



EMBER RESOURCES INC.

FINANCIAL STATEMENTS

December 31, 2009

Ember Resources Inc.
MANAGEMENT REPORT

The accompanying financial statements of Ember Resources Inc. are the responsibility of management. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgments. Financial information contained throughout the annual report is consistent with these financial statements.

Management has overall responsibility for internal controls and has developed and maintains a system of internal controls that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded. The policy of the Company is to maintain the highest standard of ethics in all its activities and it has a written code of business conduct.

The Company's Board of Directors has approved the information contained in the financial statements. The Board of Directors fulfills its responsibility regarding the financial statements mainly through its Audit Committee, which has a written mandate that complies with the current requirements of Canadian securities legislation. The Audit Committee meets at least on a quarterly basis.

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

"Doug Dafoe"

Doug Dafoe
President &
Chief Executive Officer

"Bruce Ryan"

Bruce Ryan
Vice President Finance &
Chief Financial Officer

March 23, 2010

AUDITORS' REPORT

To the Shareholders of Ember Resources Inc.

We have audited the balance sheets of Ember Resources Inc. (the "Company") as at December 31, 2009 and 2008, and the statements of income (loss), comprehensive income (loss) and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants

Calgary, Canada
March 23, 2010

Ember Resources Inc.
Balance Sheet

(\$ thousands)

	<u>As at December 31, 2009</u>	<u>As at December 31, 2008</u> (Restated - Note 2)
Assets (note 5)		
Current assets		
Accounts receivable (note 10)	\$ 8,131	\$ 8,797
Prepaid expenses	2,095	1,346
Derivative financial instruments (note 10)	15	1,054
	<u>10,241</u>	<u>11,197</u>
Property and equipment (notes 2, 3 and 4)	<u>355,298</u>	<u>378,163</u>
	<u>\$ 365,539</u>	<u>\$ 389,360</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 10,574	\$ 12,059
Current portion of capital lease obligation (note 6)	422	434
Current portion of credit facility (note 5)	-	4,000
	<u>10,996</u>	<u>16,493</u>
Credit facility (note 5)	80,989	95,432
Obligations under capital leases (note 6)	1,866	2,288
Asset retirement obligation (note 7)	12,796	11,213
Future income tax liability (notes 2 and 9)	<u>4,288</u>	<u>10,982</u>
	<u>110,935</u>	<u>136,408</u>
Commitments (note 13)		
Shareholders' Equity		
Share capital (note 8)	266,234	246,970
Contributed surplus (note 8)	8,193	6,799
Deficit (note 2)	<u>(19,823)</u>	<u>(817)</u>
	<u>254,604</u>	<u>252,952</u>
	<u>\$ 365,539</u>	<u>\$ 389,360</u>

See accompanying notes to financial statements

On behalf of the Board:

"Colin Boyer"

Colin Boyer, Director

"Dennis Balderston"

Dennis Balderston, Director

Ember Resources Inc.**Statement of Income (Loss), Comprehensive Income (Loss) and Deficit**

(\$ thousands, except per share amounts)

	<u>Year ended December 31, 2009</u>	<u>Year ended December 31, 2008</u> (Restated - Note 2)
Revenue		
Natural gas sales	\$ 36,872	\$ 39,520
Royalties	(1,600)	(4,431)
Realized gain on derivative financial instruments	1,625	646
Unrealized gain (loss) on derivative financial instruments	(1,039)	160
Other income	105	-
	<u>35,963</u>	<u>35,895</u>
Expenses		
Operating	13,319	8,354
Transportation	1,604	997
General and administrative	3,637	2,709
Stock based compensation (note 8)	845	700
Interest	4,850	2,131
Accretion	951	481
Depletion, depreciation and amortization	36,269	19,132
	<u>61,475</u>	<u>34,504</u>
Income (loss) before taxes	(25,512)	1,391
Current income tax (expense) recovery	(75)	4
Future income tax recovery (note 9)	6,581	134
Net income (loss) and comprehensive income (loss)	(19,006)	1,529
Deficit, beginning of year	<u>(817)</u>	<u>(2,346)</u>
Deficit, end of year	<u>\$ (19,823)</u>	<u>\$ (817)</u>
Earnings (loss) per share (note 8)		
Basic and diluted	(0.35)	0.06

See accompanying notes to financial statements

Ember Resources Inc.
Statement of Cash Flows

(\$ thousands)

