Q1 2017

EMBER

Ember Resources Inc.

FINANCIAL STATEMENTS

For the three months ended March 31, 2017

(unaudited)

STATEMENTS OF FINANCIAL POSITION

Unaudited (Stated in thousands of Canadian dollars)

	As at March 31, 2017	As at December 31, 2016
Assets		
Current assets		
Accounts receivable (note 10)	**$ 28,872**	$ 34,610
Prepaid expenses and deposits	**5,520**	5,300
Derivative financial instruments (note 10)	**696**	–
	35,088	39,910
Derivative financial instruments (note 10)	**1,896**	–
Property and equipment (note 4)	**1,103,451**	1,122,251
Deferred tax assets (note 9)	**44,924**	50,050
	1,150,271	1,172,301
	$ 1,185,359	$ 1,212,211
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 10, 15)	**$ 32,554**	$ 32,308
Obligations under finance leases (note 6)	**1,521**	1,658
Derivative financial instruments (note 10)	**1,345**	32,644
Decommissioning liabilities (note 7)	**3,500**	4,000
Credit facility (note 5)	**405,666**	–
	444,586	70,610
Obligations under finance leases (note 6)	**908**	1,101
Credit facility (note 5)	**–**	404,646
Decommissioning liabilities (note 7)	**135,166**	137,696
Derivative financial instruments (note 10)	**–**	7,402
	580,660	621,455
Shareholders' Equity		
Share capital (note 8)	**519,342**	519,342
Contributed surplus (note 8)	**20,785**	20,394
Retained earnings	**63,771**	62,881
Accumulated other comprehensive income (loss) (note 8)	**801**	(11,861)
	604,699	590,756
	$ 1,185,359	$ 1,212,211

Commitments (note 14)

Subsequent event (note 5)

See accompanying notes to financial statements

On behalf of the Board:

"Jim Reid" "Glenn Hamilton"

Jim Reid, Director Glenn Hamilton, Director

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

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Revenue		
Natural gas and liquid sales	**$ 65,679**	$ 50,845
Royalties	**(4,316)**	(3,075)
Realized loss on derivatives	**(9,833)**	–
Unrealized gain on derivatives (note 10)	**23,948**	–
	75,478	47,770
Expenses		
Operating (note 13)	**32,919**	33,876
Transportation	**4,218**	3,995
General and administrative	**3,981**	4,615
Stock based compensation (note 8)	**207**	526
Financing costs	**6,293**	4,757
Accretion (note 7)	**1,996**	3,756
Depletion, depreciation and amortization (note 4)	**24,531**	31,181
	74,145	82,706
Income (loss) before taxes	**1,333**	(34,936)
Deferred tax recovery (expense) (note 9)	**(443)**	9,265
Net income (loss)	**$ 890**	$ (25,671)
Other comprehensive income (loss)		
Items that may subsequently be reclassified to net income (loss):		
Change in unrealized gain on cash flow hedges (note 10)	**17,463**	–
Deferred tax expense associated with cash flow hedges	**(4,683)**	–
Realized loss on cash flow hedges (note 10)	**(118)**	–
	12,662	–
Comprehensive income (loss)	**$ 13,552**	$ (25,671)
Net Income (loss) per share (note 8)		
Basic	**$ 0.01**	$ (0.33)
Diluted	**$ 0.01**	$ (0.33)

See accompanying notes to financial statements

STATEMENTS OF CASH FLOWS

Unaudited (Stated in thousands of Canadian dollars)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Operating activities		
Net income (loss)	**$ 890**	$ (25,671)
Add items not involving cash		
Depletion, depreciation and amortization (note 4)	**24,531**	31,181
Accretion (note 7)	**1,996**	3,756
Stock based compensation (note 8)	**207**	526
Unrealized gain on derivatives (note 10)	**(23,948)**	–
Deferred tax expense (recovery) (note 9)	**443**	(9,265)
Decommissioning liability expenditures (note 7)	**(513)**	(1,219)
Changes in non-cash working capital related to operating activities (note 12)	**3,869**	14,822
Cash provided by operating activities	**7,475**	14,130
Financing activities		
Net advance (repayment) of bank loan	**1,019**	(14,061)
Cash provided by (used in) financing activities	**1,019**	(14,061)
Investing activities		
Additions to property and equipment (note 4)	**(10,389)**	(3,987)
Proceeds from disposition of natural gas properties (note 4)	**–**	4,721
Change in non-cash working capital related to investing activities (note 12)	**1,895**	(803)
Cash used in investing activities	**(8,494)**	(69)
Change in cash and cash equivalents and balance at beginning and end of period	**$ –**	$ –

