2016
Year End

EMBER

Ember Resources Inc.

FINANCIAL STATEMENTS

For the year ended December 31, 2016

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 International Financial Reporting Standards and include certain estimates that reflect management's best judgments.

Management has overall responsibility for internal controls and has developed and maintained 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 meet regularly with management, and with the external auditors, to discuss internal controls and reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It reviews the financial statements and the external auditors' report.

Ernst & Young LLP, an independent firm of chartered professional 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.

"Douglas A. Dafoe"

Douglas A. Dafoe
President & Chief Executive Officer

"Bruce C. Ryan"

Bruce C. Ryan
Vice President Finance & Chief Financial Officer

February 10, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Ember Resources Inc.

We have audited the accompanying financial statements of Ember Resources Inc., which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of income (loss) and comprehensive income (loss), cash flows, and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Ember Resources Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Chartered Professional Accountants

Calgary, Canada
February 10, 2017

STATEMENTS OF FINANCIAL POSITION

(Stated in thousands of Canadian dollars)

	As at December 31, 2016	As at December 31, 2015
Assets		
Current assets		
Accounts receivable (note 10)	**$ 34,610**	$ 33,544
Prepaid expenses and deposits	**5,300**	4,475
	39,910	38,019
Property and equipment (note 4)	**1,122,251**	1,326,902
Deferred tax assets (note 9)	**50,050**	–
	1,172,301	1,326,902
	$ 1,212,211	$ 1,364,921
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 10, 15)	**$ 32,308**	$ 26,308
Current portion of finance leases (note 6)	**1,658**	1,088
Derivative financial instruments (note 10)	**32,644**	–
Decommissioning liabilities (note 7)	**4,000**	4,000
	70,610	31,396
Obligations under finance leases (note 6)	**1,101**	2,536
Credit facility (note 5)	**404,646**	405,112
Decommissioning liabilities (note 7)	**137,696**	220,936
Derivative financial instruments (note 10)	**7,402**	–
Deferred tax liabilities (note 9)	**–**	4,546
	621,455	664,526
Shareholders' Equity		
Share capital (note 8)	**519,342**	519,342
Contributed surplus (note 8)	**20,394**	16,656
Retained earnings	**62,881**	164,397
Accumulated other comprehensive loss	**(11,861)**	–
	590,756	700,395
	$ 1,212,211	$ 1,364,921

Commitments (note 14)

Subsequent event (note 16)

See accompanying notes to financial statements

On behalf of the Board:

"James Reid"

James Reid, Director

"Douglas A. Dafoe"

Douglas A. Dafoe, Director

STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Stated in thousands of Canadian dollars, except per share amounts)

	Year ended December 31, 2016	Year ended December 31, 2015
Revenue		
Natural gas and liquid sales	**$ 226,288**	$ 296,885
Royalties	**(15,269)**	(17,861)
Realized gain (loss) on derivatives	**(17,408)**	13,298
Unrealized loss on derivatives (note 10)	**(23,798)**	(13,744)
	169,813	278,578
Expenses		
Operating (note 13)	**133,112**	140,584
Transportation	**15,713**	16,606
General and administrative	**17,915**	19,386
Acquisition costs	**–**	608
Stock based compensation (note 8)	**1,958**	2,164
Financing costs	**23,777**	16,822
Accretion (note 7)	**10,889**	14,412
Depletion, depreciation and amortization (note 4)	**114,428**	139,801
Bargain purchase gain (note 4)	**–**	(205,512)
Loss on disposal (note 4)	**3,746**	–
	321,538	144,871
Income (loss) before taxes	**(151,725)**	133,707
Deferred tax recovery (note 9)	**50,209**	16,958
Net income (loss)	**$ (101,516)**	$ 150,665
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income (loss):		
Change in unrealized loss on cash flow hedges (note 10)	**(16,281)**	–
Deferred tax recovery associated with cash flow hedges	**4,387**	–
Realized gain on cash flow hedges	**33**	–
	(11,861)	–
Comprehensive income (loss)	**$ (113,377)**	$ 150,665
Net Income (loss) per share (note 8)		
Basic	**$ (1.32)**	$ 1.98
Diluted	**$ (1.32)**	$ 1.93

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

(Stated in thousands of Canadian dollars)

	Year ended December 31, 2016	Year ended December 31, 2015
Operating activities		
Net income (loss)	$ (101,516)	$ 150,665
Add items not involving cash		
Depletion, depreciation and amortization (note 4)	114,428	139,801
Loss on disposal (note 4)	3,746	–
Bargain purchase gain (note 4)	–	(205,512)
Accretion (note 7)	10,889	14,412
Stock based compensation (note 8)	1,958	2,164
Unrealized loss on derivatives (note 10)	23,798	13,744
Deferred tax recovery (note 9)	(50,209)	(16,958)
Funds from operations	3,094	98,316
Decommissioning liability expenditures (note 7)	(2,894)	(5,480)
Changes in non-cash working capital related to operating activities (note 12)	5,115	(11,357)
Cash flow provided by operating activities	5,315	81,479
Financing activities		
Proceeds on issuance of share capital, net of share issuance costs (note 8)	–	247,522
Bank loan advance at closing for asset acquisition	–	306,983
Net repayment of bank loan	(466)	(44,548)
Repayment of capital lease obligations	–	(299)
Cash flow provided by (used in) financing activities	(466)	509,658
Investing activities		
Additions to property and equipment (note 4)	(18,453)	(41,644)
Acquisition of property and equipment (note 4)	–	(547,776)
Proceeds from disposition of natural gas properties (note 4)	14,610	–
Change in non-cash working capital related to investing activities (note 12)	(1,006)	(1,717)
Cash flow used in investing activities	(4,849)	(591,137)
Change in cash and cash equivalents and balance at beginning and end of year	$ –	$ –

See accompanying notes to financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Stated in thousands of Canadian dollars, except share amounts)

	Number of Common Shares (000's)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Opening balance, January 1, 2015	52,243	$ 271,820	$ 12,494	$ –	$ 13,732	$ 298,046
Shares issued for cash	24,752	247,522	–	–	–	247,522
Stock based compensation expensed (note 8)	–	–	2,164	–	–	2,164
Stock based compensation capitalized (note 8)	–	–	1,998	–	–	1,998
Net income	–	–	–	–	150,665	150,665
Closing balance, December 31, 2015	76,995	$ 519,342	$ 16,656	$ –	$ 164,397	$ 700,395

	Number of Common Shares (000's)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Retained Earnings	Total
Opening balance, January 1, 2016	76,995	$ 519,342	$ 16,656	$ –	$ 164,397	$ 700,395
Stock based compensation expensed (note 8)	–	–	1,958	–	–	1,958
Stock based compensation capitalized (note 8)	–	–	1,780	–	–	1,780
Net loss	–	–	–	–	(101,516)	(101,516)
Other comprehensive loss (note 8, 10)	–	–	–	(11,861)	–	(11,861)
Closing balance, December 31, 2016	**76,995**	**$ 519,342**	**$ 20,394**	**$ (11,861)**	**$ 62,881**	**$ 590,756**

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

(all tabular amounts in thousands except per share amounts or unless otherwise indicated)

1. NATURE OF BUSINESS

Ember Resources Inc. ("Ember" or the "Company") is engaged in the exploration for, development of and production of natural gas in Alberta, Canada. Ember is a private company and was incorporated on April 15, 2011 under the Business Corporations Act (Alberta, Canada). The Company commenced commercial operations on June 10, 2011. The parent company at December 31, 2016 is Brookfield Business Partners LP.

