

# EMBER RESOURCES INC.

## Third Quarter Highlights

	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
<b>FINANCIAL HIGHLIGHTS</b>						
<i>(000s, except per share amounts)</i>						
Natural gas sales	\$ 2,411	\$ 2,431	(1)	\$ 9,448	\$ 6,630	43
Funds from operations	\$ 1,054	\$ 1,162	(9)	\$ 4,542	\$ 2,571	77
– per share basic and diluted	\$ 0.03	\$ 0.03	–	\$ 0.13	\$ 0.08	63
Net income (loss)	\$ (767)	\$ (1,040)	26	\$ (1,142)	\$ (3,212)	64
– per share basic and diluted	\$ (0.02)	\$ (0.04)	50	\$ (0.03)	\$ (0.11)	73
Capital investment additions	\$ 6,856	\$ 12,204	(44)	\$ 13,809	\$ 28,834	(52)
Property acquisition	\$ –	\$ –	–	\$ 8,806	\$ –	NA
Total assets	\$ 100,047	\$ 82,597	21	\$ 100,047	\$ 82,597	21
Net debt (surplus)	\$ 14,228	\$ (7,143)	299	\$ 14,228	\$ (7,143)	299
Average shares – basic and diluted	36,097	30,418	19	34,859	30,418	15
<b>OPERATING HIGHLIGHTS</b>						
<i>(000s, except per unit amounts)</i>						
Daily average gas production (mcf/d)	5,174	4,972	4	5,375	4,166	29
Daily average production (boe/d)	862	829	4	896	694	29
Average sales price (\$/mcf)	5.07	5.31	(5)	6.44	5.83	10
Royalties (\$/mcf)	0.19	0.53	(64)	0.38	0.73	(48)
Operating expenses (\$/mcf)	1.05	1.44	(27)	1.15	1.63	(29)
Transportation expenses (\$/mcf)	0.22	0.19	16	0.20	0.23	(13)
Operating netback (\$/mcf)	3.61	3.15	15	4.71	3.24	45
Operating netback (\$/boe)	21.68	18.92	15	28.19	19.46	45
CBM wells drilled (gross/net)	23.0/19.8	20.0/19.5	15/2	24.0/20.8	27.0/26.5	(11)/(22)
– Mannville	0/0	3.0/2.5	(100)/(100)	1.0/1.0	3.0/2.5	(67)/(60)
– Horseshoe Canyon	23.0/19.8	17.0/17.0	35/16	23.0/19.8	24.0/24.0	(4)/(18)
Land (000s of net acres)	297	300	(1)	297	300	(1)

# QUARTERLY HIGHLIGHTS

## Financial

- ▶ Funds from operations of \$1.1 million (\$0.03 per share) declined 9% from third quarter 2006. Higher production rates, and lower operating costs and royalties offset a decrease in the average natural gas price and higher general and administrative costs and higher financing costs.
- ▶ The Company continued to move closer to profitability recording a \$0.8 million loss as compared to a \$1.0 million loss in third quarter 2006.
- ▶ Ember's net debt including working capital increased to \$14.2 million at the end of the quarter as drilling was ramped up to move the Company's Acme property to its planned production start-up in late November.
- ▶ Net debt at year end is forecast at \$22 million drawn on a \$25 million line of credit. When including production and cash flow from the Acme property, the Company's debt to cash flow ratio is estimated at 1.6 times on an annualized basis.
- ▶ In the Alberta government's recent changes to royalties paid by industry, CBM resources were identified as a future source of energy and a new industry for Alberta and given favourable treatment to encourage development.

## Operations

- ▶ Quarterly capital expenditures of \$6.9 million were dedicated to drilling in Ember's two Horseshoe Canyon projects. Drilling commenced in July and 23 wells (19.8 net) were drilled by the end of the quarter; an additional 15 wells (15 net) were drilled in October.
- ▶ Quarterly production averaged 5.2 mmcf/d, up 4% from the same period in 2006 and a small increase from this year's second quarter. Current production is estimated at 6.0 mmcf/d.
- ▶ Production growth of 4.0 mmcf/d is being forecast by the end of the year as wells from the recent drilling campaign are tied in and with start-up of Ember's Acme property. The 2007 exit rate is forecast at 10.0 mmcf/d.
- ▶ Well tie-ins are being planned to coincide with start-up of a gas processing plant at the end of November at the Company's Acme property. The facility and pipeline infrastructure are being constructed by AltaGas Income Trust ("AltaGas") as part of a long-term processing agreement for Ember's CBM resources in the Acme area.

# CHAIRMAN'S MESSAGE

## EMBER HAS RECORDED EXCELLENT DRILLING RESULTS FROM ITS LOW RISK, LOW COST HORSESHOE CANYON PROGRAMS WHICH KICKED-OFF IN JULY IN TWO CORE AREAS.

The drilling campaign is continuing in the fourth quarter. By year end, the tie-in of new drills and start-up of a new gas plant at Acme are expected to increase exit production to the range of 10 mmcf/d. Near-term growth will continue to come from low risk Horseshoe Canyon drilling, while Ember builds on its CBM expertise in the Mannville coals.

### Excellent Horseshoe Canyon drilling

By the end of the quarter, 23 new Horseshoe Canyon wells (19.8 net) had been drilled, rising to 41 new wells (36.6 net) with 13 tied-in and producing (13 net) at the end of October. The remaining 28 new drills, along with nine existing shut-in wells, should be onstream by the end of the year. The tie-ins will significantly increase production to the targeted 2007 exit rate of 10 mmcf/d.

At Fenn-Big Valley 17 wells (14.7 net) were drilled during the quarter resulting in 16 successful wells (13.7 net) and one junked and abandoned well (1.0 net). An additional well (0.3 net) was drilled in October. Thirteen of the wells (13.0 net) were put on production in late September and October; the remaining wells should be on production by the end of the year. Two existing wellbores were also recompleted in the Fenn area.

At Acme six wells (5.1 net) were drilled in the quarter and another 17 wells (16.5 net) were drilled in October for a total of 23 (21.6 net) wells. Ember had planned 28 wells in this program; however, five wells have been rescheduled for the first quarter of 2008 due to access issues. In addition to the new drills, nine shut-in wells (8.5 net) will be tied-in to new facilities currently under construction.

Results to date are very encouraging and have exceeded Ember's base expectations. Logged wellbores indicate good accumulations of Horseshoe Canyon coals, as well as multiple conventional sands in the Edmonton and Belly River formations. Completion activity at Acme is expected to be done by the end of November to coincide with the start-up of gas processing and pipeline infrastructure being constructed by AltaGas in the area. AltaGas has indicated that the plant will be available for start-up prior to the end of November, which will enable Ember to bring new wells onstream in stages with full production expected by mid-December.

### Mannville results encouraging

Capital spending on Mannville CBM during the quarter was limited to remedial work on existing wells in the Rosalind area, primarily installation of new pumping equipment intended to reduce downtime caused by coal fines migration and to lower operating costs. New capital initiatives continue to be deferred until there is a sustained recovery in natural gas prices.