See accompanying notes to financial statements

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Number of Common Shares (000s)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Opening balance, January 1, 2016	76,995	$ 519,342	$ 16,656	$ –	$ 164,397	$ 700,395
Stock based compensation expensed (note 8)	–	–	526	–	–	526
Stock based compensation capitalized (note 8)	–	–	489	–	–	489
Net loss	–	–	–	–	(25,671)	(25,671)
Closing balance, March 31, 2016	76,995	$ 519,342	$ 17,671	$ –	$ 138,726	$ 675,739

	Number of Common Shares (000s)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Opening balance, January 1, 2017	76,995	$ 519,342	$ 20,394	$ (11,861)	$ 62,881	$ 590,756
Stock based compensation expensed (note 8)	–	–	207	–	–	207
Stock based compensation capitalized (note 8)	–	–	184	–	–	184
Net income	–	–	–	–	890	890
Other comprehensive income (note 8, 10)	–	–	–	12,662	–	12,662
Closing balance, March 31, 2017	**76,995**	**$ 519,342**	**$ 20,785**	**$ 801**	**$ 63,771**	**$ 604,699**

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

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

1. NATURE OF BUSINESS

Ember Resources Inc. ("Ember" or the "Company") is engaged in the exploration for, development of and production of natural gas in Alberta, Canada. Ember is a private company and was incorporated on April 15, 2011 under the Business Corporations Act (Alberta, Canada). The Company commenced commercial operations on June 10, 2011. The parent company at March 31, 2017 is Brookfield Business Partners LP.

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

The financial statements were authorized for issue by the Board of Directors on May 9, 2017.

2. BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). Certain information and disclosures required to be included in the notes to the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been condensed or omitted.

The interim financial statements should be read in conjunction with the audited annual financial statements as at and for the year ended December 31, 2016 and the notes thereto.

These interim financial statements were prepared on the historical cost convention, except for certain financial assets and liabilities measured at fair value through the Statements of Income (Loss) and Comprehensive Income (Loss).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Accounting policies used

The interim financial statements have been prepared following the same accounting policies and methods of computation as the audited annual financial statements as at and for the year ended December 31, 2016.

(b) Future changes in accounting standards

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

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

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

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

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

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

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

4. PROPERTY AND EQUIPMENT

Cost	**March 31, 2017**	December 31, 2016
Balance, beginning of period	**$ 1,550,386**	$ 1,640,609
Asset disposition (note 4 (a))	**–**	(5,101)
Asset disposition (note 4 (b))	**–**	(13,979)
Adjustments to decommissioning liability asset (note 7)	**(3,763)**	(94,161)
Cash additions	**10,389**	18,453
Other non-cash additions (net)	**(895)**	4,565
Balance, end of period	**$ 1,556,117**	$ 1,550,386
Accumulated DD&A and impairments		
Balance, beginning of period	**$ 428,135**	$ 313,707
DD&A expense	**24,531**	114,428
Balance, end of period	**$ 452,666**	$ 428,135
Net book value		
Balance, beginning of period	**$ 1,122,251**	$ 1,326,902
Balance, end of period	**$ 1,103,451**	$ 1,122,251

At March 31, 2017, a total of $1.1 billion (March 31, 2016 – $1.2 billion) of future development costs were included in the depletion calculation. Directly attributable departmental costs, salaries and benefits totaling $1.9 million were capitalized during the three month period ended March 31, 2017 (three month period ended March 31, 2016 – $1.7 million). Stock based compensation costs totaling $0.2 million were capitalized during the three month period ended March 31, 2017 (three month period ended March 31, 2016 – $0.5 million).

At March 31, 2017, the Company did not identify any indicators of impairment in respect to the Company's property and equipment. Accordingly, there were no impairment losses recognized during the period ended March 31, 2017 (March 31, 2016 – $nil).

