Q1 2017

EMBER

Ember Resources Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2017

This Management's Discussion & Analysis ("MD&A"), dated May 9, 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 and notes thereto for the year ended and as at December 31, 2016 (the "annual financial statements") and for the periods ended and as at March 31, 2017 and 2016 (the "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.

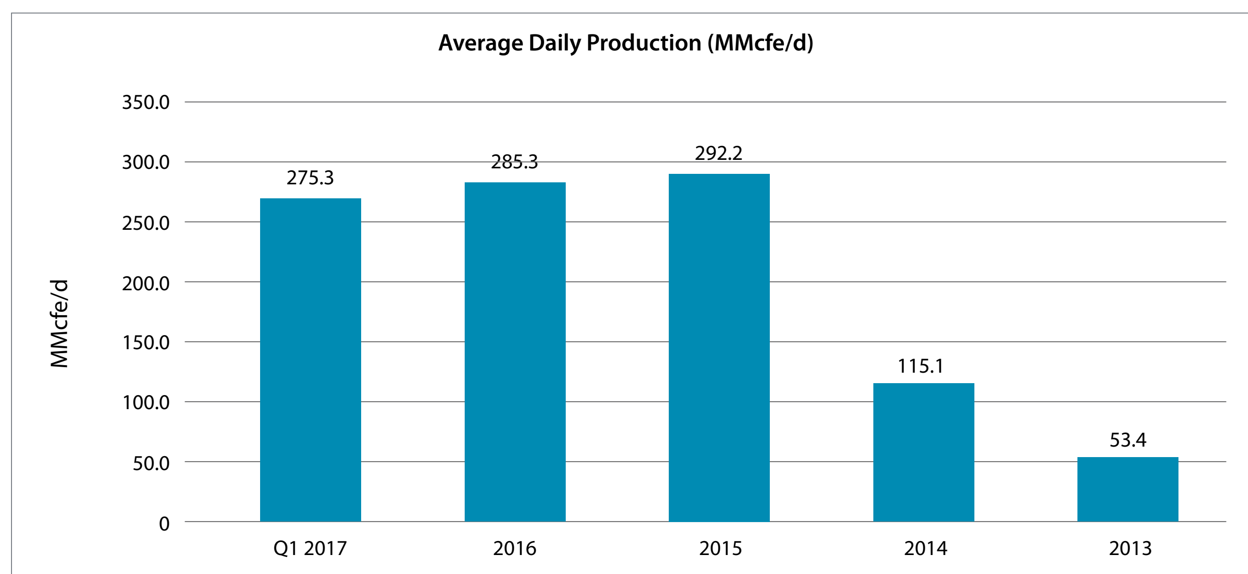
Ember is a natural gas development and production company focused on the extraction of natural gas derived from coal or coalbed methane ("CBM") in the province of Alberta, Canada. The Company's primary land base is concentrated in south central Alberta, from Calgary, north to Camrose.

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

($000s, except share and per share amounts)	**Q1 2017**	Q1 2016	%
Natural gas and liquid sales	**65,679**	50,845	29
Funds from operations [(1)]	**4,119**	527	682
– per share basic & diluted [(1)]	**$ 0.05**	$ 0.01	664
Net income (loss)	**890**	(25,671)	(103)
– per share basic and diluted [(2)]	**$ 0.01**	$ (0.33)	(103)
Property and equipment cash additions	**10,389**	3,987	161
Property acquisition	**–**	–	–
Decommissioning liability expenditures	**513**	1,219	(58)
Property disposition	**–**	(4,721)	–
Total assets	**1,185,359**	1,328,124	(11)
Total debt [(1)]	**408,095**	394,653	3
Working capital deficit [(3)]	**(409,498)**	(7,533)	5,336
Shares outstanding [(2)]	**76,995**	76,995	–

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

(2) See "Capital Structure".

(3) Working capital deficit for 2017 includes the $405.7 million credit facility which is classified as current due to its initial maturity date being January 15, 2018.

OPERATING HIGHLIGHTS

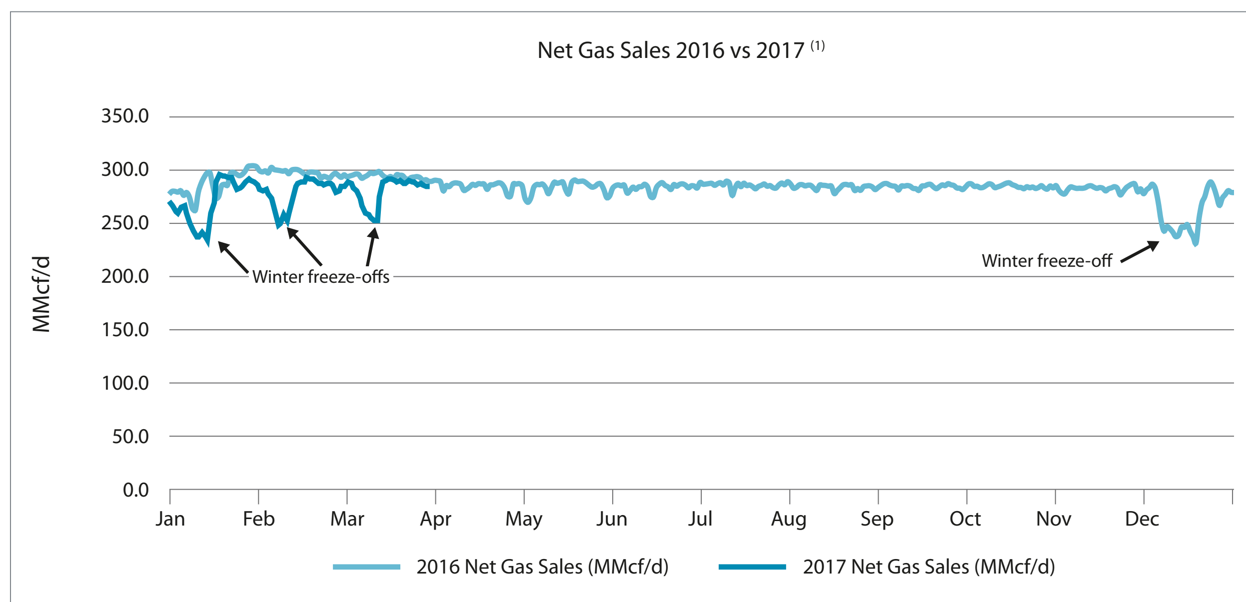
	Q1 2017	Q1 2016	%
Daily average production (Mcfe/d)	**275,262**	296,130	(7)
Average sales price ($/Mcfe)	**2.65**	1.89	40
Realized loss on financial derivatives ($/Mcfe)	**0.40**	–	–
Royalties expense ($/Mcfe)	**0.18**	0.12	50
Operating expense ($/Mcfe)	**1.33**	1.26	6
Transportation expense ($/Mcfe)	**0.17**	0.15	13
Operating netback ($/Mcfe)	**0.57**	0.36	58
CBM wells drilled (gross/net)	**0/0**	0/0	–
CBM wells completed	**75**	10	650
Land (000s of net acres)	**2,063**	2,119	(3)

