2016
Year End

EMBER

Ember Resources Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2016

This Management's Discussion & Analysis ("MD&A"), dated February 10, 2017, is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Ember Resources Inc. ("Ember" or the "Company") and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2016 and 2015, including the notes thereto (the "annual financial statements").

This document contains forward-looking information, non-IFRS measures and disclosure of certain oil and gas measures. Readers are referred to the Advisories section of this document concerning such matters. Additional information concerning Ember can be found on the Company's website at www.emberresources.ca.

ABOUT EMBER RESOURCES INC.

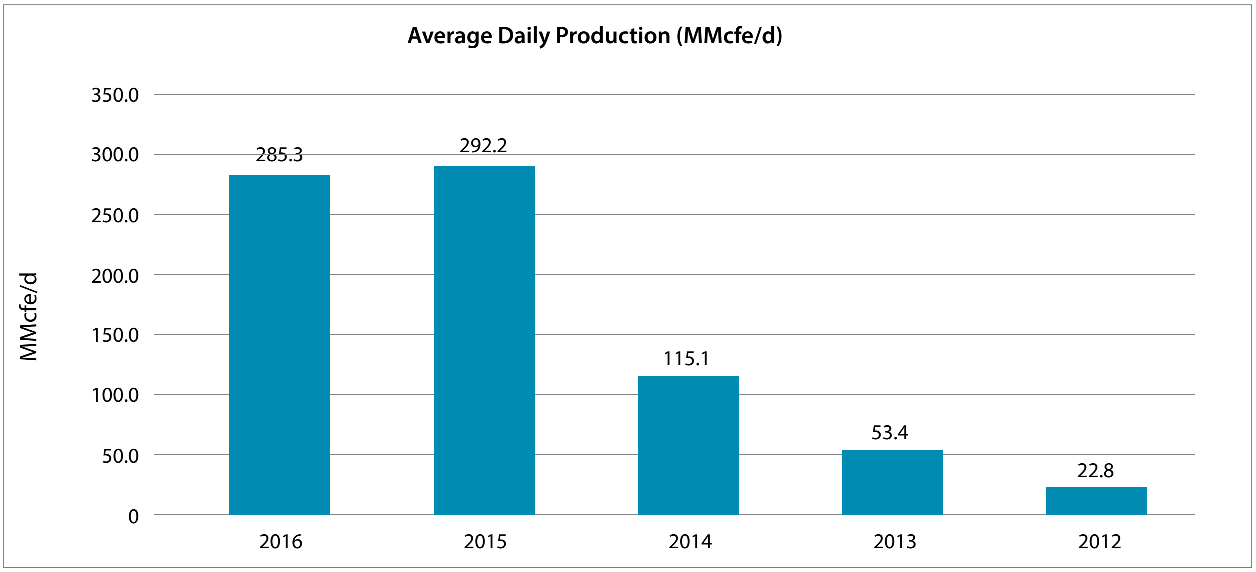
Ember is a natural gas development and production company focused on the extraction of natural gas derived from coal or coalbed methane ("CBM") in the province of Alberta, Canada. The Company's primary land base is concentrated in south central Alberta, from Calgary, north to Camrose.

As Canada's largest producer of CBM, Ember's vision is to continue to develop our low-cost, unconventional, long life CBM assets in order to maximize free cash flow and deliver low risk exposure to natural gas in Western Canada. Ember's vision is realized through the following key areas:

- Low decline asset base combined with an inventory of capital efficient projects – Ember's core assets are located in Alberta's Horseshoe Canyon CBM fairway. The Company dominates the CBM fairway with 2.1 million net acres of highly contiguous land and 500 MMcfe/d of owned and operated production facilities. Future investments include a significant inventory of drilled but uncompleted CBM wells and CBM/shallow gas infill wells.
- Operational focus – Ember has and will continue to focus on operational efficiencies including facility optimization, operating cost reductions and optimal production performance. All of Ember's activities are conducted in a safe and environmentally responsible manner.
- Proven management team and high-quality employees – Ember has a proven management team with an average of 25 years' experience in the energy industry and a recognized track record of cost effective acquisitions, drilling and exploitation in the CBM/shallow gas business. Ember has retained some of the best talent in the business; a workforce filled with an energetic and entrepreneurial spirit that are trusted to bring value to the Company each and every day through exceptional work ethic, dedication to community engagement and alignment with Ember's inclusive and focused corporate culture.
- Corporate responsibility – In addition to our safety and environmental programs, Ember has developed community support and charitable initiatives that have a broad reach and widespread impact in the communities where we operate and live.

HISTORICAL HIGHLIGHTS

Daily Average Production (MMcfe/d)



The Company's significant growth has come from a series of five acquisitions including the two major asset acquisitions described below. The first of the major asset acquisitions occurred on October 31, 2013 when the Company acquired CBM assets from Apache Canada for $205.7 million, which subsequently increased the Company's daily production by approximately 75 MMcfe/d. The second major asset acquisition, referred to as the "Clearwater Acquisition", occurred on January 15, 2015 when the Company acquired CBM assets from Encana for $572.8 million, which subsequently increased the Company's daily production by approximately 180 MMcfe/day.

FINANCIAL HIGHLIGHTS

($000s, except share and per share amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015 [1]	%
Natural gas and liquid sales	**75,928**	72,425	5	**226,288**	296,885	(24)
Funds from operations	**9,846**	22,917	(57)	**3,094**	98,316	(97)
– per share basic & diluted	**$ 0.13**	$ 0.30	(57)	**$ 0.04**	$ 1.28	(97)
Net income (loss)	**(3,231)**	(10,092)	(68)	**(101,516)**	150,665	(167)
– per share basic [3]	**$ (0.04)**	$ (0.13)	(68)	**$ (1.32)**	$ 1.98	(167)
– per share diluted [3]	**$ (0.04)**	$ (0.13)	(68)	**$ (1.32)**	$ 1.93	(168)
Property and equipment cash additions	**7,586**	8,175	(7)	**18,453**	41,644	(56)
Property acquisition	**–**	(1,456)	–	**–**	547,776	–
Decommissioning liability expenditures	**712**	2,519	(72)	**2,894**	5,480	(47)
Property disposition	**–**	–	–	**(14,610)**	–	–
Total assets	**1,212,211**	1,364,921	(11)	**1,212,211**	1,364,921	(11)
Total debt [2]	**407,405**	408,736	–	**407,405**	408,736	–
Working capital (deficit) surplus [4]	**(30,700)**	6,623	(564)	**(30,700)**	6,623	(564)
Shares outstanding [3]	**76,995**	76,995	–	**76,995**	76,995	–

(1) Production figures include the Clearwater Acquisition of approximately 180,000 Mcfe/day as such transaction closed on January 15, 2015.

(2) See "Non-IFRS Financial Measures".

(3) See "Capital Structure".

(4) Working capital deficit for 2016 includes a $32.6 million liability for derivative financial instruments that will be either settled out of increased revenue at higher gas prices or through a recorded reduction of the liability occurring through periods of declining gas prices.

OPERATING HIGHLIGHTS

	Q4 2016	Q4 2015	%	YTD 2016	YTD 2015	%
Daily average production (Mcfe/d) (1)	**275,311**	302,747	(9)	**285,263**	292,165	(2)
Average sales price ($/Mcfe)	**3.00**	2.60	15	**2.17**	2.78	(22)
Realized gain/(loss) on financial derivatives ($/Mcfe)	**(0.60)**	0.06	(1,100)	**(0.17)**	0.12	(242)
Royalties expense ($/Mcfe)	**0.22**	0.11	100	**0.15**	0.17	(12)
Operating expense ($/Mcfe)	**1.16**	1.19	(3)	**1.28**	1.32	(3)
Transportation expense ($/Mcfe)	**0.18**	0.15	20	**0.15**	0.16	(6)
Operating netback ($/Mcfe)	**0.84**	1.21	(31)	**0.42**	1.25	(66)
CBM wells drilled (gross/net)	**0/0**	0/0	–	**0/0**	8/8	–
CBM wells completed	**50**	30	67	**60**	143	(58)
Land (000s of net acres)	**2,060**	2,263	(9)	**2,060**	2,263	(9)

(1) Production figures include the Clearwater Acquisition of approximately 180,000 Mcfe/day as such transaction closed on January 15, 2015.

2016 HIGHLIGHTS

The following are highlights reached during the year ended December 31, 2016.

Operating Performance

- Average daily production for the year ended December 31, 2016 decreased by 2%, to 285.3 MMcfe/d from 292.2 MMcfe/d in the comparable period of 2015. The small decrease in production is a result of the natural decline rates from our reserve base, partially offset by production gains from the continued focus on wellbore remediation programs. This modest decline was maintained with a limited capital program of gross $18.5 million (net of dispositions $3.8 million) as the Company did not drill new wells in 2016 but instead focused on completing CBM zones in existing wellbores. During the year, 60 wells were completed, 50 of which occurred in Q4 2016 with the resultant production increase expected to be fully realized in Q1 2017. Discretionary operating costs declined $10.7 million in 2016 when compared to 2015. This decline was a result of infrastructure consolidation and efficiency gains from the Clearwater/ Apache acquisitions.

Asset Dispositions

- On March 4, 2016, the Company completed the disposition of certain non-core assets in the Carseland area of western Alberta for 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 disposition. This disposition subsequently reduced the Company's daily production by approximately 470 Mcfe/d.

