



Management's Discussion and Analysis

Statements made throughout this quarterly report may contain forward-looking statements including expectations of future production, cash flow and earnings. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause actual results to differ from those anticipated. These risks include, but are not limited to: the risks associated with the oil and gas industry (e.g. operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses; health, safety and environmental risks); and commodity price and exchange rate fluctuations. Additional information on these and other factors that could affect Ember Resources Inc.'s ("Ember" or the "Company") operations or financial results are included in Ember's reports on file with Canadian securities regulatory authorities.

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited financial statement of Ember Resources Inc (the "Company" or "Ember") as at June 30, 2005. This MD&A was prepared as at August 9, 2005.

Ember was incorporated pursuant to the Business Corporations Act (Alberta) on June 3, 2005. The Company had not carried on any active business as at June 30, 2005.

Basis of Presentation

The financial data presented below has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The reporting and the measurement currency is the Canadian dollar.

Liquidity and Capital Resources

Ember has both short-term and long-term capital requirements. In the short-term, working capital will be required to finance accounts receivable, drilling deposits and other similar short-term assets; whereas, long-term capital is required for the acquisition and development of coal bed methane properties. There are essentially four methods of financing Ember's capital needs, being internally generated cash flow, long-term debt, equity and farm-out arrangements.

Ember will meet these capital needs through internally generated cash flow, long-term debt and equity. As at June 30, 2005, the Company had a working capital surplus of \$1.

Developments Subsequent to June 30, 2005

On July 7, 2005, Thunder Energy Inc. ("Thunder"), Mustang Resources Inc. ("Mustang"), and Forte Resources Inc. ("Forte") closed the Plan of Arrangement (the "Arrangement") previously announced on May 3, 2005. Under the Arrangement, Ember acquired certain natural gas rights associated with coal from Thunder and will be engaged in the acquisition, development and production of coal bed methane gas reserves. Ember will assume all liabilities, including environmental liabilities, relating to the transferred assets. The assets and liabilities acquired will be recorded in the financial statements at the corresponding book values in the accounts of Thunder.

Ember completed a private placement for \$6.0 million on July 7, 2005. This private placement consisted of 3,108,808 common shares issued at \$1.93 per share to employees, directors and service providers of Ember. The common shares are held in escrow and released equally on January 9, 2006, July 10, 2006 and July 5, 2007.

The Company issued 1,400,000 non-voting performance shares without nominal or par value to Ember service providers at a price of \$0.01 per share. Each performance share is convertible into a fraction of an Ember common share equal to the closing price on the Toronto Stock Exchange on the trading day prior to conversion less \$1.93, divided by the closing price of an Ember common share on the trading day prior to such conversion. The performance shares will vest and automatically convert into Ember common shares equally on each of the first, second and third anniversaries from the date of grant if the holder is an Ember service provider on such date.

On July 7, 2005, Ember entered into an agreement with a Canadian chartered bank to provide credit facilities of \$2.5 million. The credit facilities bear interest at the prime rate plus an applicable margin. The credit facilities are secured by a charge over all of the assets of Ember.

On August 9, 2005, Ember announced it entered into a bought deal financing agreement to issue 7.0 million common shares at a price of \$7.15 per share on a private placement basis for total gross proceeds of \$50,050,000. Completion of the transaction is subject to receipt of all necessary regulatory approvals and is expected to close in August 2005.

Share Capital

Common shares

Ember is authorized to issue an unlimited number of common shares. Common shareholders are entitled to one vote per share at meetings of Ember shareholders, to receive dividends if, as and when declared by the Board of Directors and to receive pro rata the remaining property and assets of Ember upon dissolution or winding-up, subject to the rights of shares having priority over the common shares.

As at August 9, 2005, there were 22,049,021 common shares issued and outstanding of which 3,108,808 were held in escrow.

On August 9, 2005, Ember announced it entered into a bought deal financing agreement to issue 7.0 million common shares at a price of \$7.15 per share on a private placement basis for total gross proceeds of \$50,050,000. Completion of the transaction is subject to receipt of all necessary regulatory approvals and is expected to close in August 2005.