The principal address of the Company is 800, 400 3rd Avenue SW, Calgary, Alberta, Canada, T2P 4H2.

The financial statements were authorized for issue by the Board of Directors on February 10, 2017.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement – prepared on a going concern basis

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets, liabilities and equity:

(i) Reserves base

The estimate of reserves is used in forecasting the recoverability and economic viability of the Company's property and equipment ("P&E"), in the depletion and impairment calculations and recognition of deferred tax assets. The process of estimating reserves is complex and requires significant interpretation and judgment. It is affected by economic conditions, production, operating and development activities, and is performed using available geological, geophysical, engineering and economic data. Once annually, reserves are evaluated by the Company's independent reserve evaluators and quarterly updates to those reserves, if any, are estimated internally. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities and other capital costs.

(ii) Depletion of property and equipment

P&E is depleted on a unit-of-production basis over the proved plus probable reserves of the core area concerned. The depletion rate calculated in the current period is not necessarily indicative of the future depletion rate due to the fact that the rate is calculated based on current period production and estimated proven plus probable reserves. These factors could be significantly different in the future resulting in a different depletion rate.

(iii) Carrying value of property and equipment

The recoverable amounts of cash-generating units have been determined based on the higher of value-in-use calculations and fair values less costs of disposal. These calculations require the use of estimates and assumptions. It is reasonably possible that the commodity price assumptions may change, which may impact the estimated life of the field and may then require a material adjustment to the carrying value of P&E assets. The Company monitors internal and external indicators of impairment relating to its P&E assets on a quarterly basis.

(iv) Identification of cash-generating units

Ember's assets are aggregated into a single cash-generating unit, for the purpose of calculating impairment, as the cash inflows are not separately identifiable. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

(v) Valuation of accounts receivable

The valuation of accounts receivable is based on management's best estimate of the provision for doubtful accounts.

(vi) Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of all of the Company's facilities and properties. The ultimate decommissioning costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example, in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(vii) Income taxes

The Company recognizes the net future tax benefit related to deferred tax assets (if any) to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires Ember to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in the jurisdictions of Alberta and Canada. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions of Alberta and Canada, in which Ember operates, could limit the ability of Ember to obtain tax deductions in future periods.

(viii) Stock-based compensation and other stock-based payments

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates of the future volatility of the Company's estimated share value, estimated market value of the Company's shares at grant date, expected lives of the stock options and warrants, expected dividends and other relevant assumptions.

(ix) Business combinations

The value assigned in the business combinations and the allocation of fair values to the assets acquired and liabilities assumed in the acquisition are based on numerous estimates that affect the valuation of certain assets and liabilities acquired including discount rates, estimates of proved and probable reserves, future oil and natural gas prices, future capital costs, royalties, operating cost burdens and other factors.

(x) Fair value of derivatives

The fair value of financial derivatives is based on fair values provided by counterparties with whom the transactions were completed. By their nature, these estimates and assumptions are subject to measurement uncertainty. See note 10 (b).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

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

(b) Risk sharing arrangement of property and equipment

Exchanges of P&E assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up.

(c) Impairment of property and equipment assets

Ember tests P&E assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable; for example, changes in assumptions relating to future prices, future costs and reserves. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets, known as a cash generating unit ("CGU"). If any such indication of impairment exists, an estimate of the CGU's recoverable amount is made. A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. These assessments require the use of estimates and assumptions regarding production volumes, discount rates, long-term commodity prices, reserve quantities, operating costs, royalty rates, future capital cost estimates and income taxes. In addition, the Company will consider market data related to recent transactions for similar assets, enterprise valuations, production valuation metrics and reserve valuation metrics.

Impairment losses (if any) are recognized as a separate line item in the statement of income (loss).

At each reporting date, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indications exist, Ember estimates the CGU's recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the CGU does not exceed its recoverable amount nor exceed the carrying amount that would have been determined, net of depletion, had no impairment loss been previously recognized for the CGU. Such reversals are recognized in the statement of income (loss).

(d) Depreciation, depletion and amortization of property and equipment

P&E assets are depleted on a unit-of-production basis over the proved plus probable reserves of the cash generating unit ("CGU") concerned.

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

(e) Joint arrangements

The Company's petroleum and natural gas activities may be conducted jointly with others. Joint operations, whereby the jointly controlling parties have direct rights to the assets and obligations for the liabilities of the arrangement, are recognized in the Company's financial statements based on its proportionate interest in the assets, liabilities, revenues and expenses of the arrangement.

(f) Financial instruments

Financial assets and liabilities are recognized in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), loans and receivables, available-for-sale, held-to-maturity, or financial liabilities measured at amortized cost as defined by IFRS.

Currently, Ember has designated certain derivative financial instruments as FVTPL and certain instruments have been designated for hedge accounting. Ember's accounts payable and credit facility have been classified as financial liabilities and its accounts receivable have been classified as loans and receivables.

(i) Derivative instruments

Derivative instruments are utilized by the Company to manage market risk associated with the volatility in commodity prices, foreign exchange rates and interest rate exposures. All derivative financial instruments are initiated within the guidelines of the Company's hedging policy. The Company enters into hedges of its exposure to natural gas commodity prices by entering into natural gas fixed price contracts, when it is deemed appropriate. The Company's policy is not to utilize derivative instruments for speculative purposes.

Previously, the Company did not designate any of its derivative instruments for hedge accounting. Beginning on July 26, 2016, the Company has prospectively applied hedge accounting to specific instruments that meet the applicable hedge accounting criteria. As such, at the inception of a hedging transaction, the Company documents the economic relationship between the derivative instrument and the hedged item, including whether the derivative instrument is expected to offset changes in the cash flows of hedged items.