Q1 2017 HIGHLIGHTS

The following are highlights reached during the three month period ended March 31, 2017.

Operating Performance

- Average daily production for the three month period ended March 31, 2017 decreased by 7%, to 275.3 MMcfe/d from 296.1 MMcfe/d in the comparable period of 2016. The decrease in production is a result of asset sales and loss of production due to winter freeze offs occurring in the first quarter of 2017. Winter freeze offs occur when temperatures fall below -10 degrees Celsius on a sustained basis. During the first quarter of 2017, losses due to freeze offs are estimated at 10.5 MMcfe/d, compared to 4.4 MMcfe/d in the comparable period of 2016.



(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

- Funds from operations for the three month period ended March 31, 2017 were $4.1 million, compared to $0.5 million for the comparable period in 2016. The increase is primarily due to higher revenue resulting from natural gas price increases of 40% and offset by a $9.8 million realized derivative loss.

Capital Expenditures

▲ With the improvement in commodity prices in Q1 2017, compared to the same period in 2016, the Company increased its capital spending during the quarter. Capital expenditures for the three month period ended March 31, 2017 were $10.9 million compared to $0.5 million for the period ended March 31, 2016. Capital spending in Q1 2017 primarily focused on the completion of 75 CBM wells in existing wellbores for $6.6 million of the $10.9 million spent.

RESULTS OF OPERATIONS

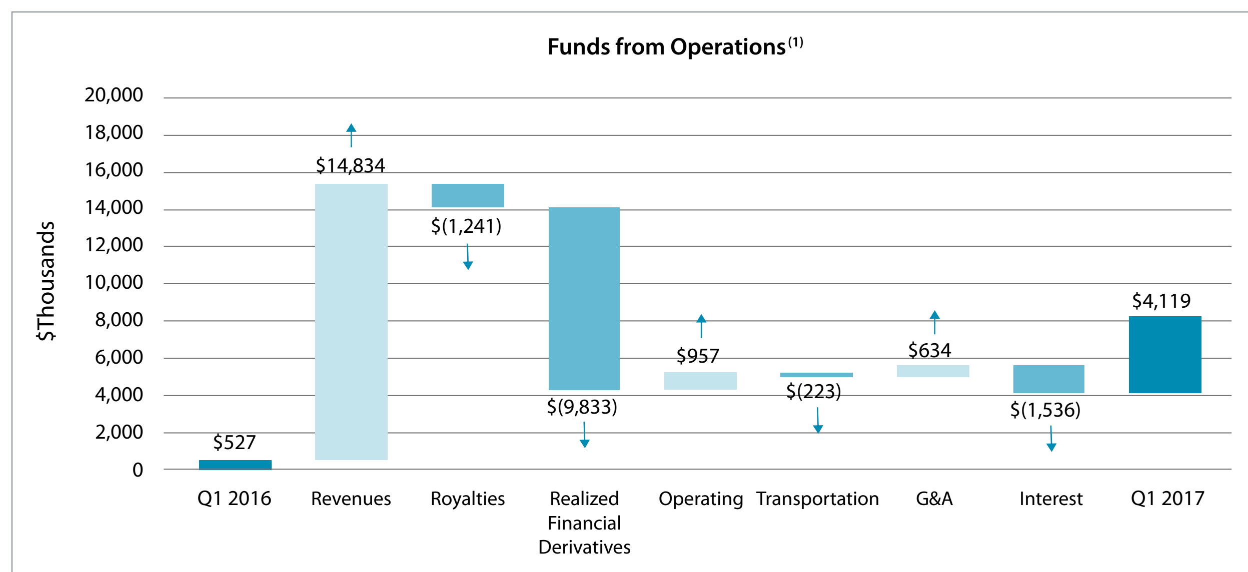
Net Income (Loss) and Funds from Operations [1]

($000s, except per share amounts)	**Q1 2017**	Q1 2016	%
Net income (loss)	**$ 890**	$ (25,671)	(103)
Add items not involving cash			
Depreciation, depletion & accretion	**26,527**	34,937	(24)
Stock-based compensation	**207**	526	(61)
Unrealized gain on financial derivatives	**(23,948)**	–	–
Deferred tax expense (recovery)	**443**	(9,265)	(105)
Funds from operations [1]	**4,119**	527	682
Funds from operations per share [1]	**$ 0.05**	$ 0.01	664

(1) See "Non-IFRS Financial Measures"

Bridge Analysis of Funds from Operations [1]

The following graph bridges the Company's funds from operations[1] for the three month period ended March 31, 2017 to the comparable period in 2016:



