



ANNUAL INFORMATION FORM

FOR THE YEAR ENDED

DECEMBER 31, 2007

March 12, 2008

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ABBREVIATIONS

Oil and Natural Gas Liquids

Bbl	barrel
Bbls	barrels
Mbbls	thousand barrels
MMbbls	million barrels
Mstb	1,000 stock tank barrels
Bbls/d	barrels per day
BOPD	barrels of oil per day
NGLs	natural gas liquids
STB	standard tank barrels

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
MMbtu	million British Thermal Units
Bcf	billion cubic feet
GJ	gigajoule
MM	Million

Other

AECO	A natural gas storage facility located at Suffield, Alberta.
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale.
ARTC	Alberta Royalty Tax Credit
BOE or boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 BOE for 6 Mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
BOE/d	barrel of oil equivalent per day
m ³	cubic metres
MBOE	1,000 barrels of oil equivalent
\$000s	thousands of dollars
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

Disclosure provided herein in respect of BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 Bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

CONVERSIONS

To Convert From	To	Multiply By
Mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
Bbls	Cubic metres	0.159
Cubic metres	Bbls oil	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres (Alberta)	Hectares	0.400
Hectares (Alberta)	Acres	2.500
Acres (British Columbia)	Hectares	0.405
Hectares (British Columbia)	Acres	2.471

CERTAIN DEFINITIONS

In this Annual Information Form, the following words and phrases have the following meanings, unless the context otherwise requires:

"**2005 Arrangement**" means the plan of arrangement involving the Trust, Fairborne, Fairborne ExchangeCo Ltd. and Fairquest completed on June 1, 2005 under the ABCA pursuant to which, among other things, the Trust indirectly acquired all of the issued and outstanding common shares of Fairborne;

"**2007 Reorganization**" means the plan of arrangement involving the Trust, Fairborne, certain subsidiaries of the Trust and securityholders of the Trust completed on December 19, 2007 under the ABCA, pursuant to which Fairborne, directly or indirectly, acquired all of the assets and assumed all of the liabilities, respectively of the Trust;

"**2007 Reorganization Arrangement Agreement**" means the arrangement agreement dated as of November 13, 2007 among the Trust, Fairborne and Fairborne Newco Inc. in respect of the 2007 Reorganization;

"**ABCA**" means *Business Corporations Act* (Alberta);

"**Business Day**" means a day other than a Saturday, Sunday or statutory holiday, when banks are generally open for business in the city of Calgary, in the province of Alberta, for the transaction of banking business.

"**CBM**" means coal bed methane;

"**COGE Handbook**" means the Canadian Oil and Gas Evaluation Handbook prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum;

"**Common Shares**" means the common shares in the capital of Fairborne;

"**Debentures**" means the 6.50% convertible unsecured subordinated debentures of Fairborne issued pursuant to the Debenture Indenture;

"**Debenture Indenture**" means the trust indenture dated October 31, 2006, as amended and restated as of December 19, 2007 among Fairborne and the Debenture Trustee governing the terms of the Debentures;

"**Debenture Trustee**" means Computershare Trust Company of Canada or its successor as trustee under the Debenture Indenture;

"**Denham**" means Denham Commodity Partners Fund IV LP;

"**Denham Private Placement**" means the private placement financing completed by Fairborne in connection with completion of the 2007 Reorganization as described under "*General Development of Our Business – Completion of \$100 Million Private Placement*";

"**Development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;

- (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
- (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- (d) provide improved recovery systems.

"Exploration costs" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
- (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
- (c) dry hole contributions and bottom hole contributions;
- (d) costs of drilling and equipping exploratory wells; and
- (e) costs of drilling exploratory type stratigraphic test wells.

