

## Management's Discussion and Analysis

### Ember's Business

Ember is a natural gas exploration and production company focused on extraction of coalbed methane ("CBM") natural gas in the province of Alberta, Canada. The Company operates in three principal geographic areas of Alberta: Fenn-Big Valley located north-east of Calgary; Rosalind located south-east of Edmonton; and Manola located north-west of Edmonton. At December 31, 2005 the Company held interests in 308,000 net acres of developed and undeveloped land, and produced at an average rate for the six months ended December 31, 2005 of 2,415 mcf/d (403 boe/d).

### 2005 Review

Ember commenced operations on July 12, 2005. The following are milestones reached during the period from inception to December 31, 2005.

The Company was formed pursuant to a Plan of Arrangement (the "Arrangement") among Thunder Energy Inc. ("Thunder"), Mustang Resources Inc., Forte Resources Inc., Thunder Energy Trust and the Company. Pursuant to the Arrangement, Ember acquired certain coalbed methane gas properties from Thunder. The Company began operations with approximately 350 boe/d of production and a nearly 290,000 net acre land position.

On July 12, 2005 the Company was listed and commenced trading on the TSX.

Ember's management and technical teams are well established and continue to advance Ember's knowledge base and leadership role in CBM development in Western Canada.

On August 31, 2005, Ember closed an equity financing raising gross proceeds of \$50.0 million.

The Company drilled a total of 44 gross (43 net) wells in the six month period ended December 31, 2005 with capital expenditures totaling \$12.7 million excluding facilities.

Ember participated in Crown land sales during 2005, and was successful in acquiring approximately 32,000 net acres of land at a cost of \$13.3 million.

Since inception Ember increased proved plus probable reserves by 6.1 bcf to 15.7 bcf as at December 31, 2005, and proved plus probable reserve value discounted at 10% increased by \$44.4 million to \$61.8 million.

*The following Management's Discussion and 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 period ended December 31, 2005. Ember was incorporated on June 3, 2005 and commenced commercial operations on July 7, 2005. All references in this report to annual information, or the six month period refer to the reporting period from commencement of operations to December 31, 2005. The following information has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the audited financial statements for the period ended December 31, 2005, dated March 7, 2006. The reporting and the measurement currency is the Canadian dollar. This MD&A is dated as of March 7, 2006.*

### Net Earnings and Cash Flow from Operations

Net income after taxes was \$0.2 million for the six month period ended December 31, 2005. Basic and diluted net income per share for the period was \$0.01. Cash flow from operations was \$2.4 million for the six month period. On a per share basis, cash flow from operations was \$0.08 basic and diluted.

The following table summarizes Ember's operating netback and cash flow from operations on an mcf and boe basis for the six months ended December 31, 2005.

	Six months ended December 31, 2005	
	\$/mcf	\$/boe
Natural gas revenues	9.96	59.73
Royalties	(0.81)	(4.85)
	9.15	54.88
Operating expense	(1.71)	(10.24)
Transportation expense	(0.29)	(1.72)
Operating netback	7.15	42.92
Interest income and other	0.78	4.69
General and administrative expense	(2.55)	(15.28)
Capital taxes	(0.08)	(0.49)
Cash flow from operations	5.30	31.84

### Product Pricing

	Six months ended December 31, 2005
<b>Natural gas</b>	
NYMEX average price (US\$/mcf)	11.14
Market differential (US\$/mcf)	(2.32)
Average foreign exchange rate (Cdn\$/US\$)	0.8425
AECO average price (Cdn\$/mcf)	10.43
Corporate differential (Cdn\$/mcf)	(0.47)
Ember average price (Cdn\$/mcf)	9.96
Transportation (Cdn\$/mcf)	(0.29)
Ember wellhead price (Cdn\$/mcf)	9.67

In 2005, gas prices increased driven by a number of factors. Supply and demand concerns over North America's ability to add supply despite high drilling rates, coupled with damaged supply infrastructure resulting from two hurricanes, a cold fall in the US northeast, and record setting crude oil pricing all caused gas benchmarks to increase. CBM is in all respects the same as natural gas. It varies from other natural gas 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> which is removed during processing. Ember currently receives pricing that averages 5% less than AECO in Canadian dollars which reflects the lower heating content of CBM gas.