Non-voting common shares

Ember is authorized to issue an unlimited number of Ember non-voting common shares. Holders of Ember non-voting shares are entitled to receive dividends if, as and when declared by the Board of Directors and to receive pro rata the remaining property and assets of Ember upon its dissolution or wind up, subject to the rights of shares having priority over the Ember non-voting common shares. Holders of Ember non-voting common shares are not entitled to vote at meetings of shareholders of Ember except as required under the Alberta Business Corporations Act. As at August 9 2005 there were no non-voting common shares issued and outstanding.

Performance shares

Ember is authorized to issue up to 1,400,000 performance shares without nominal or par value. The performance shares rank junior to the common shares. Holders of performance shares are not entitled to vote at meetings of shareholders of Ember except as required under the Alberta Business Corporations Act and are entitled to receive dividends. Holders of performance shares will not be entitled to receive any property or assets of Ember upon its dissolution or winding-up other than an amount of \$0.01 per share in preference over the common shares.

As at August 9 2005 there were 1,400,000 performance shares issued and outstanding. These performance shares were sold at a price of \$0.01 per share to certain employees, contractors, officers and directors of Ember (the "Ember Service Providers") prior to the completion of the Arrangement.

Upon a holder ceasing to be an Ember Service Provider, Ember will, subject to applicable law, redeem the performance shares held by such holder at a redemption price of \$0.01 per share. In the event that Ember is unable to pay the redemption price in accordance with applicable law, the performance shares which were to be redeemed will be cancelled and the former holders will only have the right to receive \$0.01 per share.

Risks and Uncertainties

Industry and Environmental Matters

The petroleum industry is competitive in all its phases. Ember will compete with numerous other participants in the search for the acquisition of coal bed methane properties and in the marketing of natural gas. Its competitors will include companies which have greater financial resources, staff and facilities than those of Ember. Ember's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for future development.

The marketability of natural gas acquired or discovered will be affected by numerous factors beyond the control of Ember. These factors include reservoir characteristics, market fluctuations, the proximity and capacity of natural gas pipelines and processing equipment and government regulation. Natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government which may be amended from time to time. Ember's natural gas operations may also be subject to compliance with federal, provincial and local laws and regulations controlling the discharge of materials into the environment or otherwise relating to the protection of the environment.

Volatility of Gas Prices and Markets

Natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of Ember's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in a reduction in the volumes of Ember's reserves. Ember might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Ember's net production revenue causing a reduction in its acquisition and development activities. In addition, bank borrowings available to Ember will in part be determined by the company's borrowing base. A sustained material decline in prices from historical average prices could further reduce such borrowing base, therefore reducing the bank credit available and could require that a portion of its bank debt be repaid.

From time to time Ember may enter into agreements to receive fixed prices on its natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Ember will not benefit from such increases.

Price Volatility of Publicly Traded Securities

In recent years, the securities markets in Canada and the United States have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered to be development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. It is likely that the market price for the Ember Shares will be subject to market trends generally, notwithstanding the financial and operational performance of the respective companies.

Risks related to Coal Bed Methane operations

The extraction of natural gas from coal in Canada is in its infancy. To date commercial development of coal bed methane has occurred in certain coal formations while other coal formations are still in the pilot and experimental stages. The majority of Ember's properties are undeveloped and in the pilot stage. Ember will be using new technologies, drilling and completion techniques to advance its properties to commercial development. There is no certainty that these investments will result in commercial development of Ember's properties. Development of coal bed methane will result in both regulatory and environmental issues, including surface access for drilling and production operations and water disposal requirements. These regulatory and environmental issues may limit Embers access to its properties and cause delays in their development.