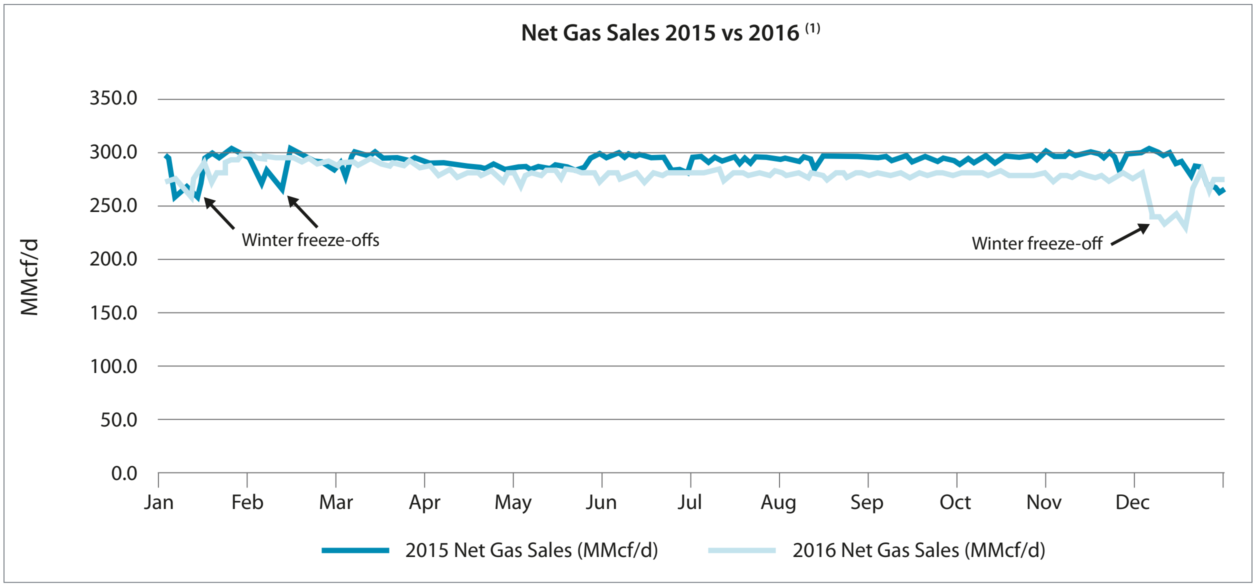
- On September 30, 2016, the Company completed the disposition of certain non-core assets in central Alberta for proceeds of $9.9 million. The net book carrying value of the assets was $14.0 million and the Company also recognized a reduction in decommissioning liabilities of $0.3 million. A loss of $3.7 million was recorded on the disposition. This disposition subsequently reduced the Company's daily production by approximately 1,530 Mcfe/d.

Q4 2016 HIGHLIGHTS

The following are highlights reached during the three month period ended December 31, 2016.

Operating Performance

- Average daily production for the three month period ended December 31, 2016 decreased by 9%, to 275.3 MMcfe/d from 302.7 MMcfe/d in the comparable period of 2015. The decrease in production is a result of the natural decline rates from our reserve base, asset sales and loss of production due to winter freeze offs occurring in December 2016. Winter freeze offs occur when temperatures fall below -20 degrees Celsius on a sustained basis. During the quarter, losses due to freeze offs are estimated at 7.9 MMcfe/d as compared to 3.5 MMcfe/d in Q4 2015.



(1) Does not include Ember's oil and natural gas liquids ("NGL") or royalty volumes which represent less than 2% of Ember's total production.

Financial Performance

- The credit facility balance at December 31, 2016 decreased by $0.5 million to $404.6 million from $405.1 million at December 31, 2015. When possible, the Company focuses on using free cash flow to reduce debt levels. As a result of low commodity prices, funds from operations were reduced to $3.1 million for the year ended 2016. Capital expenditures in 2016 were also curtailed at gross $18.5 million (net of dispositions $3.8 million) in reaction to low prices.

Capital Expenditures

- With the improvement in commodity prices in Q4 2016, the Company continues to conservatively manage its capital expenditures and committed to some additional capital spending during the quarter. Cash capital expenditures for the three month period ended December 31, 2016 were $8.3 million, $3.8 million of which was directed to completing 50 CBM wells in existing wellbores.

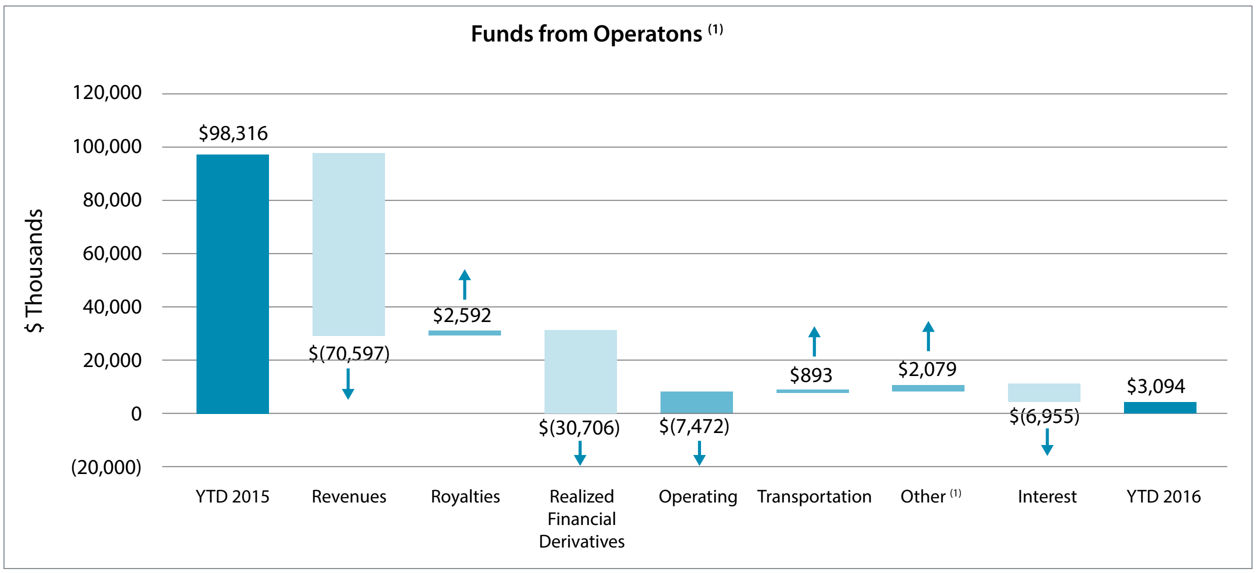
RESULTS OF OPERATIONS

Net Income (Loss) and Funds from Operations

($000s, except per share amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Net income (loss)	**$ (3,231)**	$ (10,092)	(68)	**$ (101,516)**	$ 150,665	(167)
Add items not involving cash						
Depreciation, depletion & accretion	**27,442**	35,910	(24)	**125,317**	154,213	(19)
Stock-based compensation	**422**	571	(26)	**1,958**	2,164	(10)
Unrealized loss on financial derivatives	**277**	1,457	(81)	**23,798**	13,744	73
Loss (gain) on disposal	**(344)**	–	–	**3,746**	–	–
Bargain purchase gain	**–**	(1,092)	–	**–**	(205,512)	–
Deferred tax recovery	**(14,720)**	(3,837)	284	**(50,209)**	(16,958)	196
Funds from operations	**9,846**	22,917	(57)	**3,094**	98,316	(97)
Funds from operations per share	**$ 0.13**	$ 0.30	(57)	**$ 0.04**	$ 1.28	(97)

Bridge Analysis of Funds from Operations

The following graph bridges the Company's Funds from Operations for the year ended December 31, 2016 to the comparable period in 2015:



(1) Includes general and administrative expense and transaction costs.

Funds from operations for the year ended December 31, 2016 were $3.1 million, compared to $98.3 million for the comparable period in 2015. Funds from operations decreased primarily due to a 24% reduction in 2016 revenue resulting from natural gas price declines of 22% as well as realized losses on financial and physical activity, when compared to the same period in 2015.

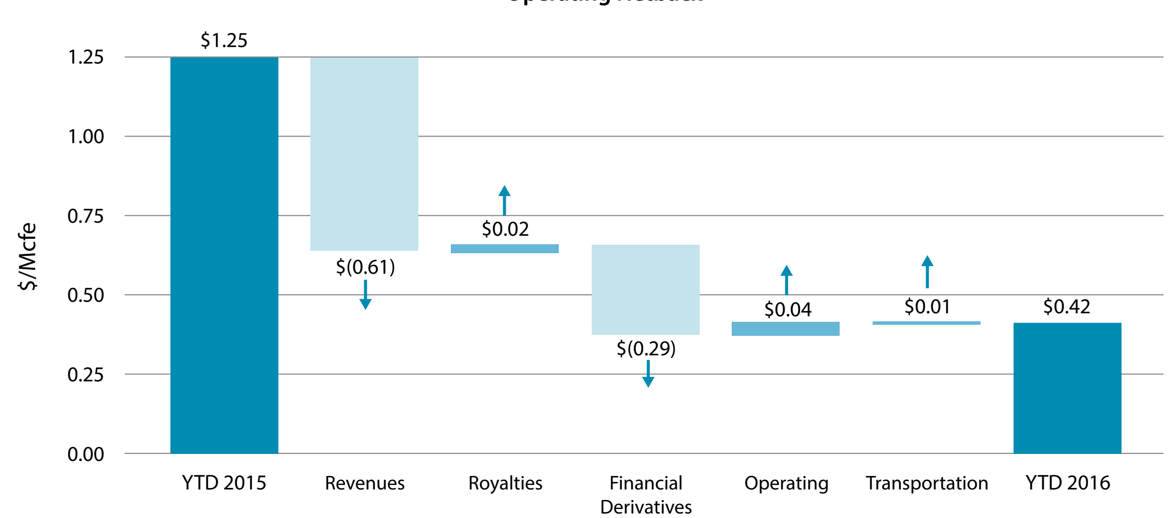
Funds from operations for the three month period ended December 31, 2016 were $9.8 million, compared to $22.9 million for the comparable period in 2015. Funds from operations decreased primarily due to realized losses on financial and physical activity and a 9% decrease in production, partially offset by a 15% increase in commodity sales price from the comparable period in 2015, resulting in overall sales revenue increasing 5%.