### Revenue and Production

	Six months ended December 31, 2005
Natural gas revenue (\$000s)	4,424
Natural gas production (mcf)	444,417
Natural gas production (boe)	74,070
Average natural gas production (mcf/d)	2,415
Average production (boe/d)	403

Ninety eight percent of Ember's natural gas is from CBM wells. The Company began operations on July 7, 2005 with approximately 350 boe/d of production. The average for the period was 403 boe/d, or 2,415 mcf/d. The Company's current production is primarily from its Fenn-Big Valley area wells which produce from coals in the Horseshoe Canyon.

Ember's production levels are expected to increase in total by 2,500 mcf/d over the first and second quarters of 2006 as new wells drilled in Q4 2005 are completed and brought on-stream. Additional volumes are expected through this period as horizontal Mannville wells drilled at Manola and Rosalind continue to de-water with corresponding increasing gas rates. It is estimated that production levels could reach 6,000 mcf/d by the beginning of the third quarter 2006.

**Royalties**

	Six months ended December 31, 2005	
Total natural gas royalties (\$000s)	360	
(\$, except where noted)	per mcf	per boe
Natural gas Crown royalties per unit	0.73	4.38
Natural gas freehold royalties per unit	0.08	0.47
Natural gas royalties total per unit	0.81	4.85
Royalties as a % of revenue	8.13%	8.13%

Royalties are calculated and paid based on production and revenue, net of associated transportation cost and before any commodity hedging gains or losses. The Company's current base of wells is primarily on Crown lands. Crown royalty rates vary with productivity, with reduced rates for wells that average less than 700 mcf/d. Ember's average production rate is dominated by Horseshoe Canyon wells and stands at 50 mcf per well resulting in royalty rates that average less than 10%.

**Operating and Transportation Expense**

	Six months ended December 31, 2005	
(\$000s)		
Total operating expense	758	
Total transportation expense	127	
(\$)	per mcf	per boe
Operating expense per unit	1.71	10.24
Transportation expense per unit	0.29	1.72

Operating costs per unit averaged \$10.24/boe during the period. Operating costs are expected to average \$8.50/boe in 2006 as Ember adds additional wells to its fixed cost base and implements operational initiatives that are specific to CBM wells. In addition per unit costs for Mannville wells will benefit from increasing gas rates experienced during the de-watering phase.

Transportation expense relates to costs of transporting Ember's natural gas production on major pipelines. This rate is expected to remain constant at \$1.72/boe or \$0.29/mcf as the Company experiences competitive market rates.

**Depletion, Depreciation, Amortization and Accretion (DD&A)**

	Six months ended December 31, 2005		
	(\$000s)	per mcf	per boe
Total DD&A expense	1,336	3.01	18.04

**Unproven Properties by Area (\$000s)**

	Six months ended December 31, 2005		
	Land	Drill and equipment	Total
Fenn-Big Valley	0	2,764	2,764
Matziwin	1,015	0	1,015
Manola	4,572	7,051	11,623
Rosalind	14,768	0	14,768
Total	20,355	9,815	30,170

For the six month period ended December 31, 2005, depletion and depreciation of capital assets and the accretion of the asset retirement obligations was \$1.3 million (\$18.04/boe). The assets transferred to Ember pursuant to the Plan of Arrangement were transferred at the carrying value of Thunder. The carrying value transferred to Ember was determined based on the ratio of discounted future net revenue of the property and land transferred from Thunder to the discounted future net revenue of all proved reserves and land of Thunder in accordance with the oil and gas full cost accounting guideline.

Ember excluded \$30.2 million of unproved asset costs from the depreciation and depletion calculation. These costs represent land and drilling costs for unproved properties some of which are expected to be assigned reserves during 2006, at which time these costs will be subject to depletion.

