental revenue are included in the full cost pool and depleted. The effect of this change in accounting policy has been retroactively applied with restatement of prior periods.

c) Effect of Changes

The effect of the adoption of the changes is presented below as increases (decreases) to amounts previously reported:

Balance sheet *($000s)*	Capitalization of direct G&A and SBC	Capitalization of Mannville Pre-production costs	Adjustment as at December 31, 2005
Property and equipment	$ 784	$ 123	$ 907
Retained earnings	**$ 784**	**$ 123**	**$ 907**

Income statement *($000s)*	Capitalization of direct G&A and SBC	Capitalization of Mannville Pre-production costs	Total for the six months ended December 31, 2005
Natural gas sales	$ –	$ (20)	$ (20)
Royalties	–	(6)	(6)
General and administrative expense	(534)	–	(534)
Operating expenses	–	(137)	(137)
Stock-based compensation expense	(282)	–	(282)
Depletion, depreciation and accretion expense	32	–	32
Net income	**$ 784**	**$ 123**	**$ 907**
Net income per share – basic and diluted			**$ 0.03**

3. Transfer of Assets and Commencement of Commercial Operations

Under the Arrangement, Thunder transferred to Ember certain producing and exploratory natural gas properties. At the time of this transaction, Ember and Thunder were related companies resulting in a transfer of assets to Ember from Thunder at their carrying value as follows:

Net assets received:	
Natural gas properties	**$ 16,431**
Cash	**2,208**
Loan	**(5,000)**
Accounts payable	**(2,249)**
Asset retirement obligation	**(1,502)**
Common Shares issued (20,323 shares) *(note 7)*	**$ 9,888**

Relationship with Thunder Energy Trust

As a result of the Plan of Arrangement, Ember and Thunder Energy Trust have joint interests in certain properties and undeveloped land. These joint interest properties are governed by standard industry agreements. As at December 31,2006 accounts receivable include $1,500,000 due from Thunder Energy Trust ($2,200,000 – 2005), which represented standard joint venture amounts including capital transactions.

4. Property and Equipment

December 31, 2006 *($000s)*	**Cost** *($)*	**Accumulated Depreciation** *($)*	**December 31, 2006 Net Book Value** *($)*
Natural gas properties	**84,626**	**(7,114)**	**77,512**
Office and computer	**445**	**(218)**	**227**
Total	**85,071**	**(7,332)**	**77,739**

December 31, 2005 *($000s) (Restated note 2)*	Cost *($)*	Accumulated Depreciation *($)*	December 31, 2005 Net Book Value *($)*
Natural gas properties	48,310	(1,260)	47,050
Office and computer	385	(46)	339
Total	48,695	(1,306)	47,389

As at December 31, 2006, the depletion calculation excluded unproved properties of $37,030,000 ($30,200,000 – 2005). These properties consist of undeveloped land and assets with no assigned reserves that are held for future development. At December 31, 2006 a total of $8,413,000 of future development costs were included in the depletion calculation ($8,351,000 – 2005). General and administrative expenses totaling $654,000 ($229,000 – 2005) were capitalized during the year. Stock-based compensation costs totaling $1,099,000 ($282,000 – 2005) 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, 2006 were:

Natural gas – AECO C

Year	*$/mcf*
2007	$ 7.72
2008	$ 8.59
2009	$ 7.74
2010	$ 7.55
2011	$ 7.72
Thereafter	Plus 2.0%

5. Bank Loan

The Company has a $15,000,000 demand revolving operating credit facility with a Canadian chartered bank. The credit facility provides that advances may be made by way of direct advances, Banker's Acceptances, or standby letters of credit/guarantees. Direct advances 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 Banker's Acceptances bear interest at the applicable Banker's Acceptance rate plus an explicit stamping fee based upon the Company's debt to trailing cash flow ratio. The average interest rate on the loan during 2006 was 6%. A fixed and floating charge debenture on the assets of the Company have been provided as security. At December 31, 2006 the Company had drawn $ 8,890,000 on the facility. The facility is scheduled to be reviewed in April 2007.