Derivative instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

For derivative instruments with hedge accounting applied, the effective portion of unrealized gains and losses are accumulated in Other Comprehensive Income ("OCI") until settlement. Upon settlement, any realized gains or losses are recognized in earnings for the period. Any hedge ineffectiveness and for instruments not designated in hedging relationships, the realized and unrealized gains or losses are immediately recognized in earnings in each period.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially measured at fair value.

(iii) Other financial liabilities

Financial instruments classified as other financial liabilities are measured at amortized cost using the effective interest method.

(iv) Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income (loss).

(g) Leases

Leases are classified as either finance or operating. The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of the contract. Finance leases are those that transfer to Ember substantially all the risks and benefits of ownership. Assets acquired under finance leases are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, and are depleted on a unit-of-production basis over the proved plus probable developed reserves, or if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, over the shorter of the useful life of the asset or the lease term. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

(h) Decommissioning liability

Ember recognizes the fair value of a decommissioning liability and a corresponding increase in the carrying value of the related long-lived asset in the period in which it is constructed or acquired. The fair value of the obligation is management's best estimate of the cost to retire the asset based on current legislation and industry practice, discounted to its present value using a credit-adjusted rate. The increase in the carrying value of the asset is amortized on a unit-of-production basis consistent with the method used to record depletion on the Company's P&E. The liability is subsequently adjusted for the passage of time, which is recognized as accretion in the statement of income (loss). The liability is periodically adjusted for revisions in either the timing or the amount of the original estimated cash flows associated with the obligation. Actual costs incurred upon settlement of the obligations are charged against the liability.

(i) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, the Company records deferred income taxes for the difference between the financial statement carrying value and the income tax basis of an asset or liability. Deferred income tax assets and liabilities are measured using substantively enacted income tax rates and laws that are expected to apply in the periods in which differences are anticipated to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in the statement of income (loss) and comprehensive income (loss) in the period in which the change is substantively enacted.

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized.

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. The deferred tax asset was recognized using a projection of future income based on the Company's proven plus probable reserves at December 31, 2016 using third party pricing.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle on a net basis.

(j) Share-based payments

The Company follows the fair value method of valuing stock option grants. Under this method, compensation cost, attributable to share options granted and 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 amortized on a unit of production basis consistent with the method used to record depletion on the Company's P&E. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. In the event that vested options are forfeited or expire without being exercised, previously recognized compensation costs associated with such stock options are not reversed.

(k) 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.

(l) Future changes in accounting standards

The following pronouncements from the IASB are applicable to Ember and will become effective for future reporting periods, but have not yet been adopted. The Company intends to adopt these standards, if applicable, when they become effective.

(i) IFRS 9 Financial Instruments: IFRS 9 is intended to replace IAS 39 Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company's financial instruments primarily consist of accounts receivable, accounts payable, derivative financial instruments, and amounts drawn on its credit facility. Management will complete a formal assessment of the impact of adoption of IFRS 9 on the Company, commencing in the second quarter of 2017.

The Company currently applies hedge accounting under IAS 39 and does not anticipate applying hedge accounting to any additional hedging relationships under IFRS 9.

(ii) IFRS 15 Revenue from Contracts with Customers: IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted.

The Company primarily enters into non-complex revenue contracts with customers that require physical delivery of produced volumes on a daily basis priced at the current-month average spot price. Performance obligations are met upon delivery (which occurs at the well head) and the transaction price is established based on the date of delivery and underlying reference index price. Upon initial assessment of the significant revenue contracts, the Company does not expect that the adoption of IFRS 15 will have a material effect on the Company. Management will complete a formal assessment of its revenue contracts commencing in the second quarter of 2017.

(iii) IFRS 16: Leases: IFRS 16 requires lessees to recognize most leases on the balance sheet and to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 17 Leases. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory and early adoption is permitted. The Company is currently assessing the impact of the adoption of IFRS 16 on the Company's financial statements.

(iv) IAS 7: Statement of Cash Flows: Amendments to IAS 7 Statement of Cash Flows require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017

4. PROPERTY AND EQUIPMENT

Cost	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 1,640,609	$ 737,587
Asset acquisition (note 4 (a))	–	961,063
Asset disposition (note 4 (b))	(5,101)	–
Asset disposition (note 4 (c))	(13,979)	–
Adjustments to decommissioning liability asset (note 7)	(94,161)	(103,197)
Cash additions	18,453	41,644
Other non-cash additions (net)	4,565	3,512
Balance, end of year	$ 1,550,386	$ 1,640,609
Accumulated DD&A and impairments		
Balance, beginning of year	$ 313,707	$ 173,906
DD&A expense	114,428	139,801
Balance, end of year	$ 428,135	$ 313,707
Net book value		
Balance, beginning of year	$ 1,326,902	$ 563,681
Balance, end of year	$ 1,122,251	$ 1,326,902

At December 31, 2016, a total of $1.1 billion (December 31, 2015 – $1.2 billion) of future development costs were included in the depletion calculation. Directly attributable departmental costs, salaries and benefits totaling $6.4 million were capitalized during the year ended December 31, 2016 (year ended December 31, 2015 – $6.1 million). Stock based compensation costs totaling $1.8 million were capitalized during the year ended December 31, 2016 (year ended December 31, 2015 – $2.0 million).

(a) Asset acquisition

On January 15, 2015, the Company closed an agreement to acquire certain coalbed methane ("CBM") assets in central Alberta for total cash consideration of approximately $572.8 million after final closing adjustments. The effective date of the transaction ("Clearwater Assets") is July 1, 2014. The consideration paid by the Company was financed by the issuances of common shares and bank indebtedness.

The acquisition was recognized as a business combination in accordance with IFRS 3 – Business Combinations, as the acquired assets and liabilities assumed constituted a business.

The purchase price was allocated to the assets acquired and liabilities assumed as follows:

Fair value of net assets acquired (000s)	
Petroleum and natural gas properties and equipment	$ 961,063
Decommissioning obligations	(114,271)
Bargain purchase gain, net of tax	(205,512)
Deferred tax liability	(68,504)
Total net assets acquired	$ 572,776
Consideration	
Cash paid on closing date of January 15, 2015	$ 547,776
Deposit paid in the fourth quarter of 2014	25,000
Total consideration paid	$ 572,776

For the year ended December 31, 2015, the Company recorded and expensed acquisition costs of $0.6 million, comprised of professional fees and environmental assessment fees incurred and accrued in connection with the asset acquisition transaction.