In Manola, Ember is carrying out a pilot project to determine the commerciality of the Mannville coals. The Company has 114,000 net acres of undeveloped land at Manola at a carrying cost of \$11.6 million. This unproven property has been excluded from costs subject to depletion. In Rosalind Ember is also carrying out a Mannville demonstration project. The Company has 104,000 net acres of undeveloped land at a carrying cost of \$14.8 million. This unproven property has been excluded from costs subject to depletion. The Company also has nearly \$4.0 million of costs at Fenn-Big Valley and Matziwin related to unproven properties, which have been excluded from costs subject to depletion.

The depletion base also included \$8.4 million of future development costs related to proven undeveloped reserves that form a key part of Ember's reserve base.

### General and Administrative Expenses

Six months ended  
December 31, 2005

*(\$000s, except per unit amounts)*

Gross G&A expense	1,484
Capital overhead recoveries	353
Net G&A expense	1,131
Per mcf (\$/mcf)	2.55
Per boe (\$/boe)	15.28

General and administrative (G&A) expenses totaled \$1.5 million (\$15.28/boe) for the period. The costs per unit of production are reflective of the start up nature of our business. During the period Ember built its management, technical and support teams to support both current and future activity and production growth. As at December 31, 2005 Ember employed 17 full time employees. As drilling activity and production additions occur, per unit costs will be reduced accordingly.

No G&A expenses were capitalized during the six months ended December 31, 2005. The Company applied overhead charges to specific capital activities, resulting in a reduction of G&A as is customary in the industry.

### Stock-based Compensation

Six months ended  
December 31, 2005

	<i>(\$000s)</i>	<i>per mcf</i>	<i>per boe</i>
Stock-based compensation expense	808	1.82	10.9

The Company's stock option plans provide current employees, officers, directors, and consultants with the right to elect to receive common shares through both a performance share plan and a regular stock option plan. The plans balance the need for a long-term compensation program to retain employees, while reducing the impact of dilution on the current shareholders, and the reporting of the expense associated with stock options. The cost of the stock option plan is transparent as changes in the intrinsic value of outstanding options are expensed.

Stock-based compensation expense totaled \$0.8 million for the six month period. This amount includes a one-time charge of \$0.2 million related to stock-based compensation costs transferred to Ember as its share of vested options from the Arrangement that created Ember. Ember has a total of 1,140,000 stock options issued at an average exercise price of \$7.74 per share and 1,400,000 performance shares issued as of December 31, 2005. Based on the current level of outstanding options and performance shares, stock-based compensation will approximate \$0.9 million in each of the next several quarters.

## Income Taxes

Ember is not currently taxable, except for large corporation's capital tax of \$0.03 million. 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 37.62%.

Ember has deductible tax pools and share issue costs totaling \$76.0 million which are available to shelter future taxable income. The Company has unrecorded future income tax assets for accounting purposes totaling \$10.6 million resulting primarily from deductible temporary differences. These differences are the result of deductions for tax purposes in excess of deductible amounts for accounting purposes. The Company has not recorded a future income tax asset at this time as it does not currently meet the conditions to demonstrate taxable operations. Accordingly, Ember has taken a full valuation allowance against the future income tax asset balance.

The following table outlines carry-forward tax deductions.

(\$000s)	As at December 31, 2005
COGPE	51,580
CDE	10,189
CCA classes	8,041
Share issue costs	2,923
Non capital loss carry-forwards	3,263

## Capital Expenditures

(\$000s)	Six months ended December 31, 2005
Land and property acquisitions	13,342
Drilling and completions (including abandonment asset)	12,698
Equipment and facilities	5,285
Initial property acquisition for share consideration	16,431
<b>Total asset additions</b>	<b>47,756</b>

During the six month period ended December 31, 2005, capital expenditures totaled \$47.8 million. Capital expenditures on land, drilling and equipping were incurred for cash totaling nearly \$31.0 million which was funded through proceeds from equity financing and cash flow from operations. The initial non-cash transaction of the Arrangement with Thunder, arising out of the Plan of Arrangement, resulted in the acquisition of 288,000 acres of land and approximately 350 boe/d, in exchange for common shares of Ember, with a recorded value of \$16.4 million.