(a) Asset disposition

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

(b) Asset disposition

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

5. CREDIT FACILITY

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

The borrowing terms of the Facility are as follows:

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

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

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

The Facility contains the following financial covenants effective for the three months ended March 31, 2017:

(i) For the period beginning July 1, 2016, cumulative consolidated EBITDA will not be less than $27 million as of March 31, 2017.

(ii) The consolidated total debt(1) to capitalization(2) cannot exceed 50%.

(1) "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.

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

The Facility also contains the following non-financial covenants:

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

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

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

As at March 31, 2017, the Company was in compliance with all applicable financial and non-financial covenants under the credit facility. As at March 31, 2017, the consolidated total debt to capitalization ratio was 40.9% (December 31, 2016 – 41.2%). The consolidated EBITDA for the three and nine month period ended March 31, 2017 was $10.4 million and $37.5 million respectively. A change in gas prices of $0.10 per Mcf during the three month period ended March 31, 2017 would have resulted in a change in EBITDA of approximately $2.5 million, excluding the impact from the derivative financial instruments.

Subsequent to the period ended March 31, 2017, the Company amended the Facility's financial covenants as described below:

The consolidated senior secured debt [1] to EBITDA ratio cannot exceed;

(i) 3.0 to 1 for the quarter ending June 30, 2017. Consolidated senior secured debt[1] and consolidated EBITDA will be calculated for the three month period ending June 30, 2017 and multiplied by four. The Company has obtained a waiver for this covenant, except in the circumstance wherein the Company issues high yield notes prior to June 30, 2017 and as a result the waiver would be rescinded.

(ii) 3.0 to 1 for the quarter ending September 30, 2017. Consolidated senior secured debt[1] and consolidated EBITDA will be calculated for the six month period ending September 30, 2017 and multiplied by two.

(iii) 3.0 to 1 for the quarter ending December 31, 2017. Consolidated senior secured debt[1] and consolidated EBITDA will be calculated for the nine month period ending December 31, 2017 and multiplied by four-thirds.

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

The borrowing terms of the Facility disclosed above were amended as follows:

(i) 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, but not lower than 350 basis points per annum; and

(ii) BA's, bearing interest at the banker's acceptance rate plus, depending on the ratio of debt to EBITDA, up to 475, but not lower than 350 basis points per annum.

All other covenants, both financial and non-financial, remain unchanged.

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

The following table reconciles the Facility balance as at March 31, 2017:

Drawn Facility	$ 403,303
Unamortized finance fees	(1,356)
Overdraft/(Cash)	3,719
	$ 405,666

The effective interest rate on all borrowings (Facility and capital leases), including amortized financing fees, for the three month period ended March 31, 2017 was 6.1% (year ended December 31, 2016 – 5.7%). The Company borrows predominately utilizing BA's.

The Company has delivered irrevocable letters of credit to various third parties in the amount of $9.6 million as at March 31, 2017 (December 31, 2016 – $4.7 million) which reduces the amount available to be drawn under the Facility. During the first quarter of 2017, the Company delivered irrevocable letters of credit in the amount of $4.9 million to secure natural gas transportation contracts, see note 14 for details of these commitments.

The Company's available Facility totaling $440 million ($405.7 million drawn) matures within one year on January 15, 2018 and is accordingly classified as current. The Company is currently renegotiating the terms of a renewal of this Facility.

6. OBLIGATIONS UNDER FINANCE LEASES

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

Year	March 31, 2017	December 31, 2016
2017	**1,401**	1,760
2018	**1,093**	1,094
2019	**21**	22
Total minimum lease payments	**$ 2,515**	$ 2,876
Less amount representing interest at 5.18% to 6.09%	**86**	117
Present value of obligations under finance leases	**$ 2,429**	$ 2,759
Less amount due within one year	**1,521**	1,658
Long term portion of obligations under finance leases	**$ 908**	$ 1,101

During the three month period ended March 31, 2017, the Company did not enter into any additional finance lease agreements, leaving the total leased fleet vehicles remaining at one hundred and forty four. The present value of the total obligation under these finance leases is $2.4 million, with $1.5 million being due within one year.