Despite no new investment in Mannville programs, results to date are encouraging. Six horizontal wells continue to produce from the Mannville coals. Productivity from these wells has been substantially higher but, as single-well drainage points, they have declined from their peaks due to lack of cumulative de-pressuring in the surrounding coals. To achieve higher sustainable rates, a number of infill locations are required to expand the drainage area. Successful multi-well programs have been demonstrated by operators in the Corbett Creek area where 140 horizontal wells have reached total production of 70 mmcf/d.

Industry activity in the Mannville coals increased during the third quarter with 15 rigs and up to nine operators drilling horizontal wells in various areas in Alberta. This renewed activity, including the application of numerous technologies, will provide additional data points and a greater technical understanding which ultimately will assist in the realization of the potential of this significant resource.

### Changes to the Alberta royalties

In late October, the Alberta government announced changes to royalties paid to the province to be effective on January 1, 2009. The province has identified non-conventional resources, such as CBM and the oil sands, as future industries for Alberta and changes to the royalty structure are designed to encourage further development.

Under the new royalty regime Ember will see a 50% decrease in the amount of Crown royalties paid. Based on Ember's 2007 exit rate and a natural gas price of \$7.00/mcf, this translates to annual savings of \$1.5 million.

In addition, the investment profile was improved for low productivity, long-life Horseshoe Canyon wells as the royalty rate was reduced by as much as 50% for wells that produce 100 mcf/d or less. These rate reductions will continue at lessening amounts up to \$10.50/mcf.

Ember believes that two other changes will have long-term benefits to the Company and the CBM industry. Firstly, an incentive was introduced for gas wells with total measured depths in excess of 2,000 metres. Typical single-leg horizontal Mannville wells have measured depths of 2,000-2,500 metres. The second initiative is the shallow rights reversion which will require shallow zones, such as the Horseshoe Canyon coals, to revert back to the Crown for resale when the existing lease is held by deeper production.

### Outlook

Natural gas fundamentals continue to point to an excess of supply relative to demand creating uncertainty in near-term prices. During this period of price weakness, the Company is conservatively managing its capital projects to maintain financial flexibility. Priority will be given to projects that show economic returns in the current pricing environment and will benefit the most from a recovery in natural gas prices.

Production is expected to average 6.0 mmcf/d for the year, which is at the lower end of the previously released guidance. Capital spending has been trimmed \$3 million to \$32 million for the year due to deferral of five wells in the Acme program and cost savings. As a result, the 2007 exit rate is now estimated to be 10 mmcf/d (previously 11 mcf/d). Forecasted net debt at year end is expected to be \$22 million drawn on \$25 million of available lines of credit.

Ember is well positioned for future growth in 2008 and beyond. With 200 drilling locations on Horseshoe Canyon coals, the Company has a three-year inventory of low-risk development drilling which provides a source of near-term production growth. When combined with new royalty incentives for Mannville coals, Ember is well positioned to continue to convert resources to reserves across its substantial CBM asset base.

On behalf of the Board



**Douglas Dafoe**  
*Chairman and Chief Executive Officer*

*November 12, 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 and nine month periods ended September 30, 2007. The Company’s financial results have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The MD&A includes comparisons for the corresponding three and nine month periods ended September 30, 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 and nine month periods ended September 30, 2007, and the audited financial statements and MD&A for the year 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 November 6, 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 or coalbed methane (“CBM”) in the province of Alberta, Canada. The Company operates in four principal geographic areas of Alberta: Horseshoe Canyon coal areas of Acme and Fenn-Big Valley, both located north-east of Calgary; and Mannville coal prospective areas of Rosalind located south-east of Edmonton, and Manola located north-west of Edmonton. At September 30, 2007 the Company held interests in 297,000 net acres of developed and undeveloped land, and produced at an average rate for the nine month period ended September 30, 2007 of 5,375 mcf/d (896 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.

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 consisted 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 on 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.

In May 2007, the Company renegotiated its credit facility resulting in an available facility totaling \$25 million. The facility is available in two Tranches: Tranche A, a revolving \$15 million operating facility for general corporate purposes; and Tranche B, a non-revolving \$10 million development facility for the development of the Company's Acme property.

In May 2007, a long-term processing agreement for Ember's newly acquired Acme property was signed with Ember's partner AltaGas Income Fund ("AltaGas"). Under the agreement, AltaGas agreed to construct all of the required processing and pipeline infrastructure; in return Ember will pay a processing fee and dedicate its gas production and reserves in the area to the facility. Total cost to construct the infrastructure is estimated at \$12 million.

Since inception, Ember has drilled 83 gross (79.8 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 a current rate of 6,000 mcf/d (1,000 boe/d), an increase of 157%.

### Third Quarter 2007 Review

The following are highlights of the nine month period ended September 30, 2007.

#### Financial

Funds from operations of \$1.1 million (\$0.03 per share) declined 9% from third quarter 2006. Higher production rates, and lower operating costs and royalties offset a decrease in the average natural gas price and higher general and administrative costs and higher financing costs.

The Company continued to move closer to profitability recording a \$0.8 million loss as compared to a \$1.0 million loss in third quarter 2006.

Ember's net debt including working capital increased to \$14.2 million at the end of the quarter as drilling was ramped up to move the Company's Acme property to its planned production start-up in late November.

Net debt at year end is forecast at \$22 million drawn on a \$25 million line of credit. When including production and cash flow from the Acme property, the Company's debt to cash flow ratio is estimated at 1.6 times on an annualized basis.

In the Alberta government's recent changes to royalties paid by industry, CBM resources were identified as a future source of energy and a new industry for Alberta and given favourable treatment to encourage development.

#### Operations

Quarterly capital expenditures of \$6.9 million were dedicated to drilling in Ember's two Horseshoe Canyon projects. Drilling commenced in July and 23 wells (19.8 net) were drilled by the end of the quarter; an additional 15 wells (15 net) were drilled in October.

Quarterly production averaged 5.2 mmcf/d, up 4% from the same period in 2006 and a small increase from this year's second quarter. Current production is estimated at 6 mmcf/d.

Production growth of 4 mmcf/d is being forecast by the end of the year as wells from the recent drilling campaign are tied in and the start up of our Acme property. The 2007 exit rate is forecast at 10 mmcf/d.

Well tie-ins are being planned to coincide with start-up of a gas processing plant at the end of November at the Company's Acme property. The facility and pipeline infrastructure are being constructed by AltaGas as part of a long-term processing agreement for Ember's CBM resources in the Acme area.

## Loss and Funds from Operations<sup>(1)</sup>

A loss of \$1.1 million was recorded for the nine month period ended September 30, 2007 compared to loss of \$3.2 million for the nine month period ended September 30, 2006. Funds from operations were \$4.5 million for the nine month period ended September, 2007 compared to \$2.6 million for the nine month period ended September 30, 2006.