The Company reported a bargain purchase gain of $205.5 million, net of income tax expense of $68.5 million, for the year ended December 31, 2015 for the acquisition of the Clearwater Assets. The bargain purchase gain was primarily attributable to the non-strategic nature of the divestiture to the seller, coupled with favorable economic trends in the industry and the geographic region in which the Clearwater Assets are located.

Revenues and net income for the year ended December 31, 2015 increased by $198.7 million and $95.2 million respectively, since close of the asset acquisition on January 15, 2015. Had the acquisition closed on January 1, 2015, the pro forma incremental revenues from oil, NGLs and natural gas (including $198.7 million noted above) would have been $206.6 million and the net operating income (defined as revenue, net of royalties and operating costs) would have increased by $99.0 million (including $95.2 million noted above) for the year ended December 31, 2015. The pro forma information is not necessarily indicative of the results of the actual operations.

(b) Asset disposition

On March 4, 2016, the Company completed the disposition of certain non-core assets in the Carseland area of southern Alberta for cash proceeds of $4.7 million. The net book carrying value of the assets was $5.1 million and the Company also recognized a reduction in decommissioning liabilities of $0.4 million. No gain or loss was recorded on the disposition.

(c) Asset disposition

On September 30, 2016, the Company completed the disposition of certain non-core assets in central Alberta for cash proceeds of $9.9 million. The net book carrying value of the assets was $14.0 million and the Company also recognized a reduction in decommissioning liabilities of $0.3 million. A loss of $3.7 million was recorded on the disposition.

(d) Valuation of property and equipment

At December 31, 2016, the Company did not identify any indicators of impairment in respect to the Company's property and equipment. For 2015, after considering all of the valuation methods, which include discounted cash flow analysis, enterprise valuation, production valuation metrics and reserve valuation metrics, the Company concluded that the recoverable amount of the assets exceeded the carrying value and as such no impairment losses were recognized during the year ended December 31, 2015.

5. CREDIT FACILITY

The Company has a revolving covenant based credit facility ("Facility"), entered into on January 15, 2015, and amended from time to time, provided by a syndicate of four chartered banks and one financial institution. The Facility has an initial maturity date of January 15, 2018 and at the request of the Company, with the consent of the lenders, can be extended on an annual basis. The Facility is limited to $440 million and consists of a $415 million revolving term credit facility and a $25 million revolving operating facility.

On August 26, 2016, the Company amended its Facility, including the financial covenants. The amended financial covenants disclosed in note 5 (i) below will be applicable for quarters subsequent to March 31, 2017. The amended financial covenant disclosed in note 5 (ii) is applicable for the current quarter and all subsequent quarters until March 31, 2017. The covenant listed in note 5 (iii) is applicable through all periods until maturity.

The borrowing terms of the amended Facility are as follows:

- Canadian prime based loans bearing interest at the prime bank rate plus, depending on the ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"), up to 375 basis points per annum;
- U.S. base rate loans in U.S. currency bearing interest at the U.S. base rate plus, depending on the ratio of debt to EBITDA, up to 375 basis points per annum;
- Libor based loans in U.S. currency bearing interest at the Libor rate plus, depending on the ratio of debt to EBITDA, up to 475 basis points per annum; and

- Banker's acceptances ("BA's"), bearing interest at the banker's acceptance rate plus, depending on the ratio of debt to EBITDA, up to 475 basis points per annum.

Stand-by fees are payable based on the undrawn amount of the entire Facility and are subject to, depending on the ratio of debt to EBITDA, up to 107 basis points per annum.

The Facility is subject to periodic review and is collateralized by a $1.0 billion demand debenture over all of Ember's assets.

The amended Facility contains the following financial covenants:

(i) The consolidated senior secured debt[1] to EBITDA ratio and consolidated total debt[2] to EBITDA ratio cannot exceed;

(a) 3.0 to 1 and 4.0 to 1 respectively, on and as of May 15, 2017. Consolidated senior secured debt[1] and consolidated total debt[2] will be calculated as of May 15, 2017 and consolidated EBITDA will be calculated for the three month period ending March 31, 2017 and multiplied by four.

(b) 3.0 to 1 and 4.0 to 1 respectively, for the period April 1, 2017 to June 30, 2017. Consolidated senior secured debt[1] and consolidated total debt[2] will be calculated as of June 30, 2017 and consolidated EBITDA will be calculated for the six month period ending June 30, 2017 and multiplied by two.

(c) 3.0 to 1 and 4.0 to 1 respectively, for the period July 1, 2017 to September 30, 2017. Consolidated senior secured debt[1] and consolidated total debt[2] will be calculated as of September 30, 2017 and consolidated EBITDA will be calculated for the nine month period ending September 30, 2017 and multiplied by four-thirds.

(d) 3.0 to 1 and 4.0 to 1 respectively, for the period October 1, 2017 and continuing thereafter with EBITDA calculated on a 12 month rolling basis to the period end.

(ii) For the period beginning July 1, 2016, cumulative consolidated EBITDA will not be less than $6 million as of September 30, 2016, $15 million as of December 31, 2016 and $27 million as of March 31, 2017.

(iii) The consolidated total debt[2] to capitalization[3] cannot exceed 60% up to (but excluding) the first anniversary date, 55% up to (but excluding) the second anniversary date and 50% thereafter.

(1) "Consolidated Senior Secured Debt" means all "Consolidated Total Debt" that is secured by a Security Interest which ranks in priority to, or pari passu with, the Credit Facility.

(2) "Consolidated Total Debt" means in respect of the Borrower, all indebtedness and obligations in respect of amounts borrowed would be recorded in the Company's financial statements such as letters of credit, finance lease obligations and credit facility debt.

(3) "Capitalization" is calculated by taking the total debt plus the shareholders equity of the Company.

The amended Facility also contains the following non-financial covenants:

(i) The length of any commodity hedge contract cannot exceed three years.

(ii) The cumulative daily volumes of all hedge contracts entered into, financial and physical, can be no less than 50% of the combined forecasted average daily oil and gas production (net of royalties) for the upcoming twelve month period; and no less than 30% of the combined forecasted average daily oil and gas production (net of royalties) for the twelve month period subsequent to that, beginning on the first day of the thirteenth month and ending on the last day of the twenty-fourth month.

(iii) The cumulative daily volumes on all hedge contracts, financial and physical, cannot exceed 85% of the combined forecasted average daily oil and gas production (net of royalties) for the next twelve months, 65% for the next thirteen to twenty-four months, and 50% for the next twenty-five to thirty-six months.