NETBACK ANALYSIS

As commodity prices remained low in 2016, the Company focused on managing discretionary operating costs. During the three months and year ended December 31, 2016, discretionary operating costs decreased to $16.2 million and $71.7 million, respectively, from $19.1 million and $82.5 million in the comparable periods of 2015. The decrease is due to reduced repair and maintenance costs, lower third party gas handling fees and a decrease in power costs. Combined with property taxes and surface rentals the Company's per unit operating costs decreased $0.03/Mcfe and $0.04/Mcfe, respectively, or 3%, from the comparable periods in 2015.

Bridge Analysis of Operating Netback [1]

The following graph bridges Ember's operating netback [1] on an Mcfe basis for the year ended December 31, 2016 to the comparable period in 2015:



(1) See "Non-IFRS Financial Measures"

The following table summarizes Ember's operating netback [1] and funds from operations on a Mcfe basis for the three months and years ended December 31, 2016 and 2015:

	Q4 2016 $/Mcfe	Q4 2015 $/Mcfe	%	**YTD 2016 $/Mcfe**	YTD 2015 $/Mcfe	%
Natural gas and liquid sales	**3.00**	2.60	15	**2.17**	2.78	(22)
Royalties expense	**(0.22)**	(0.11)	100	**(0.15)**	(0.17)	(12)
Realized gain/(loss) on financial derivatives	**(0.60)**	0.06	(1,100)	**(0.17)**	0.12	(242)
	2.18	2.55	(15)	**1.85**	2.73	(32)
Operating expense	**(1.16)**	(1.19)	(3)	**(1.28)**	(1.32)	(3)
Transportation expense	**(0.18)**	(0.15)	20	**(0.15)**	(0.16)	(6)
Operating netback [1]	**0.84**	1.21	(31)	**0.42**	1.25	(66)
General & administrative expense	**(0.18)**	(0.21)	(14)	**(0.16)**	(0.18)	(11)
Transaction costs	**–**	(0.01)	–	**–**	(0.01)	–
Interest expense	**(0.26)**	(0.16)	63	**(0.23)**	(0.16)	44
Current tax expense	**–**	–	–	**–**	–	–
Funds from operations	**0.40**	0.83	(52)	**0.03**	0.90	(97)

(1) See "Non-IFRS Financial Measures"

Operating netback for the three month period ended December 31, 2016 was $0.84/Mcfe, compared to $1.21/Mcfe for the same period in 2015. The decrease is mainly the result of realized losses on financial and physical hedging activity, increased royalty costs as a result of a higher commodity price environment and greater transportation costs, when compared to the same period in 2015. The decrease is partially offset by a higher realized commodity price before hedging and reduced operating expenses in the current period.

Operating netback for the year ended December 31, 2016 was $0.42/Mcfe, compared to $1.25/Mcfe for the same period in 2015. The decrease in 2016 is mainly the result of realized losses on financial and physical hedging activities and a lower commodity price environment when compared to the same period in 2015. The decrease is partially offset by lower royalty, operating and transportation expenses in the current period.

Revenue and Production

	Q4 2016	Q4 2015	%	**YTD 2016**	YTD 2015	%
Natural gas and liquid sales before physical hedges *($000s)*	**78,539**	72,425	8	**228,815**	296,885	(23)
Physical forward sales contracts *($000s)*	**(2,611)**	–	–	**(2,527)**	–	–
Natural gas and liquid sales *($000s)*	**75,928**	72,425	5	**226,288**	296,885	(24)
Average natural gas production (Mcfe/d)	**273,447**	298,396	(8)	**282,489**	288,820	(2)
Average liquid production (Bbls/d)	**311**	725	(57)	**462**	558	(17)
Average natural gas and liquid production (Mcfe/d)	**275,311**	302,747	(9)	**285,263**	292,165	(2)
Total natural gas and liquid production (Mcfe)	**25,328,619**	27,852,701	(9)	**104,406,127**	106,640,335	(2)

Revenue for the three month period ended December 31, 2016 increased $3.5 million, or 5%, from the same period in 2015, primarily due to a 15% increase in commodity sales price, averaging $3.00/Mcfe for the three month period ended December 31, 2016, compared to $2.60/Mcfe for the same period in 2015. This increase was partially offset by a 9% reduction in the average daily sales volumes from the comparable period in 2015. The Q4 2016 production decrease was caused primarily by the temporary effect of freeze offs due to much colder weather in December 2016 when compared to the same period in 2015.

Revenue for the year ended December 31, 2016 decreased $70.6 million, or 24%, from the same period in 2015, primarily due to a 22% decrease in commodity sales price, averaging $2.17/Mcfe for the year ended December 31, 2016, compared to $2.78/Mcfe for the same period in 2015. This decrease was also due to a 2% reduction in average daily sales volumes from the comparable period in 2015.

Gains and losses on the settlement of forward physical contracts are included in the Company's sales revenue. The loss on forward physical contracts for the three months and year ended December 31, 2016 was $2.6 million and $2.5 million, respectively. There are no comparatives as the Company did not have any material physical contracts in 2015. For the three months and year ended December 31, 2016, the loss from the physical forward sales contracts amounted to a decrease of $0.07/Mcfe and $0.02/Mcfe, respectively, to the Company's average natural gas sales price, which approximates AECO 5A.

Product Pricing

(CAD$, unless otherwise stated)	Q4 2016	Q4 2015	%	YTD 2016	YTD 2015	%
NYMEX average price (US$/Mcf) (1)	**2.94**	2.45	20	**2.41**	2.75	(12)
AECO / NYMEX differential (US$/Mcf) (1)	**(0.61)**	(0.59)	4	**(0.78)**	(0.63)	24
Average foreign exchange rate (CAD$/US$) (1)	**0.753**	0.756	–	**0.755**	0.785	(4)
AECO average price ($/Mcf) (1)	**3.09**	2.46	25	**2.15**	2.69	(20)
Corporate differential ($/Mcfe)	**(0.04)**	0.07	(167)	**(0.01)**	0.04	(118)
Physical forward sales contracts (CAD$/Mcfe) (2)	**(0.07)**	–	–	**(0.02)**	–	–
Ember average natural gas sales price ($/Mcfe)	**2.97**	2.53	17	**2.12**	2.73	(22)
Ember average liquid sales price ($/Bbls)	**45.70**	44.73	2	**40.78**	47.08	(13)
Ember average sales price ($/Mcfe)	**3.00**	2.60	15	**2.17**	2.78	(22)
Realized gain (loss) on derivatives ($/Mcfe)	**(0.60)**	0.06	(1,100)	**(0.17)**	0.12	(242)
Ember total average price ($/Mcfe)	**2.40**	2.66	(10)	**2.00**	2.90	(31)
Transportation ($/Mcfe)	**(0.18)**	(0.15)	20	**(0.15)**	(0.16)	(6)
Ember wellhead price ($/Mcfe)	**2.22**	2.51	(12)	**1.85**	2.74	(32)

(1) The benchmark prices have been taken from Enerdata's "Canadian Gas Price Reporter".

(2 Gains and losses on the settlement of physical contracts are included in the Company's sales revenue. See "Forward Physical Contracts" below for a summary of the contracts outstanding at December 31, 2016.

Financial Derivatives and Physical Forward Sales

Ember periodically utilizes a variety of hedge instruments to manage various risks. The Company currently employs a program of commodity swaps and forward physical sales 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.

The following is a summary of the outstanding financial derivative contracts and physical forward sales contracts by quarter as at December 31, 2016.

Applicable Year	Applicable Quarter	Weighted average volume Mcf/Day	Weighted average price (CAD$/Mcf)
2017	Q1	175,355	$ 1.95
	Q2	118,483	$ 2.75
	Q3	118,483	$ 2.75
	Q4	140,600	$ 3.03
2018	Q1	151,659	$ 3.14
	Q2	66,351	$ 2.54
	Q3	66,351	$ 2.54
	Q4	37,915	$ 2.69
2019	Q1	23,697	$ 2.88

Financial Derivative Contracts

The following is the period end balance sheet position of all financial derivative contracts as at December 31, 2016 and 2015:

($000s)	December 31, 2016	December 31, 2015	%
Commodity swap contracts – Current	**(32,644)**	–	–
Commodity swap contracts – Non-current	**(7,402)**	–	–
Net liability position on derivative contracts	**(40,046)**	–	–

Ember has placed a series of AECO 5A swaps in 2016.

As at December 31, 2016, the Company has the following summarized financial derivative contracts outstanding[1]:

Contract type	Weighted average volume or dollar contract	Weighted average price	Remaining term	Fair market value of derivatives used for hedging	Fair market value of derivatives classified as FVTPL [2]	Total fair market value of derivatives
Commodity swap	146,919 Mcf/d	(CAD$/Mcf) - $1.97	Jan 17 to Mar 17	275	19,677	19,952
Commodity swap	71,090 Mcf/d	(CAD$/Mcf) - $2.72	Apr 17 to Oct 17	8,157	1,072	9,229
Commodity swap	104,265 Mcf/d	(CAD$/Mcf) - $3.13	Nov 17 to Mar 18	5,608	3,049	8,657
Commodity swap	47,393 Mcf/d	(CAD$/Mcf) - $2.52	Apr 18 to Nov 18	1,943	–	1,943
Commodity swap	23,697 Mcf/d	(CAD$/Mcf) - $2.88	Nov 18 to Mar 19	265	–	265
Fair market value liability of commodity swap financial contracts at December 31, 2016				**$ 16,248**	**$ 23,798**	**$ 40,046**

(1) 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.

(2) Fair value through profit or loss.