(\$000s)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
Loss and comprehensive loss for the period	(767)	(1,040)	(26)	(1,142)	(3,212)	(64)
Add items not involving cash						
Depreciation, depletion and accretion	1,546	1,730	(11)	4,868	4,290	13
Stock-based compensation	275	472	(42)	816	1,493	(45)
<b>Funds from operations<sup>(1)</sup></b>	<b>1,054</b>	<b>1,162</b>	<b>(9)</b>	<b>4,542</b>	<b>2,571</b>	<b>77</b>

<sup>(1)</sup> See "Non-GAAP earnings Measurements"

## Netback Analysis

The following tables summarize Ember's operating netback and funds from operations on an mcf and boe basis for the three and nine months ended September 30, 2007 and 2006.

(\$/mcf)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
Natural gas revenues	5.07	5.31	(5)	6.44	5.83	10
Royalties	(0.19)	(0.53)	(64)	(0.38)	(0.73)	(48)
	4.88	4.78	2	6.06	5.10	19
Operating expense	(1.05)	(1.44)	(27)	(1.15)	(1.63)	(29)
Transportation expense	(0.22)	(0.19)	16	(0.20)	(0.23)	(13)
Operating netback	3.61	3.15	15	4.71	3.24	45
Interest and other income	-	0.10	(100)	-	0.21	(100)
General and administrative expense	(1.12)	(0.71)	58	(1.37)	(1.19)	15
Interest expense	(0.29)	0.00	NA	(0.24)	0.00	NA
<b>Funds from operations</b>	<b>2.20</b>	<b>2.54</b>	<b>(13)</b>	<b>3.10</b>	<b>2.26</b>	<b>37</b>

(\$/boe)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
Natural gas revenues	30.40	31.89	(5)	38.64	34.98	10
Royalties	(1.13)	(3.20)	(65)	(2.32)	(4.38)	(47)
	29.27	28.69	2	36.32	30.60	19
Operating expense	(6.30)	(8.61)	(27)	(6.92)	(9.76)	(29)
Transportation expense	(1.29)	(1.16)	11	(1.21)	(1.38)	(12)
Operating netback	21.68	18.92	15	28.19	19.46	45
Interest and other income	-	0.58	(100)	-	1.26	(100)
General and administrative expense	(6.69)	(4.26)	57	(8.19)	(7.16)	14
Interest expense	(1.73)	0.00	NA	(1.42)	0.00	NA
<b>Funds from operations</b>	<b>13.26</b>	<b>15.24</b>	<b>(13)</b>	<b>18.58</b>	<b>13.56</b>	<b>37</b>

## Product Pricing

	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
<b>Natural Gas</b>						
NYMEX average price (US\$/mcf)	<b>6.16</b>	6.09	1	<b>6.96</b>	6.62	5
AECO / Nymex differential (US\$/mcf)	<b>(1.22)</b>	(1.03)	18	<b>(1.01)</b>	(1.12)	(5)
Average foreign exchange rate (Cdn\$/US\$)	<b>0.957</b>	0.892	7	<b>0.907</b>	0.883	3
AECO average price (Cdn\$/mcf)	<b>5.16</b>	5.68	(9)	<b>6.56</b>	6.23	5
Corporate differential (Cdn\$/mcf)	<b>(0.09)</b>	(0.37)	(76)	<b>(0.12)</b>	(0.40)	(70)
Ember average price (Cdn\$/mcf)	<b>5.07</b>	5.31	(5)	<b>6.44</b>	5.83	10
Transportation (Cdn\$/mcf)	<b>(0.22)</b>	(0.19)	16	<b>(0.20)</b>	(0.23)	(13)
<b>Ember wellhead price (Cdn\$/mcf)</b>	<b>4.85</b>	5.12	(5)	<b>6.24</b>	5.60	11

Soft gas prices through much of 2006 and 2007 have caused a contraction of capital programs on an industry wide basis in Canada resulting in emerging gas supply challenges. This coupled with storage reductions from a fairly cold February of this year in North America had created expectations for a continuing price rally through 2007. However, building storage through the summer of 2007 has stalled any such rally and resulted in decreased current prices and uncertainty in near term futures prices. Factors which will have an immediate impact on gas prices are: the supply demand balance in North America, imports of LNG, demand destruction, weather patterns, drilling trends in both Canada and the US and overall economic activity.

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 H<sub>2</sub>S and minor amounts of CO<sub>2</sub>. Ember currently receives pricing that averages approximately 2% less than the weighted average of AECO (based on Ember's weighted average volumes) in Canadian dollars which reflects the slightly lower heating content of CBM gas.

## Revenue and Production

	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
Natural gas revenue (\$000s)	<b>2,411</b>	2,431	(1)	<b>9,448</b>	6,630	43
Average natural gas production (mcf/d)	<b>5,174</b>	4,972	4	<b>5,375</b>	4,166	29
Average natural gas production (boe/d)	<b>862</b>	829	4	<b>896</b>	694	29
Total natural gas production (mcf)	<b>475,998</b>	457,438	4	<b>1,467,303</b>	1,137,293	29
Total natural gas production (boe)	<b>79,333</b>	76,240	4	<b>244,551</b>	189,549	29

Ember drilled one gross Mannville well (one net) in the first half of 2007. During the third quarter of 2007, the Company participated in the drilling of 23 gross Horseshoe Canyon wells (19.8 net), of these wells, 11 of these Horseshoe Canyon wells were on production by late in the quarter, and as a result production contributed by the new wells during the quarter was limited. The Company expects that the remaining new Horseshoe Canyon wells will be tied in and producing during the remainder of the fourth quarter.

The Company's current production and sales rate at the date of this report is approximately 6,000 mcf/d. Production was up 2% from the second quarter 2007.

Revenue decreased by 1% in the three months ended September 30, 2007 compared to the same period in 2006 and increased by 43% in the nine months ended September 30, 2007 compared to the same period in 2006. The changes were caused by increases in production levels by 4% in the third quarter of 2007 and 29% for the nine months ended September 2007 compared to the same periods in 2006. Production increases were a result of drilling programs occurring in the winter and fall of 2006 and were attributed primarily to the Horseshoe Canyon project at Fenn-Big Valley where the Company has drilled over 80 wells from late 2005 through 2007. Average prices decreased by 5% in the three months ended September 30, 2007 and increased by 10% in the nine months ended September 30, 2007 over the same periods in 2006.

Horseshoe Canyon production increased 8% from 4,689 mcf/d (782 boe/d) in Q3 2006 to average 5,064 mcf/d (844 boe/d) in Q3 2007. The Mannville projects in Manola and Rosalind, excluding those that are in pre-production status, decreased production by 61% to an average of 110 mcf/d (18 boe/d) in Q3 2007 from 283 mcf/d (47 boe/d) in Q3 2006. Ember's current mix of production consists entirely of CBM natural gas with 98% produced from the Horseshoe Canyon and 2% from Mannville formations during Q3, 2007.

