

EMBER RESOURCES INC.

First Quarter Highlights

	Three months ended March 31, 2007	Three months ended March 31, 2006 <i>(Restated)</i>	Percentage change
FINANCIAL HIGHLIGHTS <i>(000s, except per share amounts)</i>			
Natural gas sales	\$ 3,820	\$ 1,999	91
Funds from operations	\$ 1,929	\$ 884	118
– per share basic and diluted	\$ 0.06	\$ 0.03	100
Loss	\$ (107)	\$ (745)	86
– per share basic and diluted	\$ (0.00)	\$ (0.02)	100
Capital investment additions	\$ 4,571	\$ 11,553	(60)
Property acquisition	\$ 8,806	\$ 0	NA
Bank loan	\$ 4,757	\$ 0	NA
Total assets	\$ 93,251	\$ 75,193	24
Working capital (deficiency)	\$ (7,582)	\$ 8,503	(189)
Average shares – basic and diluted	32,364	30,419	6
OPERATING HIGHLIGHTS <i>(000s, except per unit amounts)</i>			
Daily average gas production (mcf/d)	5,890	3,282	79
Daily average production (boe/d)	982	547	79
Average sales price (\$/mcf)	7.21	6.77	6
Royalties (\$/mcf)	0.68	0.76	(11)
Operating expenses (\$/mcf)	1.23	1.51	(19)
Transportation expenses (\$/mcf)	0.19	0.27	(30)
Operating netback (\$/mcf)	5.11	4.23	21
Operating netback (\$/boe)	30.62	25.33	21
CBM wells drilled (gross/net)	1.0/1.0	4.0/4.0	(75)/(75)
– Mannville	1.0/1.0	0/0	NA / NA
– Horseshoe Canyon	0.0/0.0	4.0/4.0	(100)/(100)
Land (000s of net acres)	301	303	(1)

QUARTERLY HIGHLIGHTS

Financial

- ▶ Funds from operations increased to \$1.9 million or \$0.06/share diluted, from \$0.9 million or \$0.03/share diluted in first quarter 2006. The increase was bolstered by production gains, a higher average gas price and a decline in operating costs.
- ▶ Ember recorded a net loss of \$0.1 million for the quarter or \$0.00/share diluted, as compared to a loss of \$0.7 million or \$0.02/share diluted in the same period in 2006.
- ▶ Capital expenditures totaled \$13.4 million resulting in a working capital deficit of \$7.6 million at the end of the first quarter. This working capital deficit represents a 51% draw on available lines of credit of \$15 million. The facility is currently under review and we expect it to be renewed under similar terms together with an expanded facility for development expenditures at Acme.
- ▶ During the quarter Ember raised net proceeds of \$14.9 million through a private placement of 5,660,400 shares at \$2.65/share.

Operations

- ▶ Production averaged 5.9 mmcf/d, a 79% increase over first quarter 2006 production of 3.3 mmcf/d. Over the same time frame, production per share increased 69%. Production declined marginally from fourth quarter 2006 as drilling and completion activity was curtailed in the past two quarters due to uncertainty in both equity and natural gas markets.
- ▶ On March 1, 2007 Ember completed the acquisition of the Acme property in Alberta. Acme is a low risk, low cost Horseshoe Canyon CBM property with 10 shut-in wells drilled and evaluated across the property. A total of 27.4 Bcf of proved plus probable reserves were acquired for \$8.75 million.
- ▶ The Acme property has very attractive economics with estimated finding and development costs of \$12.58/boe including future development costs. Plans are underway to bring first production onstream from this property by end of year.
- ▶ Drilling activity during the quarter was limited to one Mannville horizontal well at Manola. This well was placed on production late in the quarter and is in the early stages of dewatering.
- ▶ At Fenn-Big Valley, we re-completed and put on production four new Horseshoe Canyon wells.

CHAIRMAN'S MESSAGE

WE HAVE MADE SIGNIFICANT CHANGES TO THE CHARACTER AND RISK PROFILE OF OUR 2007 CAPITAL PROGRAM FOLLOWING A STRATEGIC REVIEW OF AVAILABLE RESOURCES AND INVESTMENT PORTFOLIO.

For 2007 we will be focusing on low cost drilling of our Horseshoe Canyon assets. The acquisition of the Acme property in March provides the opportunity to add significant low cost, low risk production volumes from long-life CBM reserves. This opportunity coincides with lower cost structures due to a downturn in industry activity.

2007 Capital Program

Over the past few months we have been seeing a reduction in the cost to drill and complete shallow CBM wells and we expect this trend to continue through the summer and fall. As a result, Ember is increasing Horseshoe Canyon CBM drilling this summer and fall. Meanwhile, Mannville drilling is being reduced in 2007, but will be increased again in 2008 after the Acme property has been put onstream.

For 2007, including first quarter activity and spending, the capital budget has been increased to \$38 million. We anticipate drilling a total of 43 new Horseshoe Canyon wells (43.0 net) and three horizontal Mannville wells (3.0 net), including the one well drilled in the first quarter at Manola. In addition, nine existing shut-in wells at Acme will be placed on production. Funding will come from cash flow, existing lines of credit and an expected new development loan facility of \$10 million that will be provided by the Company's lenders subject to finalization of certain terms and conditions.

Horseshoe Canyon Coals

The Horseshoe Canyon wells will be drilled at both Fenn-Big Valley and Acme. A total of 15 wells will be drilled at Fenn-Big Valley after spring breakup, with production increases expected in the third quarter. Drilling at Acme is expected to start in August and continue through the end of the third quarter. A total of 28 new wells have been selected for this program. Facility design and pipelining operations have commenced. We are negotiating with third parties on the design and building of required infrastructure, with Ember expected to pay a fee to process its gas production. Total production additions from the Horseshoe Canyon wells are estimated at 5 mmcf/d, including the existing shut-in wells.

In addition to production gains from the Horseshoe Canyon coals, we see further production upside from completion and co-mingling of conventional Belly River and Edmonton sands included in the same wellbores. Testing conducted on the 10 existing wells at Acme indicated gas contributions from conventional sands in excess of 1 mmcf/d to go along with the 1 mmcf/d tested from the Horseshoe Canyon coals.

With two significant Horseshoe Canyon properties onstream by end of year, Ember will have the ability to continue to add low-cost reserves and production from an inventory in excess of 150 net development locations. Ultimate productivity of 20 mmcf/d is expected from full development of these two properties over the next couple of years.

Mannville Coals

Ember has made considerable progress towards commercialization of our Mannville CBM resource. During the period in which capital is redeployed to Horseshoe Canyon CBM projects, we will invest intellectual capital and expertise in refining our drilling and production methods to further enhance the economic prospects of this significant resource. Capital allocated to Mannville projects during this period will allow for the drilling of two new horizontal wells (2.0 net) and investment in producing wells to improve well performance. The new wells will be drilled over the summer months as follow-ups to existing wells at both Manola and Rosalind.