Land expenditures were incurred at Alberta Crown land sales resulting in the addition of approximately 32,000 net acres of land primarily in the Rosalind area bringing our total land base to 308,000 net acres as of December 31, 2005.

During the period Ember drilled a total of 44 wells (43 net). Thirty-six wells (36 net) were drilled in the Fenn-Big Valley area as part of an ongoing Horseshoe Canyon CBM development for that area. Eight horizontal wells (7 net) were drilled as demonstration wells targeting the Mannville coals, of which six horizontal wells were drilled in the Manola area (6 net) and two in the Rosalind area (1 net).

Ember's 2006 capital program will be conditional on the success of its Mannville demonstration projects, but will include an ongoing Horseshoe Canyon development program at Fenn-Big Valley. To date Ember has budgeted a total of 12 horizontal Mannville wells (9.0 net), and 50 Horseshoe Canyon wells (50 net) at Fenn-Big Valley. Total capital for this program together with completion pipelining and facility work carried over from 2005 is estimated at \$50.0 million. Additional capital could be added with commercial success at Ember's Manola demonstration project. Funding for this capital program will be provided from existing cash balances, cash flow from an expanded debt facility and potential equity financing.

### Quarterly Results

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

<i>(\$000s, except per share amounts and volumes)</i>	Q4 2005	Q3 2005
Gross revenue	2,650	1,774
Royalty expense	245	115
Operating and transportation expense	505	380
General and administrative expense	724	407
Stock-based compensation expense	379	429
Depletion, depreciation and accretion expense	684	652
Other income	281	66
Capital taxes	24	12
Net earnings (loss)	370	(155)
– per share basic and diluted	0.02	(0.01)
Cash flow from operations	1,433	926
– per share basic	0.05	0.04
– per share diluted	0.05	0.03
Sales gas (mmcf)	229.4	215.0
Sales gas (mmcf/d)	2.493	2.336
Property and equipment additions	26,237	4,700

Production in the fourth quarter 2005 was up by 7% over the third quarter, and Ember's gas pricing increased by nearly 30%. These factors resulted in an overall revenue increase of nearly 50% from Q3 to Q4 2005.

## Liquidity and Capital Resources

### Capitalization and Capital Resources

Share Capital (000s)	December 31, 2005
<b>Outstanding common shares</b>	
Weighted average outstanding Common shares <sup>(1)</sup>	
– basic	28,176
– diluted	29,121
Outstanding securities at December 31, 2005 and February 28, 2006	
– Common shares	30,419
– Common share options	1,140
– Performance shares	1,400

<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 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.

### Total Market Capitalization

The Company's market capitalization at December 31, 2005 was \$235.7 million.

<i>(\$000, except per share amount)</i>	December 31, 2005
Common shares outstanding	30,419
Share price <sup>(1)</sup>	7.75
Total market capitalization	235,746

<sup>(1)</sup> Represents the closing price on the TSX on December 30, 2005.

### Capital Resources

At December 31, 2005, the Company had working capital of \$19.2 million. The Company had a credit facility of \$2.5 million at December 31, 2005, on which no amount was outstanding. The Company expects to increase its available lending facility during 2006 based on its expanded reserve base.

The Company's investing activities consisted primarily of expenditures on the initial acquisition of properties pursuant to the Arrangement, land acquisitions, and on its drilling program. These activities were funded by cash flow from operations and equity financing. The equity financing was generated from the Company's initial private placement on July 7, 2005 of 3,108,808 non-voting common shares at a price of \$1.93 per share, for total gross proceeds of \$6.0 million. Pursuant to the Plan of Arrangement, the outstanding non-voting common shares of Ember were exchanged for voting common shares. In addition, 7.0 million common shares were issued on August 31, 2005 at \$7.15 per common share resulting in gross proceeds of \$50.0 million.

(\$000s) December 31, 2005

#### Capital resources

Working capital	19,194
Bank debt available	2,500
Total capital resources available	21,694

Ember has a planned capital program for 2006 totaling \$50.0 million. The program will be financed with available cash resources, internally generated cash flow, an expected expanded borrowing base, and a potential equity financing.