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

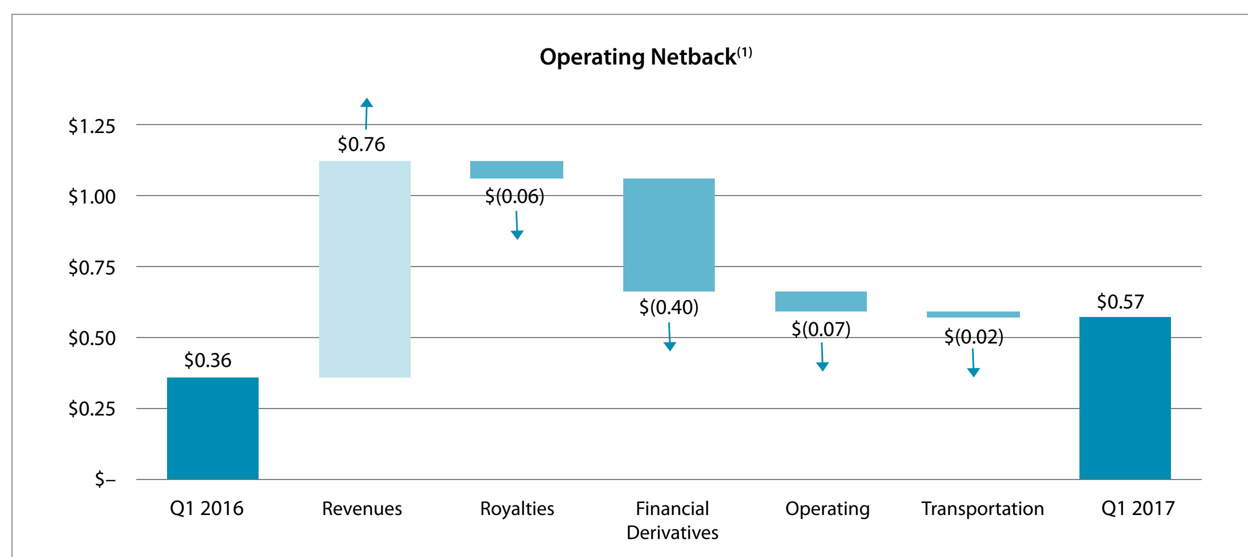
Funds from operations for the three month period ended March 31, 2017 were $4.1 million, compared to $0.5 million for the comparable period in 2016. Funds from operations for the three month period ended March 31, 2017 increased primarily due to a 29% increase in revenue resulting from natural gas price increases of 40%, partially offset by a 7% decrease in production volumes and by a $9.8 million realized derivative loss.

Netback Analysis

As commodity prices remained low through 2016 and into 2017, the Company continues to monitor its discretionary operating costs. During the three month period ended March 31, 2017, discretionary operating costs decreased to $18.5 million from $19.4 million in the comparable period of 2016. The decrease is due to lower third party gas handling fees, reduced facility maintenance costs, and lower oil well expenses, partially offset by a reduction in processing income. Combined with property taxes and surface rentals, the Company's per unit operating costs increased $0.07/Mcfe, or 6%, from the comparable period in 2016. Operating costs, on a per unit basis, increased due to lower production in the current period. Due to a significant portion of the Company's operating costs being fixed in nature, the average rate will increase in periods with lower production.

Bridge Analysis of Operating Netback [(1)]

The following graph bridges Ember's operating netback[(1)] on a Mcfe basis for the three month period ended March 31, 2017 from the comparable period in 2016:



(1) See "Non-IFRS Financial Measures"

The following table summarizes Ember's operating netback[(1)] and funds from operations[(1)] on a Mcfe basis for the three month period ended March 31, 2017 and 2016:

	Q1 2017 $/Mcfe	Q1 2016 $/Mcfe	%
Natural gas and liquid sales	**2.65**	1.89	40
Royalties expense	**(0.18)**	(0.12)	50
Realized loss on financial derivatives	**(0.40)**	–	–
	2.07	1.77	17
Operating expense	**(1.33)**	(1.26)	6
Transportation expense	**(0.17)**	(0.15)	13
Operating netback [(1)]	**0.57**	0.36	58
General & administrative expense	**(0.16)**	(0.17)	(6)
Interest expense	**(0.25)**	(0.18)	39
Current tax expense	**–**	–	–
Funds from operations [(1)]	**0.16**	0.01	1,500

(1) See "Non-IFRS Financial Measures"

Operating netback for the three month period ended March 31, 2017 was $0.57/Mcfe, compared to $0.36/Mcfe for the same period in 2016. The increase is mainly due to increased revenue as a result of higher realized commodity pricing, partially offset by the realized loss on financial derivatives and increased royalty, transportation and operating costs, when compared to the same period in 2016.

Revenue and Production

	Q1 2017	Q1 2016	%
Natural gas and liquid sales before physical forward sales contracts ($000s)	**67,782**	50,845	33
Physical forward sales contracts ($000s)	**(2,103)**	–	–
Natural gas and liquid sales ($000s)	**65,679**	50,845	29
Average natural gas production (Mcfe/d)	**273,775**	292,491	(6)
Average liquid production (Bbls/d)	**248**	606	(59)
Average natural gas and liquid production (Mcfe/d)	**275,262**	296,130	(7)
Total natural gas and liquid production (Mcfe)	**24,773,585**	26,947,833	(8)

Revenue for the three month period ended March 31, 2017 increased $14.8 million, or 29%, from the same period in 2016, primarily due to a 40% increase in commodity sales price, averaging $2.65/Mcfe for the three month period ended March 31, 2017, compared to $1.89/Mcfe for the same period in 2016. This increase was partially offset by a 7% reduction in the average daily sales volumes from the comparable period in 2016. The Q1 2017 production decrease was caused primarily by the temporary effect of freeze offs due to much colder weather in the current quarter, when compared to the same period in 2016.

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 month period ended March 31, 2017 was $2.1 million. There are no comparatives as the Company did not have any physical contracts in the first quarter of 2016. For the three month period ended March 31, 2017, the loss from the physical forward sales contracts amounted to a decrease of $0.09/Mcfe to the Company's average natural gas sales price. The Company's benchmark will generally be comparative to AECO 5A reference pricing, prior to any impacts from physical contracts.