2007 Production Guidance

Production guidance has not changed materially from previous guidance; however, production gains in 2007 will come from low-risk Horseshoe Canyon CBM, and we will not see major contributions from the emerging Mannville CBM play. Production for the year is expected to average 6.5 – 7.0 mmcf/d with additions from Acme anticipated prior to the end of the year. The exit rate for 2007 is estimated at 11 mmcf/d, with additional upside potential from co-mingled conventional gas production.

The Mannville coals represent our long-term future and we have made great strides towards commercialization of this resource on a larger scale. By focusing on our Horseshoe Canyon program in the short term we will be able to increase our production base, balance our risk profile and be in a stronger position to fund our investment in the emerging Mannville play in 2008.

On behalf of the Board



Douglas Dafoe
Chairman and Chief Executive Officer

May 10, 2007

MD&A

The following Management Discussion & Analysis (“MD&A”) is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Ember Resources Inc. (“Ember” or the “Company”) for the three month period ended March 31, 2007. Ember was incorporated on June 3, 2005 and commenced commercial operations on July 7, 2005. The MD&A includes comparisons for the corresponding three month periods ended March 31, 2006 and 2007. The following information has been prepared by management and should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2007, and the audited financial statements and MD&A for the period ended December 31, 2006, dated March 14, 2007. The reporting and the measurement currency is the Canadian dollar. This MD&A is dated as of May 8, 2007.

Forward-looking Statements

Statements throughout this MD&A that are not historical facts may be considered “forward-looking statements.” Some of the statements contained herein including, without limitation, financial and business prospects and financial outlooks may be forward-looking statements which reflect management’s expectations regarding future plans and intentions, growth, results of operations, performance and business prospects and opportunities. Words such as “may”, “will”, “should”, “could”, “anticipate”, “believe”, “expect”, “intend”, “plan”, “potential”, “continue” and similar expressions have been used to identify these forward-looking statements. These statements reflect management’s current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, changes in general economic and market conditions and other risk factors. Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and may be updated as required by law should material events or circumstances arise.

Ember’s Business

Ember is a natural gas exploration and production company focused on extraction of natural gas derived from coal (“CBM”) in the province of Alberta, Canada. The Company operates in four principal geographic areas of Alberta: Acme located north-east of Calgary; Fenn-Big Valley located north-east of Calgary; Rosalind located south-east of Edmonton; and Manola located north-west of Edmonton. At March 31, 2007 the Company held interests in 301,000 net acres of developed and undeveloped land, and produced at an average rate for the three month period ended March 31, 2007 of 5,890 mcf/d (982 boe/d).

History

In July 2005, Ember, Thunder Energy Inc. (“Thunder”), Mustang Resources Inc. (“Mustang”) and Forte Resources Inc. (“Forte”) completed a Plan of Arrangement (the “Arrangement”). Under the Arrangement, Ember acquired certain natural gas rights associated with coal from Thunder and became engaged in the acquisition, development and production of CBM gas reserves. Ember assumed all liabilities, including environmental liabilities, relating to the transferred assets.

In July 2005, Ember completed a \$6 million private placement consisting of 3,108,808 common shares in the capital of Ember (“Common Shares”) issued at \$1.93 per share to employees, directors and service providers of Ember. The Common Shares are subject to escrow agreements which allow for release in equal amounts on January 9, 2006, July 10, 2006 and July 5, 2007.

On August 31, 2005, Ember completed a bought deal financing of 7,000,000 Common Shares at a price of \$7.15 per share for gross proceeds of \$50,050,000.

In April 2006 Ember finalized arrangements to increase its credit facility to \$15 million from \$2.5 million. The facility is currently under review and the Company expects the renewal of the existing facility under similar terms together with an expanded facility for development expenditures at Acme.

On October 18, 2006 the Company held a Special Meeting of Shareholders in which the shareholders ratified and approved the Shareholder Rights Plan of Ember which was adopted pursuant to a Shareholder Rights Agreement dated August 9, 2006 between Ember and Olympia Trust Company, as rights agent.

On March 1, 2007, the Company acquired CBM 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 10 drilled and completed non producing gas wells with an average working interest of 92%, and a 70.5% operated interest in 16,960 gross acres of land (11,960 net).

Also March 1, 2007, the Company issued 5,660,400 Common Shares by way of a private placement, at \$2.65 per share for cash consideration of \$15.0 million. Proceeds of the issue were used to fund the \$8.75 million Acme acquisition with the balance to be used to reduce debt and for working capital purposes.

Since inception Ember has drilled 60 gross (60 net) Horseshoe Canyon wells, and 13 gross (11.5 net) Mannville wells. The Company has increased production from 2,336 mcf/d (389 boe/d) at inception to current rates of 5,900 mcf/d (983 boe/d), an increase of 153%.

First Quarter 2007 Review

The following are highlights of the three month period ended March 31, 2007.

Operations

Average production increased 79% to 5.890 mmcf/d from 3.282 mmcf/d in first quarter 2006. Production per share increased 69% from Q1 2006.

Advances in Mannville drilling and production techniques continue to support Ember's confidence in the ultimate commerciality of the Mannville coal.

The Company is estimating a 2007 exit rate of approximately 11 mmcf/d.

All of Ember's production growth has come from the drill bit.

Financial performance

Funds from operations for the quarter increased to \$1,929,000 or \$0.06 per share diluted from \$884,000 or \$0.03 per share diluted in first quarter 2006. Production gains were bolstered by improving gas prices and declining operating costs.

The Company recorded a loss of \$0.1 million for the quarter or \$0.00 per share diluted as compared to a loss of \$0.7 million or \$0.02 per share diluted in the same period in 2006.

Capital expenditures for the quarter totaled \$13.4 million resulting in a working capital deficiency of \$7.6 million at the end of the first quarter compared to \$11.1 million at December 31, 2006. This working capital deficiency represents a 51% draw on available lines of credit of \$15 million. The facility is currently under review and the Company expects the renewal of the existing facility under similar terms together with an expanded facility for development expenditures at Acme.

Change in Accounting Policies

During the third quarter 2006 Ember changed its accounting policies governing direct and indirect general and administrative expenses, stock based compensation, and pre-production costs associated with wells drilled into the Mannville zone. Previously the Company had expensed all these costs. The change results in capitalization of a portion of these costs and inclusion in the full cost capital pool subject to depletion. The changes have been applied retroactively with restatement of results back to commencement of operations in July 2005.