The Company's current production is derived primarily from its Fenn-Big Valley area wells which produce from coals in the Horseshoe Canyon formation. In the short-term, this trend is expected to continue as the Company is currently focusing on Horseshoe Canyon drilling opportunities in its Acme and Fenn-Big Valley areas. Over the long-term, Ember's production is expected to shift from Horseshoe Canyon dominated; to a blend that includes more production from 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 Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
<i>(\$/mcf)</i>						
Total natural gas royalties (\$000s)	<b>90</b>	244	(63)	<b>569</b>	830	(31)
Crown royalties per unit	<b>0.16</b>	0.45	(64)	<b>0.37</b>	0.67	(45)
Freehold royalties per unit	<b>0.03</b>	0.08	(63)	<b>0.01</b>	0.06	(83)
Total royalties per unit	<b>0.19</b>	0.53	(64)	<b>0.38</b>	0.73	(48)
Royalties as a % of revenue	<b>3.7</b>	10.0	(63)	<b>6.0</b>	12.6	(52)
<i>(\$/boe)</i>						
Total natural gas royalties (\$000s)	<b>90</b>	244	(63)	<b>569</b>	830	(31)
Crown royalties per unit	<b>0.95</b>	2.72	(65)	<b>2.24</b>	4.01	(44)
Freehold royalties per unit	<b>0.18</b>	0.48	(63)	<b>0.08</b>	0.37	(78)
Total royalties per unit	<b>1.13</b>	3.20	(65)	<b>2.32</b>	4.38	(47)
Royalties as a % of revenue	<b>3.7</b>	10.0	(63)	<b>6.0</b>	12.6	(52)

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).

Crown royalties were significantly lower for both the three and nine months ended September 30, 2007 as compared to 2006 due to annual gas cost allowance and custom processing fee credits received in Q2 and Q3 2007. The credits received from the Crown are based on the Company's actual pipeline and facility expenditures in the preceding year. Rates are also lower due to a shift in the Company's production mix, with more production coming from Ember's lower royalty rate Fenn wells. Ember's production is primarily from Horseshoe Canyon wells (averaging year to date 96%) which initially average 50-125 mcf/d per well, resulting in normalized royalty rates that currently average approximately 7.5% after factoring in the increased monthly gas cost allowance and custom processing fees.

In late October 2007, the Alberta government announced changes to royalties paid to the province to be effective on January 1, 2009. The province has identified non-conventional resources, such as CBM and the oil sands, as future industries for Alberta and changes to the royalty structure are designed to encourage further development.

Under the new royalty regime, Ember will see a 50% decrease in the amount of Crown royalties paid. Based on Ember's 2007 exit rate and a natural gas price of \$7.00/mcf, this translates to annual savings of \$1.5 million. In addition, the investment profile was improved for low productivity long-life Horseshoe Canyon wells as the royalty rate was reduced by as much as 50% for wells that produce 100 mcf/d or less. These rate reductions will continue at lessening amounts up to \$10.50/mcf.

Ember believes that two other changes will have long-term benefits to the Company and the CBM industry. Firstly, an incentive was introduced for gas wells with total measured depths in excess of 2,000 metres. Typical single-leg horizontal Mannville wells have measured depths of 2,000-2,500 metres. The second initiative is the shallow rights reversion which will require shallow zones, such as the Horseshoe Canyon coals, to revert back to the Crown for resale when the existing lease is held by deeper production.

## Operating and Transportation Expense

	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
Total operating expenses (\$000s)	<b>500</b>	656	(24)	<b>1,692</b>	1,850	(9)
\$ per mcf	<b>1.05</b>	1.44	(27)	<b>1.15</b>	1.63	(29)
\$ per boe	<b>6.30</b>	8.61	(27)	<b>6.92</b>	9.78	(29)
Horseshoe Canyon operating expenses (\$000s)	<b>315</b>	486	(35)	<b>1,138</b>	1,353	(16)
\$ per mcf	<b>0.68</b>	1.13	(40)	<b>0.81</b>	1.34	(40)
\$ per boe	<b>4.05</b>	6.78	(40)	<b>4.86</b>	8.04	(40)
Mannville operating expenses (\$000s)	<b>185</b>	170	9	<b>554</b>	497	11
\$ per mcf	<b>18.21</b>	6.54	178	<b>8.62</b>	3.87	123
\$ per boe	<b>109.26</b>	39.24	178	<b>51.70</b>	23.22	123
Transportation expense (\$000s)	<b>104</b>	88	18	<b>297</b>	261	14
\$ per mcf	<b>0.22</b>	0.19	16	<b>0.20</b>	0.23	(13)
\$ per boe	<b>1.29</b>	1.16	11	<b>1.21</b>	1.38	(13)

Company operating costs per unit averaged \$1.05/mcf (\$6.30/boe) for the third quarter 2007 compared with \$1.44/mcf (\$8.61/boe) for the third quarter 2006. Operating costs on a per unit basis have decreased from Q3 2006 as Ember is realizing operating efficiencies at its Fenn-Big Valley area. The efficiencies achieved result from an increasing base of production from well additions, improved facility utilization, and a fixed overhead level that has remained fairly constant.

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 and Acme wells (Horseshoe Canyon) averaged approximately \$0.68/mcf (\$4.05/boe) for the third quarter 2007 compared with \$1.13/mcf (\$6.78/boe) in the same period in 2006. Operating costs on a per unit basis have decreased from Q3 2006 as Ember is realizing operating efficiencies. The efficiencies achieved result from an increasing base of production from well additions, improved facility utilization, and a fixed overhead level that has remained fairly constant.

The Company's Rosalind and Manola wells (Mannville) currently incur higher operating costs with relatively low gas production rates as the wells are at the early dewatering stage of their production lives. Operating costs for Mannville production averaged \$18.21/mcf (\$109.26/boe) for the third quarter 2007 compared with \$6.54/mcf (\$39.24/boe) for the same period in 2006. These increases in unit operating costs were primarily due to reduced gas production in the quarter, and reductions in capitalized Mannville pre-production costs. 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 increased to the range of \$0.22/mcf (\$1.29 /boe).

## Depletion, Depreciation, and Accretion

	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
DD&A expense (\$000s)	<b>1,546</b>	1,730	(11)	<b>4,868</b>	4,290	13
\$ per mcf	<b>3.25</b>	3.78	(14)	<b>3.32</b>	3.77	(12)
\$ per boe	<b>19.48</b>	22.69	(14)	<b>19.90</b>	22.63	(12)

For the first nine months of 2007, depletion and depreciation of capital assets and the accretion of the asset retirement obligations ("DD&A") increased by 13% to \$4.9 million from \$4.3 million during the same period in 2006. The increase reflected a 29% production increase and a 12% decrease in the per unit DD&A rate from \$22.63/boe to \$19.90/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 \$33.0 million of unproved asset costs from the depreciation and depletion calculation for the third quarter of 2007 compared to \$35.8 million during the same period in 2006. 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 for the third quarter of 2007 also included \$28.6 million of estimated future development costs related to proved undeveloped reserves that form a key part of Ember's reserve base during the third quarter of 2007 compared to \$9.2 million during the same period in 2006. This increase is primarily the result of the Acme acquisition during the quarter.

