

EMBER RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

Ember Resources Inc.
MANAGEMENT REPORT

The accompanying consolidated financial statements of Ember Resources Inc. are the responsibility of management. The consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. The Board of Directors fulfills its responsibility regarding the consolidated financial statements mainly through its Audit Committee, which has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

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

"Doug Dafoe"

Doug Dafoe
President &
Chief Executive Officer

"Bruce Ryan"

Bruce Ryan
Vice President Finance &
Chief Financial Officer

March 19, 2009

AUDITORS' REPORT

To the Shareholders of Ember Resources Inc.

We have audited the consolidated balance sheets of Ember Resources Inc. (the "Company") as at December 31, 2008 and 2007, and the consolidated statements of income, comprehensive income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada
March 19, 2009

Ember Resources Inc.
Consolidated Balance Sheets

(\$ thousands)

	<u>As at December 31, 2008</u>	<u>As at December 31, 2007</u>
Assets (note 3 and 5)		
Current assets		
Accounts receivable (note 10)	\$ 8,797	\$ 4,070
Prepaid expenses	1,346	282
Derivative financial instruments (note 10)	1,054	-
	<u>11,197</u>	<u>4,352</u>
Property and equipment (notes 3 and 4)	376,171	102,193
Future income taxes (note 9)	-	1,770
	<u>\$ 387,368</u>	<u>\$ 108,315</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 12,059	\$ 5,434
Current portion of capital lease obligation (note 6)	434	-
Current portion of credit facility (note 5)	4,000	18,599
	<u>16,493</u>	<u>24,033</u>
Credit facility (note 5)	95,432	-
Obligations under capital leases (note 6)	2,288	-
Asset retirement obligation (note 7)	11,213	3,084
Future income tax liability (note 9)	10,394	-
	<u>135,820</u>	<u>27,117</u>
Commitments (note 13)		
Shareholders' Equity		
Share capital (note 8)	246,970	77,956
Contributed surplus (note 8)	6,799	5,588
Deficit	(2,221)	(2,346)
	<u>251,548</u>	<u>81,198</u>
	<u>\$ 387,368</u>	<u>\$ 108,315</u>

See accompanying notes to financial statements

On behalf of the Board:

"Colin Boyer"

Colin Boyer, Director

"Dennis Balderston"

Dennis Balderston, Director

Ember Resources Inc.
Consolidated Statements of Income, Comprehensive Income and Deficit

(\$ thousands, except per share amounts)

	<u>Year ended December 31, 2008</u>	<u>Year ended December 31, 2007</u>
Revenue		
Natural gas sales	\$ 39,520	\$ 13,338
Royalties	(4,431)	(917)
Unrealized gain on derivative financial instruments	160	-
Realized gain on derivative financial instruments	646	-
	<u>35,895</u>	<u>12,421</u>
Expenses		
Operating	8,354	2,822
Transportation	997	420
General and administrative	2,709	2,502
Stock based compensation (note 8)	700	1,317
Interest	2,131	583
Accretion	481	227
Depletion, depreciation and amortization	21,124	7,016
	<u>36,496</u>	<u>14,887</u>
Loss and comprehensive loss before taxes	(601)	(2,466)
Current income tax recovery (note 9)	4	-
Future income tax recovery (note 9)	722	2,510
	<u>726</u>	<u>2,510</u>
Net income and comprehensive income	125	44
Deficit, beginning of year	<u>(2,346)</u>	<u>(2,390)</u>
Deficit, end of year	<u>\$ (2,221)</u>	<u>\$ (2,346)</u>
Earnings per share (note 8)		
Basic and diluted	-	-

See accompanying notes to financial statements

Ember Resources Inc.
Consolidated Statements of Cash Flows

(\$ thousands)