The changes are as follows:

General and administrative (G&A) and stock based compensation (SBC)

Effective July 1, 2006, Ember changed its accounting policy for direct and indirect G&A and SBC expenses in order to more accurately reflect the cost of bringing assets on production. Previously Ember expensed all direct G&A expenses and SBC expenses related to acquisition and development activities. Under the new policy, direct G&A costs together with the related portion of the SBC expenses for the impacted employees are being included in the full cost pool and depleted. The effect of this change in accounting policy has been recorded retroactively with restatement of prior periods.

Capitalized Mannville Pre-production Expenses

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. Significant gas production and revenue generation does not occur in Mannville zones until dewatering of the coals occurs. Until commercial gas production and revenue generation commences, Ember believes that a policy of capitalizing these pre-production costs (including all expenses and incidental revenue) on a well by well basis is more representative of the costs of bringing assets on production. Under the new policy, certain net pre-production costs including expenses and incidental revenue will be included in the full cost pool and depleted. The effect of this change in accounting policy has been recorded retroactively with restatement of prior periods.

The results of the change on March 31, 2006 results from operations are as follows:

Income Statement (\$000s)

	Capitalization of Direct G&A and SBC	Capitalization of Mannville Pre-production costs	Adjustment as at March 31, 2006
Natural gas sales	\$ -	\$ (40)	\$ (40)
Royalties	-	(8)	(8)
G&A expense	(313)	-	(313)
Operating expense	-	(225)	(225)
SBC expense	(377)	-	(377)
Depletion, depreciation and accretion expense	47	-	47
Net income	\$ 643	\$ 193	\$ 836
Net income per share - basic and diluted			\$ 0.03

Loss and Funds from Operations ⁽¹⁾

Loss was \$0.1 million for the three month period ended March 31, 2007 compared to loss of \$0.7 million for the three month period ended March 31, 2006. Funds from operations were \$1.9 million for the three month period ended March 31, 2007 compared to \$0.9 million for the three month period ended March 31, 2006.

(\$000s)	Three months ended March 31, 2007	Three months ended March 31, 2006 <i>(Restated)</i>	Percentage change
Loss for the period	(107)	(745)	(86)
Add items not involving cash			
Depreciation, depletion and accretion	1,738	1,127	54
Stock-based compensation expense	298	502	(41)
Funds from operations ⁽¹⁾	1,929	884	118

⁽¹⁾ See "Non-GAAP earnings Measurements"

Netback Analysis

The following tables summarize Ember's operating netback and funds from operations on a mcf and boe basis for the three months ended March 31, 2007, and the three months ended March 31, 2006.

(\$/mcf)	Three months ended March 31, 2007	Three months ended March 31, 2006	Percentage change
		(Restated)	
Natural gas revenues	7.21	6.77	6
Royalties	(0.68)	(0.76)	(11)
	6.53	6.01	9
Operating expense	(1.23)	(1.51)	(19)
Transportation expense	(0.19)	(0.27)	(30)
Operating netback	5.11	4.23	21
Interest and other income	0.00	0.49	(100)
General and administrative	(1.26)	(1.69)	(25)
Interest expense	(0.21)	0.00	NA
Capital taxes	0.00	(0.02)	(100)
Funds from operations	3.64	3.01	21
(\$/boe)			
Natural gas revenues	43.23	40.61	6
Royalties	(4.07)	(4.59)	(11)
	39.16	36.02	9
Operating expense	(7.39)	(9.09)	(19)
Transportation expense	(1.15)	(1.60)	(28)
Operating netback	30.62	25.33	21
Interest and other income	0.00	2.91	(100)
General and administrative	(7.54)	(10.13)	(26)
Interest expense	(1.24)	0.00	NA
Capital taxes	0.00	(0.14)	(100)
Funds from operations	21.84	17.97	21

Product Pricing

Natural gas	Three months ended March 31, 2007	Three months ended March 31, 2006	Percentage change
		(Restated)	
NYMEX average price (US\$/mcf)	7.18	7.71	(7)
Market differential (US\$/mcf)	(0.87)	(1.21)	(28)
Average foreign exchange rate (Cdn\$/US\$)	0.853	0.866	(2)
AECO average price (Cdn\$/mcf)	7.38	7.50	(2)
Corporate differential (Cdn\$/mcf)	(0.17)	(0.73)	(77)
Ember average price (Cdn\$/mcf)	7.21	6.77	6
Transportation (Cdn\$/mcf)	(0.19)	(0.27)	(30)
Ember wellhead price (Cdn\$/mcf)	7.02	6.50	8

Soft gas prices through much of 2006 caused a contraction of capital programs on an industry wide basis in Canada resulting in emerging supply challenges. This coupled with storage reductions from a fairly cold February in North America has created expectations for a continuing price rally through 2007. Unknown factors will be the hurricane and summer heating season meaning that periods of gas price volatility are likely to continue.

CBM is in all material respects the same as natural gas. It varies in heating content and other elements contained within the produced gas stream. For example, Ember's CBM contains no harmful H₂S and minor amounts of CO₂ which are removed during processing. Ember currently receives pricing that typically averages 5% less than the weighted average of AECO (based on Ember's weighted average volumes) in Canadian dollars which reflects the lower heating content of CBM gas.

Revenue and Production

	Three months ended March 31, 2007	Three months ended March 31, 2006	Percentage change
		<i>(Restated)</i>	
Natural gas revenue (\$000s)	3,820	1,999	91
Average natural gas production (mcf/d)	5,890	3,282	79
Average natural gas production (boe/d)	982	547	79
Total natural gas production (mcf)	530,117	295,398	79
Total natural gas production (boe)	88,353	49,233	79

Ember's production levels increased by 79% in the first quarter of 2007 compared to the same period in 2006 as a result of continuing drilling programs. Average prices increased by 6% over the same period resulting in a 91% revenue increase. The production increase was attributed primarily to the Horseshoe Canyon project at Fenn-Big Valley where the Company has drilled over 60 wells from late 2005 through 2006.

Horseshoe Canyon production increased 94% from 2,831 mcf/d (472 boe/d) in Q1 2006 to average 5,484 mcf/d (914 boe/d) in Q1 2007. The Mannville projects in Manola and Rosalind that are not being capitalized decreased production by 10% to an average of 406 mcf/d (68 boe/d) in Q1 2007 from 451 mcf/d (75 boe/d) in Q1 2006. Ember's current mix of production consists entirely of CBM natural gas with 93% produced from the Horseshoe Canyon and 7% from Mannville formations.