During the three month period ended December 31, 2016, the Company continued to enter into commodity contracts, consisting of both financial derivatives and physical forward sales, to protect the balance sheet and cover cash costs during future periods of commodity price fluctuation. The Company is also required to comply with the following bank obligated hedging covenants:

- The length of any commodity hedge contract cannot exceed three years.
- 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.
- 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.

Ember is utilizing a mechanical hedging program that reduces volatility in cash flows due to natural gas prices and meets the bank obligated hedging covenants. The duration of the hedges will be a minimum of twenty-four months to a maximum of thirty-six months and will be rolled forward on a quarterly basis. Success will be determined based on objectives, not gains or losses on realized prices.

Certain of Ember's financial hedges are recorded in the financial statements utilizing hedge accounting and others entered into prior to July 1, 2016 are recorded without the application of hedge accounting.

From July 1, 2016 forward, the Company began to designate certain hedging instruments for the application of hedge accounting. For hedge instruments that have been designated for hedge accounting, it is expected that the changes in the cash flows of natural gas monthly average floating AECO 5A swaps will be perfectly effective at offsetting changes in the expected cash flows of forecasted sales of natural gas paid to the Company as denominated in monthly average floating AECO 5A prices.

The predominant risk associated with these instruments is credit risk, which is the risk that a counterparty will fail to perform an obligation or fail to pay an amount due causing a financial loss. To mitigate this risk, Ember evaluates the credit risk of counterparties and attempts to restrict contracts to those with investment grade credit ratings.

The following are the realized and unrealized gains or losses for the three months and years ended December 31, 2016 and 2015:

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Realized gain (loss) on derivatives	**(15,160)**	1,654	(1,017)	**(17,408)**	13,298	(231)
$ per Mcfe	**(0.60)**	0.06	(1,100)	**(0.17)**	0.12	(242)
Unrealized loss on derivatives	**(277)**	(1,457)	(81)	**(23,798)**	(13,744)	73
$ per Mcfe	**(0.01)**	(0.05)	(80)	**(0.23)**	(0.13)	77

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, the realized and unrealized gains and losses are accumulated in other comprehensive income ("OCI") until settlement. Upon settlement, any 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.

Physical Forward Sales

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.

Royalties

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Freehold royalties	**4,636**	4,257	9	**12,372**	18,097	(32)
Crown royalties	**1,125**	(1,093)	203	**2,897**	(236)	1,328
Total royalties expense	**5,761**	3,164	82	**15,269**	17,861	(15)
$ per Mcfe	**0.22**	0.11	100	**0.15**	0.17	(12)
Effective royalty rate [(1)]	**7.6%**	4.4%	74	**6.7%**	6.0%	12

(1) The effective royalty rate is calculated by dividing the aggregate royalties into petroleum and natural gas sales for the period.

Ember's properties are comprised of freehold and Crown lands. The mix of these properties is predominately concentrated to freehold lands, which consists of 1,221,648 net acres compared to 838,476 net acres for Crown lands. Of the total freehold lands, 609,217 net acres carry a flat 5% freehold royalty rate.

The aggregate royalty expense for the fourth quarter of 2015 was impacted by a $(1.1 million) adjustment related to Crown gas cost allowance. Excluding this adjustment, the effective royalty rate was 6% for the 2015 period compared to 7.6% in the respective period in 2016. The increase in the effective royalty rate is a result of higher average realized commodity prices in 2016.

For the year ended December 31, 2016, aggregate royalty expense was lower, when compared to 2015, due to a reduction in revenue. The increase in effective royalty rates from the comparable period is primarily related to a reduction in the recognized crown GCA in 2016 and as a result of the change in production in areas with different levels of royalty rates.

On January 29, 2016, the Alberta Government released the report on its Royalty Review and set forth a new Modified Royalty Framework (MRF) that came into effect on January 1, 2017. Ember's current base gas crown royalty rates, excluding GCA adjustments, will be minimally impacted as we move from the Alberta Royalty Framework (ARF) to the MRF. The Company's current production base will benefit from increased thresholds within the MRF environment, which provides a 5% royalty rate that will apply up to a $5.00-$6.00/Mcf price environment.

The effective royalty rates under current market conditions are expected to range between 5% and 8%. If market conditions improve, as they did in the fourth quarter of 2016, the royalty rate can be expected to increase. This rate is representative of a blend of Ember's freehold royalties and Crown royalties, net of GCA deductions.

Operating

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Discretionary expenses	**16,168**	19,146	(16)	**71,710**	82,467	(13)
Property taxes	**4,610**	5,015	(8)	**22,008**	23,243	(5)
Surface leases	**8,731**	9,054	(4)	**39,394**	34,874	13
Total Operating expense	**29,509**	33,215	(11)	**133,112**	140,584	(5)
$ per Mcfe						
Discretionary expenses	**0.64**	0.69	(7)	**0.69**	0.77	(10)
Property taxes	**0.18**	0.18	–	**0.21**	0.22	(5)
Surface leases	**0.34**	0.32	6	**0.38**	0.33	15
Total Operating expense	**1.16**	1.19	(3)	**1.28**	1.32	(3)

Operating expense for the three month period ended December 31, 2016 decreased $3.7 million, or 11%, when compared to the same period in 2015. On a per unit basis, operating expense averaged $1.16/Mcfe compared to $1.19/Mcfe, for the comparable period of 2015. The decrease in the overall operating expense for the three months ended December 31, 2016 was primarily due to reduced repair and maintenance costs, lower third party gas handling fees due to the re-routing of gas into company owned facilities and a decrease in well cleanouts due to wet weather encountered in the quarter, compared to the same period in 2015.

Operating expense for the year ended December 31, 2016 decreased $7.5 million, or 5%, compared to the same period in 2015. On a per unit basis, operating expense averaged $1.28/Mcfe compared to $1.32/Mcfe, for the comparable period of 2015. The decrease in the overall operating expense for the year ended December 31, 2016 was primarily due to reduced repair and maintenance costs, lower power costs as a result of lower electricity market pricing, and reduced third party gas handling fees due to the re-routing of gas into company owned facilities, partially offset by higher lease expenses, compared to 2015. Ember continues to focus on optimizing well operating practices and expects to realize further cost savings through the operating efficiencies of the wells and infrastructure that have been acquired over the past few years.

Operating expenses are comprised of both discretionary costs and nondiscretionary fixed costs such as property taxes and surface lease expenses. Cost reduction projects commenced in 2015 to reduce the fixed costs imbedded in the Company's cost structure. The property tax project intends to seek cost reductions by ensuring the Company's CBM well base is properly assessed for property tax purposes. At a hearing held in October 2016, the Municipal Government Board ruled in favor of the Company that commingled CBM wells were incorrectly assessed and as a result, the Company anticipates a modest reduction in future property taxes. The Company intends to continue to bring before the Municipal Government Board other areas of unfairness and inequity in its property tax assessment.

Ember is working with the Alberta Energy Regulator ("AER") to allow for the partial reclamation of surface leases that are no longer required for current operations. This will benefit both the Company and the surface lease owners by returning the reclaimed land to its original use and reducing surface rentals.

Alberta Carbon Levy Program

On May 24, 2016, the Alberta Government introduced Bill 20: the Climate Leadership Implementation Act, which implements the carbon levy on Albertans and Alberta businesses that the government previously announced under its Climate Change Leadership Plan. Effective January 1, 2017, the Act applies a carbon levy to all sales and imports of fuel (natural gas, diesel, propane and gasoline use), subject to certain exemptions.

The impact of the carbon levy on Ember will be limited with an exemption for the fuel used within its oil and gas operations until January 1, 2023. Going forward in 2017 until the expiry of the exemption period, the company will see an indirect cost as businesses that provide services will charge out the levy for fuel usage as a cost of transportation or service charge, however it is expected these costs will not have a significant impact to our current cost structure.

Alberta Carbon Offset System

The Alberta Offset System is a program that is offered by the Alberta Government to help reduce carbon dioxide emissions by offering carbon offset credits. A carbon offset credit is a financial unit of measurement that represents the removal of one metric tonne of carbon dioxide from the atmosphere at an Alberta facility that is not regulated under the Specified Gas Emitters Regulation ("SGER"). In order to qualify for these offset credits, projects must follow strict government approved protocols that ensure emissions reductions are real, quantifiable and registered on the Alberta Emission Offset Registry. Once registered, the offsets can be sold to Alberta's large emitters that have not met their provincially mandated reduction obligation. The price paid for the offsets is market driven so the price varies with demand.

Currently, Ember has an ownership interest in 31 facilities that generate offset credits under six aggregated projects, three vent gas capture projects and three instrument air projects. From the period of January 16, 2015 to July 31, 2016 the Company has had 71,922 offset credits verified from these six projects. At current provincial carbon credit market rates, the Company estimates that it generates approximately $1 million of annual carbon credits.

Transportation

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Transportation expense	**4,503**	4,242	6	**15,713**	16,606	(5)
$ per Mcfe	**0.18**	0.15	20	**0.15**	0.16	(6)

Transportation expense relates to the cost of transporting Ember's natural gas production from the wellhead to AECO through the use of major pipelines in the province. For the three month period ended December 31, 2016, transportation expense, on a per unit basis, increased 20% to $0.18/Mcfe compared to $0.15/Mcfe in the comparable period in 2015. The increase, on a per unit basis, is due to lower utilization of the Company's fixed contracts as a result of a decrease in production and an increase in fuel usage costs as a result of increased fuel usage and increased natural gas prices during the three month period ended December 31, 2016. Additionally, in 2016 the Company experienced increases in both receipt point rates and fuel requirements under its current contracts.

For the year ended December 31, 2016, transportation expense, on a per unit basis, decreased 6% to $0.15/Mcfe compared to $0.16/Mcfe in the comparable period in 2015. The decrease in overall transportation costs is the result of the higher utilization of fixed service contracts to manage our current production levels, reducing the amount of higher cost interruptible service requirements in such periods.