	<u>Year ended December 31, 2008</u>	<u>Year ended December 31, 2007</u>
Operating activities		
Net income	\$ 125	\$ 44
Add items not involving cash		
Depletion, depreciation and amortization	21,124	7,016
Accretion	481	227
Stock based compensation	700	1,317
Future income tax recovery	(722)	(2,510)
Unrealized gains on natural gas contracts	(160)	-
Abandonment expenditures	(252)	(21)
Change in non-cash working capital related to operating activities (note 12)	6,108	247
	<u>27,404</u>	<u>6,320</u>
Financing activities		
Proceeds on issuance of share capital, net of share issuance costs	54,767	14,961
Bank loan advances	21,812	9,709
Repayment of capital lease obligations	(105)	-
	<u>76,474</u>	<u>24,670</u>
Investing activities		
Dispositions of property and equipment (note 4)	1,750	-
Additions to property and equipment	(24,419)	(20,987)
Acquisition of Cordero Energy Inc. (Note 3)	(73,790)	-
Acquisition of property and equipment	-	(8,633)
Change in non-cash working capital related to investing activities (note 12)	(7,419)	(1,370)
	<u>(103,878)</u>	<u>(30,990)</u>
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	-	-
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

Ember Resources Inc. ("Ember" or the "Company") was incorporated on June 3, 2005 under the Business Corporations Act (Alberta), and commenced commercial operations on July 7, 2005.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Cordero Energy Inc., Cordero Finance Corp., and 1393401 Alberta Ltd. The latter two companies have no material assets or operations. All inter-company accounts and transactions have been eliminated. Ember is engaged in the acquisition of, exploration for and development and production of natural gas coalbed methane properties in Alberta. The consolidated financial statements are stated in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

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

Certain comparative figures have been reclassified in order to conform to the current period's financial statement presentation.

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.

The calculation of future income tax is based on assumptions, which are subject to uncertainty as to the tax rates as well as the timing at which temporary differences are expected to reverse. In addition, the measurement of Ember's income tax liability and tax pools requires interpretation of complex laws and regulations. All tax filings are subject to audit and reassessment, potentially several years after the initial filing. Accordingly, actual income tax assets and liabilities may differ significantly from the amounts initially estimated.

The Black-Scholes option valuation model was developed for use in estimating the fair value of options. This option valuation model requires the input of highly subjective assumptions including the expected volatility of the Company's share price. Because changes in the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

Natural Gas Properties

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

Gas assets are evaluated on an annual basis to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves (which includes future development costs) and the lower of cost and market of unproved properties exceed the carrying value of the gas assets. If the carrying value of the gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk-free rate.

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

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

Depletion and Depreciation

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

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

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

Asset Retirement Obligations

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

Revenue Recognition

Revenues from the sale of natural gas are recorded when title passes to an external party, which is at the well head.

Income Taxes

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

Stock Based Compensation Plan

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

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

Per Share Information

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

Capital leases

Leases that transfer all the risks and benefits of ownership to the company are recorded as capital leases. Assets under capital lease are included in property and equipment with offsetting long-term capital lease obligations being recorded as liabilities. The asset is being amortized using the unit of production method.

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

Derivative Financial Instruments and Hedging Activities

(i) Comprehensive income

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

(ii) Equity

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

(iii) Financial instruments

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

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

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

A) Held for trading

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

Currently, Ember has classified its derivative instruments as held for trading.

B) Held-to-maturity

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

Currently Ember has no held to maturity investments.

C) Other financial liabilities

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

D) Loans and receivables

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

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

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

E) Available-for-sale

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

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

(iv) Hedges

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

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

Hedge accounting is optional and Ember may designate any qualifying hedging instrument as a hedge for accounting purposes. When hedge accounting is not applied, the derivative financial instrument is recorded on the balance sheet at fair-value and changes in fair value of the derivative instrument are included in earnings.

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

2. CHANGE IN ACCOUNTING POLICIES

The CICA issued several new accounting standards: section 1400 "General Standards of Financial Statement Presentation"; section 1535 "Capital Disclosures"; section 3031 "Inventories"; section 3862 "Financial Instruments – Disclosures", and section 3863 "Financial Instruments – Presentation". These standards became effective January 1, 2008.