### General and Administrative Expenses

(\$000s)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
Gross G&A Expenses	<b>767</b>	668	15	<b>2,780</b>	2,296	21
Indirect Capitalized G&A	<b>(133)</b>	(142)	(6)	<b>(583)</b>	(472)	24
Capital overhead recoveries	<b>(107)</b>	(202)	(47)	<b>(195)</b>	(468)	(58)
<b>Net G&amp;A expense</b>	<b>527</b>	324	63	<b>2,002</b>	1,356	48
\$ per mcf	<b>1.12</b>	0.71	58	<b>1.37</b>	1.19	15
\$ per boe	<b>6.69</b>	4.26	58	<b>8.19</b>	7.14	15

Net general and administrative expenses ("G&A") totaled \$2.0 million or \$1.37/mcf (\$8.19/boe) for the first nine months of 2007 compared with \$1.4 million or \$1.19/mcf (\$7.14/boe) for the same period in 2006. The comparatively high overall G&A costs per unit of production reflect the start-up nature and growth phase of Ember's business. Per unit costs are expected to decrease with increased drilling activity and production growth.

Indirect G&A expenses totaling \$583,000 (\$472,000 – 2006) were capitalized during the nine month period ending September 30, 2007. Indirect G&A expenses totaling \$133,000 (\$142,000 – 2006) were capitalized during the three month period ending September 30, 2007.

### Stock-based Compensation

Stock-based compensation expense totaled \$0.28 million for the three month period ended September 30, 2007 compared to \$0.47 million for the same period in 2006. Stock-based compensation expense totaled \$0.82 million for the nine month period ended September 30, 2007 compared to \$1.49 million for the same period in 2006. The reduction in both the three and nine month periods is due primarily to the timing, number, original fair market value and age of the options. The options vest over three years and since the majority of the options have reached the two year vesting mark, a declining amount of the total expense remains to be charged to the income statement. Further reductions in this expense would be expected through the balance of 2007 and 2008 assuming that no further material changes occur to the plan through new issuances of options.

During the third quarter Ember cancelled 410,000 options to certain non-insider employees that had exercise prices ranging from \$5.79 to \$7.90 and a remaining term of 3.3 to 3.6 years. The same employees were issued 410,000 replacement options with a new term of 5 years, new vesting provisions, vesting equally over 3 years commencing from the date of re-grant, and a strike price of \$2.25. The replacement options were issued at a time when Ember shares were trading at \$1.85. As a result of these transactions and other new option issuances, Ember has a total of 2,225,000 stock options issued at an average exercise price of \$4.11 per share and 1,200,000 performance shares issued as of September 30, 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 \$123.8 million which are available to shelter future taxable income. The Company has unrecorded potential future income tax assets for accounting purposes totaling \$9.8 million resulting primarily from deductible temporary differences. These differences are the result of deductions for tax purposes in excess of deductions for accounting purposes. The Company has not recorded a future income tax asset at this time (by recording a valuation allowance) as it does not currently meet the conditions to demonstrate taxable operations.

During the second quarter of 2007, Ember submitted tax filings related to its research efforts in developing processes to exploit coal bed methane in Mannville coals. These filings classified \$17.2 million of applicable Mannville costs as scientific research and experimental development deduction pools ("SRED"), a 100% deductible pool which is available for carry-forward up to 20 years (this amount is reflected in the table of carry-forwards below). In addition, Ember has related tax credits totaling \$3.4 million which may be applied against tax payable and are able to be carried forward for up to 20 years. During the third quarter of 2007 the Canada Revenue Agency ("CRA") conducted audit work on Ember's SRED submissions. Further audit work will be conducted in the fourth quarter of 2007. It is common practice for CRA to audit the majority of SRED submissions. At the date of this MD&A there is not any new SRED information available related to filed submissions.

The following table outlines carry-forward tax deductible and credit amounts.

As at September 30, 2007 (\$000s)

COGPE	<b>51,585</b>
CEE	<b>70</b>
CDE	<b>16,361</b>
SRED	<b>17,167</b>
CCA classes	<b>17,108</b>
Share issue costs	<b>1,830</b>
Non capital loss carry-forwards	<b>19,724</b>
<b>Total tax deductions</b>	<b>123,845</b>
<b>Total tax credits</b>	<b>3,434</b>

## Capital Expenditures

(\$000s)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Percentage change	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006	Percentage change
Land	<b>52</b>	69	(25)	<b>187</b>	2,277	(92)
Drilling and completions	<b>5,307</b>	6,612	(20)	<b>10,538</b>	16,217	(35)
Equipment and facilities	<b>1,518</b>	5,523	(73)	<b>3,105</b>	10,340	(70)
Asset additions for cash						
(including abandonment expense)	<b>6,877</b>	12,204	(44)	<b>13,830</b>	28,834	(52)
Property acquisitions	<b>0</b>	0	NA	<b>8,806</b>	0	NA
Non cash asset additions						
Abandonment assets	<b>468</b>	313	50	<b>610</b>	515	18
Capitalized stock based compensation	<b>213</b>	277	(23)	<b>534</b>	823	(35)
<b>Total asset additions</b>	<b>7,558</b>	12,794	(41)	<b>23,780</b>	30,172	(21)

During the first nine months of 2007, capital expenditures totaled \$23.8 million, all of which were funded through working capital, the issue of equity, bank borrowings and cash flow.

During the first nine months of 2007, the Company drilled a total of 24.0 gross (20.8 net) wells, compared to 27.0 gross (26.5 net) during the same period in 2006. Cash expenditures for the Acme property acquisition, land, drilling, completion, equipping and facility construction totaled \$22.6 million for the period.

For 2007, including spending to date, the revised capital budget is estimated at \$32 million. The Company anticipates drilling a total of 41 new Horseshoe Canyon wells (36.6 net) and one horizontal Mannville well (1 net) in 2007. To the end of September 2007, 24 gross (20.8 net) wells were drilled so far in Fenn, Acme and Manola. In addition, nine existing shut-in wells at Acme will be placed on production. Funding will come from cash flow and the existing lines of credit.