As at December 31, 2016, the Company was in compliance with all applicable financial and non-financial covenants under the credit facility. As at December 31, 2016, the consolidated total debt to capitalization ratio was 41.2%

(December 31, 2015 – 36.5%). The consolidated EBITDA for the three and six month period ended December 31, 2016 was $16.3 million and $27.1 million, respectively. A change in gas prices of $0.10 per Mcf during the three month period ended December 31, 2016 would have resulted in a change in EBITDA of approximately $2.5 million, excluding the impact from the derivative financial instruments.

At each reporting date management makes an assessment as to whether the Company will continue to meet the going concern assumption over the next twelve months. Making this assessment requires significant judgement, the most significant of which is forecasted natural gas prices. A significant downward variance in realized natural gas prices from that which has been forecasted by management could result in the Company being in breach of its covenants under its debt facility. Using current forecasted strip gas prices, management has estimated that the Company could be in breach of its current debt covenants over the next twelve months. The Company is continuing to work with its lenders and shareholders to mitigate this risk, which may include further amending the terms of the credit facility or raising additional funds by way of an equity issuance.

The following table reconciles the Facility balance as at December 31, 2016:

Drawn Facility	$ 398,317
Unamortized finance fees	(1,754)
Overdraft/(Cash)	8,083
	$ 404,646

The effective interest rate on all borrowings (Facility and capital leases), including amortized financing fees, for the year ended December 31, 2016 was 5.7% (year ended December 31, 2015 – 3.9%). The Company borrows predominately utilizing BA's.

The Company has delivered irrevocable letters of credit to various third parties in the amount of $4.7 million as at December 31, 2016 (December 31, 2015 – $4.2 million) which reduces the amount available to be drawn under the Facility.

6. OBLIGATIONS UNDER FINANCE LEASES

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

Year	December 31, 2016	December 31, 2015
2016	$ –	1,230
2017	1,760	1,641
2018	1,094	1,000
2019	22	–
Total minimum lease payments	$ 2,876	$ 3,871
Less amount representing interest at 5.18% to 6.09%	117	247
Present value of obligations under finance leases	$ 2,759	$ 3,624
Less amount due within one year	1,658	1,088
Long term portion of obligations under finance leases	$ 1,101	$ 2,536

During the year ended December 31, 2016, the Company entered into sixteen additional finance lease agreements, increasing the total of leased fleet vehicles to one hundred and forty four. The present value of the total obligation under these finance leases is $2.8 million, with $1.7 million being due within one year.

7. DECOMMISSIONING LIABILITIES

The total future decommissioning liabilities result from the Company's net ownership interest in all wells and facilities, the estimated cost to reclaim and abandon 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 $1.2 billion at December 31, 2016 (December 31, 2015 – $1.0 billion) which will be settled over the useful lives of the assets, which extend up to 55 years. The increase in the undiscounted estimated cash flows from December 31, 2015 to December 31, 2016 mentioned above is the result of an increase in the estimated well lives, thereby delaying timing of abandonment and increasing the inflation adjusted final undiscounted cost of abandonment, and is discussed in further detail below. The liability was determined using a credit adjusted risk-free rate of 6.5% (December 31, 2015 – 6.5%) and an inflation rate of 2.0% (December 31, 2015 – 2.0%).

The following table reconciles the Company's decommissioning liability:

	December 31, 2016	December 31, 2015
Balance, beginning of year	**$ 224,936**	$ 204,930
Liabilities acquired (note 4 (a))	**–**	114,271
Liabilities divested (note 4 (b))	**(380)**	–
Liabilities divested (note 4 (c))	**(344)**	–
Liabilities incurred	**3,650**	175
Liabilities settled	**(2,894)**	(5,480)
Accretion	**10,889**	14,412
Change in the discount rate	**–**	(122,194)
Change in well life estimates	**(97,646)**	16,059
Other revisions, including changes to abandonment cost	**3,485**	2,763
Balance, end of year	**$ 141,696**	$ 224,936
Current	**$ 4,000**	$ 4,000
Non-current	**137,696**	220,936
Balance, end of year	**$ 141,696**	$ 224,936

During the second quarter of 2016, the Company revised the estimated well lives based on the Company's proved plus probable reserve report prepared by its independent, third party reserve engineers McDaniel & Associates Consultants.

Based on Ember's decommissioning liabilities as at December 31, 2016, a change of 1 year in the estimated well lives would have the effect of changing the decommissioning liability balance by $6.7 million (December 31, 2015 – $10.1 million).

Based on Ember's decommissioning liabilities as at December 31, 2016, an 1% increase in the credit adjusted risk free rate would have the effect of decreasing the decommissioning liability balance by $38.1 million (December 31, 2015 – $42.8 million). A 1% decrease in the credit adjusted risk free rate would have the effect of increasing the decommissioning liability balance by $52.8 million (December 31, 2015 – $53.7 million).

8. SHAREHOLDERS' EQUITY

(a) Share capital

Authorized

An unlimited number of voting common shares, without nominal or par value
An unlimited number of non-voting preferred shares, without nominal par value
2,000,000 non-voting performance shares, without nominal or par value

Issued

	Number of shares (note 8 (c)) (000s)		Amount ($000s)
Common shares			
Total share capital as at January 1, 2015	52,243	$	271,820
Equity funding – January 15, 2015 (note 8 (b))	24,752	$	247,522
Total share capital as at December 31, 2016	**76,995**	**$**	**519,342**

(b) Issue of common shares

On January 15, 2015, the Company issued 24,752,179 common shares by way of private placement at a price of $10.00 per common share for cash consideration of $247.5 million.

(c) Share consolidation

On December 21, 2015, Ember consolidated its share capital, issuing one share in exchange for each ten shares held. All share amounts, for all periods presented, are on a post consolidation basis.

(d) Net income (loss) per share

The following table summarizes the common shares of the Company used in calculating the net income (loss) per common share:

Weighted average common shares of the Company (000s)	**December 31, 2016**	December 31, 2015
Basic	**76,995**	76,046
Effect of dilutive employee stock options	–	2,051
Diluted	**76,995**	78,097

For the year ended December 31, 2016, all outstanding stock options, performance warrants and share awards were anti-dilutive given the Company incurred a net loss. For the year ended December 31, 2015, 979,700 stock options and 985,000 performance warrants were not included in the diluted share calculation because they were anti-dilutive.

The Company applies the treasury stock method to assess the dilutive effect of outstanding stock options on net income per share. Basic net income (loss) per share is calculated using net income (loss) and the weighted average number of common shares outstanding. Diluted net income (loss) per share is calculated using net income (loss) and the weighted average number of diluted common shares outstanding.