The Company's current production is derived primarily from its Fenn-Big Valley area wells which produce from coals in the Horseshoe Canyon formation. Over the long-term, Ember's production is expected to shift from Horseshoe Canyon dominated; to a blend that includes Mannville formations. Characteristics of Mannville production include wells that require dewatering prior to peak production rates and wells that have higher capital costs to drill. Once dewatered these wells are expected to produce at higher daily rates than Horseshoe Canyon wells.

Royalties

	Three months ended March 31, 2007	Three months ended March 31, 2006	Percentage change
		<i>(Restated)</i>	
<i>(\$/mcf)</i>			
Total natural gas royalties (\$000s)	360	226	59
Crown royalties per unit	0.66	0.69	(4)
Freehold royalties per unit	0.02	0.07	(71)
Total royalties per unit	0.68	0.76	(11)
Royalties as a % of revenue	9.4	11.3	(2)
<i>(\$/boe)</i>			
Total natural gas royalties (\$000s)	360	226	59
Crown royalties per unit	3.95	4.14	(4)
Freehold royalties per unit	0.12	0.45	(71)
Total royalties per unit	4.07	4.59	(11)
Royalties as a % of revenue	9.4	11.3	(2)

Royalties are calculated and paid based on production and revenue, net of associated transportation cost. The Company's current base of wells are primarily on Crown lands. Crown royalty rates vary with productivity, with reduced rates for wells that average less than 700 mcf/d (117 boe/d). Ember's production is primarily from Horseshoe Canyon wells which initially average 75-125 mcf/d per well, resulting in royalty rates averaging approximately 10%.

Operating and Transportation Expense

	Three months ended March 31, 2007	Three months ended March 31, 2006 <i>(Restated)</i>	Percentage change
Total operating expenses (\$000s)	653	448	46
\$ per mcf	1.23	1.51	(19)
\$ per boe	7.39	9.09	(19)
Horseshoe Canyon operating expenses (\$000s)	464	354	31
\$ per mcf	0.94	1.39	(32)
\$ per boe	5.64	8.34	(32)
Mannville operating expenses (\$000s)	189	93	103
\$ per mcf	5.17	2.30	125
\$ per boe	31.04	13.79	125
Transportation expense (\$000s)	102	79	29
\$ per mcf	0.19	0.27	(30)
\$ per boe	1.15	1.60	(30)

Operating costs per unit averaged \$1.23/mcf (\$7.39/boe) for the first quarter 2007 compared with \$1.51/mcf (\$9.09/boe) for the first quarter 2006. Operating costs on a per unit basis have decreased from the Q1 2006 as Ember is realizing operating efficiencies at its Fenn-Big Valley area.

CBM operating costs vary between Horseshoe Canyon and Mannville production. Horseshoe Canyon wells produce gas immediately and do not require dewatering to reach peak production levels. Unit operating costs from this formation have a consistent profile when wells commence production. Mannville wells require dewatering prior to reaching peak production. As a result, operating costs on a per unit basis are initially high, but typically decrease as water production declines and gas production increases. Ember capitalizes certain pre-production Mannville costs to better reflect the cost of bringing these wells on production.

Operating costs for Ember's Fenn-Big Valley wells (Horseshoe Canyon) averaged approximately \$0.94/mcf (\$5.64/boe) for the first quarter 2007 compared with \$1.39/mcf (\$8.34/boe) in the same period in 2006. In future periods, unit operating costs should continue to decline as higher volumes lower the fixed operating costs per unit in this area.

The Company's Rosalind and Manola wells (Mannville) incur higher operating costs with relatively low gas production rates. Operating costs for Mannville production averaged \$5.17/mcf (\$31.04/boe) for the first quarter 2007 compared with \$2.30/mcf (\$13.79/boe) for the same period in 2006. Unit operating costs over the long term are expected to decline as Mannville gas production increases and water handling costs decrease. In the near-term average unit operating costs for Mannville wells will be influenced by the number of new wells put on production, production rates from such wells and the average dewatering time of all Mannville wells.

Transportation expense relates to costs of transporting Ember's natural gas production on major pipelines. This rate has declined to the range of \$0.19/mcf (\$1.15 /boe) as the Company has experienced competitive market rates.

Depletion, Depreciation, and Accretion (DD&A)

	Three months ended March 31, 2007	Three months ended March 31, 2006	Percentage change
		<i>(Restated)</i>	
DD&A expense (\$000s)	1,738	1,127	54
\$ per mcf	3.28	3.82	(14)
\$ per boe	19.67	22.90	(14)

For the first quarter 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations (DD&A) increased by 54% to \$1.7 million from \$1.1 million during the same period in 2006. The increase reflected a 79% production increase and a 14% decrease in the per unit DD&A rate from \$22.90/boe to \$19.67/boe. The decrease in per unit costs reflects the favorable lower cost asset additions per unit of reserves from the Acme property acquisition announced and closed during the first quarter of 2007.

Ember excluded \$36.0 million of unproved asset costs from the depreciation and depletion calculation. These costs represent land and drilling costs for unproved properties, some of which are expected to be assigned reserves in the future, at which time these costs will be subject to depletion. The depletion base also included \$35.1 million of estimated future development costs related to proved undeveloped reserves that form a key part of Ember's reserve base.

General and Administrative Expenses (G&A)

(\$000s)	Three months ended March 31, 2007	Three months ended March 31, 2006	Percentage change
		<i>(Restated)</i>	
Gross G&A expenses	893	808	11
Indirect capitalized G&A	(198)	(175)	13
Capital overhead recoveries	(28)	(134)	(79)
Net G&A expense	667	499	34
\$ per mcf	1.26	1.69	(25)
\$ per boe	7.54	10.13	(25)

Net general and administrative expenses totaled \$0.7 million or \$1.26/mcf (\$7.54/boe) for the first quarter 2007 compared with \$0.5 million or \$1.69/mcf (\$10.13/boe) for the same period in 2006. The costs per unit of production reflect the start-up nature of the business. Per unit costs have been decreasing and are expected to decrease further with increased drilling activity and production growth.

Indirect general and administrative (G&A) expenses totaling \$198 thousand (\$175 thousand – 2006) were capitalized during the three months ended March 2007.

Stock-based Compensation

The Company's stock-based compensation plans provide current employees, officers, directors, and consultants with the right to elect to receive Common Shares through both a Performance Share plan and a regular stock option plan. Stock-based compensation expense totaled \$0.3 million for the three month period ended March 31, 2007 compared to \$0.5 million for the same period in 2006. Ember has a total of 1,941,000 stock options issued at an average exercise price of \$5.65 per share and 1,370,000 performance shares issued as of March 31, 2007.

Income Taxes

Ember is not currently taxable, and the Company does not anticipate paying current income tax over the next several years. The Company's current tax rate is a combined Canadian federal and Alberta provincial rate of 32.12%.