"Fairborne " or the **"Corporation"** means Fairborne Energy Ltd., a corporation amalgamated pursuant to the 2007 Reorganization and includes its predecessors where the context so requires;

"Fairborne Reserve Report" means, collectively, the GLJ Report and the Sproule Report;

"Fairquest" means Fairquest Energy Limited, a corporation incorporated pursuant to the ABCA;

"Fairquest Arrangement" means the plan of arrangement involving the Trust, Fairborne and Fairquest completed on June 4, 2007 under the ABCA pursuant to which the Trust acquired all of the issued and outstanding Fairquest Shares;

"Fairquest Arrangement Agreement" means the Arrangement Agreement dated as of March 11, 2007 among the Trust, Fairborne and Fairquest in respect of the Fairquest Arrangement;

"Fairquest Shares" means common shares in the capital of Fairquest;

"GLJ" means GLJ Petroleum Consultants Ltd.;

"GLJ Report" means the report of GLJ dated February 22, 2008 evaluating our crude oil, natural gas liquids and natural gas reserves (other than those evaluated in the Sproule Report) as at December 31, 2007;

"Gross" means:

- (f) in relation to our interest in production and reserves, our "company gross reserves", which are our interest (operating and non-operating) share before deduction of royalties and without including any of our royalty interests;
- (g) in relation to wells, the total number of wells in which we have an interest; and
- (h) in relation to properties, the total area of properties in which we have an interest.

"Incentive Plan" means the restricted unit and performance unit incentive plan of Fairborne, as successor to the Trust;

"Income Tax Act" or **"Tax Act"** means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1. (5th Supp), as amended, including the regulations promulgated thereunder;

"Net" means:

- (a) in relation to our interest in production and reserves, our working interest (operating and non-operating) share after deduction of royalties obligations, plus our royalty interest in production or reserves.
- (b) in relation to wells, the number of wells obtained by aggregating our working interest in each of our gross wells; and
- (c) in relation to our interest in a property, the total area in which we have an interest multiplied by the working interest we own.

"NI 51-101" means National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities;

"Non-Vesting Participants" means all of the members of the board of directors and the Chief Executive Officer, Chief Financial Officer and Chief Operating Officer of Fairborne;

"NRF" means the New Royalty Framework announced by the Alberta government on October 25, 2007;

"Performance Units" means performance units issued pursuant to the Incentive Plan;

"Restricted Units" means restricted units issued pursuant to the Incentive Plan;

"Share Subscription Agreement" means the share subscription agreement dated as of October 22, 2007 among Fairborne Newco Inc., the Trust, Fairborne and Denham in respect of the Denham Private Placement;

"Sproule" means Sproule Associates Limited;

"Sproule Report" means the report of Sproule dated February 13, 2008, evaluating all of our coal bed methane reserves as well as certain conventional oil and natural gas reserves in the Bashaw, Clive, Erskine/Nevis, Haynes and Woodriver areas of Alberta, as at December 31, 2007;

"Subsidiaries" means, with respect to any Person, a subsidiary (as that term is defined in the ABCA (for such purposes, if such person is not a corporation, as if such person were a corporation)) of such Person and includes any limited partnership, joint venture, trust, limited liability company, unlimited liability company or other entity, whether or not having legal status, that would constitute a subsidiary (as described above) if such entity were a corporation;

"**Trust**" means Fairborne Energy Trust, a trust established under the laws of Alberta pursuant to the Trust Indenture;

"**Trust Indenture**" means the trust indenture dated as of April 20, 2005, as amended and restated as of May 25, 2005 and as further amended by the first supplemental trust indenture dated as of December 19, 2007 between Computershare Trust Company of Canada and Fairborne;

"**Trust Units**" means the previously outstanding trust units of the Trust as they existed prior to completion of the 2007 Reorganization;

"**Trust Unitholders**" or "**Unitholders**" means the former holders of Trust Units;

"**TSX**" means the Toronto Stock Exchange; and

"**Warrants**" means outstanding Common Share purchase warrants of the Corporation, each of which entitles the holder to acquire 0.39 of a Common Share at an exercise price of \$8.128 per whole Common Share, subject to adjustment in certain events.

Certain other terms used herein but not defined herein are defined in NI 51-101 and, unless the context otherwise requires, shall have the same meanings herein as in NI 51-101.

Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2007.

All dollar amounts herein are in Canadian dollars, unless otherwise stated.

FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein including, without limitation, financial and business prospects and financial outlook, reserve and production estimates, drilling and re-completion plans, timing of drilling, re-completion and tie-in of wells, productive capacity of wells and productive capacity of wells and capital expenditures and the timing thereof may be forward-looking statements. Words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue" and similar expressions may be used to identify these forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risk and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources and the risk factors outlined under "Risk Factors" and elsewhere herein. The recovery and reserve estimates of Fairborne's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhausted. Additional information on these and other factors that could effect Fairborne's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com), at Fairborne's website (www.fairborne-energy.com). Although the forward-looking statements contained herein are based upon what management believes to be reasonable assumptions, management cannot assure that actual results will be consistent with these forward-looking statements. Investors should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and Fairborne assumes no obligation to update or review them to reflect new events or circumstances except as required by applicable securities laws.

Forward-looking statements and other information contained herein concerning the oil and gas industry and Fairborne's general expectations concerning this industry is based on estimates prepared by management using data from publicly available industry sources as well as from reserve reports, market research and industry analysis and on assumptions based on data and knowledge of this industry which Fairborne believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While Fairborne is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors.

BACKGROUND

General

Fairborne is an Alberta based growth oriented, intermediate oil and gas company engaged in the exploration for, and the acquisition, development and production of, oil and natural gas reserves primarily in western Canada.

Fairborne was amalgamated pursuant to the provisions of the ABCA on December 19, 2007 pursuant to the 2007 Reorganization.

Fairborne's principal office is located at 3400, 450 - 1st Street SW, Calgary, AB T2P 5H1 and its registered office is located at 1400, 350 – 7th Ave. SW, Calgary, Alberta T2P 3N9.

The Common Shares and the Debentures trade on the TSX under the symbols "FEL" and "FEL.DB", respectively.