Transportation rates in 2017 are expected to be comparable to those experienced in 2016 within a comparable pricing environment. In 2018 and later the company expects an increase of transportation costs by 3 to 4 cents per Mcf as the company replaces expiring lower cost contracts with new contracts at higher rates.

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

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Depletion, depreciation and amortization ("DD&A")	**25,107**	32,232	(22)	**114,428**	139,801	(18)
Accretion expense	**2,335**	3,678	(37)	**10,889**	14,412	(24)
Total DD&A and accretion expense	**27,442**	35,910	(24)	**125,317**	154,213	(19)
$ per Mcfe						
DD&A	**0.99**	1.16	(15)	**1.10**	1.31	(16)
Accretion expense	**0.09**	0.13	(31)	**0.10**	0.14	(29)
Total DD&A and accretion expense	**1.08**	1.29	(16)	**1.20**	1.45	(17)

For the three months and year ended December 31, 2016, depletion expense decreased by $7.1 million, or 22%, and $25.4 million, or 18%, respectively, when compared to the same periods in 2015. On a per unit basis, for the three months and year ended December 31, 2016, depletion expense decreased $0.17/Mcfe, or 15%, and $0.21/Mcfe, or 16%, compared to the same periods in 2015. The decrease in depletion expense is primarily due to a revision of the decommissioning liability life estimate which decreased the decommissioning liability asset by $94.5 million, an increase in the proved plus probable reserve base and a reduction in forecasted future development costs, when compared with the same periods in 2015.

For the three months and year ended December 31, 2016, accretion expense decreased $1.3 million, or 37%, and $3.5 million, or 24%, respectively, when compared to the same periods in 2015. On a per unit basis, for the three months and year ended December 31, 2016, accretion expense decreased $0.04/Mcfe, or 31%, and $0.04/Mcfe, or 29%, respectively, compared to the same periods in 2015. The decrease in accretion expense is due to a revision of the decommissioning liability life estimate which decreased the decommissioning liability asset by $94.5 million, when compared to the same periods in 2015.

General and Administrative ("G&A")

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Gross G&A expenses	**6,723**	8,085	(17)	**26,362**	28,114	(6)
Capitalized G&A	**(1,303)**	(1,640)	(21)	**(5,791)**	(5,705)	2
Overhead recoveries	**(740)**	(663)	12	**(2,656)**	(3,023)	(12)
Net G&A expense	**4,680**	5,782	(19)	**17,915**	19,386	(8)
$ per Mcfe	**0.18**	0.21	(14)	**0.16**	0.18	(11)

Gross G&A for the three month period ended December 31, 2016 decreased $1.4 million, or 17%, from the same period in 2015. Gross G&A for the year ended December 31, 2016 decreased $1.8 million, or 6%, from the same period in 2015. These decreases were due to reduced compensation and a modification to the capitalized G&A allocation process in the three months and year ended December 31, 2016, when compared to the same periods in 2015. Despite limited capital expenditures in 2016, the Company worked on capital related initiatives for future drilling and completion programs, impacting the overall capitalized G&A cost in 2016.

Net G&A for the three months and year ended December 31, 2016 declined $1.1 million and $1.5 million, respectively, compared to same periods in 2015. The decreases are primarily due to the comparative periods of 2015 being impacted by corporate expenses, greater accounting consultant costs, software implementation expenses and a cumulative increase in the estimate for the 2015 engineering reserve report following Ember's step change acquisition of the Clearwater assets.

Stock-Based Compensation ("SBC")

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Gross SBC costs	**800**	1,084	(26)	**3,738**	4,162	(10)
Capitalized SBC	**(378)**	(513)	(26)	**(1,780)**	(1,998)	(11)
Net SBC expense	**422**	571	(26)	**1,958**	2,164	(10)
$ per Mcfe						
Gross SBC costs	**0.03**	0.04	(25)	**0.04**	0.04	–
Capitalized SBC	**(0.01)**	(0.02)	(50)	**(0.02)**	(0.02)	–
Net SBC expense	**0.02**	0.02	–	**0.02**	0.02	–

Net SBC expense for the three months and year ended December 31, 2016 decreased $0.1 million, or 26%, and $0.2 million, or 10%, respectively, when compared to the same periods in 2015. On a per unit basis, net SBC expense has remained consistent at $0.02/Mcfe for the three months and year ended December 31, 2016, compared to the same periods in 2015.

SBC is capitalized in a manner consistent with capitalized general and administrative expenses.

Interest Expense

($000s, except per unit amounts)	**Q4 2016**	Q4 2015	%	**YTD 2016**	YTD 2015	%
Interest and amortized financing costs	**6,469**	4,584	41	**23,777**	16,822	41
$ per Mcfe	**0.26**	0.16	63	**0.23**	0.16	44
Effective interest rate	**6.3%**	4.3%	45	**5.7%**	3.9%	46

For the three months and year ended December 31, 2016, interest expense increased by $1.9 million, or 41%, and $7.0 million, or 41%, respectively, compared to the same periods in 2015. The 2016 decrease in natural gas prices and resulting increase in the Company's debt to twelve month trailing EBITDA ratio, provided for a step change in the credit facility pricing grid and related borrowing costs, offset by lower draws on the credit facility.

The effective interest rate on all borrowings, including amortized financing fees, for the three months and year ended December 31, 2016 was 6.3% and 5.7%, respectively, compared to 4.3% and 3.9% in the comparable periods in 2015.

Refer to the section "Liquidity and Capital Resources" for a further discussion on the Company's credit facility.

Income Taxes

Ember is not currently taxable and the Company does not anticipate paying current income tax over the next several years. The Company's 2016 tax rate is a combined Canadian federal and Alberta provincial rate of 27%.

At December 31, 2016, a deferred tax asset of $50.1 million (December 31, 2015 – $4.5 million deferred tax liability) has been recognized in the financial statements.

($000s)	**December 31, 2016**	December 31, 2015	%
Property and equipment	**(82,284)**	(119,368)	(31)
Decommissioning liability	**38,258**	60,732	(37)
Derivatives and Other	**11,186**	–	–
Finance lease obligation	**745**	979	(24)
Tax loss carryforwards	**82,145**	53,111	55
Net deferred tax assets (liabilities)	**50,050**	(4,546)	(1,201)

At December 31, 2016, Ember had deductible tax pools totaling $1.1 billion available to shelter future taxable income. The following table outlines carry-forward tax deductible and credit amounts and their future deductibility:

($000s)	Total Pools as at December 31, 2016	Successor Pools as at December 31, 2016	Annual deductibility
COGPE	**576,002**	62,896	10% declining balance
CDE	**84,633**	46,502	30% declining balance
CEE	**21,145**	18,894	100%
SRED	**2,301**	–	100%
UCC classes	**125,305**	–	Primarily 25% declining balance
Non capital loss carry-forwards	**304,243**	–	100% (1)
Total tax deductions	**1,113,629**	128,292	
Total tax credits	**460**	–	

(1) These non-capital losses have different expiries ranging from 2025 to 2036, with the majority of expiries occurring in years after 2030.

Capital Expenditures

($000s)	Q4 2016	Q4 2015	%	YTD 2016	YTD 2015	%
Land	**104**	224	(54)	**573**	2,256	(75)
Geological and geophysical	**226**	577	(61)	**497**	1,014	(51)
Drilling and completions	**4,609**	4,388	5	**7,700**	26,159	(71)
Equipment and facilities	**433**	788	(45)	**2,632**	3,311	(21)
Minor (dispositions) and acquisitions	**833**	460	81	**349**	369	(5)
Capitalized costs and office equipment	**1,381**	1,738	(21)	**6,702**	8,535	(21)
Asset additions for cash	**7,586**	8,175	(7)	**18,453**	41,644	(56)
Significant acquisition of property and equipment	–	(1,456)	–	–	547,776	–
Decommissioning liability expenditures	**712**	2,519	(72)	**2,894**	5,480	(47)
Proceeds from disposition of natural gas properties	–	–	–	**(14,610)**	–	–
Total capital expenditures – cash	**8,298**	9,238	(10)	**6,737**	594,900	(99)

During the fourth quarter of 2016, the Company limited capital expenditures electing to complete 50 CBM wells in existing wellbores and perform various remedial work including water shut-offs, perforations, comingles and infrastructure improvements. In the fourth quarter of 2015, the Company completed 30 CBM wells in existing wellbores. Year to date, the Company has completed 60 CBM wells in existing wellbores plus additional remedial work as compared to 143 completions of existing wellbores and remedial work in 2015. In the first part of 2015, 8 new drills and 82 completions were undertaken as a continuation of the 2014 drilling program. The Company did not drill any new wells in 2016.

The Company has a significant inventory of capital projects to add cost effective production and continue to improve performance of the existing producing assets. As at year end 2016, the Company has identified 1,298 wellbores with behind pipe CBM potential, 450 wells with behind pipe conventional zones to perforate, 534 wells to commingle and 1,328 wellbores for potential water shut-offs. In addition, Ember is using its extensive seismic data base to high grade its 3,000 development wells included in its reserve report to target conventional sands which combined with the CBM reserves will increase drilling economics.

Licensee Liability Rating Program ("LLR")

The LLR program was introduced in 2000 by the Alberta Energy and Utilities Board ("AER") in order to encourage companies to properly abandon and reclaim wells, facilities and pipelines after their operational life ends. The program requires companies to demonstrate their ability to be able to fund abandonment and reclamation activities. The program measures this ability through a Liability Management Rating ("LMR"). An LMR rating less than one suggests the assets are less than the liability and will attract a requirement to post security. An LMR greater than one is preferable as a security deposit is not required.