Product Pricing

(CAD$, unless otherwise stated)	Q1 2017	Q1 2016	%
NYMEX average price (US$/Mcf) [(1)]	**3.28**	2.08	57
AECO / NYMEX differential (US$/Mcf) [(1)]	**(1.25)**	(0.76)	65
Average foreign exchange rate (CAD$/US$)[(1)]	**0.752**	0.726	4
AECO average price ($/Mcf) [(1)]	**2.70**	1.83	47
Corporate differential ($/Mcfe)	**0.01**	0.01	–
Physical forward sales contracts (CAD$/Mcfe)[(2)]	**(0.09)**	–	–
Ember average natural gas sales price ($/Mcfe)	**2.62**	1.84	42
Ember average liquid sales price ($/Bbls)	**55.11**	33.70	64
Ember average sales price ($/Mcfe)	**2.65**	1.89	40
Realized loss on derivatives ($/Mcfe)	**(0.40)**	–	–
Ember total average price ($/Mcfe)	**2.25**	1.89	19
Transportation ($/Mcfe)	**(0.17)**	(0.15)	13
Ember wellhead price ($/Mcfe)	**2.08**	1.74	20

(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 March 31, 2017.

Financial Derivatives and Physical Forward Sales

Ember employs a mechanical hedging program that 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 March 31, 2017.

Applicable Year	Applicable Quarter	Weighted average volume Mcf/Day	Weighted average price (CAD$/Mcf)
2017	Q2	127,962	$ 2.75
	Q3	127,962	$ 2.75
	Q4	143,760	$ 3.03
2018	Q1	151,659	$ 3.14
	Q2	66,351	$ 2.54
	Q3	66,351	$ 2.54
	Q4	91,627	$ 2.71
2019	Q1	104,265	$ 2.76

Financial Derivative Contracts

The following is the period end balance sheet position of all financial derivative contracts as at March 31, 2017 and 2016:

($000s)	**March 31, 2017**	March 31, 2016	%
Commodity swap contracts – current asset	**696**	–	–
Commodity swap contracts – current liability	**(1,345)**	–	–
Net position – current liability	**(649)**	–	–
Commodity swap contracts – non-current asset	**1,896**	–	–
Fair value at March 31, 2017	**1,247**	–	–

As at March 31, 2017, 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	80,569 Mcf/d	(CAD$/Mcf) – $2.73	April 17 to Oct 17	55	(697)	(642)
Commodity swap	104,265 Mcf/d	(CAD$/Mcf) – $3.13	Nov 17 to Mar 18	94	(101)	(7)
Commodity swap	47,393 Mcf/d	(CAD$/Mcf) – $2.53	Apr 18 to Oct 18	–	1,322	1,322
Commodity swap	66,351 Mcf/d	(CAD$/Mcf) – $2.76	Nov 18 to Mar 19	–	574	574
Fair market value liability of commodity swap financial contracts at March 31, 2017				**$ 149**	**$ 1,098**	**$ 1,247**

(1) 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.

(2) Fair value through profit or loss.

During the three month period ended March 31, 2017, 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 six 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 month period ended March 31, 2017 and 2016:

($000s, except per unit amounts)	**Q1 2017**	Q1 2016	%
Realized loss on derivatives	**(9,833)**	–	–
$ per Mcfe	**(0.40)**	–	–
Unrealized gain on derivatives	**23,948**	–	–
$ per Mcfe	**0.97**	–	–

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 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.

Royalties

($000s, except per unit amounts)	**Q1 2017**	Q1 2016	%
Freehold royalties	**3,872**	3,135	24
Crown royalties	**444**	(60)	840
Total royalties expense	**4,316**	3,075	40
$ per Mcfe	**0.18**	0.12	50
Effective royalty rate [(1)]	**6.6%**	6.1%	7

(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 1,224,765 net acres compared to 837,769 net acres for Crown lands. Of the total freehold lands, 621,764 net acres carry a flat 5% freehold royalty rate.

The aggregate royalty expense for the three month period ended March 31, 2017 increased $1.2 million, or 40%, when compared to the same period in 2016. This increase is the result of higher average realized commodity prices in the current quarter and the impact of Crown gas cost allowance ("GCA") on newly acquired properties in the comparable period of 2016. The fluctuation of Crown royalties from an expense to a recovery, in any given period, is due to the timing and recording of the GCA. The increase in the effective royalty rate is a result of higher average realized commodity prices in the first quarter of 2017.

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%. 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)	Q1 2017	Q1 2016	%
Discretionary expenses	**18,457**	19,423	(5)
Property taxes	**5,692**	5,685	–
Surface leases	**8,770**	8,768	–
Total Operating expense	**32,919**	33,876	(3)
$ per Mcfe			
Discretionary expenses	**0.75**	0.72	4
Property taxes	**0.23**	0.21	10
Surface leases	**0.35**	0.33	6
Total Operating expense	**1.33**	1.26	6

Operating expense for the three month period ended March 31, 2017 decreased $1.0 million, or 3%, when compared to the same period in 2016. The decrease in the overall operating expense for the three month period ended March 31, 2017 was primarily due to lower third party gas handling fees due to the re-routing of gas into company owned facilities, reduced facility maintenance costs as a result of a more structured maintenance program, and a decrease in oil well expenses due to the sale of Mikwan oil assets, partially offset by a reduction in processing income as result of the sale of the Carseland plant and lower third party volumes, when compared to the same period in 2016.

On a per unit basis, operating expense averaged $1.33/Mcfe, compared to $1.26/Mcfe, for the comparable period of 2016. The increase, on a per unit basis, is primarily due to the reduction in production volumes for the three month period ended March 31, 2017, when compared to the same period in 2016. As a significant portion of the Companies operating costs are fixed in nature, mainly property taxes and surface leases, this rate will increase in periods with lower production.

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 Municipal Government Board is appealing this ruling. The Company intends to continue to bring before the Municipal Government Board other areas of unfairness and inequity in its property tax assessment.

Another project Ember continues to work on with the Alberta Energy Regulator ("AER") is 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 rental costs for the Company.