	<u>Year ended December 31, 2009</u>	<u>Year ended December 31, 2008</u> (Restated - Note 2)
Operating activities		
Net income (loss)	\$ (19,006)	\$ 1,529
Add items not involving cash		
Depletion, depreciation and amortization	36,269	19,132
Accretion	951	481
Stock based compensation	845	700
Future income tax recovery	(6,581)	(134)
Unrealized (gain) loss on derivative financial instruments	1,039	(160)
Abandonment expenditures	(318)	(252)
Change in non-cash working capital related to operating activities (note 12)	<u>(6,204)</u>	<u>6,108</u>
	<u>6,995</u>	<u>27,404</u>
Financing activities		
Proceeds on issuance of share capital, net of share issuance costs	18,980	54,767
Redemption of share capital	(12)	-
Bank loan advances (repayments)	(18,443)	21,812
Repayment of capital lease obligations	<u>(422)</u>	<u>(105)</u>
	<u>103</u>	<u>76,474</u>
Investing activities		
Dispositions of property and equipment	5,710	1,750
Additions to property and equipment	(14,299)	(24,419)
Acquisition of property and equipment	(3,133)	-
Acquisition of Cordero Energy Inc. (note 3)	-	(73,790)
Change in non-cash working capital related to investing activities (note 12)	<u>4,624</u>	<u>(7,419)</u>
	<u>(7,098)</u>	<u>(103,878)</u>
Change in cash and cash equivalents	-	-
Cash and cash equivalents, beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and Basis of Presentation

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

On January 1, 2009, the Company amalgamated with its wholly owned subsidiaries Cordero Energy Inc., Cordero Finance Corp., and 1393401 Alberta Ltd. 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 Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

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

Joint Operations

Exploration, development, and production activities may be conducted jointly with others and, accordingly, the Company only reflects its proportionate interest in such activities.

Measurement Uncertainty

The amounts recorded for depletion and depreciation of natural gas properties and equipment and the provision for asset retirement obligations are based on estimates. In addition, the cost recovery ceiling test is based on estimates of proved reserves, production rates, natural gas prices, future costs, and other relevant assumptions. The fair value of derivatives is based on quoted future market prices, by their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

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

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

Natural Gas Properties

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

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

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

Drilling royalty credits are earned under an Alberta incentive program based on meters of drilling for the program period of April 1, 2009 to March 31, 2011. Credits earned on meters drilled in 2009 are available to be recovered against royalties for the program period. Estimated recoverable drilling credits from 2009 drilling programs are recorded as a reduction of drilling costs.

The Company carries surplus equipment which is classified as property and equipment. This equipment is subject to the depletion calculation.

Depletion and Depreciation

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

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

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

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

Asset Retirement Obligations

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

Revenue Recognition

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

Income Taxes

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

Stock-Based Compensation Plan

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

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

Per Share Information

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

Capital leases

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

Derivative Financial Instruments and Hedging Activities

(i) Comprehensive income

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

(ii) Equity

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

(iii) Financial instruments

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

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

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

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

A) Held for trading

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

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

B) Held-to-maturity

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

Currently Ember has no held to maturity investments.

C) Other financial liabilities

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

Currently Ember has classified its accounts payable and credit facilities as other financial liabilities.

D) Loans and receivables

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

Currently Ember has classified its accounts receivable as loans and receivables.

E) Available-for-sale

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

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

(iv) Hedges

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

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

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

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

Ember has not designated any of its derivative financial instruments for hedge accounting.

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

2. CHANGE IN ACCOUNTING POLICIES

On January 20, 2009 the CICA issued EIC-173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Under EIC-173, an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Ember adopted the requirements of EIC-173 effective January 1, 2009. Application of EIC-173 did not result in any material adjustments to the fair value of financial assets or liabilities for the year ended December 31, 2009.

Section 3855 establishes standards for the reclassification of held for trading financial instruments. Effective July 1, 2009, the Company prospectively adopted the CICA amendments to Section 3855, "Financial Instruments - Recognition and Measurement." Amendments to this section have prohibited the reclassification of a financial asset out of the held-for-trading category when the fair value of the embedded derivative in a combined contract cannot be reasonably measured. The adoption of the amendments to this standard did not have an impact on the Company's financial statements.