Ember has deductible tax pools and share issue costs totaling \$117.2 million which are available to shelter future taxable income. The Company has unrecorded potential future income tax assets for accounting purposes totaling \$9.7 million resulting primarily from deductible temporary differences. These differences are the result of deductions for tax purposes in excess of deductible amounts for accounting purposes. The Company has not recorded a future income tax asset at this time as it does not currently meet the conditions to demonstrate taxable operations. Accordingly, Ember has taken a full valuation allowance against the future income tax asset balance.

The following table outlines carry-forward tax deductible amounts.

As at March 31, 2007 (\$000s)

COGPE	54,232
CDE	23,454
CCA classes	17,437
Share issue costs	2,159
Non capital loss carry-forwards	19,967
Total	117,249

Capital Expenditures

(\$000s)	Three months ended March 31, 2007	Three months ended March 31, 2006 <i>(Restated)</i>	Percentage change
Land	45	1,560	(97)
Drilling and completions	3,736	6,191	(40)
Equipment and facilities	790	3,802	(80)
Asset additions for cash	4,571	11,553	(60)
Property acquisitions	8,806	0	NA
Non cash asset additions (ARO and SBC)	332	539	(38)
Total asset additions	13,709	12,092	13

During the three months ended March 31, 2007, capital expenditures totaled \$13.7 million, all of which were funded through working capital and cash flow.

During the quarter, the Company drilled a total of 1.0 gross (1.0 net) Mannville wells. Expenditures for the Acme property acquisition, land, drilling, completion equipping and facility construction totaled \$13.4 million for the quarter.

For 2007, including first quarter activity and spending, the capital budget has been increased to \$38 million. The Company anticipates drilling a total of 43 new Horseshoe Canyon wells (43 net) and three horizontal Mannville wells (3 net), including the one well drilled in the first quarter at Manola. In addition, nine existing shut-in wells at Acme will be placed on production. Funding will come from cash flow, existing lines of credit and a new development loan facility of \$10 million which we expect will be provided by the Company's lenders subject to certain terms and conditions.

Quarterly Results

Ember's quarterly summary for the periods from commencement of operations, July 7, 2005 to date:

<i>(\$000s except per share amounts and volumes)</i>	Q1 2007	Q4 2006	Q3 2006	
Sales gas (mmcf/d)	5,890	6,107	4,972	
Average natural gas price (\$/mcf)	7.21	6.74	5.31	
Gross revenue	3,820	3,784	2,431	
Royalty expense	360	227	244	
Operating and transportation expense	755	869	744	
General and administrative expense	667	602	324	
Stock-based compensation expense	298	435	472	
Depletion, depreciation and accretion expense	1,738	1,921	1,730	
Net earnings (loss)	(107)	(300)	(1,040)	
– per share basic and diluted	(0.00)	(0.01)	(0.04)	
Funds from operations ⁽¹⁾	1,929	2,057	1,162	
– per share basic	0.06	0.07	0.03	
– per share diluted	0.06	0.07	0.03	
Property and equipment additions	4,571	6,007	12,204	
Property acquisitions	8,806	0	0	
Shares outstanding (000s)	36,075	30,415	30,415	
<i>(\$000s except per share amounts and volumes)</i>	Q2 2006	Q1 2006	Q4 2005	Q3 2005
	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>
Sales gas (mmcf/d)	4,225	3,282	2,475	2,336
Average natural gas price (\$/mcf)	5.72	6.77	11.55	8.25
Gross revenue	2,200	1,999	2,630	1,774
Royalty expense	360	226	239	115
Operating and transportation expense	840	527	409	339
General and administrative expense	533	499	384	213
Stock-based compensation expense	519	502	214	312
Depletion, depreciation and accretion expense	1,433	1,127	704	664
Net earnings (loss)	(1,427)	(745)	925	185
– per share basic and diluted	(0.05)	(0.02)	0.03	0.01
Funds from operations ⁽¹⁾	525	884	1,855	1,161
– per share basic	0.02	0.03	0.06	0.05
– per share diluted	0.02	0.03	0.06	0.04
Property and equipment additions	5,078	11,553	26,659	4,935
Property acquisitions	0	0	0	0
Shares outstanding (000s)	30,417	30,419	30,419	30,432

⁽¹⁾ See "Non-GAAP Measurements"

Liquidity and Capital Resources

Capitalization and Capital Resources

Share Capital (000s)	March 31, 2007
Outstanding Common Shares	
Weighted average outstanding Common Shares ⁽¹⁾	
– Basic	32,364
– Diluted	32,364
Outstanding securities at March 31 and April 30, 2007	
– Common Shares	36,075
– Common Share options	1,941
– Performance Shares	1,370

⁽¹⁾ Per share information is calculated on the basis of the weighted average number of Common Shares outstanding during the fiscal year. 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 calculated 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.

Equity Issue

On March 1, 2007 the Company issued 5,660,400 common shares by way of private placement, at \$2.65 per common share for cash consideration of \$15 million before transaction costs. Proceeds of the issue were used to fund an \$8.8 million asset acquisition in the Acme area of Alberta with the balance used to reduce debt and for working capital purposes.

Total Market Capitalization

The Company's market capitalization at March 31, 2007 was \$90 million.

(\$000s, except per share amount)	March 31, 2007
Common Shares outstanding	36,075
Share price ⁽¹⁾	\$ 2.50
Total market capitalization	\$ 90,187

⁽¹⁾ Represents the closing price on the TSX on March 31, 2007.

Capital Resources

At March 31, 2007, the Company had a working capital deficiency of \$7.6 million. This includes \$4.8 million drawn on the Company's credit facility of \$15.0 million.

The Company's additions to property and equipment totaling \$4.6 million consisted primarily of expenditures for a well in Manola that was drilled in 2007 and expenditures on completions, equipping, facilities and tie-ins of projects drilled in 2006. The Company also completed an asset acquisition acquiring a property in the Acme area of Alberta for \$8.8 million including transaction costs, in March 2007. The acquired assets consist of 10 drilled and completed non producing gas wells with an average working interest of 92%, and a 70.5% operated interest in 16,960 acres of land (11,960 net). These activities were funded by funds from operations, existing working capital and an equity issue described above.

Current available resources

(\$000s)

Capital resources	
Working capital deficiency March 31, 2007	(7,582)
Bank debt available	15,000
Total capital resources available	7,418

For 2007, including first quarter activity and spending, the capital budget has been increased to \$38 million. The Company anticipates drilling a total of 43 new Horseshoe Canyon wells (43 net) and three horizontal Mannville wells (3 net), including the one well drilled in the first quarter at Manola. In addition, nine existing shut-in wells at Acme will be placed on production. Funding will come from cash flow, existing lines of credit and a new development loan facility of \$10 million which we expect will be provided by the Company's lenders subject to certain terms and conditions.