In 2015, Ember undertook an initiative to ensure that the application of LLR rules to our CBM asset base reflect actual operating conditions. The work completed by the Company and the AER, resulted in a reduction of Company-wide abandonment cost estimates of approximately $500 million raising the company's LMR rating to 2.08, effective February 10, 2017. Ember continues to work towards a reduction of the liability portion of the LMR through proper application of LLR rules, and abandonment and reclamation activities, with the intended result of further improvement in the Company's LMR rating.

Decommissioning Liabilities

Decommissioning liabilities are the estimated costs to abandon and reclaim ("A&R") the Company's wells, facilities and pipelines at the end of their useful life. The estimate is based on an analysis of the current costs to A&R wells and facilities, the timing of the A&R, inflation rates and discount rates. At December 31, 2016, the net present value of the Company's decommissioning liability, current and non-current, was $141.7 million (December 31, 2015 – $224.9 million) and is recorded as a liability on the Company's balance sheet. The provision has been discounted using a credit-adjusted risk free rate of 6.5%.

At December 31, 2016, the estimated undiscounted inflation adjusted decommissioning liabilities associated with natural gas properties and facilities were $1.2 billion (December 31, 2015 – $1.0 billion). The majority of the payments to settle this provision will occur over a period of 55 years and will be funded from the general resources of the Company as they arise.

While the provision is based on the best estimate of future costs and the economic lives of the wells and facilities, there is uncertainty regarding both the amount and timing of incurring these costs. As an indication of possible future changes in estimated decommissioning liabilities, if all of the Company's decommissioning obligations could be deferred by one year, the net present value of the liabilities would decrease by approximately $6.7 million (December 31, 2015 – $10.1 million). This was the case during the second quarter of 2016, when 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, resulting in a $89.8 million downward revision of the decommissioning liabilities during the second quarter.

QUARTERLY RESULTS

The following summarizes selected financial and operational information for the Company for the preceding eight quarters:

($000s, except share, per share amounts and volumes)	**Q4 2016**	Q3 2016	Q2 2016	Q1 2016
Daily average production (MMcfe/d)	**275.31**	284.27	285.46	296.13
Average natural gas price ($/Mcfe)	**3.00**	2.34	1.47	1.89
Natural gas and liquid sales	**$ 75,928**	$ 61,254	$ 38,261	$ 50,845
Net loss	**$ (3,231)**	$ (14,214)	$ (58,400)	$ (25,671)
– per share basic	**$ (0.04)**	$ (0.18)	$ (0.76)	$ (0.33)
– per share diluted	**$ (0.04)**	$ (0.18)	$ (0.76)	$ (0.33)
Funds from (used in) operations	**$ 9,846**	$ 3,789	$ (11,068)	$ 527
– per share basic	**$ 0.13**	$ 0.05	$ (0.14)	$ 0.01
Property and equipment additions – cash	**$ 7,586**	$ 2,683	$ 4,197	$ 3,987
Property and equipment dispositions – cash	**$ –**	$ (9,889)	$ –	$ (4,721)
Property acquisitions – cash	**$ –**	$ –	$ –	$ –
Decommissioning liability expenditures	**$ 712**	$ 723	$ 240	$ 1,219
Capital activity				
CBM wells drilled (gross/net)	**0/0**	0/0	0/0	0/0
CBM wells completed	**50**	0	0	10
Net debt (1)	**$ 403,803**	$ 403,666	$ 413,201	$ 400,961
Shares outstanding *(000s)*	**76,995**	76,995	76,995	76,995

($000s, except share, per share amounts and volumes)	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Daily average production (MMcfe/d)	302.75	301.18	296.56	267.69
Average natural gas price ($/Mcfe)	2.60	2.96	2.78	2.79
Natural gas and liquid sales	$ 72,425	$ 82,082	$ 75,089	$ 67,289
Net income (loss)	$ (10,092)	$ (10,586)	$ (17,942)	$ 189,285
– per share basic	$ (0.13)	$ (0.14)	$ (0.24)	$ 2.59
– per share diluted	$ (0.13)	$ (0.14)	$ (0.24)	$ 2.49
Funds from operations	$ 22,917	$ 32,373	$ 22,652	$ 20,374
– per share basic	$ 0.31	$ 0.41	$ 0.29	$ 0.27
Property and equipment additions – cash	$ 8,175	$ 7,227	$ 6,590	$ 19,652
Property and equipment disposition – cash	$ –	$ –	$ –	$ –
Property acquisitions – cash	$ (1,456)	$ –	$ –	$ 549,232
Decommissioning liability expenditures	$ 2,519	$ 1,163	$ 703	$ 1,095
Capital activity				
CBM wells drilled (gross/net)	0/0	0/0	0/0	8/8
CBM wells completed	30	30	8	75
Net debt (1)	$ 401,025	$ 412,306	$ 430,986	$ 442,126
Shares outstanding *(000s)*	76,995	76,995	76,995	76,995

(1) See "Non-IFRS Financial Measures"

Over the past eight quarters, the Company's natural gas and liquid sales have fluctuated due to changes in a volatile pricing environment. Natural gas prices have varied, decreasing from the end of 2014 through much of 2015 and 2016, with a partial rebound in the third and fourth quarter of 2016. Production levels have been fairly consistent since the last major acquisition in January 2015, declining slightly from natural decline rates of the Company's reserve base. The Company's production has been held fairly flat due to wellbore remediation and modest completion programs.

Net income has fluctuated primarily due to changes in funds flow from operations and non-cash charges, in particular depletion, accretion, unrealized gain or loss on derivatives and a bargain purchase gain. In addition to pricing and production, funds flow from operations was also impacted by changes in operating, royalty and G&A expenses.

Funds from operations has fluctuated primarily due to changes in natural gas prices which have decreased through much of 2015 and 2016, with a partial rebound in the third and fourth quarter of 2016.

Net debt has fluctuated over the past eight quarters as a result of timing of asset acquisitions and capital expenditures related to the Company's drilling and remediation program. Since the Clearwater Acquisition in early 2015, the Company has been able to reduce debt levels as a result of using free cash flow to pay down debt mainly through 2015. In quarters where commodity prices are low, such as the second quarter of 2016, debt levels increased as free cash flow was negative.

Any increase in shares outstanding has been as a result of completing private placements in order to help fund specific asset acquisitions. The most recent being the Clearwater Acquisition, where the Company completed a private placement on January 15, 2015, issuing 24,752,179 common shares at $10.00 per share for total proceeds of $247.5 million.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

($000s)	**December 31, 2016**	December 31, 2015
Cash flow provided by operating activities	**5,315**	81,479
Cash flow provided by (used in) financing activities	**(466)**	509,658
Cash flow (used in) investing activities	**(4,849)**	(591,137)

Cash Flow Provided by Operating Activities

Cash flow provided by operating activities was $5.3 million in 2016 compared to $81.5 million in 2015. The decrease was primarily the result of a lower commodity price environment and an increase in the realized loss on financial and physical hedging activity in 2016, compared to the same period in 2015. This decrease is partially offset by lower royalty, operating and transportation expenses in the current year.

Cash Flow Provided by (used in) Financing Activities

Cash flow provided by (used in) financing activities was ($0.5 million) in 2016 compared to $509.7 million in 2015. In 2016, ($0.5 million) was used for the net repayment of the credit facility compared to the net issuance of $247.5 million of common shares, a net draw on the credit facility of $262.5 million and the repayment of a capital lease obligation of ($0.3 million) in 2015.

Cash Flow (used in) Investing Activities

Cash flow used in investing activities was ($4.8 million) in 2016 compared to ($591.1 million) in 2015. The change was primarily due to a decrease in capital activity as there was no significant acquisition activity in 2016 compared to 2015.

Bank Facility

The Company has a covenant based revolving credit facility 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, which has been amended from time to time, is limited to $440 million and consists of a $415 million revolving term credit facility and $25 million revolving operating facility.

The terms in which the Company may borrow under the facilities 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.

The Company's 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 following table reconciles the Company's credit facility balance as at December 31, 2016:

	As at December 31, 2016
Drawn revolving term facility	**398,317**
Unamortized finance fees	**(1,754)**
Overdraft/(Cash)	**8,083**
	404,646

The following table reconciles the Company's undrawn credit facility balance as at December 31, 2016:

($000s)	
Credit facility available	440,000
Credit facility balance	(404,646)
Unamortized finance fees	(1,754)
Letters of credit	(4,737)
	(411,137)
Undrawn credit facilities	28,863

As at December 31, 2016, the Company was in compliance with all applicable covenants under the amended credit facility as shown below.

	Covenant		Covenant Measurement as at December 31, 2016
	Minimum	**Maximum**	
Financial Covenants			
i) EBITDA [(1)] – $ millions	$15.0		$27.1
ii) Total debt to capitalization	0%	55%	41%
Non-financial covenants			
iii) Hedge contract requirements			
Year 1	50%	85%	52%
Year 2	30%	65%	31%
Year 3	0%	50%	2%

(1) EBITDA accumulated from July 1, 2016 to December 31, 2016.

A change in gas prices of $0.10 per Mcf during the three months and year ended December 31, 2016 would have resulted in a change in EBITDA of approximately $2.5 million and $10.4 million, respectively, excluding the impact from the derivative financial instruments.

At each reporting period, 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 debt covenants over the next twelve months. The Company continues 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 or subordinated debt issuance.

The effective interest rate on all borrowings (credit facility and capital leases), including amortized financing fees, for the year ended December 31, 2016 was 5.7% (December 31, 2015 – 3.9%). This increase is the result of a step change in the Company's facility pricing grid due to a deterioration of the consolidated senior debt to EBITDA ratio, both of which have been caused by falling commodity prices during 2015 and into 2016. The Company borrows predominately utilizing BA's.