(e) Stock options, performance warrants and share awards

(i) Stock options

Ember has a stock option plan that governs the granting of options to employees and directors. All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price per share. Options granted under the plan generally have a term of five years, and vest equally over a period of three years. At December 31, 2016, 3,548,036 stock options had vested and were exercisable at a weighted average price of $6.50.

	Number of options (000s)	Weighted average exercise price $
Balance, January 1, 2015	3,516	$ 5.80
Granted	1,887	10.80
Settled for cash	(5)	5.50
Forfeited	(142)	7.40
Balance, December 31, 2015	5,256	$ 7.60
Granted	26	$ 11.20
Forfeited	(93)	7.63
Balance, December 31, 2016	**5,189**	**$ 7.60**

On December 21, 2015, Ember consolidated its share capital, resulting in consolidation of outstanding stock options on a ten for one basis. All stock option amounts, for all periods present, have been adjusted to reflect options on a post consolidation basis.

The range of exercise prices of the Company's outstanding stock options are as follows:

	Outstanding options			Exercisable options	
Range of exercise price ($)	Number of shares underlying options (000s)	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of shares underlying options (000s)	Weighted average exercisable strike price $
2.00 - 4.00	350	4.00	3.08	350	4.00
4.01 - 6.00	1,750	5.10	1.57	1,750	5.10
6.01 - 8.00	1,014	6.80	2.10	676	6.80
8.01 - 10.00	1,090	9.90	2.97	452	9.90
10.01 - 12.00	985	11.50	3.96	320	11.50
2.00 - 12.00	5,189	7.60	2.52	3,548	6.50

The Company uses the fair value based method for the determination of the share-based compensation costs. The fair value of each option granted during the period was estimated on the date of grant using the Black-Scholes option pricing model.

The weighted average fair value and weighted average assumptions used to fair value the options issued in the year ended December 31, 2016 and the year ended 2015 are as follows:

Assumptions	2016	2015
Risk-free interest rate (%)	**0.53%**	0.99%
Expected volatility (%)	**50%**	50%
Expected life (years)	**4.25**	4.25
Share price on date of grant ($ per share)	**$ 11.20**	$ 10.80
Fair value at grant date ($ per option)	**$ 4.50**	$ 4.40

The expected volatility is based on a combination of peer company volatility and Ember historical volatility over a period that matches the expected life of the stock options.

(ii) Performance warrants

Ember has a plan that governs the granting of performance warrants to employees and directors. Warrants granted under the plan generally have a term of five years. The warrants vest 50%, 25% and 25%, respectively, on each of the third, fourth and fifth anniversary dates. At December 31, 2016, 1,942,500 performance warrants had vested and were exercisable at a weighted average price of $12.50.

The following table sets forth a reconciliation of the performance warrants activity through to December 31, 2016:

	Number of options (000s)	Weighted average exercise price $
Balance, January 1, 2015	1,970	$ 12.50
Balance, December 31, 2015	1,970	$ 12.50
Forfeited	(20)	$ 12.50
Balance, December 31, 2016	**1,950**	**$ 12.50**

On December 21, 2015, Ember consolidated its share capital, resulting in consolidation of outstanding performance warrants on a ten for one basis. All performance warrants, for all periods present, have been adjusted to reflect performance warrants on a post consolidation basis.

The range of exercise prices of the Company's outstanding performance warrants are as follows:

	Outstanding warrants			Exercisable warrants	
Exercise price ($)	Number of shares underlying warrants (000s)	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of shares underlying warrants (000s)	Weighted average exercise price $
10.00	975	10.00	1.46	971	10.00
15.00	975	15.00	1.46	971	15.00
10.00-15.00	1,950	12.50	1.46	1,942	12.50

(iii) Share awards

The Company has outstanding share awards, issued on January 17, 2014, that allow for the issuance of common shares up to an additional maximum of 0.1 million common shares. The final number of shares that will be issued upon exercise, if any, is dependent upon the fair market value of common shares on the date of exercise. The share awards have a five year term and vest equally over three years.

On December 21, 2015, Ember consolidated its share capital, resulting in consolidation of outstanding share awards on a ten for one basis. All share award amounts are reflected on a post consolidation basis.

(f) Contributed surplus

Ember incurred stock based compensation expense during the year from its regular stock option plan, share awards, and performance warrants.

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

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 16,656	$ 12,494
Stock based compensation expensed	1,958	2,164
Stock based compensation capitalized to property & equipment	1,780	1,998
Balance, end of year	$ 20,394	$ 16,656

(g) Comprehensive loss

Comprehensive loss consists of net income (loss) and other comprehensive loss ("OCL"). OCL is comprised of the change in the fair value of the effective portion of the specific derivatives used as hedging items in a cash flow hedge plus the tax effect there of. "Accumulated other comprehensive loss" is an equity category comprised of the cumulative amounts of OCL.

9. INCOME TAXES

(a) Income tax provision

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

	December 31, 2016	December 31, 2015
Income (loss) before income taxes	$ (151,725)	$ 133,707
Statutory income tax rate	27.00%	26.00%
Expected income tax expense (recovery)	$ (40,966)	$ 34,764
Add:		
Revaluation of opening deferred tax liability	–	1,720
Stock based compensation	529	563
Recognition of previously unrecorded tax assets	(10,120)	–
Bargain purchase gain	–	(53,433)
Other	348	(572)
Deferred tax recovery	$ (50,209)	$ (16,958)

(b) Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2016	December 31, 2015
Property and equipment	$ (82,284)	$ (119,368)
Finance lease obligation	745	979
Decommissioning liability	38,258	60,732
Derivatives and other	11,186	–
Tax loss carryforwards	82,145	53,111
Net deferred tax assets (liabilities)	$ 50,050	$ (4,546)

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the carry-forward of unused tax losses can be utilized.

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. The deferred tax asset was recognized using a projection of future income based on the Company's proven plus probable reserves at December 31, 2016, using third party pricing.

As at December 31, 2016, the Company had tax deductions of approximately $1.1 billion (December 31, 2015 – $1.1 billion) that are available to shelter future taxable income. Included in this amount are non-capital losses totaling $304.2 million (December 31, 2015 – $196.7 million) which expire as follows:

	December 31, 2016
2025	$ 13,178
2026	16,096
2027	6,403
2028	33,887
2029	24,791
2030 and beyond	209,889
Non-capital losses	$ 304,244

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments consist of accounts receivable, derivatives, accounts payable, and the credit facility.

(a) Fair values of financial assets and liabilities

The fair value of financial assets and liabilities are included in the Financial Statements at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. The following methods and assumptions were used to estimate fair values:

- The determination of fair values of derivative financial instruments and liabilities is based on forward market curves and compared to quotes provided by financial institutions. The Company incorporates transaction specific details that market participants would utilize in a fair value measurement, including the impact of non-performance risk.
- The credit facility fair value approximates the carrying value, excluding the effect of unamortized finance fees, due to its nature as a revolving facility subject to variable interest rates.