Bank Facility

As at March 31, 2007, Ember had available a \$15.0 million credit facility with a Canadian chartered bank. This borrowing base facility is determined based on, among other things, the Company's then current reserve report, results of operations, current and forecasted commodity prices and the current economic environment. At the date of this report, May 8, 2007 Ember had drawn approximately \$6.3 million on this facility.

Working Capital

The Company will continue to monitor its counterparty credit positions to mitigate any potential credit losses. All revenues are subject to normal collection risk. For activities conducted with joint venture partners, Ember collects its partners' share of capital and operating expenses on a monthly basis. At March 31, 2007, Ember had no material accounts receivable that it deemed uncollectible.

Accounts payable and accrued liabilities consist of amounts payable to suppliers relating to head office, field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period.

Ember continuously manages the pace of its capital spending program by monitoring forecasted production and commodity prices and resulting cash flows. Should circumstances affect cash flow in a detrimental way, the Company is capable of altering capital spending activity levels.

Accounting Policies and Estimates and Business Risks

The accounting policies and estimates of the Company and the business risks applicable to Ember's business remain substantially unchanged from the Company's MD&A for the period ended December 31, 2006, except as outlined below.

As of January 1, 2007, Ember adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1506 "Accounting Changes"; Section 1530 "Comprehensive Income"; Section 3251 "Equity"; Section 3855 "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges".

CICA Section 1506, "Accounting Changes", provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

CICA Section 1530, "Comprehensive Income", introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. The application of this revised standard did not result in comprehensive income (loss) being different from the net loss for the periods presented.

CICA Section 3251, "Equity", introduces new standards for the presentation of equity and changes in equity during the reporting period. Application of the section is in conjunction with *Comprehensive Income* Section 1530, *Share Capital* Section 3240 and *Reserves* Section 3260. Application of the section did not result in changes to the presentation of equity.

CICA Section 3855, “*Financial Instruments – Recognition and Measurement*”, prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- a) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- b) Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- c) Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- d) All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

The application of CICA Section 3855 did not have an impact on Ember’s financial statements.

CICA Section 3861, “*Financial Instruments – Disclosure and Presentation*”, introduces new standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Application of the section is in conjunction with *Comprehensive Income* Section 1530, and *Financial Instruments – Recognition and Measurement* Section 3855. Application of the section did not result in changes to the presentation of the financial statements.

CICA Section 3865, “*Hedges*”, provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 “*Hedging Relationships*”, and the hedging guidance in Section 1650 “*Foreign Currency Translation*” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. Ember does not currently employ hedge instruments.

For a complete description of the Company’s accounting policies and estimates and business risks, reference should be made to Ember’s MD&A for the period ended December 31, 2006 available at www.sedar.com or www.emberresources.com.

Advisories

Disclosure Controls and Procedures

The Company has established disclosure controls and procedures to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company’s filings. The Chief Executive Officer and the Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are adequate and effective in ensuring that the information required to be disclosed by the Company in reports filed with the Canadian Securities Administrators is accurate and complete and filed within the time periods required. The Chief Executive Officer and Chief Financial Officer have individually signed certifications to this effect.

Internal Control over Financial Reporting

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Corporation's GAAP. There is no change in the Corporation's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting. Management, including the Chief Executive Officer and the Chief Financial Officer, do not expect that the Company's disclosure controls or the Company's internal controls over financial reporting will prevent or detect all error or fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Given the Company's limited staff level, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation of duty deficiencies resulted in a misstatement to the financial statements as the Company relies on certain compensating controls, including substantive periodic review of the financial statements and other information by the Chief Executive Officer and Audit Committee. This weakness is considered to be a common area of deficiency for many smaller listed companies in Canada.

Non-GAAP Measurements

This MD&A contains the terms "operating netback" and "funds from operations". These measurements should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP as an indicator of the Company's performance. The Company's determination of funds from operations and operating netback may not be comparable to that reported by other companies. The reconciliation between net earnings and funds from operations can be found in the statement of cash flows. The Company also presents funds from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculations used in determining earnings per share. Ember's peer companies in the oil and gas industry use the same definitions and for consistency the Company will continue to report in this manner.

Funds from operations are determined in the Statement of Cash Flows as operating cash flows before working capital adjustments. Management uses this term to compare with other companies that also report this measure, to manage debt facilities that may use this measure to guide determination of debt pricing, and to readily provide this information to investors that routinely request this measure. Operating Netback is not a measure that is readily apparent in the GAAP prepared financial statements. It is an energy industry measure which measures funds flows at the field level by determining all field-related revenues less costs. The Company uses this measure to compare its field operations with those of its peers, and reports this measure to the investment community which is either requesting it, or in the absence of the Company providing it, calculating the measure themselves.

BOE Presentation

This MD&A contains disclosure expressed as barrel of oil equivalent ("boe"), and as such equivalency measures may be misleading particularly if used in isolation. Petroleum and natural gas reserves and volumes have been converted to a common unit of measure of one boe on a basis of six thousand cubic feet (mcf) of gas to one barrel (bbl) of oil. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Additional Information

Additional information relating to Ember is filed on SEDAR and can be viewed at www.sedar.com. This information includes the Company's Annual Information Form. Information can also be obtained by contacting the Company at Ember Resources Inc., Suite 800, 521 – 3rd Avenue, SW, Calgary, Alberta, Canada T2P 3T3. Information is also accessible on the Company's website at www.emberresources.com.

BALANCE SHEETS

<i>(\$ thousands) (unaudited)</i>	As at March 31, 2007	As at December 31, 2006
Assets <i>(note 4)</i>		
Current assets		
Accounts receivable <i>(note 8)</i>	\$ 3,286	\$ 4,430
Prepaid expenses	203	241
	3,489	4,671
Property and equipment <i>(note 3)</i>	89,762	77,739
	\$ 93,251	\$ 82,410
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 6,314	\$ 6,876
Bank loan <i>(note 4)</i>	4,757	8,890
	11,071	15,766
Asset retirement obligation <i>(note 5)</i>	2,710	2,527
	13,781	18,293
Commitments <i>(Note 10)</i>		
Shareholders' Equity		
Share capital <i>(note 6)</i>	77,855	62,894
Contributed surplus <i>(note 6)</i>	4,112	3,613
Retained earnings (deficit)	(2,497)	(2,390)
	79,470	64,117
	\$ 93,251	\$ 82,410

See accompanying notes to financial statements

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND RETAINED EARNINGS (DEFICIT)