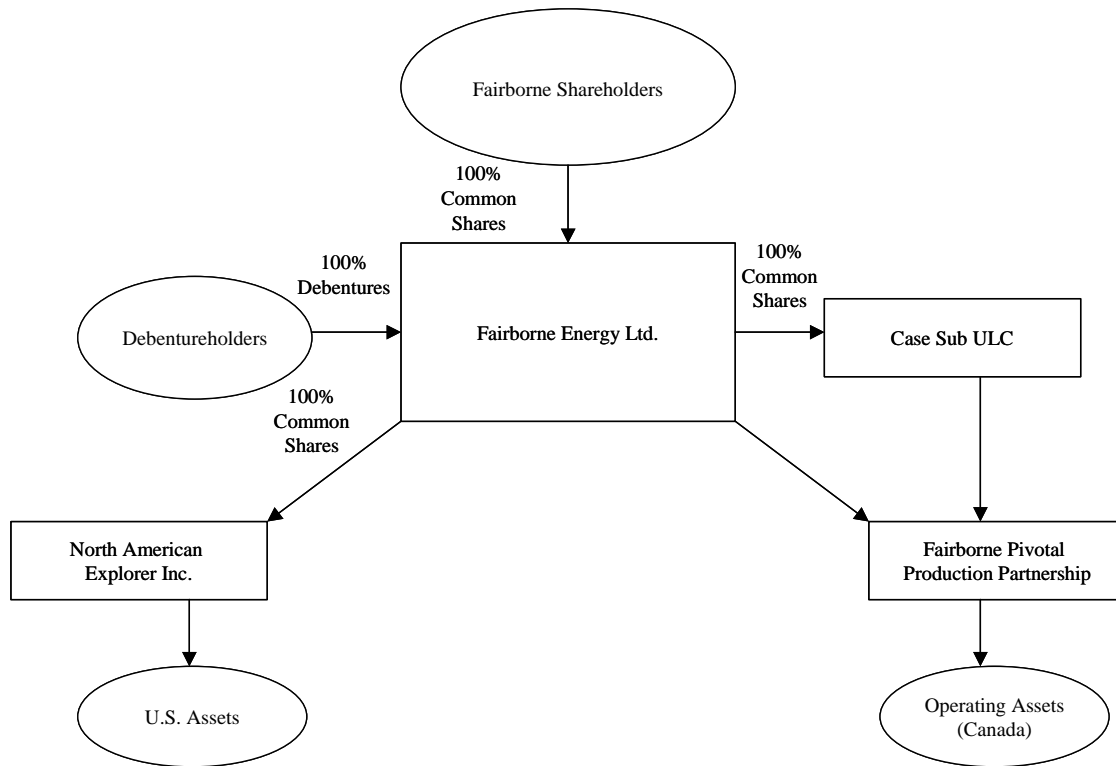
Inter-Corporate Relationships

The following are the names, the percentage of voting securities that we own and the jurisdiction of incorporation, continuance or formation of our material Subsidiaries, direct and indirect, as at the date hereof.

	Percentage of voting securities (directly or indirectly)	Nature of Entity	Jurisdiction of Incorporation/ Formation
Fairborne Energy Ltd	100%	Corporation	Alberta
Case Sub ULC	100%	Corporation	Alberta
North American Explorer Inc.	100%	Corporation	Wyoming
Fairborne Pivotal Production Partnership	100%	General Partnership	Alberta

Our Organization Structure

The following diagram describes the inter-corporate relationships among Fairborne and its material Subsidiaries.



GENERAL DEVELOPMENT OF OUR BUSINESS

2002 – 2004

Fairborne has been engaged in the business of acquiring crude oil and natural gas properties and exploring for, developing and producing crude oil and natural gas in Western Canada since it was founded. In May of 2002, Fairborne completed two private placements pursuant to which an aggregate of (i) 4,600,000 common shares were issued to the founders of Fairborne at \$1.10 per share for gross proceeds of \$5,060,000 as well as 1,960,000 common share purchase warrants, and (ii) 15,150,000 Class A voting common shares were issued to various subscribers at \$2.00 per share for gross proceeds of \$30,300,000. The proceeds from these financings were used, in conjunction with the assumption of a capital lease, to fund the acquisition of certain producing and non-producing oil and gas properties located at Clive and Wood River in central Alberta (the "**Clive/Wood River Acquisition**") for a total consideration of \$36,395,000.

Effective July 2, 2003 Fairborne completed the acquisition of Pivotal Energy Ltd. ("**Pivotal**") pursuant to a plan of arrangement under the ABCA (the "**Pivotal Arrangement**"). Pursuant to the Pivotal Arrangement, (i) each issued and outstanding common share of Fairborne, as such common shares then existed, was transferred to Fairborne in exchange for one new common share; (ii) each issued and outstanding Class A voting common share of Fairborne, as such shares then existed, was transferred to Fairborne in exchange for one (1) new common share; (iii) each issued and outstanding common share of Pivotal and any rights associated therewith were transferred to Fairborne in exchange for 0.485 common shares (the "**Exchange Ratio**"); and (iv) all options to purchase common shares of Pivotal were amended to represent options to acquire common shares of Fairborne (in lieu of common shares of Pivotal) based upon the Exchange Ratio. Pursuant to the Pivotal Arrangement, Fairborne issued an aggregate of 10,576,688 common shares in exchange for the outstanding common shares of Pivotal. Immediately following completion of the Pivotal Arrangement, Fairborne had approximately 30.3 million common shares outstanding, of which former Pivotal

shareholders held approximately 35% and the shareholders of Fairborne, as they existed immediately prior to completion of the transaction, held the remaining 65%.

On December 9, 2003 Fairborne completed a private placement of 1,500,000 flow-through common shares at a price of \$6.75 per share for total gross proceeds of \$10,125,000.