## Quarterly Results

Ember's quarterly summaries for the most recent two year period to date are as follows:

<i>(\$000s except per share amounts and volumes)</i>	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Sales gas (mmcf/d)	<b>5,174</b>	5,068	5,890	6,107
Average natural gas price (\$/mcf)	<b>5.07</b>	6.98	7.21	6.74
Gross revenue	<b>2,411</b>	3,217	3,820	3,784
Royalty expense	<b>90</b>	119	360	227
Operating and transportation expense	<b>604</b>	630	755	869
General and administrative expense	<b>527</b>	808	667	602
Stock-based compensation expense	<b>275</b>	243	298	435
Interest expense	<b>136</b>	101	109	–
Depletion, depreciation and accretion expense	<b>1,546</b>	1,584	1,738	1,921
Net earnings (loss)	<b>(767)</b>	(268)	(107)	(300)
– per share basic and diluted	<b>(0.02)</b>	(0.01)	(0.00)	(0.01)
Funds from operations <sup>(1)</sup>	<b>1,054</b>	1,559	1,929	2,057
– per share basic	<b>0.03</b>	0.04	0.06	0.07
– per share diluted	<b>0.03</b>	0.04	0.06	0.07
Property and equipment additions	<b>6,856</b>	2,382	4,571	6,007
Property acquisitions	–	–	8,806	–
Shares outstanding (000s)	<b>36,103</b>	36,075	36,075	30,415
<i>(\$000s except per share amounts and volumes)</i>	Q3 2006	Q2 2006	Q1 2006	Q4 2005
		<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>
Sales gas (mmcf/d)	4,972	4,225	3,282	2,475
Average natural gas price (\$/mcf)	5.31	5.72	6.77	11.55
Gross revenue	2,431	2,200	1,999	2,630
Royalty expense	244	360	226	239
Operating and transportation expense	744	840	527	409
General and administrative expense	324	526	499	384
Stock-based compensation expense	472	519	502	214
Interest expense	–	–	–	–
Depletion, depreciation and accretion expense	1,730	1,433	1,127	704
Net earnings (loss)	(1,040)	(1,427)	(745)	925
– per share basic and diluted	(0.04)	(0.05)	(0.02)	0.03
Funds from operations <sup>(1)</sup>	1,162	525	884	1,855
– per share basic	0.03	0.02	0.03	0.06
– per share diluted	0.03	0.02	0.03	0.06
Property and equipment additions	12,204	5,078	11,553	26,659
Property acquisitions	–	–	–	–
Shares outstanding (000s)	30,415	30,417	30,419	30,419

<sup>(1)</sup> See “Non-GAAP Measurements”

## Liquidity and Capital Resources

### Capitalization and Capital Resources

Share Capital (000s)	September 30, 2007
<b>Outstanding Common Shares</b>	
Weighted average outstanding Common Shares <sup>(1)</sup>	
– Basic	34,859
– Diluted	34,859
<b>Outstanding securities at September 30, 2007</b>	
– Common Shares	36,103
– Common Share options	2,225
– Performance Shares	1,200
<b>Outstanding securities at October 31, 2007</b>	
– Common Shares	36,103
– Common Share options	2,225
– Performance Shares	1,200

<sup>(1)</sup> 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 September 30, 2007 was \$ 59 million.

(\$000s, except per share amount)	September 30, 2007
Common Shares outstanding	36,103
Share price <sup>(1)</sup>	\$ 1.63
<b>Total market capitalization</b>	<b>\$ 58,848</b>

<sup>(1)</sup> Represents the closing price on the TSX on September 30, 2007.

### Capital Resources

At September 30, 2007, the Company had a working capital deficiency of \$14.2 million. This includes \$11.9 million drawn on Tranche A the Company's demand revolving credit facility of \$15.0 million. The Company has not yet drawn on Tranche B of the facility which is available in the amount of \$10.0 million for development of the Company's Acme area.

The Company's additions to property and equipment for the nine month period ended September 30, 2007 totaling \$13.8 million consisted primarily of expenditures for one net Mannville well drilled in first quarter 2007, and 19.8 net Horseshoe Canyon wells that were drilled in third quarter 2007, as well as 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 working interest in 16,960 acres of land (11,960 net). These activities were funded by funds from operations, existing working capital and the equity issue described above.

## Current available resources

(\$000s)

Capital resources	
Working capital deficiency September 30, 2007	(14,228)
Bank debt available	25,000
<b>Total capital resources available</b>	<b>10,772</b>

Ember's revised total capital budget for 2007 is \$32 million which includes capital expenditures of \$23.8 million already incurred during the nine months ended September 30. This budget is expected to result in drilling of a total of 41 new Horseshoe Canyon wells (36.6 net) and one horizontal Mannville wells (1 net) as well as the acquisition of the Acme property announced earlier this year. To the end of September 2007, Ember drilled a total of 24 gross (20.8 net) wells in Fenn, Acme and Manola. In addition to the remaining drilling program in 2007, the Company expects to place on production nine existing shut-in wells at Acme prior to the year end. Funding will come from cash flow and the Company's existing lines of credit.

## Bank Facility

As at September 30, 2007, the Company has a \$25.0 million demand operating and development credit facility with a Canadian chartered bank. The facility is available in two tranches: Tranche A, a revolving \$15.0 million operating facility for oil and gas and general corporate purposes; and Tranche B, a non-revolving \$10.0 million development facility for the development of the Company's Acme property.

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. The applicable margin charged by the bank is dependent upon the Company's debt to trailing cash flow ratio. The Banker's Acceptances for Tranche A 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. Tranche B borrowing bears interest at the Tranche A rate plus 150 basis points.

At the date of this report, November 6, 2007 Ember had drawn approximately \$13,900,000 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 September 30, 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](http://www.sedar.com) or [www.emberresources.com](http://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 Canadian 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 Canadian 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 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 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 nine 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](http://www.sedar.com). This information includes the Company's initial 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](http://www.emberresources.com).

# BALANCE SHEETS

<i>(\$ thousands) (unaudited)</i>	As at September 30, 2007	As at December 31, 2006
<b>Assets</b> <i>(note 3)</i>		
Current assets		
Accounts receivable <i>(note 8)</i>	\$ 2,979	\$ 4,430
Prepaid expenses	249	241
	<b>3,228</b>	4,671
Property and equipment <i>(note 3)</i>	<b>96,819</b>	77,739
	<b>\$ 100,047</b>	\$ 82,410
<b>Liabilities</b>		
Current liabilities		
Bank loan <i>(note 4)</i>	\$ 11,934	\$ 8,890
Accounts payable and accrued liabilities	5,522	6,876
	<b>17,456</b>	15,766
Asset retirement obligation <i>(note 5)</i>	<b>3,305</b>	2,527
	<b>20,761</b>	18,293
Commitments <i>(Note 10)</i>		
<b>Shareholders' Equity</b>		
Share capital <i>(note 6)</i>	<b>77,956</b>	62,894
Contributed surplus <i>(note 6)</i>	<b>4,862</b>	3,613
Deficit	<b>(3,532)</b>	(2,390)
	<b>79,286</b>	64,117
	<b>\$ 100,047</b>	\$ 82,410

See accompanying notes to financial statements

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

<i>(\$ thousands, except per share amounts) (unaudited)</i>	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006
<b>Revenue</b>				
Natural gas sales	\$ 2,411	\$ 2,431	\$ 9,448	\$ 6,630
Royalties	(90)	(244)	(569)	(830)
Interest income	-	43	-	238
	<b>2,321</b>	2,230	<b>8,879</b>	6,038
<b>Expenses</b>				
Operating	500	656	1,692	1,850
Transportation	104	88	297	261
General and administrative	527	324	2,002	1,356
Stock based compensation (note 6)	275	472	816	1,493
Interest	136	-	346	-
Depletion, depreciation and accretion	1,546	1,730	4,868	4,290
	<b>3,088</b>	3,270	<b>10,021</b>	9,250
Loss and comprehensive loss for the period	<b>(767)</b>	(1,040)	<b>(1,142)</b>	(3,212)
Retained earnings (deficit), beginning of period	<b>(2,765)</b>	(1,050)	<b>(2,390)</b>	1,122
Deficit, end of period	<b>\$ (3,532)</b>	\$ (2,090)	<b>\$ (3,532)</b>	\$ (2,090)
<b>Loss per share (note 6)</b>				
Basic and diluted	<b>\$ (0.02)</b>	\$ (0.04)	<b>\$ (0.03)</b>	\$ (0.11)