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

Section 1535 establishes standards for disclosing information regarding an entity's capital and how it is managed. The section specifies the disclosure of i) an entity's objectives, policies, and processes for managing capital; ii) quantitative data about what the entity regards as capital; iii) whether the entity has complied with any capital requirements; and iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation" which revises and enhances financial instrument disclosure requirements and leaves unchanged its presentation requirements. The objective of section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the company is managing those risks. The purpose of section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows.

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

Future Accounting Policies

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed.

The Company has completed the diagnostic assessment phase of IFRS by performing comparisons of the differences between Canadian GAAP and IFRS and is currently assessing the effects of adoption and finalizing its conversion plan. The Company has determined that accounting for property, plant and equipment will be impacted by the conversion to IFRS. The Company currently follows full cost accounting as prescribed in Accounting Guideline ("AcG") 16, "Oil and Gas Accounting - Full Cost." Conversion from Canadian GAAP to IFRS may have an impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the pre-exploration and development phases. The conversion to IFRS will also result in other impacts, some of which may be significant in nature and these continue to be assessed by the Company. At this time, the impact on Ember's financial position and results of operations is not reasonably determinable or estimatable for any of the IFRS conversion impacts identified. The Company will continue to monitor any changes in the adoption of IFRS and will update its plan as necessary.

Business Combinations

In December 2008, the CICA issued section 1582 "Business Combinations," which will replace CICA section 1581 of the same name. Under this guidance, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of the exchange. Currently the purchase price used is based on the market price of the shares for a reasonable period before and after the date the acquisition is agreed upon and announced. This new guidance generally requires all acquisition costs to be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings each period until settled. Currently only contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill is required to be recognized immediately in earnings, unlike the current requirement to eliminate it to the extent possible, by deducting it from non-current assets in the purchase price allocation. Section 1582 will be effective for Ember on January 1, 2011 with pr

Fair value of Financial Assets and Liabilities

On January 20, 2009 the CICA issued EIC-173 Credit risk and the fair value of financial assets and financial liabilities. Under EIC-173, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Ember will adopt the requirements of EIC-173 effective January 1, 2009. The impact of this EIC upon the Corporation's financial statements is currently being assessed.

3. ACQUISITION

On September 5, 2008, Ember acquired Cordero Energy Inc ("Cordero"), by Plan of Arrangement, (the "Arrangement"). Under the Arrangement, Ember issued 26,194,207 Ember common shares (post consolidation - see note 8) to acquire 24,407,573 of the issued and outstanding common shares of Cordero. In addition, Ember purchased 12,727,273 common shares of Cordero at \$5.50 per share for \$70 million cash, and an additional 405,000 common shares of Cordero at \$4.37 per share for \$1.768 million cash. The value attributed to each Ember common share issued was \$4.36 per share (post consolidation), representing the volume weighted average trading price on the Toronto Stock Exchange for an Ember common share for the period from June 26, 2008 to July 11, 2008. This period includes the five trading days before and after Ember's announcement of the transaction on July 3, 2008.

Upon completion of the Arrangement, Cordero became a wholly owned subsidiary of Ember with the existing Ember shareholders and option holders holding approximately 49% of the combined entity. Although Cordero shareholders held 51% of the Ember common shares following the Arrangement, the transaction has been accounted for as an acquisition of Cordero by Ember, recognizing that Ember is the surviving legal entity, Ember paid a premium to acquire Cordero and Ember's existing management and Board of Directors retained their positions. These financial statements incorporate the operations of Ember for the period from January 1 to December 31, 2008 and the operations of Cordero and its subsidiaries for the period from September 5 to December 31, 2008.