Operational Risks

Coal bed methane operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts and cratering, each of which could result in substantial damage to wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, Ember will not be fully insured against all of these risks, nor are all such risks insurable. Although Ember will maintain liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event Ember could incur significant costs that could have a materially adverse effect upon its financial condition. Natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Coal bed methane activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Ember and may delay coal bed methane activities. To the extent Ember will not be the operator of its properties, the company will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators. In addition, the success of Ember will be largely dependent upon the performance of its management and key employees. Ember does not have any key man insurance policies and, therefore, there is a risk that the death or departure of any member of management or any key employee could have a material adverse affect on the company.

Technology Risk

Ember will rely on information technology to manage its day to day operations and perform reporting obligations including the preparation of financial statements, reporting to joint partners, and various governments in relation to payment of royalties and taxes.

Permits and Licenses

The operations of Ember may require licenses and permits from various governmental authorities. There can be no assurance that Ember will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development at its projects.

Foreign Currency Exposure

From time to time Ember may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar or the risk of increased repayments on United States dollar denominated debt if the Canadian dollar declines in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, it will not benefit from the fluctuating exchange rate.

Title to Properties

Although title reviews will be done according to industry standards prior to the purchase of most natural gas producing properties or the commencement of drilling wells as determined appropriate by management, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat a claim of Ember which could result in a reduction of the revenue received by the company.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of reserves and cash flows to be derived therefrom, including many factors beyond the control of Ember. These evaluations include a number of assumptions relating to factors such as initial production rates, production decline rates, ultimate recovery of reserves, timing and amount of capital expenditures, marketability of production, future prices of oil and natural gas, operating costs and royalties and other government levies that may be imposed over the producing life of the reserves. These assumptions are based on price forecasts in use at the date the relevant evaluations are prepared and many of these assumptions are subject to change and are beyond the control of Ember. Actual production and cash flows derived therefrom will vary from these evaluations, and such variations could be material. These evaluations are based in part on the assumed success of exploitation activities intended to be undertaken in future years. The reserves and estimated cash flows to be derived therefrom contained in such evaluations will be reduced to the extent that such exploitation activities do not achieve the level of success assumed in the evaluations.

Reserve Replacement

Ember's future natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on successfully acquiring, developing or discovering new reserves. Without the continual addition of new reserves, any existing reserves Ember may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in reserves will depend not only on Ember's ability to develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Ember's future coal bed methane efforts will result in the discovery and development of additional commercial accumulations of natural gas.

Substantial Capital Requirements; Liquidity

Ember may have to make substantial capital expenditures for the acquisition, exploration, development and production of natural gas reserves in the future. Ember may have limited ability to expend the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the company. Moreover, future activities may require Ember to alter its capitalization significantly. The inability of the company to access sufficient capital for its operations could have a material adverse effect on its financial condition, results of operations or prospects.

Issuance of Debt

From time to time Ember may enter into transactions to acquire assets or shares of other corporations. These transactions may be financed partially or wholly through debt, which may increase debt levels above industry standards. Ember's articles and by-laws do not limit the amount of indebtedness it may incur. The level of Ember's indebtedness from time to time could impair its ability to obtain additional financing in the future on a timely basis to take advantage of business opportunities that may arise.

Kyoto Protocol

In 1994, the United Nations' Framework Convention on Climate Change came into force and three years later led to the Kyoto Protocol which will require nations to reduce their emissions of carbon dioxide and other greenhouse

gases. In December 2002, the Government of Canada ratified and signed the Kyoto Protocol. The Kyoto Protocol has now come into effect. As a result of the ratification of the Kyoto Protocol and the adoption of legislation or other regulatory initiatives designed to implement its objectives by the federal or provincial governments, reductions in greenhouse gases from crude oil and natural gas producers may be required which could result in, among other things, increased operating and capital expenditures for those producers, including Ember, which may make certain production of crude oil and natural gas by those producers uneconomic resulting in reductions in such production. Until such legislation or other regulatory initiatives are finalized, the impact of the Kyoto Protocol and any such legislation adopted as a result of its ratification remains uncertain. The direct or indirect costs of such legislation or regulatory initiatives may adversely affect the business of Ember.