See accompanying notes to financial statements

# STATEMENTS OF CASH FLOWS

(\$ thousands) (unaudited)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006
<b>Operating activities</b>				
Loss and comprehensive loss for the period	\$ (767)	\$ (1,040)	\$ (1,142)	\$ (3,212)
Add items not involving cash				
Depletion, depreciation and accretion	1,546	1,730	4,868	4,290
Stock based compensation expense	275	472	816	1,493
Abandonment expenditures	(21)	(45)	(21)	(45)
Change in non-cash working capital related to operating activities (note 9)	(373)	885	894	860
	<b>660</b>	<b>2,002</b>	<b>5,415</b>	<b>3,386</b>
<b>Financing activities</b>				
Proceeds on issuance of share capital, net of share issuance costs	-	-	14,961	-
Bank loan	4,019	-	3,044	-
Cancellation of private placement shares	-	(4)	-	(7)
	<b>4,019</b>	<b>(4)</b>	<b>18,005</b>	<b>(7)</b>
<b>Investing activities</b>				
Short-term investments	-	3,000	-	8,500
Additions to property and equipment	(6,856)	(12,204)	(13,809)	(28,834)
Acquisition of property and equipment	-	-	(8,806)	-
Change in non-cash working capital related to investing activities (note 9)	2,177	6,457	(805)	5
	<b>(4,679)</b>	<b>(2,747)</b>	<b>(23,420)</b>	<b>(20,329)</b>
<b>Decreases in cash and cash equivalents</b>	<b>-</b>	<b>(749)</b>	<b>-</b>	<b>(16,950)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>-</b>	<b>1,395</b>	<b>-</b>	<b>17,596</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ -</b>	<b>\$ 646</b>	<b>\$ -</b>	<b>\$ 646</b>

See accompanying notes to financial statements

# NOTES TO THE INTERIM FINANCIAL STATEMENTS

September 30, 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 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 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.

The carrying value of accounts receivable, accounts payable, and bank loan approximated their fair values as at September 30, 2007 due to the immediate or short term maturity of these instruments.

#### **Future Accounting Policies**

In addition, the Company has assessed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an 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 standards increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standards carry 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 standard, 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 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

### 3. Property and Equipment

September 30, 2007 (\$000s)	Cost	Accumulated Depreciation	September 30, 2007 Net Book Value
Natural gas properties	\$ 108,401	\$ (11,668)	\$ 96,733
Office and computer hardware and software	449	(363)	86
<b>Total</b>	<b>108,850</b>	<b>(12,031)</b>	<b>96,819</b>

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
<b>Total</b>	<b>85,071</b>	<b>(7,332)</b>	<b>77,739</b>

The third quarter 2007 depletion calculation excluded unproved properties of \$33,044,000 (\$35,750,000 – three months ended September 30, 2006). These properties consist of undeveloped land and assets with no assigned reserves that are held for future development. At September 30, 2007 a total of \$28,589,000 of future development costs were included in the depletion calculation (\$9,182,000 – three months ended September 30, 2006). General & Administrative expenses totalling \$583,000 (\$472,000 – nine months ended September 30, 2006) were capitalized during the nine months ended September 30, 2007. General & Administrative expenses totalling \$133,000 (\$142,000 – three months ended September 30, 2006) were capitalized during the three months ended September 30, 2007. Stock based compensation costs totalling \$534,000 (\$823,000 – nine months ended September 30, 2006) were capitalized during the nine months ended September 30, 2007. Stock based compensation costs totalling \$213,000 (\$277,000 – three months ended September 30, 2006) were capitalized during the three months ended September 30, 2007.

### 4. Bank Loan

The Company has a \$25,000,000 demand revolving operating credit facility with a Canadian chartered bank. The facility is available in two tranches: Tranche A, a revolving \$15,000,000 operating facility for oil and gas and general corporate purposes; and Tranche B, a non-revolving \$10,000,000 development facility for the development of the Company's Acme property. The credit facility provides that advances may be made by way of direct advances and Banker's Acceptances for both Tranches, or standby letters of credit/guarantees for Tranche A only. Direct advances for Tranche A bear interest at the bank's prime lending rate plus an applicable margin for Canadian dollar advances and at the bank's U.S. base rate plus an applicable margin for U.S. dollar advances. The applicable margin charged by the bank is dependent upon the Company's debt to trailing cash flow ratio. The Banker's Acceptances for Tranche A 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. Tranche B borrowing bears interest at the Tranche A rate plus 150 basis points.

The average interest rate on borrowings during the nine months ended September 30, 2007 was 6.08% (nil – 2006). The average interest rate on borrowings during the three months ended September 30, 2007 was 6.22% (nil – 2006). A fixed and floating charge debenture on the assets of the Company have been provided as collateral. At September 30, 2007 the Company had drawn \$11,934,000 on Tranche A of the facility and nil amount on Tranche B.

## 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 \$6,081,000 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 obligations:

(\$000s)	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Balance, beginning of period	\$ 2,527	\$ 1,952
Liabilities incurred	737	538
Liabilities settled	(21)	(45)
Revisions	(106)	(22)
Accretion expense	168	133
<b>Balance, end of period</b>	<b>\$ 3,305</b>	<b>\$ 2,556</b>

## 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)
<b>Common Shares</b>		
Outstanding as at December 31, 2006	30,415	62,880
Private placement shares issued	5,660	15,000
Common shares issued on conversion of performance shares	28	2
Reclassified from contributed surplus	-	101
Share issue costs	-	(39)
<b>Outstanding as at September 30, 2007</b>	<b>36,103</b>	<b>77,944</b>
<b>Performance Shares</b>		
Outstanding as at December 31, 2006	1,370	14
Performance shares converted to common	(114)	(2)
Performance shares cancelled	(56)	-
<b>Outstanding as at September 30, 2007</b>	<b>1,200</b>	<b>12</b>
<b>Total share capital as at September 30, 2007</b>		<b>77,956</b>

### Net loss per share

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

Weighted average Common Shares (000s)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006
Basic and Diluted	36,097	30,416	34,859	30,418

The weighted average number of Common Shares is the same for the basic and diluted loss per share calculation as the Company has incurred a loss in the periods presented and the options have an anti-dilutive effect.

## 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 3,610,000 shares authorized under the plan are reduced by the 1,200,000 Common Shares issuable on the exercise of the Performance Shares, leaving 2,410,000 available for other share options.