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

The acquisition is being accounted for using the purchase method and the purchase price was allocated on a preliminary basis as follows:

(\$000s)	
Property, plant and equipment	\$ 271,022
Current assets	8,710
Current liabilities	(11,289)
Obligations under capital lease	(2,393)
Debt assumed	(59,021)
Asset retirement obligation	(7,170)
Derivative financial instruments	894
Future income tax liability	(12,785)
Total purchase price	\$ 187,968

Consideration was comprised of:	
Common shares	\$ 114,178
Cash	71,768
Transaction costs and other	2,022
Total consideration	\$ 187,968

4. PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	December 31, 2008 Net Book Value
December 31, 2008	\$	\$	\$
Natural gas properties	474,193	(102,850)	371,343
Assets under capital lease	4,149	(1,126)	3,023
Office and computer	3,625	(1,820)	1,805
Total	481,967	(105,796)	376,171

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

As at December 31, 2008, the depletion calculation excluded unproved properties of \$32,689,000 (2007 - \$22,929,000). These properties consist of undeveloped land and assets with no assigned reserves that are held for future development. At December 31, 2008 a total of \$78,027,000 of future development costs were included in the depletion calculation (2007 - \$29,289,000). General and administrative expenses totaling \$1,106,000 (2007 - \$755,000) were capitalized during the year. Stock based compensation costs totaling \$511,000 (2007 - \$759,000) were capitalized during the year.

During the year the Company disposed of non-core assets for net proceeds of \$1,750,000.

Included in natural gas properties were assets held for sale which were sold subsequent to year end for cash proceeds of \$700,000. The properties consisted of mainly undeveloped land and were acquired through the acquisition of Cordero. The disposition of the properties is in line with the Company's objective of disposing non-core assets to reduce debt levels.

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, 2008 were:

Natural gas - AECO C

Year	\$/Mcf
2009	\$ 7.40
2010	\$ 8.00
2011	\$ 8.45
2012	\$ 8.80
2013	\$ 9.05
Thereafter	Plus 2.0%

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

5. CREDIT FACILITY

Ember has a revolving operating credit facility provided by a syndicate of two Canadian banks. The facility is limited to \$120 million and consists of a \$15 million working capital facility, an \$85 million production facility, and a \$20 million subordinated development facility. The terms under which Ember may borrow are as follows:

- 1) Prime based loans bearing interest at the prime bank rate plus, depending on the ratio of funded debt to trailing cash flow, up to 120 basis points per annum;
- 2) Banker's acceptances, bearing interest at the banker's acceptance rate plus, depending on the ratio of funded debt to trailing cash flow, a stamping fee of up to 220 basis points per annum;
- 3) Libor based loans in US currency bearing interest at the Libor rate plus, depending on the ratio of funded debt to trailing cash flow, a stamping fee of up to 220 basis points per annum.

The subordinated development facility bears interest at the rate of the first two facilities plus 150 basis points per annum. The facilities do not contain any financial covenants.

The credit facility is subject to periodic review and is collateralized by a \$250 million demand fixed and floating debenture over all of Ember's assets. The facility has a term out provision providing for conversion of drawn portions of the working capital and production facility into a one year non-revolving term loan should the lending syndicate choose not to extend the revolving period. The subordinated development facility is due in full on the term out date, April 30, 2009, should the lending syndicate choose not to extend the revolving period.

As at December 31, 2008, \$99 million had been drawn against these facilities, of this amount \$4 million was drawn from the subordinated development facility. The facility requires payment of interest only, calculated in arrears. There is a standby fee calculated at rates varying from 15 to 30 basis points per annum on undrawn balances, depending upon the ratio of trailing debt to cash flow. The Company also has in place a \$50,000 standby letter of credit for oilfield operations.

The effective interest rate on all borrowings during the year ended December 31, 2008 was 5.18% (2007 - 6.0%).