Section 3862, "Financial Instruments - Disclosures" was amended for annual financial statements relating to fiscal years ending after September 30, 2009. The amendment requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The new disclosure required by section 3862 concerning the nature and extent of the risks associated with the financial instruments, and how those risks are managed, is presented in note 10.

a) Depletion, Depreciation and Amortization

Effective April 1, 2009, Ember changed its accounting policy for depletion, depreciation and amortization. During 2008 Ember acquired Cordero Energy Inc. The acquisition included probable reserves that were reflected in the value assigned to the assets acquired in the purchase price allocation. The cost of the probable reserves formed part of the asset base that was depleted. There was no corresponding increase in the reserve base from the probable reserves as under Canadian GAAP, you are required to use only total proved reserves in the depletion calculation.

Under the new policy, the cost of the acquired probable reserves are excluded from the depletion base. The acquired probable reserves will be excluded from the depletable base until the probable reserves are converted into proved reserves or when impairment occurs. The effect of this change in accounting policy has been recorded retroactively with restatement of prior periods.

The acquired probable reserves are assessed on a quarterly basis for impairment which is in accordance with the Company's policy regarding natural gas assets.

The exclusion of acquired probable reserves will provide more reliable and relevant information as it provides a more accurate allocation of expenses to current and future periods based on how the underlying assets are being consumed. The acquired probable reserves are not yet being produced and as such, their exclusion from the depletable base results in a more accurate allocation of costs. As the acquired probable reserves are converted to proved reserves, the costs will be transferred into the depletable base and depleted using the unit of production method.

Effect of changes

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

	Originally filed As at December 31, 2008	Restatement Adjustment	Adjustment as at December 31, 2008
Balance sheet (\$000s)			
Property and equipment	\$ 376,171	\$ 1,992	\$ 378,163
Future income tax liability	10,394	588	10,982
Deficit	\$ (2,221)	\$ 1,404	\$ (817)
Income statement (\$000s)			
	Originally filed Year ended December 31, 2008	Restatement Adjustment	Restated Year ended December 31, 2008
Depletion, depreciation and amortization expense	\$ 21,124	\$ (1,992)	\$ 19,132
Future income tax expense (recovery)	(722)	588	(134)
Net income	125	1,404	1,529
Net income per share - basic and diluted	\$ -	\$ 0.06	\$ 0.06

b) Future Accounting Policies

International Financial Reporting Standards

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

The Company through the use of in-house resources and external consultants identified three primary phases of activity to implement IFRS. They consist of Phase 1 - Initial diagnostics, Phase 2 - Impact analysis, evaluation and solution development and Phase 3 - Implementation and review.

The Company has completed the diagnostic assessment phase for conversion to IFRS by performing comparisons of the differences between Canadian GAAP and IFRS and is currently assessing the effects of adoption and finalizing its conversion plan. The Company has determined that accounting for property and equipment will be impacted by the conversion to IFRS. The Company currently follows full cost accounting as prescribed in Accounting Guideline ("AcG") 16, "Oil and Gas Accounting - Full Cost." Conversion from Canadian GAAP to IFRS may have an impact on how the Company accounts for costs pertaining to oil and gas activities, in particular those related to the pre-exploration and development phases. The conversion to IFRS will also result in other impacts, some of which may be significant in nature and these continue to be assessed by the Company.

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

During the fourth quarter of 2009 the Company made progress in the impact analysis, evaluation and solution development phase of its project. The Company continues to focus on analyzing and developing implementation strategies and processes for the key IFRS transition issues identified. Where possible, key IFRS transition alternatives are being considered and evaluated. Ember is continuing to perform preliminary accounting assessments on less critical IFRS transition issues and has commenced analysis of IFRS financial statement presentation and disclosure requirements. As the Company concludes Phase 2 of its IFRS program it has started to make progress on Phase 3 - Implementation and review. The Company has made changes to its information systems and business policies and procedures where possible. These assessments and changes will continue to be further analyzed and evaluated throughout the implementation phase of the Company's project.

In July 2009, the International Accounting Standards Board ("IASB") approved additional exemptions that will allow entities to allocate their oil and gas asset balance as determined under full cost accounting to IFRS categories of exploration and evaluation assets and development and producing properties. Under the exemption, exploration and evaluation assets are measured at the amount determined under Canadian GAAP. For assets in the development and production phases, the amount is also measured at the amount determined under Canadian GAAP, however, the asset values must be allocated to the underlying IFRS transitional assets on a pro-rata basis using either reserve values or reserve volumes as of Embers IFRS transition date. This exemption will relieve Ember from significant adjustments resulting from retrospective adoption of IFRS. Ember has decided to utilize this exemption.