### Bank Facility

As at December 31, 2005, Ember had available a \$2.5 million credit facility with a Canadian chartered bank. This borrowing base facility is determined based on, among other things, the Company's then current reserve report, results of operations, current and forecasted commodity prices and the current economic environment. The Company expects to increase its available lending facility during 2006 based on its expanded reserve base.

### Working Capital

The industry in Alberta has a pre-arranged monthly clearing day for payment of revenues from all buyers of crude oil and natural gas. This occurs on the 25th day following the month of sale. As a result, the Company's production revenues are collected in an orderly fashion. For the period ended December 31, 2005, these revenues were collected for sales by Thunder. At December 31, 2005, a receivable balance of \$2.2 million was due from Thunder for joint well operations and capital activities.

The Company will continue to monitor its revenue counterparty credit positions to mitigate any potential credit losses. For activities conducted with joint venture partners, Ember collects its partners' share of capital and operating expenses on a monthly basis. These revenues are subject to normal collection risk. At December 31, 2005, the Company had no material accounts receivable that it deemed uncollectible.

Accounts payable 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.

The Company 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.

### **2006 Capital Program**

Production growth for 2006 will be derived from approximately \$50.0 million of capital spending for the drilling of up to 62 gross wells (59 net) and the expansion of its facilities, all targeting natural gas in coalbed methane zones. The program will be financed with available cash resources, internally generated cash flow, an expected expanded borrowing base, and a potential equity financing.

### **Accounting Policies and Estimates**

#### **Recent Accounting Pronouncements**

Management is assessing the following new and revised accounting pronouncements that have been issued but which are not yet effective:

In the quarter ending March 31, 2006, Ember will adopt Section 3831 Non-Monetary Transactions issued by the Canadian Institute of Chartered Accountants ("CICA") in June 2005. Under the new standard, a commercial substance test replaces the culmination of earnings test as the criteria for fair value measurement. In addition, fair value measurement is clarified. The Company does not expect application of this new standard to have a material impact on its financial statements.

In the year ending December 31, 2007, Ember will be required to adopt Section 1530 Comprehensive Income, Section 3251, Equity, Section 3855 Financial Instruments – Recognition and Measurement, and Section 3865 Hedges issued by the CICA in January 2005. Under the new standards: a new financial statement, Comprehensive Income has been introduced which will provide for certain gains and losses, including foreign currency translation adjustment and other amounts arising from changes in fair value to be temporarily recorded outside the income statement. In addition, all financial instruments, including derivatives, are to be included on Ember's balance sheet and measured at fair values in most cases. Requirements for hedge accounting have been further clarified.

Over the next five years the CICA will adopt its new strategic plan for the direction of accounting standards in Canada ratified in January 2006. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Report Standards (IFRS) over the next five years. Ember continues to monitor and assess the impact of the planned convergence of Canadian GAAP with IFRS.

#### **Estimates**

In the preparation of the financial statements, it was necessary for Ember to make certain estimates that were critical to determining assets, liabilities and net income. None of these estimates affect the determination of cash flow, but do have a significant impact in the determination of net income. The following are some of those critical measures.

#### *Gas Reserves*

All of Ember's gas reserves are evaluated and reported on by independent qualified reserve evaluators. The estimation of reserves is a subjective process. Forecasts are based on engineering data, projected future rates of production, estimated commodity price forecasts and the timing of future expenditures, all of which are subject to numerous uncertainties and various interpretations. Reserve estimates can be revised upward or downward based on the results of future drilling, testing, production levels and economics of recovery based on cash flow forecasts.

#### *Depletion and Depreciation Expense*

The Company follows the full cost method of accounting for exploration and development activities whereby all costs associated with these activities are capitalized, whether successful or not. The aggregate of capitalized cost, net of certain costs related to unproved properties and estimated future development costs is amortized using the unit-of-production method based on estimated proved reserves. Changes in estimated proved reserves or future development costs have a direct impact on

depletion and depreciation expense. Certain costs related to unproved properties and major development projects may be excluded from costs subject to depletion until proved reserves have been determined or their value is impaired. These properties are reviewed quarterly to determine if proved reserves should be assigned, at which point they would be included in the depletion calculation, or for impairment, for which any write-down would be charged to depletion and depreciation expense.