On January 16, 2009 a year-end review of the facility was completed. The review resulted in affirmation of the facility with the following amendments subsequent to the year-end:

- the \$20 million subordinated facility requires that any amounts drawn in excess of \$10 million require the prior consent of both parties to the banking syndicate.
- interest rates have been amended effective January 16 2009 as follows:
 - 1) Prime based loans bear interest at the prime bank rate plus, depending on the ratio of funded debt to trailing cash flow, up to 275 basis points per annum;
 - 2) Banker's acceptances, bear interest at the banker's acceptance rate plus, depending on the ratio of funded debt to trailing cash flow, a stamping fee of up to 375 basis points per annum;
 - 3) Libor based loans in US currency bear interest at the Libor rate plus, depending on the ratio of funded debt to trailing cash flow, a stamping fee of up to 375 basis points per annum.
- The next credit facility review is scheduled to be completed by March 31, 2009.

6. OBLIGATIONS UNDER CAPITAL LEASES

Future minimum lease payments under the Company's three capital leases are as follows:

Year	Amount
2009	\$ 571
2010	537
2011	504
2012	471
2013	438
Thereafter	716
Total minimum lease payments	3,237
Less amount representing interest at 5.18% to 5.91%	515
Present value of obligations under capital leases	2,722
Due within one year	434
Long term portion of obligations under capital leases	\$ 2,288

Interest expense incurred on the obligations under capital lease was \$50,000 (2007 - nil), for the four months ended December 31, 2008. The leases were acquired by Ember through the Cordero acquisition and interest expense reflects the period commencing September 5, 2008 (see note 3). Leased assets are depreciated using the unit-of-production method.

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

7. 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 \$24,406,000 (2007 - \$7,017,000) which will be incurred over the next 16 years with the majority of costs incurred between 2015 and 2020. 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, 2008	Year ended December 31, 2007
Balance, beginning of year	\$ 3,084	\$ 2,527
Liabilities incurred	705	965
Liabilities assumed on acquisition of Cordero (note 3)	7,170	-
Liabilities settled	(252)	(21)
Excess of liabilities settled over estimate	173	-
Accretion expense	481	227
Revisions	(148)	(614)
Balance, end of year	\$ 11,213	\$ 3,084

8. SHARE CAPITAL

Authorized

An unlimited number of voting Common Shares, without nominal or par value
560,000 non-voting Performance Shares, without nominal or par value

Issued

	Number of shares (000s)	Amount (\$000s)
Common Shares		
Outstanding as at December 31, 2006	12,166	62,880
Private placement shares issued	2,264	15,000
Common shares issued on conversion of performance shares	11	2
Reclassified from contributed surplus on conversion of performance shares	-	101
Share issue costs	-	(39)
Outstanding as at December 31, 2007	14,441	77,944
Private placement subscription receipts	10,732	55,000
Shares issued on corporate acquisition (note 3)	26,194	114,178
Share issue costs	-	(233)
Share issue cost tax affect	-	69
Outstanding as at December 31, 2008	51,367	246,958
Performance Shares		
Outstanding as at December 31, 2006	548	14
Performance shares cancelled	(22)	-
Performance shares converted to common shares	(46)	(2)
Outstanding as at December 31, 2007 and 2008	480	12
Total share capital as at December 31, 2008		246,970

Issue of Common Shares and Performance Shares

On September 3, 2008 the Company consolidated its share capital, issuing one share in exchange for each 2.5 shares held.

On September 5, 2008, Ember issued through a private placement equity financing, 10,731,707 common shares at \$5.125 per share for gross proceeds of \$55 million. This issue of securities received shareholder approval on September 3, 2008.

On September 5, 2008 the Company completed the acquisition of Cordero Energy Inc. as more fully described in note 3.

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 \$4.83, if positive, divided by the Common Share closing price. All of the Performance Shares have vested and are due to expire on July 6, 2009. During 2008 nil performance shares were redeemed (22,000 - 2007).