At this time, the impact on Ember's financial position and results of operations is not reasonably determinable or estimatable for any of the IFRS conversion impacts identified. The Company will continue to monitor any changes in the adoption of IFRS and will update its plan as necessary.

Business Combinations

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

Consolidated Financial Statements and Non-controlling Interest

The CICA issued Handbook Sections 1601 "Consolidated Financial Statements", and 1602 "Non-Controlling Interests", which replaced existing guidance under Section 1600 "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of Consolidated Financial Statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in Consolidate Financial Statements subsequent to a business combination. These standards will be effective for Ember for business combinations occurring on or after January 1, 2011, with early adoption permitted. Currently this standard will not have an impact on Ember's financial statements.

3. ACQUISITION

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

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

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

(\$000s)	
Property and equipment	\$ 270,078
Current assets	9,451
Current liabilities	(11,321)
Obligations under capital leases	(2,393)
Debt assumed	(59,021)
Asset retirement obligation	(7,170)
Derivative financial instruments	894
Future income tax liability	(12,550)
Total purchase price	\$ 187,968
Consideration was comprised of:	
Common shares	\$ 114,178
Cash	71,768
Transaction costs and other	2,022
Total consideration	\$ 187,968

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

4. PROPERTY AND EQUIPMENT

December 31, 2009	Cost \$	Accumulated Depletion and Depreciation \$	December 31, 2009 Net Book Value \$
Natural gas properties	489,050	(136,686)	352,364
Assets under capital lease	4,149	(1,417)	2,732
Office and computer	1,861	(1,659)	202
Total	495,060	(139,762)	355,298

December 31, 2008	Cost \$	Accumulated Depletion and Depreciation (restated) \$	December 31, 2008 Net Book Value (restated) \$
Natural gas properties	475,816	(100,858)	374,958
Assets under capital lease	4,149	(1,126)	3,023
Office and computer	2,002	(1,820)	182
Total	481,967	(103,804)	378,163

As at December 31, 2009, the depletion calculation excluded unproved properties of \$45,649,000 (2008 - \$82,189,000). These properties consist of undeveloped land and assets, including acquired probable reserves as discussed in note 2, with no assigned proven reserves that are held for future development. At December 31, 2009 a total of \$82,320,000 of future development costs were included in the depletion calculation (2008 - \$78,027,000). General and administrative expenses totaling \$1,473,000 (2008 - \$1,106,000) were capitalized during the year. Stock based compensation costs totaling \$549,000 (2008 - \$511,000) were capitalized during the year.

At December 31, 2009, the Company estimated and recorded \$0.6 million in net drilling credits to be recovered to December 31, 2010. The drill credits are recorded as a reduction against property and equipment.

During the year the Company disposed of non-core assets for net proceeds of \$5,710,000. The proceeds from sale were credited to the full cost pool as they did not result in a change to the depletion rate of greater than 20%.

Application of the ceiling test did not result in an impairment to the carrying value of property and equipment. The prices used in the ceiling test of the Company's natural gas reserves as reported in the third party engineering report at December 31, 2009 were:

Natural gas - AECO C

Year	\$/Mcf
2010	6.05
2011	6.75
2012	7.15
2013	7.45
2014	7.80
Thereafter	Plus 2.0%

5. CREDIT FACILITY

Ember has a revolving operating credit facility provided by a syndicate of two Canadian chartered banks and one other Canadian financial institution. The facility is limited to \$92 million and consists of a \$5 million working capital facility and an \$87 million production facility. The terms under which Ember may borrow under the facilities are as follows:

- 1) Prime based loans bearing interest at the prime bank rate plus, depending on the ratio of funded debt to trailing cash flow, up to 400 basis points per annum;
- 2) Banker's acceptances, bearing interest at the banker's acceptance rate plus, depending on the ratio of funded debt to trailing cash flow, a stamping fee of up to 500 basis points per annum;
- 3) Libor based loans in US currency bearing interest at the Libor rate plus, depending on the ratio of funded debt to trailing cash flow, a stamping fee of up to 500 basis points per annum;
- 4) If the aggregate outstanding balance under the entire facility is in excess of \$65 million, the excess balance is subject to an additional 100 basis points per annum.