7. DECOMMISSIONING LIABILITIES

The total future decommissioning liabilities result from the Company's net ownership interest in all wells and facilities, the estimated cost to reclaim and abandon the wells and facilities and the estimated timing of the cost to be incurred in future periods. The total undiscounted amount of the estimated cash flows required to settle the retirement obligation is approximately $1.2 billion at March 31, 2017 (December 31, 2016 – $1.2 billion) which will be settled over the useful lives of the assets, which extend up to 50 years. The liability was determined using a credit adjusted risk-free rate of 6.5% (December 31, 2016 – 6.5%) and an inflation rate of 2.0% (December 31, 2016 – 2.0%).

The following table reconciles the Company's decommissioning liability:

	March 31, 2017	December 31, 2016
Balance, beginning of period	**$ 141,696**	$ 224,936
Liabilities divested (note 4 (a))	**–**	(380)
Liabilities divested (note 4 (b))	**–**	(344)
Liabilities incurred	**–**	3,650
Liabilities settled	**(513)**	(2,894)
Accretion	**1,996**	10,889
Change in well life estimates	**11,834**	(97,646)
Other revisions, including changes to abandonment cost	**(16,347)**	3,485
Balance, end of period	**$ 138,666**	$ 141,696
Current	**$ 3,500**	$ 4,000
Non-current	**135,166**	137,696
Balance, end of period	**$ 138,666**	$ 141,696

Based on Ember's decommissioning liabilities as at March 31, 2017, a change of 1 year in the estimated well lives would have the effect of changing the decommissioning liability balance by $6.0 million (December 31, 2016 – $6.7 million).

Based on Ember's decommissioning liabilities as at March 31, 2017, an 1% increase in the credit adjusted risk free rate would have the effect of decreasing the decommissioning liability balance by $39.1 million (December 31, 2016 – $38.1 million). A 1% decrease in the credit adjusted risk free rate would have the effect of increasing the decommissioning liability balance by $54.6 million (December 31, 2016 – $52.8 million).

8. SHAREHOLDERS' EQUITY

(a) Net income (loss) per share

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

Weighted average common shares of the Company (000s)	**March 31, 2017**	March 31, 2016
Basic	**76,995**	76,995
Effect of dilutive employee stock options	**1,736**	–
Diluted	**78,731**	76,995

For the three month period ended March 31, 2017, 2,074,600 stock options and 975,000 performance warrants were not included in the diluted share calculation because they were anti-dilutive. For the three month period ended March 31, 2016, all outstanding stock options, performance warrants and share awards were anti-dilutive given the Company incurred a net loss.

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

(b) Stock options, performance warrants and share awards

(i) Stock options

Ember has a stock option plan that governs the granting of options to employees and directors. All options issued by the Company permit the holder to purchase one common share of the Company at the stated exercise price per share. Options granted under the plan generally have a term of five years, and vest equally over a period of three years. At March 31, 2017, 4,119,170 stock options had vested and were exercisable at a weighted average price of $6.70.

The following table sets forth a reconciliation of the regular stock option plan activity to March 31, 2017:

	Number of options (000s)	**Weighted average exercise price $**
Balance, January 1, 2016	5,256	$ 7.60
Granted	26	11.20
Forfeited	(93)	7.63
Balance, December 31, 2016	5,189	$ 7.60
Balance, March 31, 2017	**5,189**	**$ 7.60**

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

	Outstanding options			Exercisable options	
Range of exercise price ($)	Number of shares underlying options (000s)	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of shares underlying options (000s)	Weighted average exercisable strike price $
2.00 - 4.00	350	4.00	2.84	350	4.00
4.01 - 6.00	1,750	5.10	1.32	1,750	5.10
6.01 - 8.00	1,014	6.80	1.85	960	6.70
8.01 - 10.00	1,090	9.90	2.73	727	9.90
10.01 - 12.00	985	11.50	3.71	332	11.50
2.00 - 12.00	5,189	7.60	2.27	4,119	6.70

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

(ii) Performance warrants

Ember has a plan that governs the granting of performance warrants to employees and directors. Warrants granted under the plan generally have a term of five years. The warrants vest 50%, 25% and 25%, respectively, on each of the third, fourth and fifth anniversary dates. At March 31, 2017, 1,942,500 performance warrants had vested and were exercisable at a weighted average price of $12.50.