(\$ thousands, except per share amounts) (unaudited)	Three months ended March 31, 2007	Three months ended March 31, 2006 <i>(Restated – Note 2)</i>
Revenue		
Natural gas sales	\$ 3,820	\$ 1,999
Royalties	(360)	(226)
Interest income	–	144
	3,460	1,917
Expenses		
Operating	653	448
Transportation	102	79
General and administrative	667	499
Stock based compensation expense (note 6)	298	502
Interest	109	–
Capital taxes	–	7
Depletion, depreciation and accretion	1,738	1,127
	3,567	2,662
Loss and comprehensive loss for the period	(107)	(745)
Retained earnings (deficit), beginning of period	(2,390)	1,122
Retained earnings (deficit), end of period	\$ (2,497)	\$ 377
Loss per share (note 6)		
Basic and diluted	\$ –	\$ (0.02)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

<i>(\$ thousands) (unaudited)</i>	Three months ended March 31, 2007	Three months ended March 31, 2006 <i>(Restated – Note 2)</i>
Operating activities		
Loss for the period	\$ (107)	\$ (745)
Add items not involving cash		
Depletion, depreciation and accretion	1,738	1,127
Stock based compensation expense	298	502
Change in non-cash working capital related to operating activities <i>(note 9)</i>	1,081	99
	3,010	983
Financing activities		
Proceeds on issuance of share capital, net of share issuance costs	14,961	–
Bank loan repayments	(4,133)	–
	10,828	–
Investing activities		
Short-term investments	–	2,000
Additions to property and equipment	(4,571)	(11,553)
Acquisition of property and equipment	(8,806)	–
Change in non-cash working capital related to investing activities <i>(note 9)</i>	(461)	(9,026)
	(13,838)	(18,579)
Increase (decrease) in cash and cash equivalents	–	(17,596)
Cash and cash equivalents, beginning of period	–	17,596
Cash and cash equivalents, end of period	\$ –	\$ –

See accompanying notes to financial statements

NOTES TO THE INTERIM FINANCIAL STATEMENTS

March 31, 2007 (unaudited)

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.

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. These unaudited interim financial statements follow the same accounting policies as the financial statements for the year ended December 31, 2006, except as noted below. These notes are incremental to, and should be read in conjunction with, the audited financial statements for the fiscal year ended December 31, 2006.

2. Change in Accounting Policies

Financial Instruments

As of January 1, 2007, Ember adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1506 “*Accounting Changes*”; Section 1530 “*Comprehensive Income*”; Section 3251 “*Equity*”; Section 3855 “*Financial Instruments – Recognition and Measurement*”; Section 3861, “*Financial Instruments – Disclosure and Presentation*” and Section 3865 “*Hedges*”.

CICA Section 1506, “*Accounting Changes*”, provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under the new standard, accounting changes should be applied retrospectively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in accounting policy are made only when required by a primary source of GAAP or the change results in more relevant and reliable information.

CICA Section 1530, “*Comprehensive Income*”, introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges. The application of this revised standard did not result in comprehensive income (loss) being different from the net loss for the periods presented.

CICA Section 3251, “*Equity*”, introduces new standards for the presentation of equity and changes in equity during the reporting period. Application of the section is in conjunction with *Comprehensive Income* Section 1530, *Share Capital* Section 3240 and *Reserves* Section 3260. Application of the section did not result in changes to the presentation of equity.

CICA Section 3855, “*Financial Instruments – Recognition and Measurement*”, prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- a) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- b) Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- c) Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- d) All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

The application of CICA Section 3855 did not have an impact on Ember's financial statements.

CICA Section 3861, "*Financial Instruments – Disclosure and Presentation*", introduces new standards for the presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. Application of the section is in conjunction with *Comprehensive Income* Section 1530, and *Financial Instruments – Recognition and Measurement* Section 3855. Application of the section did not result in changes to the presentation of the financial statements.

CICA Section 3865, "*Hedges*", provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "*Hedging Relationships*", and the hedging guidance in Section 1650 "*Foreign Currency Translation*" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. Ember does not currently employ hedge instruments.

Future Accounting Policies

In addition, the Company has assessed new and revised accounting pronouncements that have been issued that are not yet effective and determined that the following may have a significant impact on the Company:

- a) As of January 1, 2008, Ember will be required to adopt two new CICA standards, Section 3862 "*Financial Instruments – Disclosures*" and Section 3863 "*Financial Instruments – Presentation*", which will replace Section 3861 "*Financial Instruments – Disclosure and Presentation*". The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. The new financial instruments presentation and disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.
- b) As of January 1, 2008, Ember will be required to adopt CICA standards, Section 1535 "*Capital Disclosures*", which will require companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether companies have complied with externally imposed capital requirements. The new capital disclosure requirements were issued in December 2006 and the Company is assessing the impact on its financial statements.
- c) In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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

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 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 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 prior periods.

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.

Effect of changes

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

Income statement (\$000s)	Capitalization of Direct G&A and SBC	Capitalization of Mannville Pre-production costs	Adjustment as at March 31, 2006
Natural gas sales	\$ -	\$ (40)	\$ (40)
Royalties	-	(8)	(8)
G&A expense	(313)	-	(313)
Operating expense	-	(225)	(225)
SBC expense	(377)	-	(377)
Depletion, depreciation and accretion expense	47	-	47
Net income	\$ 643	\$ 193	\$ 836
Net income per share – basic and diluted			\$ 0.03

3. Property and Equipment

March 31, 2007 (\$000s)	Cost	Accumulated Depreciation	March 31, 2007 Net Book Value
Natural gas properties	98,334	(8,751)	89,583
Office and computer hardware and software	446	(267)	179
Total	98,780	(9,018)	89,762

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 hardware and software	445	(218)	227
Total	85,071	(7,332)	77,739

On March 1, 2007, the Company acquired Coal Bed Methane natural gas assets from a private company for cash consideration of \$8.75 million. The Company also recorded an additional \$186,000 as property and equipment assets with a corresponding asset retirement liability representing estimated costs to abandon and reclaim the acquired developed non-producing gas wells. 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 first quarter 2007 depletion calculation excluded unproved properties of \$35,965,000 (\$32,924,000 three months ended March 31, 2006). These properties consist of undeveloped land and assets with no assigned reserves that are held for future development. At March 31, 2007 a total of \$35,084,000 of future development costs were included in the depletion calculation. General and Administrative expenses totalling \$198,000 (\$175,000 – three months ended March 31, 2006) were capitalized during the three months ended March 31, 2007. Stock based compensation costs totalling \$201,000 (\$377,000 – three months ended March 31, 2006) were capitalized during the period.

4. 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 the three months ended March 31, 2007 was 6%. A fixed and floating charge debenture on the assets of the Company have been provided as security. At March 31, 2007 the Company had drawn \$4,757,000 on the facility. The facility is currently under review and the Company expects renewal of an expanded facility under similar terms.