The credit facility is subject to periodic review and is collateralized by a \$250 million demand fixed and floating debenture over all of Ember's assets. The facility has a term out provision providing for conversion of drawn portions of the production facility into a one year non-revolving term loan should the lending syndicate choose not to extend the revolving period. The next scheduled annual credit facility review will be April 30, 2010.

As at December 31, 2009, \$81.0 million had been drawn against the production facility. The facility requires payment of interest only, calculated in arrears. There is a standby fee calculated at up to 125 basis points per annum on undrawn balances, depending upon the ratio of trailing debt to cash flow. The Company also has in place a standby letter of credit totaling \$280,000. Subsequent to year end the company placed an additional letter of credit totaling \$237,000.

The credit facility contains one covenant: the total of long term debt minus capital leases plus current liabilities minus current assets is not to exceed the total credit facility. The covenant is measured at each quarter end based on the credit facility in place at that time. During 2009 this covenant was met at each reporting period.

The effective interest rate on all borrowings during the year ended December 31, 2009 was 5.2% (2008 - 5.2%).

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

6. OBLIGATIONS UNDER CAPITAL LEASES

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

Year	Amount
2010	\$ 537
2011	504
2012	471
2013	438
2014	404
Thereafter	312
Total minimum lease payments	2,666
Less amount representing interest at 5.18% to 5.91%	378
Present value of obligations under capital leases	2,288
Less amount due within one year	422
Long term portion of obligations under capital leases	\$ 1,866

Interest expense incurred on the obligations under capital lease was \$137,000 (December 31, 2008 - \$50,000), for the year ended December 31, 2009. The leases were acquired by Ember through the acquisition of Cordero Energy Inc. (see note 3).

7. ASSET RETIREMENT OBLIGATION

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated cost to abandon and reclaim the wells and facilities and the estimated timing of the cost to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the retirement obligation is approximately \$27,507,000 (2008 - \$24,406,000) which will be incurred over the next 15 years with the majority of costs incurred between 2015 and 2020. A credit adjusted risk-free rate of 8.5% and an inflation rate of 2.0% were used to calculate the present value of the asset retirement obligation.

The following table reconciles the Company's asset retirement obligations:

(\$000s)	Year ended December 31, 2009	Year ended December 31, 2008
Balance, beginning of year	\$ 11,213	\$ 3,084
Liabilities incurred	799	705
Liabilities assumed on acquisition of Cordero (note 3)	-	7,170
Liabilities settled	(318)	(252)
Accretion expense	951	481
Revisions	151	25
Balance, end of year	\$ 12,796	\$ 11,213

8. SHARE CAPITAL

Authorized

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

Issued

	Number of shares (000s)	Amount (\$000s)
Common Shares		
Outstanding as at December 31, 2007	14,441	77,944
Private placement subscription receipts	10,732	55,000
Common shares issued on corporate acquisition (note 3)	26,194	114,178
Share issue costs	-	(233)
Share issue costs tax affect	-	69
Outstanding as at December 31, 2008	51,367	246,958
Private placement subscription receipts	23,530	20,000
Share issue costs	-	(1,020)
Share issue costs tax affect	-	296
Outstanding as at December 31, 2009	74,897	266,234
Performance Shares		
Outstanding as at December 31, 2007 and 2008	480	12
Performance shares forfeited	(20)	-
Performance shares expired and redeemed	(460)	(12)
Outstanding as at December 31, 2009	-	-
Total share capital as at December 31, 2009		266,234

During the year all of the outstanding performance shares were forfeited or expired and were redeemed by the company at cost.

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

Issue of Common Shares

On November 13, 2009 the Company issued 23,530,000 Common Shares by way of equity offering at \$0.85 per Common Share for cash consideration of \$20 million before share issue costs. Of the 23,530,000 shares issued, the Company's three major shareholders, directors and officers purchased, in aggregate, 16,023,000 Common Shares representing 68.1% of the total offering.