The following table sets forth a reconciliation of the performance warrants activity through to March 31, 2017:

	Number of options (000s)	Weighted average exercise price $
Balance, January 1, 2016	1,970	$ 12.50
Forfeited	(20)	12.50
Balance, December 31, 2016	1,950	$ 12.50
Balance, March 31, 2017	**1,950**	**$ 12.50**

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

	Outstanding warrants			Exercisable warrants	
Exercise price	Number of shares underlying warrants (000s)	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of shares underlying warrants (000s)	Weighted average exercise price $
$10.00	975	10.00	1.22	971	10.00
$15.00	975	15.00	1.22	971	15.00
$10.00 - 15.00	1,950	12.50	1.22	1,942	12.50

(iii) Share awards

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

(c) Contributed surplus

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

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

	March 31, 2017	December 31, 2016
Balance, beginning of period	**$ 20,394**	$ 16,656
Stock based compensation expensed	**207**	1,958
Stock based compensation capitalized to property & equipment	**184**	1,780
Balance, end of period	**$ 20,785**	**$ 20,394**

(d) Comprehensive income (loss)

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

9. INCOME TAXES

(a) Income tax provision

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

	March 31, 2017	March 31, 2016
Income (loss) before income taxes	**$ 1,333**	$ (34,936)
Statutory income tax rate	**27.00%**	27.00%
Expected income tax expense (recovery)	**$ 360**	$ (9,433)
Add:		
Stock based compensation	**56**	142
Other	**27**	26
Deferred tax expense (recovery)	**$ 443**	$ (9,265)

(b) Deferred tax assets

Deferred tax assets and liabilities are attributable to the following:

	March 31, 2017	December 31, 2016
Property and equipment	**$ (80,672)**	$ (82,284)
Finance lease obligation	**656**	745
Decommissioning liability	**37,237**	38,258
Derivatives and other	**90**	11,186
Tax loss carry-forwards	**87,613**	82,145
Net deferred tax assets	**$ 44,924**	$ 50,050

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

The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. The deferred tax asset was recognized using a projection of future income based on the Company's proven plus probable reserves at March 31, 2017, using third party pricing.

As at March 31, 2017, the Company had tax deductions of approximately $1.1 billion (December 31, 2016 – $1.1 billion) that are available to shelter future taxable income. Included in this amount are non-capital losses totaling $324.5 million (December 31, 2016 – $304.2 million) which expire as follows:

	March 31, 2017
2025	$ 13,178
2026	16,096
2027	6,403
2028	33,887
2029	24,791
2030 and beyond	230,138
Non-capital losses	$ 324,493

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

(a) Fair values of financial assets and liabilities

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

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

(b) Fair value hierarchy

The Company characterizes inputs used in determining fair value using a hierarchy that prioritizes inputs depending on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

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

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

Level 3 – inputs that are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value, such as the Company's internally developed assumptions about market participant assumptions used in pricing an asset or liability, for example, an estimate of future cash flows used in the Company's internally developed present value of future cash flows model that underlies the fair value measurement. The Company has no financial instruments measured using level 3 inputs.

In forming estimates, the Company utilizes the most observable inputs available for valuation purposes. If a fair value measurement reflects inputs of different levels within the hierarchy, the measurement is categorized based upon the highest level of input that is significant to the fair value measurement. The fair value of over-the-counter financial swaps and collars is based on industry standard models that primarily rely on market observable inputs. Fair values for

commodity price derivatives are based on discounted cash flows using current market rates, prices, and option pricing models using forward pricing curves and implied volatility, as appropriate. These fair value quotes are compared with similar contracts and their respective fair value quotes provided by other financial institutions for reasonability. The Company has performed its fair value measurements over all of the derivative financial instruments using level 2 inputs.