#### *Full Cost Accounting Ceiling Test*

Gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. Costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and market of unproved properties exceed the carrying value of the gas assets. If the carrying value of the gas assets is not assessed to be recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost and market of unproved properties. The cash flows are estimated using future product prices and costs and are discounted using the risk-free rate. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

#### *Asset Retirement Obligations*

The Company records a liability for the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset

known as the asset retirement cost. The total future asset retirement obligation is an estimate 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 costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the asset retirement obligation is an estimate that is subject to measurement uncertainty and any change would impact the liability.

#### *Stock-based Compensation*

The Company follows the fair value method of valuing stock option grants and performance share issues. Under this method, compensation cost, attributable to share options granted and performance shares issued to employees, contractors, officers and directors of Ember is measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the stock options and the conversion of performance shares, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Stock-based compensation is an estimate that is subject to measurement uncertainty and any change would impact the expense recorded and the corresponding charge to shareholders' equity.

#### *Income Taxes*

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

### **Business Risks**

Ember is engaged in the exploration, development and production of coalbed methane based natural gas. The gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services. The following are key risk areas for the Company.

### **Coalbed Methane (CBM) Operations**

CBM operations in Western Canada are in the early stages of development. As a result, many factors affecting the economics and success of CBM operations are unknown or not fully known at this time.

Ember has a number of demonstration projects that have been designed to provide the Company with information regarding well productivity, reserve recovery factors and reservoir characteristics. This information is required to advance the project areas to commercial development.

Ember's business is subject to all of the operating risks associated with drilling for and producing natural gas, including fires, explosions, blow-outs and surface cratering, uncontrollable flows of underground natural gas, formation water, natural disasters, pipe or cement failures, casing collapses, embedded oilfield drilling and service tools, abnormally pressured formations and environmental hazards, such as natural gas leaks, pipeline ruptures and discharges of toxic gases.

In addition, the exploration for, and production of CBM differs from conventional oil and gas and can pose additional operating risks.

CBM can require higher capital commitments than similar depth conventional gas developments due to such factors as the type of drilling and completion techniques required, which can entail the complexity of development of multiple coal seams. In some instances, more wells per section are required to effectively develop the resource in place. Lower wellhead pressures are typical with CBM production which can require additional compression or larger flow lines.

CBM also requires a longer timeframe for testing and development. Coalbed methane often comes with water. In a sandstone or limestone reservoir, the gas molecules are between the rock particles. With CBM, the gas molecules are stuck to the coal or adsorbed, and the spaces between the coal, referred to as the "cleats", must be drained of water before gas will come out of the coal. The length of this dewatering process is different in each instance, but CBM wells in the United States have, in some instances, taken over a year before CBM production begins. Ember's operations may require long lead times before peak production is reached, and the sustainability of production is subject to greater uncertainty than with conventional gas.

Water production from CBM firstly requires adequate disposal into government approved formations. The large volumes produced potentially create such operational concerns as freezing, scale formation, or backpressure caused by inefficient pumping.

As CBM is relatively new in Canada, there is additional regulatory complexity. This includes uncertainty or limitations to development from outstanding CBM ownership questions regarding freehold lands. With the recent introduction of CBM development in Canada, operators drilling or producing CBM wells are subject to public scrutiny. Any problems experienced by other operators might adversely impact Ember, through additional regulations or greater difficulty in acquiring leases, permits or regulatory approvals.

In addition Ember could incur substantial losses as a result of loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties, suspension of the Company's operations and repairs to resume operations.