Earnings per share

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

Weighted average Common Shares (000s)	Year ended	Year ended
	December 31, 2009	December 31, 2008
Basic and diluted	54,462	26,246

Stock Options

Ember's shareholders have approved the Company's stock option plan. The number of Common Shares reserved for options granted under the stock option plan, together with any Common Shares reserved for issuance pursuant to the exercise of the Performance Shares, may not be more than 10% of the aggregate number of the then issued and outstanding Common Shares. As a result of the fourth quarter 2009 equity offering there are a maximum of 7,490,000 share options available for issue.

Share options issued have a term of five years, and vest equally over a period of three years. At December 31, 2009, outstanding share options had a remaining contractual life of 4.03 years (2008 - 4.42 years), and were exercisable at prices ranging from \$0.49 to \$8.98 (2008 - \$0.49 to \$8.98). At December 31, 2009, 1,143,000 options and nil performance shares had vested and were exercisable (2008 - 213,000 options and 480,000 performance shares).

The following table sets forth a reconciliation of stock option plan activity through to December 31, 2009:

	Number of Options (000s)	Weighted average Exercise price \$
Balance, December 31, 2007	620	6.35
Granted	2,150	4.50
Forfeited	(20)	(6.10)
Balance, December 31, 2008	2,750	4.91
Granted	2,828	0.78
Forfeited	(263)	3.31
Balance, December 31, 2009	5,315	2.79
Exercisable	1,143	5.05

The following table summarizes information regarding stock options at December 31, 2009.

Exercise price	Options Outstanding			Options Exercisable	
	Number Outstanding (000's)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price \$	Number Exercisable (000's)	Weighted Average Exercise Price \$
\$0.49 to \$1.00	3,025	4.55	0.77	145	0.72
\$1.01 to \$5.00	12	3.46	4.90	4	4.90
\$5.01 to \$6.00	1,926	3.56	5.22	745	5.26
\$6.01 to \$10.00	352	2.19	6.83	249	6.95
	5,315	4.03	2.79	1,143	5.05

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

Stock based Compensation

Ember incurred stock based compensation expense during the year from its regular share option plan.

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

(\$000s)	Year ended December 31, 2009	Year ended December 31, 2008
Opening Balance, December 31, 2008	\$ 6,799	\$ 5,588
Stock based compensation expensed	845	700
Stock based compensation capitalized to property & equipment	549	511
Ending Balance, December 31, 2009	\$ 8,193	\$ 6,799

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions and resulting values for grants as follows:

	Year ended December 31, 2009	Year ended December 31, 2008
Risk free interest rate (%)	1.61 - 2.49	2.39 - 3.24
Expected life stock options (years)	4.00	4.00
Expected volatility (%)	102 - 106	62 - 100
Dividends	Nil	Nil

Results (per share)

Fair value of options granted	\$ 0.54	\$ 0.82
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9. TAXES

Future Income Tax Recovery

The combined provision for taxes in the statements of income (loss), comprehensive income (loss) and deficit reflects an effective tax rate which differs from the expected statutory tax rate. Differences were accounted for as follows:

(\$000s)	Year ended December 31, 2009	Year ended December 31, 2008
Income (loss) before income taxes	\$ (25,512)	\$ 1,391
Statutory income tax rate	29.00%	29.50%
Expected income tax expense (recovery)	(7,398)	410
Add (deduct):		
Stock based compensation	245	206
Future income tax rate reduction	-	(39)
Recognition of previously unrecorded tax benefit from temporary differences	-	(633)
Current year rate adjustment and other	572	(78)
Future income tax expense (recovery)	\$ (6,581)	\$ (134)

Future Income Taxes

(\$000s)	Balance as at December 31, 2009	Balance as at December 31, 2008 (restated)
Property and equipment	\$ (31,538)	\$ (30,227)
Asset retirement obligation	3,199	2,971
Attributed Canadian Royalty Income	114	119
Share issue cost	440	618
Tax loss carryforwards	23,497	15,843
Other	-	(306)
Future income tax liability	\$ (4,288)	\$ (10,982)

As at December 31, 2009, the Company had tax deductions of approximately \$321,537,000 that are available to shelter future taxable income (2008 - \$319,534,000). Included in this amount are non-capital losses totaling \$93,989,000 (2008 - \$61,796,000) which expire as follows:

(\$000s)	Balance as at December 31, 2009	Balance as at December 31, 2008
2015	\$ 2,541	\$ 2,541
2026	15,342	18,125
2027	18,850	16,777
2028	22,766	24,353
2029	34,490	-
Non-capital losses	\$ 93,989	\$ 61,796

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

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

Market Risk

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

a) Commodity Price Risk

The Company's financial performance is closely linked to natural gas prices. To mitigate this risk the Company employs the use of derivatives. The following fixed price swap and collar commodity financial instruments were outstanding at year end.