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

Earnings per share

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

Weighted average Common Shares (000s)	Year ended December 31, 2008	Year ended December 31, 2007
Basic and diluted	26,246	14,063

Stock Options

Ember's shareholders have approved the Company's stock option plan. The number of Common Shares reserved for options granted under the stock option plan, together with any Common Shares reserved for issuance pursuant to the exercise of the Performance Shares, may not be more than 10% of the aggregate number of the then issued and outstanding Common Shares. As a result, the 5,130,000 shares authorized under the plan are reduced by the 480,000 Common Shares issuable on the exercise of the Performance Shares, leaving 4,650,000 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, 2008 outstanding share options had a remaining contractual life of 4.42 years (4.38 years - 2007), and were exercisable at prices ranging from \$0.49 to \$8.98 (\$5.48 to \$8.98 - 2007). At December 31, 2008, 213,325 options and 480,000 performance shares had vested and were exercisable (13,000 options and 320,000 performance shares - 2007).

The following table sets forth a reconciliation of stock option plan activity through to December 31, 2008.

	Number of Options (000s)	Weighted average Exercise price \$
Balance, December 31, 2006	517	17.88
Granted	593	6.18
Cancelled	(490)	(18.30)
Balance, December 31, 2007	620	6.35
Granted	2,150	4.50
Forfeited	(20)	(6.10)
Balance, December 31, 2008	2,750	4.91

The following table summarizes information regarding stock options at December 31, 2008.

Exercise price	Options Outstanding			Options Exercisable		
	Number Outstanding (000's)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable (000's)	Weighted Average Exercise Price \$	
\$0.01 to \$1.00	319	4.89	0.72	-		NA
\$1.01 to \$5.00	12	4.46	4.90	-		NA
\$5.01 to \$6.00	2,053	4.57	5.22	78		5.61
\$6.01 to \$10.00	366	3.19	6.83	135		7.04
	2,750	4.42	4.91	213		6.52

The Company is committed under the terms of various employment agreements to grant an additional 247,500 share options on or before July 1, 2009 at a strike price to be determined on the grant date.

Stock based Compensation

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

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

(\$000s)	Year ended December 31, 2008	Year ended December 31, 2007
Opening Balance	\$ 5,588	\$ 3,613
Stock based compensation expensed	700	1,317
Stock based compensation capitalized to property & equipment	511	759
Reclassified to share capital on conversion of performance shares	-	(101)
Ending Balance	\$ 6,799	\$ 5,588

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

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, 2008	Year ended December 31, 2007
Risk free interest rate (%)	2.39 - 3.24	3.93 - 4.64
Expected life stock options (years)	4.00	4.00
Expected volatility (%)	62 - 100	57 - 60
Dividends	Nil	Nil
Results (per share)		
Fair value of options granted	\$ 0.82	\$ 1.11

9. TAXES

Future Income Tax Recovery

The combined provision for taxes in the statements of net income, comprehensive income and 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, 2008	Year ended December 31, 2007
Loss before income taxes	\$ (601)	\$ (2,466)
Statutory income tax rate	29.50%	32.12%
Expected income tax recovery	(177)	(792)
Add (deduct):		
Stock based compensation	206	423
Future income tax rate reduction	(39)	0
Current year tax	(4)	
Recognition of previously unrecorded tax benefit from temporary differences	(633)	(3,552)
Current year rate adjustment and other	(79)	1,411
Future income tax liability	\$ (726)	\$ (2,510)

Future Income Taxes

(\$000s)	Balance as at December 31, 2008	Balance as at December 31, 2007
Property and equipment	\$ (29,639)	\$ 340
Asset retirement obligation	2,971	796
Attributed Canadian Royalty Income	119	109
Share issue cost	618	429
Tax loss carryforwards	15,843	6,310
Other	(306)	0
	(10,394)	7,984
Less: Valuation allowance	-	(6,214)
Future income tax asset (liability)	\$ (10,394)	\$ 1,770

As at December 31, 2008, the Company had tax deductions of approximately \$319,534,000 that are available to shelter future taxable income (\$129,238,000 - 2007). Included in this amount are non-capital losses totaling \$61,796,000 (\$24,458,000 - 2007). Of this amount \$2,541,000 expires in 2015, \$18,125,000 expires in 2026, \$16,777,000 expires in 2027 and \$24,353,000 expires in 2028.