6. 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 $4,749,000 ($4,000,000 – 2005) which will be incurred over the next 10 years with the majority of costs incurred between 2012 and 2013. 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:

($000s)	**Year ended December 31, 2006**	Period ended December 31, 2005
Balance, beginning of period	**$ 1,952**	$ –
Obligation assumed through Plan of Arrangement *(note 3)*	**–**	1,502
Liabilities incurred	**537**	482
Liabilities settled	**(45)**	–
Accretion expense	**186**	62
Revisions	**(103)**	(94)
Balance, end of period	**$ 2,527**	$ 1,952

7. 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		
Issued pursuant to Plan of Arrangement *(note 3)*	20,323	9,888
Issued pursuant to private placement for cash	3,109	6,001
Issued for cash	7,000	50,050
Private placement shares cancelled	(13)	(25)
Share issue costs	–	(3,249)
Stock-based compensation re-classed to share capital	–	222
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
Performance Shares		
Outstanding as at December 31, 2005	1,400	14
Performance shares cancelled	(30)	–
Outstanding as at December 31, 2006	1,370	14
Total share capital as at December 31, 2006		62,894

Issue of Common Shares and Performance Shares

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 (“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 are held in escrow and will be released equally on each of January 9, 2006, July 10, 2006, and July 5, 2007. No securities will 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 will repurchase 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 2006 Ember repurchased and cancelled 4,000 private placement shares.

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 will be convertible 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 2006 30,000 performance shares were redeemed.

Pursuant to the Arrangement, a total of 20,323,000 Common Shares were issued by Ember. Of this amount 18,940,000 Common Shares were issued on July 6, 2005 to the former shareholders of Thunder and Mustang in exchange for property (note 3). A further 1,383,000 Common Shares were issued to former employees, officers, and directors ("Option Holders") in exchange for cash proceeds of $2,208,000 as final settlement of share options held by the Option Holders in Thunder. As part of this settlement Ember incurred a one time charge of $222,000 relating to stock-based compensation costs transferred to Ember as its share of vested options from the Thunder reorganization that created Ember.

On August 31, 2005, the Company issued 7,000,000 Common Shares at a price of $7.15 per share. The proceeds, net of share issue costs of $3,040,000, were $47,010,000.

Earnings (loss) per share

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

(000s)	**Year ended December 31, 2006**	Period ended December 31, 2005
Weighted average common shares		
Basic	**30,417**	28,176
Diluted	**30,417**	29,121

Stock Options

Pursuant to the Arrangement, the shareholders approved Ember'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 3,042,000 shares authorized under the plan are reduced by the 1,370,000 Common Shares issuable on the exercise of the Performance Shares, leaving 1,672,000 available for other share options.

Share options issued have a term of five years, and vest equally over a period of three years. At December 31, 2006 outstanding share options had a remaining contractual life of 4.03 years (4.91 years – 2005), and were exercisable at prices ranging from $2.55 to $7.90 ($7.25 to $7.90 – 2005). At December 31, 2006 328,000 options and 457,000 performance shares had vested and were exercisable (none – 2005).

The following table summarizes information regarding stock options at December 31, 2006.

	Options Outstanding			Options Exercisable	
Exercise price	Number Outstanding *(000's)*	Weighted Average Remaining Life *(years)*	Weighted Average Exercise Price *($)*	Number Exercisable *(000's)*	Weighted Average Exercise Price *($)*
2.55	8	4.78	2.55	–	NA
3.59	100	4.55	3.59	–	NA
5.79	100	4.20	5.79	–	NA
6.21	100	4.29	6.21	–	NA
7.25	175	3.73	7.25	58	7.25
7.90	810	3.98	7.90	270	7.90
	1,293	**4.03**	**7.15**	**328**	**7.79**

The following table sets forth a reconciliation of stock option plan activity through to December 31, 2006.