Capital Resources and Working Capital

The following table sets forth a summary of the Company's capital resources deficit at December 31, 2016:

($000s)	
Current assets	39,910
Current liabilities	
Accounts payable and accrued liabilities	(32,308)
Current portion of finance leases	(1,658)
Derivatives	(32,644)
Decommissioning liabilities	(4,000)
	(70,610)
Undrawn credit facilities	28,863
Total capital resources deficit	(1,837)

At December 31, 2016, the Company had a working capital deficit of $30.7 million and a capital resources deficit of $1.8 million.

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, see "Derivatives". Should commodity prices decrease, the derivatives liability will automatically reduce as the gap between realized gas prices and fixed prices in the derivatives contract will narrow. Subsequent to the year end the derivative liability decreased from $32.6 million at December 31, 2016 to $4.0 million at January 31, 2017 due mainly to a downward movement in the forward gas price curve – see "Derivatives" and the table of derivative contracts for contract price levels.

The Company is reporting a capital resources deficit of $1.8 million at December 31, 2016, of which $32.6 million is related to the derivative liability described above. As the Company will either have the funds to settle the derivatives liability from gas sales at higher prices, or will adjust the liability downward in a lower price environment, the Company fully expects to meet its liabilities as they come due

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.

Overall, the Company can and does adjust its capital program to react to changing market conditions (increasing or decreasing commodity prices) thereby managing overall levels of debt.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Based on the discussion above, the Company believes that it has access to sufficient capital to meet current spending forecasts and current liabilities as they come due.

The Company will continue to monitor its counterparty credit positions to mitigate any potential credit losses. All revenues are subject to normal collection risk. For activities conducted with joint venture partners, Ember collects its partners' share of capital and operating expenses on a monthly basis.

At December 31, 2016, Ember had a total of $1.1 million of receivables greater than 90 days out of total receivables of $34.6 million (a total of 3.2%). Of this 90 day receivable amount, $0.5 million has been provided as a doubtful allowance. The Company is of the view that the remaining balance greater than 90 days is collectible based on discussions with and evaluation of various vendors regarding the outstanding balances.

Contractual Obligations	**Cumulative Payments Due by Periods**				
($000s)	**Total**	**Less than 1 year**	**2 - 3 years**	**4 - 5 years**	**After 5 years**
Accounts payable and accrued liabilities	32,308	32,308	–	–	–
Finance lease obligations	2,759	1,658	1,101	–	–
Credit facility	404,646	–	404,646	–	–
Derivative financial instruments	40,046	32,644	7,402	–	–
Decommissioning liabilities	141,696	4,000	8,000	8,000	121,696
Total contractual obligations	621,455	70,610	421,149	8,000	121,696

Accounts payable and accrued liabilities consist of amounts payable to suppliers relating to head office, field operating activities and capital spending activities. These invoices are processed within the Company's normal payment period.

Ember continuously manages the pace of its capital spending program by monitoring forecasted production, commodity prices and resulting cash flows. Due to the relatively low capital cost to drill, complete and tie-in Horseshoe Canyon CBM wells, Ember is able to adjust quickly to changes in cash flows for both an increase or decrease in capital spending. In addition, the Company has over 1,000 drilled wells not completed in the CBM coals that can be quickly completed at 25% of the cost of a new well.

Capital Structure

The Company manages its capital structure to maintain adequate liquidity to support ongoing operations, capital expenditure programs and repayment of debt obligations. To aid in this process, the Company monitors debt to cash flow and/or debt to EBITDA levels as well as total debt to capitalization. These measures guide the Company towards adjustments to its capital structure to meet liquidity goals.

Share Capital

(000s)	**February 10, 2017**	**December 31, 2016**	December 31, 2015 [5]	%
Outstanding Common Shares				
Weighted average outstanding common shares [1]				
Basic	**76,995**	**76,995**	76,046	1%
Diluted	**76,995**	**76,995**	78,097	-1%
Outstanding securities				
Common shares	**76,995**	**76,995**	76,995	–
Share options [2]	**5,175**	**5,189**	5,256	-1%
Share awards [3]	**852**	**852**	858	-1%
Performance warrants [4]	**1,950**	**1,950**	1,970	-1%

(1) Per share information is calculated on the basis of the weighted average number of common shares outstanding during the period. Diluted per common 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 common share information is calculated using the treasury stock method which assumes that any proceeds received by the Company upon exercise of in-the-money options would be used to buy back common shares at the average market price for the period. Performance share and share awards (contingently issuable shares) are calculated based on the common shares that would be issuable, if the end of the reporting period were the end of the contingency period, and the result would be dilutive.

(2) The weighted average exercise price for the years ended December 31, 2016 and 2015 is $7.60 per share.

(3) The final amount of share awards, if any, is dependent upon the fair market value of Ember shares on the date of exercise up to an additional maximum of 0.1 million common shares. The share awards have a five year term and vest equally over 3 years.

(4) The weighted average exercise price for the years ended December 31, 2016 and 2015 is $12.50.

(5) 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 present, are on a post consolidation basis.

COMMITMENTS

The Company has entered into firm service transportation agreements for gas sales in Alberta for various terms expiring up to 2022. Due to its location in southern Alberta and close proximity to the AECO hub, firm service is readily available to the Company as it continues to grow production or contracts expire. Committed payments are outlined in the table below.

	Average Minimum Daily Volume Commitment (MMcf/d)	Minimum Annual Fee *($000s)*
2017	253.2	11,074
2018	229.7	14,340
2019	215.9	13,403
2020	167.8	10,125
2021	164.8	9,914
2022	143.0	8,406
Total	–	67,262

It is Ember's intention to continue to add additional firm service on both extendible and non-extendible firm service contracts as they expire. The balance of Ember's daily production is sold on an interruptible basis.

The firm transportation delivery commitments above include agreements that were entered into subsequent to the year ended December 31, 2016. See below for the specific cumulative impact of these new agreements.

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 above.

	Average Minimum Daily Volume Commitment (MMcf/d)	Minimum Annual Fee *($000s)*
2017	–	–
2018	102.5	5,805
2019	102.5	5,785
2020	102.5	5,777
2021	102.5	5,777
2022	102.5	5,774
Total	–	28,918

The Company has entered into leases for office space. Estimated future minimum lease payments as at December 31, 2016 are as follows:

	Future Minimum Lease Payments *($000s)*
2017	3,171
2018	3,171
2019	3,269
2020	3,202
Thereafter	8,999
Total	21,812

OFF-BALANCE SHEET ARRANGEMENTS

Ember has certain lease arrangements, such as office leases and gas transportation agreements that are reflected in the contractual obligations and commitments table. These leases have been entered into in the normal course of operations and have been treated as operating leases whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

The Company does not have any arrangements or obligations that are not reflected in the financial statements or notes to the financial statements.

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 (December 31, 2015 – $1.0 million) were paid or accrued to a company that provided service rigs for completion and workover operations. This company is controlled by Brookfield Asset Management, a major shareholder of Ember. As at December 31, 2016, $0.2 million were payable (December 31, 2015 – $0.2 million) to this related party.

BUSINESS RISKS

The following are the primary risks associated with the business of Ember. These risks are similar to those affecting other companies competing in the conventional oil and natural gas sector. Ember's financial position and results of operations are directly impacted by these factors which include:

- Operational risk associated with the production of natural gas and oil:
- Reserve risk in respect to the quantity and quality of recoverable reserves;
- Exploration and development risk of being able to add new reserves economically;
- Market risk relating to the availability of transportation systems to move the product to market;
- Commodity risk as natural gas and oil prices fluctuate due to market forces;
- Financial risk such as volatility of the Canadian/US dollar exchange rate, interest rates and debt service obligations;
- Environmental and safety risk associated with well operations and production facilities;
- Changing government regulations relating to royalty legislation, income tax laws, incentive programs, operating practices and environmental protection relating to the oil and natural gas industry;
- Continued participation of Ember's lenders; and
- Cyber security breaches.

Ember seeks to mitigate these risks by:

- Acquiring properties with established production trends to reduce technical uncertainty as well as undeveloped land with development potential;
- Maintaining a low cost structure to maximize product netbacks and reduce impact of commodity price cycles;
- Diversifying properties to mitigate individual property and well risk;
- Conducting rigorous reviews of all property acquisitions;
- Monitoring pricing trends and developing a mix of contractual arrangements for the marketing of products with creditworthy counterparties;
- Maintaining a hedging program to hedge commodity prices with creditworthy counterparties;
- Adhering to the Company's safety program and adhering to current operating best practices;
- Keeping informed of proposed changes in regulations and laws to properly respond to and plan for the effects that these changes may have on our operations;
- Carrying industry standard insurance;
- Establishing and maintaining adequate resources to fund future abandonment and site restoration costs;
- Monitoring our joint venture partners' obligations to us and cash calling for capital projects to limit the Company's credit risk; and
- Maintain industry standard IT practices.

OTHER

Accounting Standards Not Yet Adopted

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.

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.

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. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts, and a number of revenue-related interpretations. 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.

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.

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.

Critical Accounting Estimates

Certain accounting policies require that management make appropriate decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Ember's financial and operating results incorporate certain estimates including the following:

Reserves Base

The estimate of reserves is used in forecasting the recoverability and economic viability of the Company's property and equipment ("P&E"), and in the depletion and impairment calculations. 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.

Depletion and Depreciation Expense

Property and equipment 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 natural gas reserves. These factors could be significantly different in the future resulting in a different depletion rate.

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 to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the natural gas price assumption may change, which may impact the estimated life of the field and may then require a material adjustment to the carrying value of property and equipment assets. The Company monitors internal and external indicators of impairment relating to its P&E assets on a quarterly basis.

Identification of Cash-Generating Units

Ember's assets are aggregated into a single cash-generating unit, for the purpose of calculating impairment, based on the ability to generate a large independent cash flow. 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.