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)	**Q1 2017**	Q1 2016	%
Transportation expense	**4,218**	3,995	6
$ per Mcfe	**0.17**	0.15	13

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 March 31, 2017, transportation expense, on a per unit basis, increased 13% to $0.17/Mcfe, compared to $0.15/Mcfe in the comparable period in 2016. The increase, on a per unit basis, is due to an increase in pipeline fuel usage costs, unutilized demand charges due to a decrease in production and an increase in the contract rate as a result of new tariff rates being introduced January 1, 2017, when compared to the same period in 2016.

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 $0.03 to $0.04 per Mcf as the company replaces expiring lower cost contracts with new contracts at higher rates.

Ember 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 MMcf/d of gas out of a total of 1.5 Bcf/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 transportation for 52 MMcf/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.

Ember views participation in the LTFP Open Season as partial diversification of its gas marketing program. The Company currently produces approximately 285 MMcf of gas per day of which 235 MMcf per day is sold at AECO NIT with the balance of 50 MMcf per day to be sold at Dawn after close of this contract

The aggregate cost to Ember of the additional transportation to Dawn is estimated at $1.09 per Mcf. The current spread for one year natural gas pricing commencing November 2017 between Dawn and AECO NIT is approximately $1.26 per Mcf. The spread varies depending on market conditions and seasonality.

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

($000s, except per unit amounts)	**Q1 2017**	Q1 2016	%
Depletion, depreciation and amortization ("DD&A")	**24,531**	31,181	(21)
Accretion expense	**1,996**	3,756	(47)
Total DD&A and accretion expense	**26,527**	34,937	(24)
$ per Mcfe			
DD&A	**0.99**	1.16	(15)
Accretion expense	**0.08**	0.14	(43)
Total DD&A and accretion expense	**1.07**	1.30	(18)

For the three month period ended March 31, 2017, depletion expense decreased by $6.7 million, or 21%, when compared to the same period in 2016. On a per unit basis, for the three month period ended March 31, 2017, depletion expense decreased $0.17/Mcfe, or 15%, compared to the same period in 2016. 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 period in 2016.

For the three month period ended March 31, 2017, accretion expense decreased $1.8 million, or 47%, when compared to the same period in 2016. On a per unit basis, for the three month period ended March 31, 2017, accretion expense decreased $0.06/Mcfe, or 43%, compared to the same period in 2016. The decrease in accretion expense is a result of a reduction in the decommissioning liability of $94.5 million related to the increased reserve life of the Company's asset base from the December 31, 2015 reserve report, when compared to the same period in 2016.

General and Administrative ("G&A")

($000s, except per unit amounts)	**Q1 2017**	Q1 2016	%
Gross G&A expenses	**6,448**	6,771	(5)
Capitalized G&A	**(1,667)**	(1,562)	7
Overhead recoveries	**(800)**	(594)	35
Net G&A expense	**3,981**	4,615	(14)
$ per Mcfe	**0.16**	0.17	(6)

Gross G&A expenses for the three month period ended March 31, 2017 declined 5% from the same period in 2016.

Net G&A for the three month period ended March 31, 2017 declined $0.6 million, or 14%, compared to same period in 2016. The decrease is a result of a $0.3 million decrease in gross G&A and an increase in overhead recoveries of $0.2 million as a result of greater capital activity in the first quarter of 2017, when compared to the same period in 2016.

Stock-Based Compensation ("SBC")

($000s, except per unit amounts)	**Q1 2017**	Q1 2016	%
Gross SBC costs	**391**	1,015	(61)
Capitalized SBC	**(184)**	(489)	(62)
Net SBC expense	**207**	526	(61)
$ per Mcfe			
Gross SBC costs	**0.02**	0.04	(50)
Capitalized SBC	**(0.01)**	(0.02)	(50)
Net SBC expense	**0.01**	0.02	(50)

Net SBC expense for the three month period ended March 31, 2017 decreased $0.3 million, or 61%, when compared to the same period in 2016. The decrease is primarily due to a number of options becoming fully amortized and no additional options being issued since December 2015. On a per unit basis, net SBC expense has decreased 50% to $0.01/Mcfe for the three month period ended March 31, 2017, compared to $0.02/Mcfe for the same period in 2016.

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

Interest Expense

($000s, except per unit amounts)	**Q1 2017**	Q1 2016	%
Interest and amortized financing costs	**6,293**	4,757	32
$ per Mcfe	**0.25**	0.18	39
Effective interest rate	**6.1%**	4.7%	31

For the three month period ended March 31, 2017, interest expense increased by $1.5 million, or 32%, compared to the same period in 2016. 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.

The effective interest rate on all borrowings, including amortized financing fees, for the three month period ended March 31, 2017 was 6.1%, compared to 4.7% in the comparable period in 2016.

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 2017 tax rate is a combined Canadian federal and Alberta provincial rate of 27%.

At March 31, 2017, a deferred tax asset of $44.9 million (March 31, 2016 – $4.7 million deferred tax asset) has been recognized in the financial statements.

($000s)	**March 31, 2017**	March 31, 2016	%
Property and equipment	**(80,672)**	(118,745)	(32)
Decommissioning liability	**37,237**	61,621	(40)
Derivatives and Other	**90**	–	–
Finance lease obligation	**656**	973	(33)
Tax loss carry-forwards	**87,613**	60,870	44
Net deferred tax assets	**44,924**	4,719	852

At March 31, 2017, 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 March 31, 2017**	**Successor Pools as at March 31, 2017**	**Annual deductibility**
COGPE	563,442	62,641	10% declining balance
CDE	89,226	46,310	30% declining balance
CEE	21,336	18,893	100%
SRED	2,301	–	100%
UCC classes	119,401	–	Primarily 25% declining balance
Non capital loss carry-forwards	324,492	–	100% (1)
Total tax deductions	1,120,198	127,844	
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)	**Q1 2017**	Q1 2016	%
Land	**179**	196	(9)
Geological and geophysical	**191**	114	68
Drilling and completions	**6,877**	1,211	468
Equipment and facilities	**1,149**	1,396	(18)
Minor (dispositions) and acquisitions	**38**	(823)	(105)
Capitalized costs and office equipment	**1,955**	1,893	3
Asset additions for cash	**10,389**	3,987	161
Significant acquisition of property and equipment	**–**	–	–
Decommissioning liability expenditures	**513**	1,219	(58)
Proceeds from disposition of natural gas properties	**–**	(4,721)	–
Total capital expenditures – cash	**10,902**	485	2,148

During the first quarter of 2017, the Company focused capital expenditures on completing 75 CBM wells in existing wellbores and performing various remedial work including water shut-offs, perforations, comingles and infrastructure improvements. In the first quarter of 2016, the Company completed 10 CBM wells in existing wellbores. The Company did not drill any new wells in the first quarter of 2016 or 2017.