	Number of Options *(000s)*	Weighted Average Exercise Price *($)*
Granted	1,140	7.74
Balance, December 31, 2005	1,140	7.74
Granted	308	5.13
Cancelled	(155)	(7.47)
Balance, December 31, 2006	**1,293**	**7.15**

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 (certain amounts are restated – note 2) :

($000s)	**Year ended December 31, 2006**	Period ended December 31, 2005
		(Restated – note 2)
Opening balance	**$ 586**	$ –
Stock-based compensation expensed	**1,928**	526
Capitalized to property and equipment	**1,099**	282
Re-classed to share capital on finalization of the Arrangement		(222)
Balance, December 31, 2006	**$ 3,613**	$ 586

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, 2006	Period ended December 31, 2005
Risk free interest rate *(%)*	**3.84 – 4.42**	3.62 – 3.87
Expected life Performance Shares *(years)*	**N/A**	3.00
Expected life stock options *(years)*	**4.00**	3.50 – 4.00
Expected volatility *(%)*	**60 – 67**	60
Dividends	**Nil**	Nil
Results *(per share)*		
Fair value of options granted	**$ 2.56**	$ 3.82
Fair value of Performance Shares granted	**N/A**	$ 0.89

8. Taxes

Future Tax Expense

The combined provision for taxes in the statement of 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:

($000s)	Year ended December 31, 2006	Period ended December 31, 2005
Income (loss) before income taxes	**$ (3,512)**	$ 1,158
Statutory income tax rate	**34.50%**	37.62%
Expected income taxes (recovery)	**$ (1,212)**	$ 436
Add (deduct):		
Non-deductible Crown charges	**89**	79
Resource allowance	**(20)**	(101)
Stock-based compensation	**665**	198
Rate adjustments and other	**1,099**	8
Tax reductions from unrecorded temporary differences	**(621)**	(620)
Future income tax expense	**$ –**	$ –

Future Income Taxes

($000s)	Balance as at December 31, 2006	Balance as at December 31, 2005
Property and equipment	**$ 2,991**	$ 7,822
Asset retirement obligation	**770**	656
Share issue cost	**696**	983
Tax loss carryforwards	**5,309**	926
	9,766	10,387
Less: Valuation allowance	**(9,766)**	(10,387)
Future income tax asset	**$ –**	$ –

As at December 31, 2006, the Company had tax deductions of approximately $105,710,000 that are available to shelter future taxable income. Included in this amount are non-capital losses totaling $17,419,000. Of this amount $3,200,000 expires in 2015, and $14,219,000 expires in 2026.

9. Financial Instruments

The carrying value of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and bank loan approximated their fair values as at December 31, 2006 due to the immediate or short-term maturity of these instruments.

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.

10. Supplemental Cash Flow Information

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

($000s)	**Year ended December 31, 2006**	Period ended December 31, 2005
Accounts receivable	**$ (1,114)**	$ (3,316)
Prepaid expenses	**(96)**	(145)
Accounts payable and accrued liabilities	**(5,009)**	11,885
Net change	**$ (6,219)**	$ 8,424
Net change by activity:		
Operating	**$ 532**	$ (1,783)
Investing	**(6,751)**	10,207
Net change	**$ (6,219)**	$ 8,424
Cash interest paid	**$ 11**	$ –
Cash taxes paid	**$ 36**	$ –

11. Commitments

As at December 31, 2006 ($000s)	Office lease
2007	**$ 288**
2008	**294**
2009	**221**
Total	**$ 803**

12. Subsequent Event

On March 1, 2007, the Company acquired coalbed methane natural gas assets from a private company for cash consideration of $8.75 million. The assets located in the Acme area of Alberta, consist of ten developed non producing gas wells, and a 70.5% operated interest in 16,960 gross acres of land (11,960 net). The effect of the acquisition is to increase property and equipment, and to reduce cash, by $8.75 million.

On March 1, 2007, the Company issued 5,660,400 common shares by way of a private placement, at $2.65 per common share for cash consideration of $15.0 million. Proceeds of the issue were used to fund the $8.75 million natural gas asset acquisition with the balance used to reduce debt and for working capital purposes. The effect of the transaction is to increase cash and share capital, by $15.0 million before transaction costs.