(b) Fair value hierarchy

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. The Company has no financial instruments measured using level 3 inputs.

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 highest level of input that is significant to the fair value measurement. The fair value of over-the-counter financial swaps and collars is based on industry standard models that primarily rely on market observable inputs. Fair values for commodity price derivatives are based on discounted cash flows using current market rates, prices, and option pricing models using forward pricing curves and implied volatility, as appropriate. These fair value quotes are compared with similar contracts and their respective fair value quotes provided by other financial institutions for reasonability. The Company has performed its fair value measurements over all of the derivative financial instruments using level 2 inputs.

Summary of derivative financial instruments outstanding at December 31, 2016:

Contract type	Weighted average volume or dollar contract	Weighted average price (CAD$/Mcf)	Remaining term	Fair market value of derivatives used for hedging	Fair market value of derivatives classified as FVTPL	Total fair market value of derivatives
Commodity swap	146,919 Mcf/d	$ 1.97	Jan 17 to Mar 17	275	19,677	$ 19,952
Commodity swap	71,090 Mcf/d	$ 2.72	Apr 17 to Oct 17	8,157	1,072	9,229
Commodity swap	104,265 Mcf/d	$ 3.13	Nov 17 to Mar 18	5,608	3,049	8,657
Commodity swap	47,393 Mcf/d	$ 2.52	Apr 18 to Nov 18	1,943	–	1,943
Commodity swap	23,697 Mcf/d	$ 2.88	Nov 18 to Mar 19	265	–	265
Fair market value of commodity swap financial contracts at Dec. 31, 2016				16,248	23,798	$ 40,046

Derivative financial instruments – Current	$ 32,644
Derivative financial instruments – Non-current	$ 7,402
Fair value at December 31, 2016	**$ 40,046**

The above summary consists of thirty six separate commodity swap financial contracts that have been grouped together by remaining term on a weighted average basis.

Changes in the fair value of derivative liabilities are as follows:

	Fair market value liability
Fair value at December 31, 2015	$ –
Changes in fair value – Recognized in other comprehensive loss	16,248
Changes in fair value – Recognized in net income (loss)	23,798
Fair value at December 31, 2016	**$ 40,046**

The carrying values of the commodity swap financial instruments noted above are adjusted to fair market value at each reporting date. Realized and unrealized gains or losses on specific instruments that do not have hedge accounting applied are reflected in earnings in each period. For contracts with hedge accounting applied, unrealized gains and losses are accumulated in OCI until settlement. Upon settlement, any realized gains or losses on specific outstanding derivative contracts are recognized in earnings for the period. These contracts have been placed with a multinational bank, two Canadian banks and a Canadian financial institution, and as such, are considered to have high credit worthiness.

(c) Risk management

(i) Market risk

Market risk is the risk or uncertainty that the fair value of financial instruments, future cash flows, and net income of the Company will fluctuate due to movements in market rates. The market rate 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.

In the following sections, sensitivity analyses are presented to provide an indication of the amount that an isolated change in one variable may have on results. The analyses are hypothetical and should not be considered indicative of future performance.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of financial instruments will fluctuate as a result of changes in commodity prices. The Company has the ability to mitigate commodity price risk through the use of various commodity contracts.

One of the ways the Company currently manages commodity price risk, in addition to the financial derivatives disclosed in note 10 (b), is by employing a program of forward physical sales contracts which are designed to fix the prices it receives for natural gas on a portion of its daily production. These instruments assist Ember in meeting internally established hedging goals and hedging covenants required within the credit facility.

As at December 31, 2016, the Company has the following forward physical contracts outstanding[1]:

Contract type	Weighted average volume or dollar contract	Weighted average price	Remaining term
Forward physical	28,436 Mcf/d	(CAD$/Mcf) - $1.88	Jan 17 to Mar 17
Forward physical	47,393 Mcf/d	(CAD$/Mcf) - $2.80	Apr 17 to Oct 17
Forward physical	47,393 Mcf/d	(CAD$/Mcf) - $3.17	Nov 17 to Mar 18
Forward physical	18,957 Mcf/d	(CAD$/Mcf) - $2.60	Apr 18 to Oct 18

(1) The above summary consists of eleven separate forward physical contracts that have been grouped together by remaining term on a weighted average basis. Mark to market fair values are not calculated for these forward physical contracts.

Based on Ember's period to date sales volumes, a change of $0.10 Cdn per Mcf in natural gas prices at the wellhead would have the effect of changing pre-tax earnings for the year ended December 31, 2016 by $9.7 million, (year ended December 31, 2015 – $10.0 million) excluding the impact from derivative financial instruments.

(iii) Interest rate risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows. 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 of borrowing, predominately utilizing BA's. If interest rates were to change by 1% on Ember's bank borrowings, it is estimated that pre-tax earnings for the year ended December 31, 2016 would change by $4.1 million (year ended December 31, 2015 – $4.3 million).

(d) 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 cash flows and available debt to meet current spending forecasts. Of the Company's financial liabilities, $66.6 million, not including the decommissioning liabilities, mature in the next twelve months as current liabilities become due. Long term liabilities include capital leases which are due over a number of years.

Undiscounted cash outflows relating to financial liabilities as at December 31, 2016 and December 31, 2015 are as follows:

2016	**Less than 1 year**	**1-3 years**	**4-5 Years**	**Thereafter**
Accounts payable and accrued liabilities	**$ 32,308**	**$ –**	**$ –**	**$ –**
Finance leases	**1,658**	**1,101**	**–**	**–**
Derivative financial instruments	**32,644**	**7,402**	**–**	**–**
Credit facilities	**–**	**404,646**	**–**	**–**
Total	**$ 66,610**	**$ 413,149**	**$ –**	**$ –**

2015	Less than 1 year	1–3 years	4–5 Years	Thereafter
Accounts payable and accrued liabilities	$ 26,308	$ –	$ –	$ –
Finance leases	1,088	2,536	–	–
Credit facilities	–	405,112	–	–
Total	$ 27,396	$ 407,648	$ –	$ –

As is typical in the energy industry, Ember generates working capital deficiencies during periods of capital expansion and in periods with low commodity prices. These deficiencies are then reduced in subsequent periods through the utilization of available credit facilities and the application of internally generated cash flows during periods of reduced capital activity and periods with higher commodity prices. Of the $30.7 million working capital deficit, $32.6 million is represented by a derivatives liability. The balance of this liability is made up of a number of separate contracts that will be settled over the following 12 months, as opposed to a liability that will require immediate settlement of the entire balance. Assuming no change in the forward natural gas strip prices, this amount will be settled by increased operating cash flow from the normal marketing of gas production over the life of the instruments.