5. 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 \$5,202,000 which will be incurred over the next 3-13 years with the majority of costs incurred between 2012 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 obligation:

(\$000s)	Three months ended March 31, 2007	Three months ended March 31, 2006
Balance, beginning of period	\$ 2,527	\$ 1,952
Liabilities incurred	211	168
Revisions	(80)	(6)
Accretion expense	52	41
Balance, end of period	\$ 2,710	\$ 2,155

6. 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, 2006	30,415	62,880
Private placement shares issued	5,660	15,000
Share issue costs	-	(39)
Outstanding as at March 31, 2007	36,075	77,841
Performance Shares		
Outstanding as at December 31, 2006 and March 31, 2007	1,370	14
Total share capital as at March 31, 2007		77,855

Issue of Common 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, before share issue costs, of \$15.0 million.

Loss per share

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

Weighted average Common Shares (000s)	Period ended March 31, 2007	Period ended March 31, 2006
Basic	32,364	30,419
Diluted	32,364	30,419

Stock Options

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 3,607,000 shares authorized under the plan are reduced by the 1,370,000 Common Shares issuable on the exercise of the Performance Shares, leaving 2,237,000 shares available for other share options.

Share options issued have a term of five years, and vest equally over a period of three years. At March 31, 2007 outstanding share options had a remaining contractual life of 4.17 years, and were exercisable at prices ranging from \$2.50 to \$7.90. At March 31, 2007 362,000 options and 457,000 performance shares had vested and were exercisable.

The following table sets forth a reconciliation of stock option plan activity in 2007.

	Number of Options (000s)	Weighted Average Exercise Price (\$)
Balance, December 31, 2006	1,293	7.15
Granted	648	2.67
Balance, March 31, 2007	1,941	5.65

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)	Three months ended March 31, 2007	Three months ended March 31, 2006 (Restated)
Opening balance	\$ 3,613	\$ 586
Stock based compensation expensed	298	502
Capitalized to property and equipment	201	377
Balance, end of period	\$ 4,112	\$ 1,465

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:

	Three months ended March 31, 2007
Risk free interest rate (%)	3.93
Expected life (years)	4.00
Expected volatility (%)	60
Dividends	Nil
Results (per share)	
Fair value of options granted	\$ 1.32

7. Taxes

Tax Expense

The combined provision for taxes in the statement of loss, comprehensive 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)	Three months ended March 31, 2007	Three months ended March 31, 2006
(Loss) before income taxes	\$ (107)	\$ (738)
Statutory income tax rate	32.12%	35.62%
Expected income taxes (recovery)	\$ (34)	\$ (263)
Add (deduct):		
Non-deductible Crown charges	-	34
Resource allowance	-	(8)
Stock based compensation	96	179
Rate adjustments and other	20	-
Tax reductions from unrecorded temporary differences	(82)	-
	-	(58)
Less: Valuation allowance	-	58
Future income tax expense	\$ -	\$ -

Future Income Taxes

(\$000s)	Balance as at March 31, 2007	Balance as at December 31, 2006
Property and equipment	\$ 2,134	\$ 2,991
Asset retirement obligation	824	770
Share issue costs	656	696
Tax loss carryforwards	6,070	5,309
	9,684	9,766
Less: Valuation allowance	(9,684)	(9,766)
Future income tax asset	\$ -	\$ -

As at March 31, 2007, the Company had tax deductions of approximately \$117,249,000 that are available to shelter future taxable income. Included in this amount is a non-capital loss of \$19,967,000 which expires in 2026.

8. 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.

9. Supplemental Cash Flow Information

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

<i>(\$000s)</i>	Three months ended March 31, 2007	Three months ended March 31, 2006
Accounts receivable	\$ 1,144	\$ (5,272)
Prepaid expenses	38	(65)
Accounts payable and accrued liabilities	(562)	(3,590)
Net change	\$ 620	\$ (8,927)
Net change by activity:		
Operating	\$ 1,081	\$ 99
Investing	(461)	(9,026)
Net change	\$ 620	\$ (8,927)
Cash interest paid	\$ 92	\$ -
Cash taxes paid	\$ -	\$ -

10. Commitments

<i>As at March 31, 2007 (\$000s)</i>	Office lease	Total
2007	\$ 216	\$ 216
2008	294	294
2009	221	221
Total	\$ 731	\$ 731

CORPORATE INFORMATION

Board of Directors

Doug Dafoe, CA
*Chairman and
Chief Executive Officer
Ember Resources Inc.*

Terry Meek, P. Eng.
*President and
Chief Operating Officer
Ember Resources Inc.*

Dennis Balderston, CA ^{(1) (3)}
Independent Businessman

Colin Boyer, P.Eng. ^{(2) (4)}
Independent Businessman

Fox Benton III, MBA ^{(1) (3)}
Independent Businessman

Thomas Drolet, P.Eng. ^{(2) (3)}
Independent Businessman

Jack Peltier ^{(1) (2) (4)}
*President
Ipperwash Resources Inc.*

Jeff van Steenberg, P.Eng. ^{(2) (4)}
*General Partner
Kern Partners*

Richard Todd ⁽³⁾
*Chairman, Chief Executive Officer
OSUM Corp.*

Officers

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*Chairman and
Chief Executive Officer*

Terry Meek, P.Eng.
*President and
Chief Operating Officer*

Bruce Ryan, CA, CFA
*Vice President, Finance
and Chief Financial Officer*

Tom Zuorro, B.Comm
Vice President, Land

Ken Ronaghan, P.Eng.
Vice President, Engineering

Managers

Art McMullen, P.Eng.
Manager, Reservoir

Jim Kelly
Manager, Operations

Quinton Rafuse
Manager, Geology

Peter Lawrence, CMA
Manager, Accounting

Auditors

Ernst and Young LLP

Bankers

Bank of Montreal

Legal Counsel

Macleod Dixon LLP

Reserves Engineers

Sproule Associates Limited

Transfer Agent and Registrar

Olympia Trust Company

Stock Exchange

Toronto Stock Exchange
Trading Symbol: EBR

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Abbreviations

bb1(s)	barrel(s)
mbbls	thousand barrels
mmcf	million cubic feet
bcf	billion cubic feet
tcf	trillion cubic feet
boe	barrel of oil equivalent (6 mcf = 1 bbl)
/d	per day
NGL	natural gas liquids
CBM	coalbed methane

Committees

(1) Audit Committee

(2) Reserves, Environmental Health and Safety Committee

(3) Compensation, Corporate Governance and Nominating Committee

(4) Health, Safety and Environment Committee