On February 27, 2004, Fairborne completed a private placement of 6,178,000 subscription receipts ("**Subscription Receipts**"), at a price of \$6.65 each, for gross proceeds of \$41,083,700. Each Subscription Receipt entitled the holder to acquire one common share, without the payment of any additional consideration, upon closing of the West Pembina Acquisition. Proceeds from the issuance of the Subscription Receipts were held in escrow pending closing of the West Pembina Acquisition.

On February 8, 2004, Fairborne entered into an agreement in respect of the West Pembina Acquisition to acquire operated oil, natural gas and NGL assets located in west central Alberta for a total consideration of \$116 million subject to certain closing adjustments. The West Pembina Acquisition was effective January 1, 2004 with the results of operations from January 1, 2004 to closing recorded as an adjustment to the purchase price. The West Pembina Acquisition closed on March 31, 2004, at which time the proceeds from the issuance of the Subscription Receipts were released from escrow and utilized to pay a portion of the purchase price for the West Pembina Acquisition and the remainder of the purchase price was funded from Fairborne's available bank facility which was increased to \$85 million.

On May 24, 2004, Fairborne entered into an arrangement agreement with Case Resources Inc. ("**Case**"), pursuant to which Fairborne acquired all of the issued and outstanding common shares of Case on the basis of 0.0909 common shares of Fairborne for each issued and outstanding common share of Case pursuant to a plan of arrangement under the ABCA (the "**Case Arrangement**"). In connection with the Case Arrangement, Fairborne assumed approximately \$12 million in debt and working capital deficit including transaction costs. The Case Arrangement was effective July 27, 2004.

Case's principal property was located at Haynes, Alberta immediately south of Fairborne's Clive producing property and has resulted in operational enhancement and cost saving benefits as a result of the consolidation of the properties. Further, the majority of Case's undeveloped lands are located within Fairborne's West Pembina/Brazeau operating area and the relative proximity of these assets has permitted immediate integration into Fairborne's operating structure and expanded Fairborne's inventory of opportunities.

On August 10, 2004 Fairborne completed the public offering of 1,600,000 common shares, issued on a "flow-through" basis, at an issue price of \$12.50 per share for gross proceeds of \$20 million.

On December 23, 2004 Fairborne completed a public offering of 2,725,000 common shares at an issue price of \$11.50 per share and 322,000 common shares, issued on a "flow-through" basis, at an issue price of \$14.50 per share, for gross proceeds of \$36,006,500.

The 2005 Arrangement – Transformation to a Trust

On June 1, 2005 the 2005 Arrangement was completed which resulted in the creation of Fairborne Trust, a new oil and natural gas energy trust that acquired approximately 90% of Fairborne's then existing producing assets and the creation of Fairquest Energy Limited, a junior oil and natural gas exploration and development company which acquired the balance of Fairborne's oil and natural gas assets and certain undeveloped lands.

Under the 2005 Arrangement, shareholders of Fairborne received, at their election, either one Trust Unit or one exchangeable share of Fairborne ("**Exchangeable Shares**") and 0.333 of a common share of Fairquest, for each outstanding common share of Fairborne held. Immediately following completion of the 2005 Arrangement, approximately 45 million Trust Units and seven million Exchangeable Shares were outstanding.

Public Offering of 6.50% Convertible Unsecured Subordinated Debentures

On October 31, 2006 the Trust completed a public offering of Debentures by way of short form prospectus at a price of \$1,000 per Debenture for aggregate gross proceeds of \$100 million. The Debentures trade on the TSX under the symbol "FEL-DB". The Debentures have a maturity date of December 31, 2011 and bear interest at an annual rate of 6.50%, payable semi-annually on December 31 and June 30 in each year. The Debentures were assumed by

Fairborne in connection with the 2007 Reorganization and, as such, are now convertible at the option of the holder into Common Shares at a price of \$13.50 per Common Share and are redeemable by Fairborne in certain circumstances.