Contract type	Weighted Average Volume (GJ/d)	Pricing Point	Weighted Average Price (\$/GJ)	Term
Fixed price	12,000	AECO	5.33	Dec 09 - Feb 10
Fixed price	12,000	AECO	5.23	Mar 10
Collar	4,000	AECO	4.50 floor/6.75 ceiling	Apr 10 - Dec 10

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

Based on Ember's year to date sales volumes, a change of \$0.10 Cdn in natural gas prices at the wellhead would have the effect of changing pre-tax earnings for the year by \$858,000.

Subsequent to year end the Company placed the following collar financial instrument.

Contract type	Volume (GJ/d)	Pricing Point	Price (\$/GJ)	Term
Collar	2,000	AECO	4.50 floor/6.33 ceiling	Apr 10 - Dec 10

The Company through all contracts including those placed subsequent to year end has hedged a total of approximately 7,500 gigajoules per day ("GJ's/d") for 2010, which represents approximately 30% of estimated annual 2010 production.

Risk management assets and liabilities are recorded at their estimated fair values. To estimate fair value, the Company uses quoted market prices when available, or models that utilize observable market data. In addition to market information, the Company incorporates transaction specific details that market participants would utilize in a fair value measurement, including the impact of non-performance risk. The Company characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

Level 1 - inputs represent quoted prices in active markets for identical assets or liabilities (for example, exchange-traded commodity derivatives). Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - inputs other than quoted prices included within Level 1 that are observable, either directly (for example as prices) or indirectly (for example derived from prices), as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, market interest rates and volatility factors which can be observed or corroborated in the marketplace.

Level 3 - inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value, such as the Company's internally developed assumptions about market participant assumptions used in pricing an asset or liability, for example, an estimate of future cash flows used in the Company's internally developed present value of future cash flows model that underlies the fair value measurement.

In forming estimates, the Company utilizes the most observable inputs available for valuation purposes. If a fair value measurement reflects inputs of different levels within the hierarchy, the measurement is categorized based upon the lowest level of input that is significant to the fair value measurement. The value of over-the-counter financial swaps and collars is based on industry standard models that primarily rely on market observable inputs. These are categorized as Level 2. Fair values for commodity price derivatives are based on discounted cash flow analysis using current market rates and prices and option pricing models using forward pricing curves and implied volatility, as appropriate, which are compared to quotes received from financial institutions for reasonability. The Company has performed its fair value measurements using level 2 inputs.

b) Interest Rate Risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows and the fair value of its financial instruments. The Company's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Company's strategy is to manage interest rate risk within the current framework. If interest rates were to change by 1% it is estimated that pre tax earnings for the year would change by \$1,023,000.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cashflows, committed borrowing facilities and access to equity to meet current spending forecasts. Of the Company's liabilities, \$12.0 million mature in the next twelve months as current liabilities become due. Long term liabilities include capital leases and credit facilities which are due over a number of years.

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

Credit risk

Credit risk is the risk that a customer or counterparty will fail to perform an obligation or fail to pay amounts due causing a financial loss. Ember's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal credit risks. A small portion of Ember's production is currently sold through a joint venture partner to purchasers under normal industry sale and payment terms; the balance is sold to a minimum of four high quality marketers also under normal industry terms. Ember generally grants unsecured credit but routinely assesses the financial strength of its customers and joint venture partners.

As at December 31, 2009 the aging analysis of trade receivables is as follows:

	<u>2009</u>
Current	\$ 7,106
30 - 60 days	153
60 - 90 days	474
greater than 90 days	498
Allowance for impaired accounts in the greater than 90 day category	(100)
Total	<u>\$ 8,131</u>

As at December 31, 2009, the five largest outstanding accounts receivable comprised approximately 69% of the accounts receivable balance, compared to the five largest outstanding at December 31, 2008 comprising 63%. These customers have been evaluated by the Company and are considered to have high credit worthiness.

As at December 31, 2009 the Company fully evaluated its accounts receivable and determined that no additional allowance provision was required. The allowance provision relates entirely to the greater than 90 day category. The Company believes that the remaining balance will be fully recoverable.