Summary of derivative financial instruments outstanding at March 31, 2017:

Contract type	Weighted average volume or dollar contract	Weighted average price (CAD$/Mcf)	Remaining term	Fair market value of derivatives used for hedging	Fair market value of derivatives classified as FVTPL [1]	Total fair market value of derivatives
Commodity swap	80,569 Mcf/d	$ 2.73	Apr 17 to Oct 17	55	(697)	(642)
Commodity swap	104,265 Mcf/d	$ 3.13	Nov 17 to Mar 18	94	(101)	(7)
Commodity swap	47,393 Mcf/d	$ 2.53	Apr 18 to Oct 18	–	1,322	1,322
Commodity swap	66,351 Mcf/d	$ 2.76	Nov 18 to Mar 19	–	574	574
Fair market value of commodity swap financial contracts at March 31, 2017				**149**	**1,098**	**$ 1,247**

(1) Fair value through profit or loss

Derivative financial instruments – current asset	$ 696
Derivative financial instruments – current liability	$ (1,345)
Net position – current liability	$ (649)
Derivative financial instruments – non-current asset	$ 1,896
Fair value at March 31, 2017	**$ 1,247**

The above summary consists of twenty six separate commodity swap financial contracts that have been grouped together by remaining term on a weighted average basis. A positive number indicates contracts in an asset position and a negative number indicates contracts in a liability position.

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

	Fair market value asset (liability)
Fair value at December 31, 2016	**$ (40,046)**
Changes in fair value – Recognized in other comprehensive income (loss)	17,345
Changes in fair value – Recognized in net income (loss)	23,948
Fair value at March 31, 2017	**$ 1,247**

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

(c) Risk management

(i) Market risk

Market risk is the risk or uncertainty that the fair value of financial instruments, future cash flows, and net income of the Company will fluctuate due to movements in market rates. The market rate movements that could adversely affect the value of the Company's financial assets, liabilities and expected future cash flows include commodity price risk and interest rate risk.

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

(ii) Commodity price risk

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

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

As at March 31, 2017, 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	47,393 Mcf/d	(CAD$/Mcf) - $2.79	Apr 17 to Oct 17
Forward physical	47,393 Mcf/d	(CAD$/Mcf) - $3.17	Nov 17 to Mar 18
Forward physical	18,957 Mcf/d	(CAD$/Mcf) - $2.60	Apr 18 to Oct 18
Forward physical	37,915 Mcf/d	(CAD$/Mcf) - $2.75	Nov 18 to Mar 19

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

Based on Ember's period to date sales volumes, a change of $0.10 Cdn per Mcf in natural gas prices at the wellhead would have the effect of changing pre-tax earnings for the three month period ended March 31, 2017 by $2.3 million (three months ended March 31, 2016 – $2.5 million), excluding the impact from derivative financial instruments.

(iii) Interest rate risk

The Company is exposed to interest rate risk as changes in interest rates may affect future cash flows. The Company's primary debt facility has a floating interest rate that will fluctuate based on prevailing market conditions. Cash flows are sensitive to changes in interest rates on this instrument. Given the amount of debt employed, the Company's strategy is to manage interest rate risk within the current framework of borrowing, predominately utilizing BA's. If interest rates were to change by 1% on Ember's bank borrowings, it is estimated that pre-tax earnings for the three month period ended March 31, 2017 would change by $1.0 million (three months ended March 31, 2016 – $1.0 million).

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company believes that it has access to sufficient capital through internally generated cash flows and available debt to meet current spending forecasts. Of the Company's financial liabilities, $440.4 million, not including the decommissioning liabilities, mature in the next twelve months as current liabilities become due. Long term liabilities include capital leases which are due over a number of years.

Undiscounted cash outflows relating to financial liabilities as at March 31, 2017 and December 31, 2016 are as follows:

2017	**Less than 1 year**	**1-3 years**	**4-5 Years**	**Thereafter**
Accounts payable and accrued liabilities	**$ 32,554**	**$ –**	**$ –**	**$ –**
Finance leases	**1,521**	**908**	**–**	**–**
Derivative financial instruments	**1,345**	**–**	**–**	**–**
Credit facilities	**405,666**	**–**	**–**	**–**
Total	**$ 441,086**	**$ 908**	**$ –**	**$ –**

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

As is typical in the energy industry, Ember generates working capital deficiencies during periods of capital expansion and in periods with low commodity prices. These deficiencies are then reduced in subsequent periods through the utilization of available credit facilities and the application of internally generated cash flows during periods of reduced capital activity and periods with higher commodity prices. Of the $409.5 million working capital deficit, $405.7 million is represented by the credit facility which is classified as current due to its initial maturity date being January 15, 2018. The Company is in discussions towards a renewal of this facility.