Acquisition of Fairquest Energy Limited

On June 4, 2007 the Trust, through Fairborne, completed the acquisition of all of the outstanding Fairquest Shares pursuant to a plan of arrangement under the ABCA. Prior to completion of the Fairquest Arrangement, Fairquest was a reporting issuer in certain provinces of Canada and the Fairquest Shares were listed for trading on the TSX under the symbol "FQE". Pursuant to the terms of the Fairquest Arrangement Agreement, shareholders of Fairquest received, for each outstanding Fairquest Share held by them, 0.39 of a Trust Unit. Fairborne also assumed approximately \$48 million of net debt upon closing of the Fairquest Arrangement. Following completion of the Fairquest Arrangement, the Fairquest Shares were de-listed from trading on the TSX and Fairquest ceased to be a reporting issuer.

The Business Acquisition Report of the Trust dated July 10, 2007 in respect of the Fairquest Arrangement is filed and can be located on Fairborne's SEDAR profile at www.sedar.com.

The 2007 Reorganization – Transformation to a Corporation

On December 19, 2007 Fairborne completed a plan of arrangement under the ABCA involving Fairborne, the Trust, certain subsidiaries of the Trust and securityholders of the Trust, pursuant to which Fairborne, directly or indirectly, acquired all of the assets and assumed all of the liabilities, respectively, of the Trust. Prior to completion of the 2007 Reorganization, the Trust was a reporting issuer in certain provinces of Canada and the Trust Units and the Exchangeable Shares were listed for trading on the TSX. Following completion of the 2007 Reorganization, the Trust Units and Exchangeable Shares were de-listed from trading on the TSX and the Trust ceased to be a reporting issuer.

Pursuant to the terms of the 2007 Reorganization Arrangement Agreement, previous holders of Trust Units received one Fairborne Share for each one Trust Unit held and previous holders of Exchangeable Shares received Common Shares based on the exchange ratio for the Exchangeable Shares in effect on completion of the 2007 Reorganization. The former securityholders of the Trust received in the aggregate 70,859,581 Common Shares in exchange for all the outstanding Trust Units and Exchangeable Shares.

In connection with the completion of the 2007 Reorganization, Fairborne assumed all of the covenants and obligations of the Trust under the outstanding Debentures which are now convertible into Common Shares, rather than Trust Units, at the same conversion price that previously existed for the Trust Units, being a conversion price of \$13.50 per Common Share, subject to adjustment as provided in the Debentures.

The Business Acquisition Report of Fairborne dated January 14, 2008 in respect of the 2007 Reorganization is filed and can be located on Fairborne's SEDAR profile at www.sedar.com.

Completion of \$100 Million Private Placement

Immediately following and in connection with completion of the 2007 Reorganization, Fairborne completed the issuance pursuant to the terms of the Share Subscription Agreement, on a private placement basis, of approximately 13.4 million Common Shares to Denham, a U.S. based private equity fund advised by Denham Capital Management LP, at a subscription price of \$7.45 per share, for aggregate proceeds of approximately \$100 million. Proceeds of the private placement were used to reduce outstanding indebtedness, leaving Fairborne with \$86.9 million of bank debt on December 31, 2007 drawn against a borrowing base of \$220 million.

Other Recent Developments

The New Alberta Royalty Framework

On October 25, 2007, the Alberta government released the NRF pertaining to royalties on oil and gas resources including oil sands, conventional oil and gas and coalbed methane. The NRF is scheduled to take effect on January 1, 2009. The NRF was the Alberta government's response to the recommendations put forth by the Alberta Royalty Review Panel. Given the methodology used in the proposed royalty regime, the effect on Fairborne's cash flow will be affected by depths and productivity of wells. The actual effect of the Alberta royalty rate changes on Fairborne will be determined based on, among other things, the actual legislation enacted, the production rates, commodity prices, foreign

exchange rates, production mix, service costs and the percentage of production from Alberta after January 1, 2009. See Note 8 under "Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data – Reserves Data (Forecast Prices and Costs)" for information relating to sensitivities relating to the possible impact of the NRF.

SIGNIFICANT ACQUISITIONS

Other than the Fairquest Arrangement and the 2007 Reorganization, Fairborne has not completed any significant acquisitions during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102. See "*General Development of the Business – Acquisition of Fairquest Energy Limited*" and "*General Development of the Business – The 2007 Reorganization – Transformation to a Corporation*".