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

The Company is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to commodity prices and interest rate risk, as well as liquidity risk and credit risk.

Market Risk

Market risk is the risk or uncertainty arising from possible natural gas price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk and interest rate risk.

a) Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. While the Company has not historically employed the use of various financial instruments to manage these price exposures, the Company currently has the following contract in place as a result of the acquisition of Cordero:

Contract type	Volume (GJ/d)	Pricing Point	Price (\$/GJ)	Term
Collar	4,000	AECO	9.00 floor / 17.15 ceiling	Nov 08 - Mar 09

The carrying value of the collar noted above is adjusted to fair market value at each financial statement reporting period. Realized and unrealized gains or losses on the instrument are reflected in earnings in each period. Valuation of the instrument is conducted by an arm's length third party expert utilizing applicable valuation techniques.

Based on Ember's year to date sales volumes, a change of \$0.10 Cdn in natural gas prices at the wellhead would have the effect of changing pre-tax earnings for the year by \$474,000.

b) Interest Rate Risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Company's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Company's strategy is to manage interest rate risk within the current framework. If interest rates were to change by 1% it is estimated that pre tax earnings for the year would change by \$431,000.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cashflows and external equity sources, and undrawn committed borrowing facilities to meet current spending forecasts. Of the Company's liabilities, \$16.5 million mature in 2008 as current liabilities become due. Long term liabilities include capital leases and credit facilities which are due over a number of years.

Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. 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 small 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 a minimum of four high quality marketers also under normal industry terms. Ember generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

As at December 31, the aging analysis of trade receivables is as follows:

	2008
Current	\$ 7,061
30 - 60 days	663
60 - 90 days	253
greater than 90 days	920
Allowance for impaired accounts in the greater than 90 day category	(100)
Total	<u>\$ 8,797</u>

Subsequent to the year end the company collected over 50% of the accounts in the greater than 90 days category.

As at December 31, 2008, approximately 44% of the accounts receivable balance is due from 3 customers, compared to 0% at December 31, 2007. The increase in credit concentration is due to gas marketers being brought on to incorporate the increased production due to the acquisition of Cordero. These customers are considered to have high credit worthiness.

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

As at December 31, 2008 the Company fully evaluated its accounts receivable and determined that a provision for \$100,000 was required in addition to the \$173,000 of bad debts written off during the year. The allowance and bad debt provisions relate entirely to the greater than 90 day category. The Company believes that the remaining balance will be fully recoverable.

Balance Sheet Financial Instruments

The Company's financial instruments on the balance sheet consist of accounts receivable, current liabilities, derivative financial instruments and credit facilities. The carrying values reflect the current fair value of the financial instruments given their short terms to maturity and the nature of the respective instruments except for the derivative financial instruments. The derivative financial instruments are adjusted to fair market value at each financial statement reporting period.

11. CAPITAL STRUCTURE FINANCIAL POLICIES

Ember defines capital as debt and shareholders' equity comprised of retained earnings and share capital. Ember's primary capital management objective is to maintain a strong balance sheet affording the Company financial flexibility to achieve goals of continued growth and access to capital. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in the business environment. The Company manages its capital structure and makes adjustments according to market conditions to maintain flexibility while achieving the objectives stated above. To manage the capital structure, the Company may adjust capital spending, issue new shares, hedge various risks, draw on or expand debt facilities, or repay existing debt.

The Company monitors its progress through the following two measures utilizing book values: net debt to cash flow from operations and total debt to total debt and shareholders' equity. Net debt to cash flow from operations is calculated as current liabilities and long term debt (if any) less current assets divided by the most recent quarter's annualized cash flow from operations. Total debt to total debt plus shareholders' equity is calculated as short term debt plus long-term debt divided by short term debt plus long term debt plus shareholders' equity.