The Company has a significant inventory of capital projects to add cost effective production and continue to improve performance of the existing producing assets. The Company has identified 1,107 wellbores with behind pipe CBM potential, 454 wells with behind pipe conventional zones to perforate, 504 wells to commingle and 1,367 wellbores for potential water shut-offs. In addition, Ember is using its extensive seismic data base to high grade its 3,076 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 abandon and reclaim wells, facilities and pipelines in a timely manner 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.

Ember has 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 2.07, effective May 9, 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 March 31, 2017, the net present value of the Company's decommissioning liability, current and non-current, was $138.7 million (December 31, 2016 – $141.7 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% and a 2% inflation rate.

At March 31, 2017, the estimated undiscounted inflation adjusted decommissioning liabilities associated with natural gas properties and facilities were $1.2 billion (December 31, 2016 – $1.2 billion). The majority of the payments to settle this provision will occur over a period of 50 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 $6.0 million (December 31, 2016 – $6.7 million). 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 at December 31, 2016, resulting in an $11.8 million downward revision of the decommissioning liabilities during the first quarter of 2017.

QUARTERLY RESULTS

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

($000s, except share, per share amounts and volumes)	**Q1 2017**	Q4 2016	Q3 2016	Q2 2016
Daily average production (MMcfe/d)	**275.26**	275.31	284.27	285.46
Average natural gas price ($/Mcfe)	**2.65**	3.00	2.34	1.47
Natural gas and liquid sales	**$ 65,679**	$ 75,928	$ 61,254	$ 38,261
Net income (loss)	**$ 890**	$ (3,231)	$ (14,214)	$ (58,400)
– per share basic and diluted	**$ 0.01**	$ (0.04)	$ (0.18)	$ (0.76)
Funds from operations [(1)]	**$ 4,119**	$ 9,846	$ 3,789	$ (11,068)
– per share basic and diluted	**$ 0.05**	$ 0.13	$ 0.05	$ (0.14)
Property and equipment additions – cash	**$ 10,389**	$ 7,586	$ 2,683	$ 4,197
Property and equipment dispositions – cash	**$ –**	$ –	$ (9,889)	$ –
Property acquisitions – cash	**$ –**	$ –	$ –	$ –
Decommissioning liability expenditures	**$ 513**	$ 712	$ 723	$ 240
Capital activity				
CBM wells drilled (gross/net)	**0/0**	0/0	0/0	0/0
CBM wells completed	**75**	50	0	0
Net debt [(1)]	**$ 409,757**	$ 403,803	$ 403,666	$ 413,201
Shares outstanding (000s)	**76,995**	76,995	76,995	76,995

($000s, except share, per share amounts and volumes)	Q12016	Q42015	Q32015	Q22015
Daily average production (MMcfe/d)	296.13	302.75	301.18	296.56
Average natural gas price ($/Mcfe)	1.89	2.60	2.96	2.78
Natural gas and liquid sales	$ 50,845	$ 72,425	$ 82,082	$ 75,089
Net loss	$ (25,671)	$ (10,092)	$ (10,586)	$ (17,942)
– per share basic and diluted	$ (0.33)	$ (0.13)	$ (0.14)	$ (0.24)
Funds from operations [(1)]	$ 527	$ 22,917	$ 32,373	$ 22,652
– per share basic and diluted	$ 0.01	$ 0.31	$ 0.41	$ 0.29
Property and equipment additions – cash	$ 3,987	$ 8,175	$ 7,227	$ 6,590
Property and equipment disposition – cash	$ (4,721)	$ –	$ –	$ –
Property acquisitions – cash	$ –	$ (1,456)	$ –	$ –
Decommissioning liability expenditures	$ 1,219	$ 2,519	$ 1,163	$ 703
Capital activity				
CBM wells drilled (gross/net)	0/0	0/0	0/0	0/0
CBM wells completed	10	30	30	8
Net debt [(1)]	$ 400,961	$ 401,025	$ 412,306	$ 430,986
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 through much of 2015 and 2016, with a partial rebound in the third and fourth quarter of 2016 and the first quarter of 2017. 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 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 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 and the first quarter of 2017.

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 or capital activity is high, debt levels will tend to stay flat or increase.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

($000s)	**Q1 2017**	Q1 2016
Cash provided by operating activities	**7,475**	14,130
Cash provided by (used in) financing activities	**1,019**	(14,061)
Cash used in investing activities	**(8,494)**	(69)

Cash Provided by Operating Activities

Cash provided by operating activities was $7.5 million at March 31, 2017, compared to $14.1 million for the same period in 2016. The decrease was primarily the result of an increase in the realized loss on derivatives, greater financing costs and a decrease in the working capital related to operating activities, when compared to the same period in 2016. This decrease was partially offset by the increase in natural gas sales, when compared to the same period in 2016.

Cash Provided by (used in) Financing Activities

In 2017, a net draw of $1.0 million from the credit facility took place compared to a net repayment on the credit facility of $14.1 million in 2016.

Cash used in Investing Activities

Cash used in investing activities was ($8.5 million) at March 31, 2017, compared to ($0.1 million) for the same period in 2016. The change was primarily due to an increase in capital activity in 2017, when compared to 2016, in addition to a disposition which occurred in the first quarter of 2016.

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 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%.