Decommissioning costs

Decommissioning costs will be incurred by the Company at the end of the operating life of some 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.

Income taxes

The Company recognizes the net future tax benefit related to deferred tax assets 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 forecasted cash flows from operations and the application of existing tax laws in the jurisdiction of Alberta. 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 jurisdiction of Alberta, in which Ember operates, could limit the ability of Ember to obtain tax deductions in future periods.

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.

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.

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.

Evaluation of Disclosure Controls and Procedures

Ember's Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures ("DC&P"), or caused it to be designed under their supervision, to provide reasonable assurance that material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared, and information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management of Ember, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's DC&P as at December 31, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the DC&P are effective as of the end of the year, in all material respects.

Evaluation of Internal Control over Financial Reporting

Ember's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR"). They have as at the financial year end December 31, 2016, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Ember's officers used to design the Company's ICFR is the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations.

Management of Ember, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's ICFR as at December 31, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the ICFR are effective as of the end of the year, in all material respects.

Ember's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's ICFR. No material changes in the ICFR were identified during the interim period ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our ICFR.

It should be noted that while the Chief Executive Officer and Chief Financial Officer believe that the Company's design of DC&P and ICFR provide a reasonable level of assurance that they are effective, they do not expect that the control system will prevent all errors and fraud. A control system, no matter how well conceived or operated, does not provide absolute, but rather is designed to provide reasonable assurance that the objective of the control system is met. The Company's ICFR may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures.

ADVISORIES

Forward-Looking Information

This MD&A contains forward-looking statements and forward-looking information within the meaning of applicable Canadian securities laws (collectively referred to as "forward-looking statements"). These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those included in the forward-looking statements. The words "believe," "expect," "intend," "estimate," "anticipate," "project," "scheduled" and similar expressions, as well as future or conditional verbs such as "will," "should," "would" and "could", often identify forward-looking statements. These statements are only predictions. Actual events or results may differ materially. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Assumptions have been made by the Company regarding, among other things, the following:

- the ability to obtain equity and/or debt capital on acceptable terms;
- ability to obtain equipment, services, supplies and personnel in a timely manner to carry out its activities;
- ability to access the operating facility;

- ability to market and sell its natural gas successfully to current and new customers;
- ability to secure adequate processing and transportation;
- timely receipt of required regulatory approvals;
- ability to obtain drilling success consistent with expectations;
- currency, exchange and interest rates;
- general economic conditions, and political and regulatory environments; and
- future natural gas, oil, NGL's and other prices.

Specific forward-looking statements contained in this MD&A include, among others, statements regarding:

- ability to continue as a going concern;
- the quantity of and future net revenues from Ember's reserves;
- natural gas production levels;
- expectations regarding Ember's ability to access its operating facility;
- Ember's hedging strategy and percentage of production subject to hedging;
- commodity prices, foreign currency exchange rates and interest rates;
- capital expenditure programs and other expenditures;
- supply and demand for natural gas;
- expectations regarding Ember's ability to raise capital and to continually add to reserves through acquisitions and development;
- schedules and timing of certain projects and Ember's strategy for growth;
- competitive conditions;
- Ember's ability to increase its producing asset base;
- Ember's future operating and financial results;
- treatment under governmental and other regulatory regimes and tax, environmental and other laws; and
- expectations regarding future Crown royalty charges and royalty rates in general.

Ember's actual results could differ materially from those anticipated in these forward-looking statements as a result of both known and unknown risks, including the risk factors set forth under "Business Risks" in this MD&A and the risk factors set forth below:

- ability to obtain adequate credit;
- ability to continue as a going concern;
- volatility in market prices for natural gas;
- changes or fluctuations in natural gas production levels;
- changes in foreign currency exchange rates and interest rates;
- changes in capital and other expenditure requirements and debt service requirements;
- liabilities and unexpected events inherent in oil and gas operations, including geological, technical, drilling and processing problems;
- uncertainties associated with estimating reserves;

- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- Ember's success at acquisition, exploitation and development of reserves;
- changes in general economic, market and business conditions in Canada, North America and worldwide; and
- changes in environmental or other legislation applicable to Ember's operation's and Ember's ability to comply with current and future environmental and other laws.

Readers are also cautioned that the foregoing lists of assumptions, forward-looking statements and risks are not exhaustive. Consequently, there is no representation by the Company that actual results achieved will be the same in whole or in part as those set out in the forward-looking statements. Furthermore, the forward-looking statements contained in this MD&A are made as of the date hereof, and the Company does not undertake any obligation, except as required by applicable securities legislation, to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

Non-IFRS Financial Measures

This MD&A contains the terms "EBITDA", "operating netback", "net debt", and "total debt". These measurements should not be considered an alternative to, or more meaningful than, other measures as determined in accordance with IFRS. The Company's determination of EBITDA, operating netback, net debt, and total debt may not be comparable to that reported by other companies. Ember's peer companies in the oil and gas industry use the same definitions and for consistency the Company will continue to report in this manner.

EBITDA

Management uses EBITDA to analyze financial and operating performance. EBITDA is determined as earnings before interest, taxes, depreciation, amortization and other non-cash charges. EBITDA does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The following is a reconciliation of EBITDA for the years ended December 31, 2016 and 2015 to their most closely related GAAP measure, net income.

($000s)	**December 31, 2016**	December 31, 2015
Net income (loss) (1)	**(101,516)**	150,665
Add (Less):		
Unrealized loss on derivatives (1)	**23,798**	13,744
Stock based compensation (1)	**1,958**	2,164
Financing costs (1)	**23,777**	16,822
Accretion (1)	**10,889**	14,412
Depletion, depreciation and amortization (1)	**114,428**	139,801
Bargain purchase gain (1)	**–**	(205,512)
Loss on disposal (1)	**3,746**	–
Deferred tax recovery (1)	**(50,209)**	(16,958)
EBITDA	**26,871**	115,138

(1) Measures determined in accordance with IFRS. See "Statements of Income (Loss) and Comprehensive Income (Loss)".

Operating Netback

Management uses operating netback to analyze financial and operating performance. This benchmark as presented does not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Operating netback equals total natural gas sales including realized gains and losses on commodity derivative contracts less royalties, operating costs and transportation costs calculated on a Mcf basis. Management considers operating netback an important measure to evaluate its operational performance as it demonstrates its field level profitability relative to current commodity prices. The calculation of Ember's netbacks is described in the Netback Analysis section and shown below.

	Year Ended December 31, 2016 *(000's)*	Year Ended December 31, 2015 *(000's)*	**Year Ended December 31, 2016 $/Mcfe**	Year Ended December 31, 2015 $/Mcfe
Natural gas and liquid sales [1]	**$ 226,288**	$ 296,885	**2.17**	2.78
Royalties expense [1]	**(15,269)**	(17,861)	**(0.15)**	(0.17)
Realized gain/(loss) on financial derivatives [1]	**(17,408)**	13,298	**(0.17)**	0.12
	$ 193,611	$ 292,322	**1.85**	2.73
Operating expense [1]	**(133,112)**	(140,584)	**(1.28)**	(1.32)
Transportation expense [1]	**(15,713)**	(16,606)	**(0.15)**	(0.16)
Operating netback	**$ 44,786**	$ 135,132	**0.42**	1.25
Total natural gas and liquid production (MMcfe)	**104,406**	106,640		

(1) Measures determined in accordance with IFRS. See "Statements of Income (Loss) and Comprehensive Income (Loss)"

Net Debt

The Company closely monitors its capital structure with a goal of maintaining a strong financial position in order to fund the future growth of the Company. Net debt is determined as total long term debt (excluding non-cash long term liabilities) plus current liabilities less current assets. Net debt does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The following is a reconciliation of net debt to its most closely related GAAP measure which is net debt's GAAP components:

($000s)	**December 31, 2016**	December 31, 2015	%
Non-current credit facility [1]	**404,646**	405,112	–
Long term obligations under finance leases [1]	**1,101**	2,536	(57)
Working capital deficit (surplus), excluding derivatives			
Accounts receivable [1]	**(34,610)**	(33,544)	3
Prepaid expenses and deposits [1]	**(5,300)**	(4,475)	18
Accounts payable and accrued liabilities [1]	**32,308**	26,308	23
Current portion of finance leases [1]	**1,658**	1,088	52
Current portion of decommissioning liabilities [1]	**4,000**	4,000	–
	(1,944)	(6,623)	(71)
Net debt	**403,803**	401,025	1

(1) Measures determined in accordance with IFRS. See "Statements of Financial Position".

Total Debt

The Company closely monitors its capital structure with a goal of maintaining a strong financial position in order to fund the future growth of the Company. Total debt is determined as the total long and short term credit facility plus the total long and short term portion of finance leases. Total debt does not have a standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. The following table is a reconciliation of total debt to its most closely related GAAP measure which is total debt's GAAP components:

($000s)	**December 31, 2016**	December 31, 2015	%
Non-current credit facility [(1)]	**404,646**	405,112	–
Finance leases [(1)]	**2,759**	3,624	(24)
Total debt	**407,405**	408,736	–

(1) Measures determined in accordance with IFRS. See "Statements of Financial Position".

VOLUME PRESENTATION

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

For the three months and year ended December 31, 2016, 28,577 Boe and 169,186 Boe, respectively, of liquids were converted to gas equivalents and reported as natural gas volumes, compared to 66,711 Boe and 203,535 Boe in the comparable periods of 2015. These liquids represent less than 2% of total sales volumes and are considered immaterial with respect to the presentation of the Company's filings.

ADDITIONAL INFORMATION

Additional information is also accessible on the Company's website at www.emberresources.ca. Information can also be obtained by contacting the Company at Ember Resources Inc., Suite 800, 400 – 3rd Avenue, SW, Calgary, Alberta, Canada, T2P 4H2.