(e) Credit risk

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

The aging analysis of accounts receivables is as follows:

	March 31, 2017	December 31, 2016
Current	**$ 28,107**	$ 32,679
30 - 60 days	**19**	964
60 - 90 days	**102**	396
Greater than 90 days	**1,144**	1,071
Allowance for impaired accounts	**(500)**	(500)
Total	**$ 28,872**	$ 34,610

As estimated at March 31, 2017, the five largest outstanding accounts receivables comprised approximately 57% (December 31, 2015 – 57%) of the accounts receivables balance. These customers have been evaluated by the Company and are considered to have high creditworthiness.

As at March 31, 2017, the Company fully evaluated its accounts receivables and determined that no additional allowance provision was required. The allowance provision relates entirely to the greater than 90 day category. The Company believes that the remaining balance will be fully recoverable.

11. CAPITAL STRUCTURE FINANCIAL POLICIES

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

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

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

(iii) maximize shareholder returns.

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

	March 31, 2017	December 31, 2016
Credit facility debt	**$ 405,666**	$ 404,646
Letters of credit	**9,609**	4,737
Finance leases	**2,429**	2,759
Total debt [1]	**$ 417,704**	$ 412,142
Total debt	**417,704**	412,142
Shareholders' equity	**604,699**	590,756
Total capitalization [2]	**$ 1,022,403**	$ 1,002,898
EBITDA [3]	**$ 31,999**	$ 26,871
Ratios		
Total debt to EBITDA [3]	**13.1**	15.3
Total debt to capitalization	**40.9%**	41.1%

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

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

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

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	March 31, 2017	March 31, 2016
Accounts receivable	**$ 5,738**	$ 11,823
Prepaid expenses and deposits	**(220)**	(1,001)
Accounts payable and accrued liabilities	**246**	3,197
Net change	**$ 5,764**	$ 14,019
Net change by activity:		
Operating	**$ 3,869**	$ 14,822
Investing	**1,895**	(803)
Net change	**$ 5,764**	$ 14,019
Cash interest paid	**$ 5,845**	$ 5,181
Cash taxes paid	**$ –**	$ –

13. OPERATING EXPENSE

	March 31, 2017	March 31, 2016
Gross operating expense	**$ 34,056**	$ 35,248
Processing income recovery	**(1,137)**	(1,372)
Net operating expense	**$ 32,919**	$ 33,876

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

14. COMMITMENTS

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

Office lease and natural gas transportation commitments are as follows:

As at March 31, 2017	Office Lease	Natural Gas Transportation	Total
2017	$ 2,378	$ 10,671	$ 13,049
2018	3,171	33,026	36,197
2019	3,269	32,087	35,356
2020	3,202	28,863	32,065
2021	3,000	28,652	31,652
2022	3,000	26,493	29,493
2023 and thereafter	3,000	71,664	74,664
Total	$ 21,020	$ 231,456	$ 252,476

During the period ended March 31, 2017, the Company participated in the TransCanada Pipeline ("TCPL") Dawn Long Term Fixed Price ("LTFP") Open Season to contract firm long term natural gas delivery to Dawn. Ember committed 50 thousand Mcf/d of gas out of a total of 1.5 million Mcf/d required by TCPL under the LTFP Open Season. The service for delivery from Empress (at the Alberta border) to Dawn is expected to commence on November 1, 2017 for a ten year period with elections available to reduce the term under certain cost provisions. To facilitate the Dawn deliveries, Ember has secured additional firm pipeline service for 52 thousand Mcf/d to deliver gas from AECO NIT to Empress conditional upon finalization of the

TCPL LTFP contract. The LTFP contract is subject to TCPL Board of Director approval, Regulatory (National Energy Board) approvals and TCPL securing transport on other necessary pipelines.

15. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

(a) Related party transactions

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

During the three month period ended March 31, 2017, capital and operating expenditures of $0.4 million (three months ended March 31, 2016 – $0.3 million) were paid or accrued in connection with a company that is controlled by the Brookfield group of companies, the major shareholder of Ember. As at March 31, 2017, $0.4 million was payable (March 31, 2016 – $0.1 million) to this related party.

(b) Key management compensation

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

	March 31, 2017	March 31, 2016
Salaries and short-term benefits	**$ 736**	$ 662
Stock based compensation expensed and capitalized	**131**	386
Total	**$ 867**	$ 1,048

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

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