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

The consolidated senior secured debt [3] to EBITDA ratio and consolidated total debt [1] to EBITDA ratio cannot exceed;

i) 3.0 to 1 for the quarter ending June 30, 2017. Consolidated senior secured debt [3] 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 [3] 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 [3] and consolidated EBITDA will be calculated for the nine month period ending December 31, 2017 and multiplied by four-thirds.

(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.

(3) "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.

Certain borrowing terms of the Facility were amended as follows:

a. 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

b. 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, disclosed above remain unchanged.

The following table reconciles the Company's credit facility balance as at March 31, 2017:

	As at March 31, 2017
Drawn revolving term facility	**403,303**
Unamortized finance fees	**(1,356)**
Overdraft/(Cash)	**3,719**
	405,666

The following table reconciles the Company's undrawn credit facility balance as at March 31, 2017:

($000s)		
Credit facility available		440,000
Credit facility balance	(405,666)	
Unamortized finance fees	(1,356)	
Letters of credit	(9,609)	
		(416,631)
Undrawn credit facilities		23,369

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.

As at March 31, 2017, the Company was in compliance with all applicable covenants under the amended credit facility as shown below.

	Covenant		**Covenant Measurement**
	Minimum	**Maximum**	**as at March 31, 2017**
Financial Covenants			
i) EBITDA [1] – $ millions	$ 27.0		$ 37.5
ii) Total debt to capitalization	0%	55%	41%
Non-financial covenants			
iii) Hedge contract requirements			
Year 1	50%	85%	51%
Year 2	30%	65%	30%
Year 3	0%	50%	0%

(1) EBITDA accumulated from July 1, 2016 to March 31, 2017.

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.

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 three month period ended March 31, 2017 was 6.1% (December 31, 2016 – 5.7%). 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 2016. The Company borrows predominately utilizing BA's.

Capital Resources

The following table sets forth a summary of the Company's capital resources at March 31, 2017:

($000s)		
Current assets		35,088
Current liabilities [1]		
Accounts payable and accrued liabilities	(32,554)	
Current portion of finance leases	(1,521)	
Derivatives	(1,345)	
Credit facility	(405,666)	
Decommissioning liabilities	(3,500)	
		(444,586)
Working capital deficit		(409,498)
Total facility available		440,000
Letters of credit delivered		(9,609)
Total capital resources		20,893

(1) Current liabilities includes the $405.7 million credit facility which is classified as current due to its initial maturity date being January 15, 2018.

At March 31, 2017, the Company had a working capital deficit of $409.5 million, of which $405.7 million is represented by the credit facility. The balance of the facility is classified as current due to its initial maturity date being January 15, 2018. The Company is currently in the process of renegotiating the terms of a renewal of this Facility.

At March 31, 2017, the Company had a capital resources surplus of $20.9 million and as a result, the Company fully expects to meet its liabilities as they come due for the foreseeable future.

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 March 31, 2017, Ember had a total of $1.1 million of receivables greater than 90 days out of total receivables of $28.9 million (a total of 3.8%). 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 *($000s)*	Total	Cumulative Payments Due by Periods Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	32,554	32,554	–	–	–
Finance lease obligations	2,429	1,521	908	–	–
Credit facility	405,666	405,666	–	–	–
Derivative financial instruments	1,345	1,345	–	–	–
Decommissioning liabilities	138,666	3,500	8,000	8,000	119,166
Total contractual obligations	580,660	444,586	8,908	8,000	119,166

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)	**May 9, 2017**	**March 31, 2017**	March 31, 2016	%
Outstanding Common Shares				
Weighted average outstanding common shares [(1)]				
Basic	**76,995**	**76,995**	76,995	–
Diluted	**78,731**	**78,731**	76,995	2%
Outstanding securities				
Common shares	**76,995**	**76,995**	76,995	–
Share options [(2)]	**5,189**	**5,189**	5,199	–
Share awards [(3)]	**852**	**852**	858	-1%
Performance warrants [(4)]	**1,950**	**1,950**	1,950	–

(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 prices for the three month periods ended March 31, 2017 and 2016 are $7.60 per share and $7.57 per share, respectively.

(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 three month periods ended March 31, 2017 and 2016 is $12.50.

COMMITMENTS

The Company has entered into firm service transportation agreements for gas sales in Alberta for various terms expiring up to 2027. Historically, Ember has only sold their natural gas into the AECO NIT market, however producers are looking to access markets beyond the AECO hub. The majority of the Company's production will still be sold in the AECO NIT market, however in order for the Company to diversify its portfolio, it is looking for opportunities to access other natural gas markets through export pipe. Ember has entered into two long term transportation contracts; the first of which is from the AECO NIT market hub to the Empress border and secondly from the Empress border to Dawn. Dawn is one of the largest trading hubs in North America, located in southwestern Ontario, and is strategically located near consuming regions. Committed payments are outlined in the table below.

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

	Wellhead to AECO NIT Hub		AECO NIT Hub to Empress		Empress to Dawn		
	$	**Mcf/d avg**	**$**	**Mcf/d avg (1)**	**$**	**Mcf/d avg (2)**	**Total**
Dec 2017	$ 7,555,378	253,153	$ 644,526	11,564	$ 2,471,033	11,112	$ 10,670,937
Dec 2018	$ 14,332,973	229,792	$ 3,867,156	52,035	$ 14,826,197	50,000	$ 33,026,326
Dec 2019	$ 13,393,873	216,027	$ 3,867,156	52,035	$ 14,826,197	50,000	$ 32,087,226
Dec 2020	$ 10,169,543	167,984	$ 3,867,156	52,035	$ 14,826,197	50,000	$ 28,862,896
Dec 2021	$ 9,958,370	165,010	$ 3,867,156	52,035	$ 14,826,197	50,000	$ 28,651,723
Dec 2022	$ 8,444,166	143,213	$ 3,222,630	43,365	$ 14,826,197	50,000	$ 26,492,993
Dec 2023-2027	$ 3,628	44	$ –	–	$ 71,659,952	50,000	$ 71,663,580
Total	$ 63,857,931	–	$ 19,335,780	–	$148,261,970	–	$231,455,681

(1) Volumes which flow from the AECO NIT Hub to Empress are volumes that have continued down the pipe, they are not additional volumes.