Balance Sheet Financial Instruments

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

11. CAPITAL STRUCTURE FINANCIAL POLICIES

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

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

Ember's long-term strategy is to maintain debt to cash flow from operations at or below a level of 1.5 to 1. While the Company may exceed this rate from time to time, variations are viewed as short term, and efforts are made after a period of variation to bring the measure back in line. During the last several quarters, Ember has exceeded this target measure as cash flows have been constrained due to low natural gas prices. Gas prices affect the denominator of this measure which is cash flow. The variation from target has become more long term and the Company has partially addressed the issue through reduction of debt via the issuance of equity. Global market uncertainty and the current recession have placed downward pressure on commodity prices, decreasing cash flows as well as markets and prices for asset sales. The Company expects an additional improvement in this measure through increasing cash flows.

Neither debt reduction nor improving cash flows is expected to cause an immediate recovery in this measure. Our strategy is to continue to divest of non core assets, reduce debt when possible and to continue to keep costs low in order to maximize cash flows. When the global markets improve we will bring this measure in line with the corporate targets.

Ember's strategy is to utilize more equity than debt. This is measured by targeting total debt to total debt plus shareholders' equity at a ratio of less than 0.5 to 1.

(\$000s)	Target Measure	December 31, 2009 \$	December 31, 2008 (restated) \$
Components of ratios			
Current assets		10,241	11,197
Current liabilities (including short term debt)		10,996	16,493
Short term debt (including short term capital lease commitments)		422	4,434
Long term debt (including long term capital lease commitments)		82,855	97,720
Total debt		83,277	102,154
Net debt		83,610	103,016
Shareholders' equity		254,604	252,952
Total capitalization (total debt + shareholders' equity)		337,881	355,106
Cash flow from operations ¹ (three months ended December 31 annualized)		12,920	38,324
Net debt/cash flow from operations	< 1.5 times	6.47	2.69
Total debt/total debt plus shareholders' equity	< 0.5 times	0.25	0.29

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

Ember Resources Inc.
Notes to the Financial Statements
December 31, 2009

(tabular amounts in thousands unless otherwise indicated)

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital were comprised of the following (\$000s):

	Year ended December 31, 2009		Year ended December 31, 2008	
Accounts receivable	\$	666	\$	2,882
Prepaid expenses		(749)		37
Accounts payable and accrued liabilities		(1,485)		(4,224)
Current portion of capital lease		(12)		(6)
Net change	\$	(1,580)	\$	(1,311)
Net change by activity:				
Operating	\$	(6,204)	\$	6,108
Investing		4,624		(7,419)
Net change	\$	(1,580)	\$	(1,311)
Cash interest paid	\$	5,032	\$	2,070
Cash taxes paid	\$	75	\$	-

13. COMMITMENTS

In May 2007, the Company entered into an agreement with AltaGas Operating Partnership ("AltaGas") for the processing of natural gas in Ember's Acme area located at Acme, Alberta. The agreement required AltaGas to construct gathering and processing facilities to enable the delivery and sale of natural gas by Ember and other third parties, in exchange for a commitment from Ember to pay the greater of, a fee calculated based on 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 11 MMcf per day. The commitment ends on the earlier of December 1, 2013 or the delivery of a total of 16.8 Bcf. Committed payments are outlined in the table below as processing commitments and these amounts are charged to well operating expense as volumes are processed. To date Ember has delivered 4.8 Bcf under this commitment.

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

The office lease, natural gas transportation and processing commitments for the next five years are as follows:

As at December 31, 2009 (\$000s)	Office lease	Natural Gas Transportation	Processing Commitments	Total
2010	434	1,097	3,610	5,141
2011	434	1,097	3,950	5,481
2012	434	736	3,745	4,915
2013	434	134	2,426	2,994
2014	289	108	-	397
Total	\$ 2,025	\$ 3,172	\$ 13,731	\$ 18,928

14. SUBSEQUENT EVENTS

Derivative Instruments

Subsequent to year end the Company placed the following collar financial instrument which utilizes an AECO pricing point.

Contract type	Volume (GJ/d)	Date Entered	Price (\$/GJ)	Term
Collar	2,000	Jan 10	4.50 floor/6.33 ceiling	Apr 10 - Dec 10

Letter of Credit

Subsequent to year end the company placed a stand by letter of credit in the amount of \$237,000.