Abandonment and Reclamation Costs

Ember will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to resources and various properties in western Canada. Such claims, in relation to any of Ember's lands, if successful, could have an adverse effect on its operations.

Corporate Matters

To date, Ember has not paid any dividends on its outstanding common shares. Certain of the directors and officers of Ember are also directors and officers of other oil and gas companies involved in natural resource exploration and development, and conflicts of interest may arise between their duties as officers and directors of Ember, as the case may be, and as officers and directors of such other companies.

Possible Failure to Realize Anticipated Benefits of Acquisitions

Ember may complete acquisitions to strengthen its position in the natural gas industry and to create the opportunity to realize certain benefits including, among other things, potential cost savings. Achieving the benefits of any future acquisitions depends, in part, on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as Ember's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with its own. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees and the disruption of ongoing business, customer and employee relationships that may adversely affect Ember's ability to achieve the anticipated benefits of these and future acquisitions.

Ember Resources Inc.
Balance Sheet
As at June 30, 2005
(unaudited)

Assets

Current

Cash	\$ 1
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Shareholders' Equity

Share capital (Note 2)	\$ 1
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Subsequent events (Note 3)	
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See accompanying notes

Ember Resources Inc.

Notes to Financial Statement (unaudited)

1. Incorporation and Financial Presentation

Ember Resources Inc. ("Ember") was incorporated pursuant to the *Business Corporations Act* (Alberta) on June 3, 2005. The Company was inactive from the date of incorporation to June 30, 2005. This financial statement has been prepared in accordance with Canadian generally accepted accounting principles.

2. Share Capital

Authorized

- (a) An unlimited number of voting common shares without nominal or par value;
- (b) An unlimited number of non-voting common shares without nominal or par value; and
- (c) 1,400,000 non-voting performance shares without nominal or par value. Each performance share is convertible into a fraction of an Ember common share equal to the closing price on the Toronto Stock Exchange on the trading day prior to conversion less \$1.93, divided by the closing price of an Ember common share on the trading day prior to such conversion. The performance shares will vest and automatically convert into Ember common shares equally on each of the first, second and third anniversaries from the date of grant if the holder is an Ember service provider on such date.

Issued

Common shares	# Shares	Amount
Issued on initial organization on June 3, 2005	1	\$ 1
Balance as of June 30, 2005	1	\$ 1

3. Subsequent Event

On July 7, 2005, following shareholder approval, Thunder Energy Inc. ("Thunder"), Mustang Resources Inc. ("Mustang"), and Forte Resources Inc. ("Forte") closed the Plan of Arrangement (the "Arrangement") previously announced on May 3, 2005. Voting common shares were issued in connection with the Arrangement. Under the Arrangement, Ember acquired certain oil and gas properties from Thunder and will be engaged in the acquisition, development and production of coal bed methane gas reserves. Ember will assume all liabilities, including environmental liabilities, relating to the transferred assets. The assets and liabilities acquired will be recorded in the financial statements at the corresponding book values in the accounts of Thunder. These amounts have not yet been determined.

A private placement of common shares to raise \$6,000,000 was closed on July 7, 2005. This private placement consisted of 3,108,808 common shares issued at \$1.93 per share to employees, directors and service providers of Ember. The common shares are held in escrow and released equally on January 9, 2006, July 10, 2006 and July 5, 2007. The 1,400,000 non-voting performance shares described in Note 2 were issued on July 7, 2005 to Ember service providers at a price of \$0.01 per share.

On August 9, 2005, Ember announced that it had entered into a bought deal financing agreement to issue 7.0 million common shares at a price of \$7.15 per share on a private placement basis for total gross proceeds of \$50,050,000. Completion of the transaction is subject to receipt of all necessary regulatory approvals and is expected to close in August 2005.

On July 7, 2005, Ember entered into an agreement with a Canadian chartered bank to provide credit facilities of \$2.5 million. The credit facilities bear interest at the prime rate plus an applicable margin. The credit facilities will be secured by a charge over all of the assets of Ember.