Ember's long-term strategy is to maintain debt to cash flow from operations at or below a level of 1.5 to 1. While the Company may exceed this rate from time to time, variations are viewed as short term, and efforts are made after a period of variation to bring the measure back in line. Ember's strategy is to utilize more equity than debt. This is measured by targeting total debt to total debt plus shareholders' equity at a ratio of less than 0.5 to 1. The Company has no externally imposed capital requirements.

(\$000s)	Target Measure	December 31, 2008 \$	December 31, 2007 \$
Components of ratios			
Current assets		11,197	4,352
Current liabilities (including short term debt)		16,493	24,033
Short term debt (including short term capital lease commitments)		4,434	18,599
Long term debt (including long term capital lease commitments)		97,720	-
Total debt		102,154	18,599
Net debt		103,016	19,681
Shareholders' equity		251,548	81,198
Total capitalization (total debt + shareholders' equity)		353,702	99,797
Cash flow from operations ¹ (three months ended December 31 annualized)		38,324	6,208
Net debt/cash flow from operations	< 1.5 times	2.69	3.17
Total debt/total debt plus shareholders' equity	< 0.5 times	0.29	0.19

¹ Cash flow from operations is a non-GAAP measure defined as the following based on the current quarter's information: operating cash flow less asset retirement expenditures (if any) less changes in non-cash working capital related to operating activities, all annualized

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital were comprised of the following (\$000s):	Year ended December 31, 2008	Year ended December 31, 2007
Accounts receivable	\$ 2,882	\$ 360
Prepaid expenses	37	(41)
Accounts payable and accrued liabilities	(4,224)	(1,442)
Current portion of capital lease	(6)	
Net change	\$ (1,311)	\$ (1,123)
Net change by activity:		
Operating	\$ 6,108	\$ 247
Investing	(7,419)	(1,370)
Net change	\$ (1,311)	\$ (1,123)
Cash interest paid	\$ 2,070	\$ 509
Cash taxes paid	\$ -	\$ -

Ember Resources Inc.
Notes to the Consolidated Financial Statements
December 31, 2008

(tabular amounts in thousands unless otherwise indicated)

13. COMMITMENTS

In May 2007, the Company entered into an agreement with AltaGas Operating Partnership ("AltaGas") for the processing of natural gas in Ember's Acme area located at Acme, Alberta. The agreement required AltaGas to construct gathering and processing facilities to enable the delivery and sale of natural gas by Ember and other third parties, in exchange for a commitment from Ember to pay the greater of, a fee calculated as monthly volume at an established rate per Mcf, or an established minimum monthly processing fee. The minimum monthly fee is based on an estimate of gas throughput ranging from 5 to 9 MMcf per day. The commitment ends on the earlier of December 1, 2013 or the delivery of a total of 16.8 Bcf. Committed payments are outlined in the table below as processing commitments, these amounts are charged to well operating expense as volumes are processed.

Ember has entered into firm transportation delivery agreements enabling the Company to ensure delivery of some of its natural gas products. The commitments provide for minimum delivery volumes at set prices and result in the payment schedule outlined below under Natural Gas Transportation whether or not any actual gas deliveries occur.

As at December 31, 2008 (\$000s)	Natural Gas Transportation	Processing Commitments	Office lease	Total
2009	\$ 1,130	\$ 2,697	\$ 434	\$ 4,261
2010	989	3,419	-	4,408
2011	886	3,449	-	4,335
2012	244	3,388	-	3,632
2013	133	2,483	-	2,616
Total	\$ 3,382	\$ 15,436	\$ 434	\$ 19,252

14. SUBSEQUENT EVENTS

Subsequent to the year end the Company closed a number of minor non-core property sales consisting primarily of undeveloped land for cash proceeds totaling \$700,000.

Subsequent to the year end the Company closed a property acquisition consisting primarily of royalty interests on assets owned and operated by Ember in the Acme area. The acquisition for cash totaling \$3,500,000 had an effective date of October 1, 2008 and will be accounted for as of the closing date of the transaction.

Subsequent to the year end the Company concluded an interim review of its credit facilities resulting in the adjustments in note 5.