#### **Safety and Environmental Matters**

The natural gas industry is subject to extensive regulation pursuant to various municipal, provincial, national, and international conventions and regulations. Environmental legislation encompasses, among other things, restrictions and prohibitions on spills, releases and/or emissions of various substances produced in association with oil and natural gas operations. The Company is committed to meeting and exceeding its environmental and safety responsibilities. The Company has in place an environmental and safety policy designed, at minimum, to comply with current government regulations set for the oil and natural gas industry. Changes to governmental regulations are closely monitored to ensure compliance. Environmental reviews are completed as part of the due diligence process when evaluating acquisitions. Although Ember maintains adequate insurance commensurate with industry standards to cover reasonable risk and potential

liabilities associated with its activities, as well as insurance coverage for officers and directors executing their corporate duties, the nature of these risk is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have an adverse effect upon its financial condition.

#### **Operational Risks**

Natural gas exploration operations are subject to all of the risks and hazards typically associated with such operations, including premature decline of reservoirs, hazards such as fire, explosion, blowouts, cratering and spills, each of which could result in substantial damage to natural gas wells, producing facilities, other property and the environment or in personal injury. In accordance with industry practice, Ember is not fully insured against all of these risks, nor are all such risks insurable. Although Ember maintains liability insurance in an amount that 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 exploration and development 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 exploration and development activities. To the extent that Ember is not the operator of its gas properties, the Company is dependent on such operators for the timing of activities related to such properties and is largely unable to direct or control the activities of the operators. The Company attempts to mitigate this risk by developing strong relationships with suppliers and contractors.

### **Volatility of Gas Prices and Markets**

Natural gas prices are unstable and subject to fluctuation. Any material decline in prices could reduce the Company'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 gas acquisition and development activities. In addition, bank borrowings available to Ember are, in part, determined by the Company's borrowing base. A sustained material decline in prices from historical average prices could further reduce its borrowing base and thus, bank credit available and could require repayment of a portion of its bank debt.

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.

### **Technology Risk**

The Company relies 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. While the Company takes precautions to safeguard data, there is a risk that information systems could be corrupted or fail resulting in damage and cost to the Company.

### **Permits and Licences**

Many of Ember's operations require licences and permits from various governmental authorities. There can be no assurance that Ember will be able to obtain all necessary licences and permits that may be required to carry out exploration and development at its projects in a timely manner or at all.

### **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 with 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 with the United States dollar, it will not benefit from the fluctuating exchange rate.

### **Title to Properties**

Although title reviews are completed 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, these 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 economically recoverable quantities of gas reserves (including natural gas liquids) and cash flows to be derived from these reserves, including many factors beyond the control of Ember. These estimates 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 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 were prepared, and many of these assumptions are subject to change and are beyond the control of Ember. Actual production and cash flows derived from reserves will vary from these evaluations, and such variations could be material.

**Reserve Replacement**

Ember's future natural gas reserves, production, and cash flows to be derived therefrom are highly dependent on successfully acquiring 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 on Ember's ability to develop any properties it may have from time to time, and on its ability to select and acquire suitable producing properties or prospects. There can be no assurance that Ember's future exploration and development efforts will result in the discovery and development of additional commercial accumulations of natural gas.

To mitigate this risk, Ember has assembled a team of experienced technical professionals who have expertise in operating and exploring areas which the Company has identified as being the most prospective for increasing Ember's reserves on an economic basis.

**Substantial Capital Requirements and Liquidity**

Ember may have to make substantial capital expenditures for the acquisition, exploration, development and production of natural gas reserves in the future. If revenues or reserves decline, 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. This 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.

### **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.

### **Reliance on Key Personnel**

The success of Ember is 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. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of the business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of Ember's management.

### **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.

**Non-GAAP Measurements**

This MD&A contains the terms “operating netback” and “cash flow from operations”. These measurements should not be considered an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with GAAP as an indicator of the Company’s performance. The Company’s determination of cash flow from operations and operating netback may not be compatible to that reported by other companies. The reconciliation between net earnings and cash flow from operations can be found in the statement of cash flows. The Company also presents cash flow 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.

**BOE Presentation**

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

**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-looping statements are made as of the date hereof and we assume no obligation to update or revise them to reflect new events or circumstances.

**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 AIF expected to be filed on or before March 31, 2006. 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).