(2) Volumes which flow from the Empress to Dawn are volumes that have continued down the pipe, they are not additional volumes.

Ember participated in the TCPL Dawn LTFP Open Season to contract firm long term natural gas delivery to Dawn. Ember committed 50 MMcf/d of gas out of a total of 1.5 Bcf/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 transportation for 52 MMcf/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.

Ember views participation in the LTFP Open Season as partial diversification of its gas marketing program. The Company currently produces approximately 285 MMcf of gas per day of which 235 MMcf per day is sold at AECO NIT with the balance of 50 MMcf per day to be sold at Dawn after close of this contract.

The aggregate cost to Ember of the additional transportation to Dawn is estimated at $1.09 per Mcf. The current spread for one year natural gas pricing commencing November 2017 between Dawn and AECO NIT is approximately $1.26 per Mcf. The spread varies depending on market conditions and seasonality.

The Company has entered into leases for office space. Estimated future minimum lease payments as at March 31, 2017 are as follows:

	Future Minimum Lease Payments ($000s)
2017	2,378
2018	3,171
2019	3,269
2020	3,202
Thereafter	9,000
Total	**21,020**

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 three month period ended March 31, 2017, capital and operating expenditures of $0.4 million (year ended December 31, 2016 – $1.1 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 March 31, 2017, $0.4 million was payable (December 31, 2016 – $0.2 million) to this related party.

BUSINESS RISKS

Please refer to the Company's annual MD&A for the year ended December 31, 2016 for a discussion of the risks and uncertainties associated with the Company's activities. There have been no significant changes in these risks and uncertainties during the three month period ended March 31, 2017.

OTHER

Changes in Accounting Policies

There were no new standards or policies adopted during the three month period ended March 31, 2017 aside from the 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. This standard does not have an impact on the Company's financial position or performance.

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.

Accounting Standards Not Yet Adopted

There were no new or amended standards issued during the three month period ended March 31, 2017 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in the future periods can be found in the notes to the annual financial statements for the year ended December 31, 2016.

Critical Accounting Estimates

The preparation of the interim financial statements requires 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. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these interim financial statements. Further information on the Company's critical accounting estimates can be found in the notes to the annual financial statements and annual MD&A for the year ended December 31, 2016. There have been no changes to the Company's critical accounting estimates as of March 31, 2017.

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 March 31, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the DC&P are effective as of March 31, 2017, 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 three month period ended March 31, 2017, 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 March 31, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the ICFR are effective as of the three month period ended March 31, 2017, 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 March 31, 2017 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 "funds from operations", "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 funds from operations, 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.

Funds from Operations

Funds from operations are determined as operating cash flows before decommissioning liability expenditures and working capital adjustments. Management uses this term to compare with other companies that also report this measure, to manage debt facilities that may use this measure to guide determination of debt pricing, and to readily provide this information to investors that routinely request this measure. The following is a reconciliation of funds from operations for the three month period ended March 31, 2017 and 2016.

($000s)	**March 31, 2017**	March 31, 2016
Cash provided by operating activities [1]	**7,475**	14,130
Add (less):		
Decommissioning liability expenditures [1]	**513**	1,219
Changes in non-cash working capital related to operating activities [1]	**(3,869)**	(14,822)
Funds from operations	**4,119**	527

(1) Measures determined in accordance with IFRS. See "Statements of Cash Flows".

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 three month period ended March 31, 2017 and 2016 to their most closely related GAAP measure, net income.

($000s)	**March 31, 2017**	March 31, 2016
Net income (loss) [1]	**890**	(25,671)
Add (Less):		
Unrealized gain on derivatives [1]	**(23,948)**	–
Stock based compensation [1]	**207**	526
Financing costs [1]	**6,293**	4,757
Accretion [1]	**1,996**	3,756
Depletion, depreciation and amortization [1]	**24,531**	31,181
Deferred tax expense (recovery) [1]	**443**	(9,265)
EBITDA	**10,412**	5,284

(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.

	March 31, 2017 (000's)	March 31, 2016 *(000's)*	**March 31, 2017 $/Mcfe**	March 31, 2016 $/Mcfe
Natural gas and liquid sales [(1)]	**$ 65,679**	$ 50,845	**2.65**	1.89
Royalties expense [(1)]	**(4,316)**	(3,075)	**(0.18)**	(0.12)
Realized loss on financial derivatives [(1)]	**(9,833)**	–	**(0.40)**	–
	$ 51,530	$ 47,770	**2.07**	1.77
Operating expense [(1)]	**(32,919)**	(33,876)	**(1.33)**	(1.26)
Transportation expense [(1)]	**(4,218)**	(3,995)	**(0.17)**	(0.15)
Operating netback	**$ 14,393**	$ 9,899	**0.57**	0.36
Total natural gas and liquid production (MMcfe)	**24,774**	26,948		

(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)	**March 31, 2017**	March 31, 2016	%
Non-current credit facility [(1)]	**–**	391,051	–
Long term obligations under finance leases [(1)]	**908**	2,377	(62)
Working capital deficit (surplus), excluding derivatives			
Accounts receivable [(1)]	**(28,872)**	(21,721)	33
Prepaid expenses and deposits [(1)]	**(5,520)**	(5,476)	1
Accounts payable and accrued liabilities [(1)]	**32,554**	29,505	10
Current portion of finance leases [(1)]	**1,521**	1,225	24
Current portion of decommissioning liabilities [(1)]	**3,500**	4,000	(13)
Current portion of credit facility [(1)]	**405,666**	–	–
	408,849	7,533	5,327
Net debt	**409,757**	400,961	2

(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)	**March 31, 2017**	March 31, 2016	%
Credit facility [(1)]	**405,666**	391,051	4
Finance leases [(1)]	**2,429**	3,602	(33)
Total debt	**408,095**	394,653	3

(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 month period ended March 31, 2017, 22,309 Boe of liquids were converted to gas equivalents and reported as natural gas volumes, compared to 55,185 Boe and in the comparable period of 2016. 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.