(e) 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. Ember's production is currently sold through 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. The Company has obtained corporate guarantees from certain product marketers and purchasers.

The aging analysis of accounts receivables is as follows:

	December 31, 2016	December 31, 2015
Current	**$ 32,679**	$ 30,705
30 - 60 days	**964**	1,449
60 - 90 days	**396**	286
Greater than 90 days	**1,071**	1,604
Allowance for impaired accounts	**(500)**	(500)
Total	**$ 34,610**	$ 33,544

As estimated at December 31, 2016, the five largest outstanding accounts receivables comprised approximately 57% (December 31, 2015 – 55%) of the accounts receivables balance. These customers have been evaluated by the Company and are considered to have high creditworthiness.

As at December 31, 2016, the Company fully evaluated its accounts receivables 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.

11. CAPITAL STRUCTURE FINANCIAL POLICIES

The Company's primary objectives in managing its capital structure are to:

(i) maintain a flexible capital structure which optimizes the cost of capital at an acceptable level of risk;

(ii) maintain sufficient liquidity to support ongoing operations, capital expenditure programs, strategic initiatives, and the repayment of debt obligations when due; and

(iii) maximize shareholder returns.

Ember manages its capital structure to support current and future business plans and periodically adjusts the structure in response to changes in economic conditions and the risk characteristics of the Company's underlying assets and operations. Ember monitors a number of key metrics including, but not limited to, current market conditions, hedging positions, cash flow from operations, trailing and forecasted debt to EBITDA[3] to measure the status of its capital structure. The Company has not established fixed quantitative thresholds for such metrics. The capital structure may be adjusted by issuing or repurchasing shares, issuing or repurchasing debt, refinancing existing debt, modifying capital spending programs, and disposing of assets, the availability of any such means being dependent upon market conditions.

	December 31, 2016	December 31, 2015
Credit facility debt	**$ 404,646**	$ 405,112
Letters of credit	**4,737**	4,237
Finance leases	**2,759**	3,624
Total debt (1)	**$ 412,142**	$ 412,973
Total debt	**412,142**	412,973
Shareholders' equity	**590,756**	700,395
Total capitalization (2)	**$ 1,002,898**	$ 1,113,368
EBITDA (3)	**$ 26,871**	$ 121,224
Ratios		
Total debt to EBITDA (3)	**15.3**	3.4
Total debt to capitalization	**41.1%**	37.1%

(1) Total debt calculated above may be different than total debt as defined within the credit facility for purposes of covenant calculations.

(2) "Capitalization" is calculated by taking the total debt plus the shareholders' equity of the Company.

(3) EBITDA is calculated in accordance with the Company's lending agreements (note 5) wherein it is determined based on a twelve month rolling pro-forma calculation. Material acquisitions are reflected into the EBITDA calculation on a pro-forma basis.

12. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital were comprised of the following:

	December 31, 2016	December 31, 2015
Accounts receivable	**$ (1,066)**	$ (10,924)
Prepaid expenses and deposits	**(825)**	(2,648)
Accounts payable and accrued liabilities	**6,000**	498
Net change	**$ 4,109**	$ (13,074)
Net change by activity:		
Operating	**$ 5,115**	$ (11,357)
Investing	**(1,006)**	(1,717)
Net change	**$ 4,109**	$ (13,074)
Cash interest paid	**$ 23,198**	$ 15,156
Cash taxes paid	**$ –**	$ –

13. OPERATING EXPENSE

	December 31, 2016	December 31, 2015
Gross operating expense	**$ 137,968**	$ 147,132
Processing income recovery	**(4,856)**	(6,548)
Net operating expense	**$ 133,112**	$ 140,584

Processing income recovery represents the estimated capital recovery component of the processing charges billed to third parties.

Carbon emission performance credits represent the credits earned at facilities that achieve more than the required reduction in carbon emissions as required under the "Specified Gas Emitters Regulation" in the province of Alberta that are sold to various third parties.

14. COMMITMENTS

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.

Office lease and natural gas transportation commitments are as follows:

As at December 31, 2016	Office Lease	Natural Gas Transportation	Total
2017	$ 3,171	$ 11,074	$ 14,245
2018	3,171	14,340	17,511
2019	3,269	13,403	16,672
2020	3,202	10,125	13,327
2021	3,000	9,914	12,914
2022	3,000	8,406	11,406
2023	3,000	–	3,000
Total	$ 21,813	$ 67,262	$ 89,075

The natural gas and transportation amounts above include firm transportation delivery agreements that were entered into subsequent to the year ended December 31, 2016. See note 16 for the specific cumulative impact of these new agreements.

15. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

(a) Related party transactions

Related party transactions are in the normal course of operations and have been recognized in these financial statements at the exchange amount.

During the year ended December 31, 2016, capital and operating expenditures of $1.1 million (year ended December 31, 2015 – $1.0 million) were paid or accrued in connection with a company that is controlled by the Brookfield group of companies, the major shareholder of Ember. As at December 31, 2016, $0.2 million was payable (December 31, 2015 – $0.2 million) to this related party.

(b) Key management compensation

The remuneration of the key management personnel of the Company is set out below in aggregate:

	December 31, 2016	December 31, 2015
Salaries and short-term benefits	$ 2,648	$ 2,798
Stock based compensation expensed and capitalized	1,435	1,868
Total	$ 4,083	$ 4,666

At December 31, 2016, the Company changed its presentation of salaries and short term benefits to reflect these amounts on the accrual basis. Previously, the Company disclosed these amounts on the cash paid basis. The Company is of the view that this method reflects a more accurate picture of compensation.

Included in salaries and short-term benefits for the year ended December 31, 2016 is a bonus of $0.9 million (December 31, 2015 – $1.2 million).

At December 31, 2016, the Company changed its presentation of stock based compensation to reflect the expensed and capitalized amounts on option contracts that relate to key management personnel. Previously, the Company disclosed the fair value of the options issued to key management within the applicable period. The Company is of the view that this method reflects a more accurate picture of the stock based compensation that was expensed and capitalized in relation to key management personnel.

16. SUBSEQUENT EVENT

In January 2017, the Company entered into the following firm transportation delivery agreements. These new agreements are described and included in the commitments disclosed in note 14.

	Natural Gas Transportation
2017	$ 18
2018	5,786
2019	5,785
2020	5,777
2021	5,777
2022	5,774
Total	$ 28,917