During the third quarter Ember cancelled 410,000 options to certain non-insider employees that had exercise prices ranging from \$5.79 to \$7.90 and a remaining term of 3.3 to 3.6 years. The same employees were issued 410,000 replacement options with a new term of 5 years, new vesting provisions, vesting equally over 3 years commencing from the date of re-grant, and a strike price of \$2.25.

Share options issued have a term of five years, and vest equally over a period of three years. At September 30, 2007 outstanding share options had a remaining contractual life of 4.19 years, and were exercisable at prices ranging from \$2.19 to \$7.90. At September 30, 2007 317,000 options and 800,000 performance shares had vested and were exercisable.

The following table sets forth a reconciliation of stock option plan activity through to September 30, 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
Granted	50	2.19
Cancelled	(126)	6.42
Balance June 30, 2007	1,865	5.51
Granted	785	2.33
Cancelled	(425)	6.94
<b>Balance September 30, 2007</b>	<b>2,225</b>	<b>4.11</b>

## Stock based Compensation

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

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

(\$000s)	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Opening balance December 31	\$ 3,613	\$ 586
Stock based compensation expense	298	502
Stock based compensation capitalized to property and equipment	201	377
Balance, March 31	4,112	1,465
Stock based compensation expense	243	519
Stock based compensation capitalized to property and equipment	120	169
Balance, June 30	4,475	2,153
Stock based compensation expense	275	472
Stock based compensation capitalized to property and equipment	213	277
Re-classed to share capital on exercise of performance shares	(101)	-
<b>Balance, September 30</b>	<b>\$ 4,862</b>	<b>\$ 2,902</b>

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:

	Nine months ended September 30, 2007
Risk free interest rate (%)	<b>3.93 – 4.64</b>
Expected life (years)	<b>4.00</b>
Expected volatility (%)	<b>57 – 61</b>
Dividends	<b>Nil</b>
<b>Results (per share)</b>	
Fair value of options granted	<b>\$ 0.82 – \$ 1.34</b>

## 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 Sept. 30, 2007	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006
Income (Loss) before income taxes	<b>\$ (767)</b>	\$ (1,040)	<b>\$ (1,142)</b>	\$ (3,212)
Statutory income tax rate	<b>32.12%</b>	34.50%	<b>32.12%</b>	34.50%
Expected income taxes (recovery)	<b>\$ (246)</b>	\$ (359)	<b>\$ (367)</b>	\$ (1,108)
Add (deduct):				
Non-deductible Crown charges	-	42	-	113
Resource allowance	-	5	-	11
Stock based compensation	<b>88</b>	163	<b>262</b>	515
Rate adjustments and other	<b>15</b>	-	<b>31</b>	-
	<b>(143)</b>	(149)	<b>(74)</b>	(469)
Less: Valuation allowance	<b>143</b>	149	<b>74</b>	469
<b>Future income tax expense</b>	<b>\$ -</b>	\$ -	<b>\$ -</b>	\$ -

### Future Income Taxes

(\$000s)	Balance as at September 30, 2007	Balance as at December 31, 2006
Property and equipment	<b>\$ 2,283</b>	\$ 2,991
Asset retirement obligation	<b>1,005</b>	770
Share issue cost	<b>556</b>	696
Tax loss carryforwards	<b>5,996</b>	5,309
	<b>9,840</b>	9,766
Less: Valuation allowance	<b>(9,840)</b>	(9,766)
<b>Future income tax asset</b>	<b>\$ -</b>	\$ -

As at September 30, 2007, the Company had tax deductions of approximately \$123,845,000 that are available to shelter future taxable income. Included in this amount is a non-capital loss of \$19,724,000 of which \$2,252,000 expires in 2015 and the balance in 2026 and 2027. The Company also has investment tax credits totaling \$3,434,000 that are available for application against future tax payable, of this amount \$539,000 expire in 2015 and the balance 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:

(\$000s)	Three months ended Sept. 30, 2007	Three months ended Sept. 30, 2006	Nine months ended Sept. 30, 2007	Nine months ended Sept. 30, 2006
Accounts receivable	\$ 9	\$ (2,087)	\$ 1,451	\$ (3,239)
Prepaid expenses	(85)	(158)	(8)	(346)
Accounts payable and accrued liabilities	1,880	9,587	(1,354)	4,450
Net change	\$ 1,804	\$ 7,342	\$ 89	\$ 865
Net change by activity:				
Operating	(373)	\$ 885	\$ 894	\$ 860
Investing	2,177	6,457	(805)	5
Net change	1,804	\$ 7,342	\$ 89	\$ 865
Cash interest paid	\$ 123	\$ -	\$ 295	\$ -
Cash taxes paid	\$ -	\$ -	\$ -	\$ 35

## 10. Commitments

In May 2007, the Company entered into an agreement with AltaGas Income Fund ("AltaGas") for the processing of natural gas in Ember's Acme area located at Acme, Alberta. The agreement requires AltaGas to construct gathering and processing facilities to enable the delivery and sale of natural gas by Ember and other third parties, in exchange for a commitment from Ember to pay the greater of, a fee calculated as monthly volumes at an established rate per mcf, or an established minimum monthly processing fee. The minimum monthly fee is based on an estimate of gas throughput ranging from 5 to 9 mmcf per day. The commitment ends on the earlier of November 1, 2013 or the delivery of a total of 15.33 bcf. Committed payments are outlined in the table below as processing commitments.

As at September 30, 2007 (\$000s)	Equipment Rental Commitment	Processing Commitments	Office lease	Total
2007	\$ 17	\$ 310	\$ 74	\$ 401
2008	52	1,989	294	2,335
2009		2,761	221	2,982
2010		3,356	-	3,356
2011		3,000	-	3,000
2012		2,621	-	2,621
2013		1,933	-	1,933
Total	\$ 69	\$ 15,970	\$ 589	\$ 16,628

# 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** <sup>(1) (3)</sup>  
*Independent Businessman*

**Colin Boyer, P.Eng.** <sup>(2) (4)</sup>  
*Independent Businessman*

**Fox Benton III, MBA** <sup>(1) (3)</sup>  
*Independent Businessman*

**Thomas Drolet, P.Eng.** <sup>(2) (3)</sup>  
*Independent Businessman*

**Jack Peltier** <sup>(1) (2) (4)</sup>  
*President  
Ipperwash Resources Inc.*

**Jeff van Steenberg, P.Eng.** <sup>(2) (4)</sup>  
*General Partner  
Kern Partners*

**Richard Todd** <sup>(3)</sup>  
*Chairman, Chief Executive Officer  
OSUM Corp.*

## Officers

**Doug Dafoe, CA**  
*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*

**Steve Gell, P.Eng.**  
*Vice President, Production*

## 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  
McDaniel & Associates  
Consultants Ltd.

## Transfer Agent and Registrar

Olympia Trust Company

## Stock Exchange

Toronto Stock Exchange  
Trading Symbol: EBR

## Head Office

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## Abbreviations

bb(s)	barrel(s)
mbbls	thousand barrels
mmcf	million cubic feet
bcf	billion cubic feet
trcf	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