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Business Plans and Growth Strategies

The business plan of Fairborne is to create sustainable and profitable per share growth in reserves, production and cash flow in the oil and gas industry in Western Canada. To accomplish this, Fairborne has pursued and will continue to pursue an integrated growth strategy with active development and exploration drilling, together with focused acquisitions. Fairborne will continue to target areas and prospects that it believes could result in meaningful reserve and production additions.

Fairborne will continue to pursue internal and external generation of exploration plays that have low to medium risk and multi-zone potential. Fairborne intends to maintain a balance between exploration, exploitation and development drilling largely targeting natural gas reserves over the course of the next several years. Management of Fairborne considers asset and corporate acquisition opportunities from time to time that meet Fairborne's business parameters.

Management of Fairborne has industry experience in producing areas in western Canada in addition to its current geographic areas of interest and has the capability to expand the scope of Fairborne's activities as opportunities arise.

In reviewing potential drilling or acquisition opportunities, Fairborne gives consideration to the following criteria:

- the company's technical expertise in the opportunity;
- the amount of risk capital required to secure or evaluate the investment opportunity;
- the potential return on the project, if successful;
- the likelihood of success; and
- risked return versus cost of capital.

In general, Fairborne intends to continue its pursuit of a portfolio approach in developing a large number of opportunities with a balance of risk profiles and commodity exposure in an attempt to generate sustainable high levels of growth.

The board of directors of Fairborne may, in its discretion, approve asset or corporate acquisitions or investments that do not conform to the guidelines discussed above based upon the board's consideration of the qualitative aspects of the subject properties, including risk profile, technical upside, reserve life and asset quality.

Fairborne's management team has a demonstrated track record of bringing together all of the key components to a successful intermediate exploration and production company: strong technical skills; expertise in planning and financial controls; ability to execute on business development opportunities; and an entrepreneurial spirit that will allow Fairborne to effectively identify, evaluate and execute on value added initiatives.

Competitive Conditions

The oil and natural gas industry is intensely competitive in all its phases. Fairborne competes with numerous other participants in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and

natural gas. Fairborne's competitors include resource companies which have greater financial resources, staff and facilities than those of Fairborne. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery. Fairborne believes that its competitive position is equivalent to that of other oil and gas issuers of similar size and at a similar stage of development.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and gas information set forth below (the "**Statement**") is dated March 12, 2008. The effective date of the Statement is December 31, 2007 and the preparation date of the Statement is March 3, 2008.

Disclosure of Reserves Data

The reserves data set forth below (the "**Reserves Data**") is based upon evaluations by GLJ and Sproule with an effective date of December 31, 2007 contained in the Fairborne Reserve Report. The Reserves Data summarizes our crude oil, natural gas liquids and natural gas reserves and the net present values of future net revenue for these reserves using forecast prices and costs. The Reserves Data conforms with the requirements of NI 51-101. We engaged GLJ and Sproule to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves. The Sproule Report evaluates all of our coal bed methane reserves as well as certain conventional oil and natural gas reserves in the Bashaw, Clive, Erskine/Nevis, Haynes and Woodriver areas of Alberta. The GLJ Report evaluates the balance of our properties. All of our reserves are in Canada and, specifically, in the provinces of Alberta and Saskatchewan.

The Report of Management and Directors on Oil and Gas Disclosure in Form 51-101F3 and the Report on Reserves Data by our independent qualified reserves evaluators in Form 51-101F2 are attached as Schedule "A" and Schedule "B" respectively, hereto.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The recovery and reserve estimates of the crude oil, natural gas liquids and natural gas reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas and natural gas liquid reserves may be greater than or less than the estimates provided herein.

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2007 FORECAST PRICES AND COSTS

RESERVES CATEGORY	RESERVES									
	LIGHT AND MEDIUM OIL		HEAVY OIL		CONVENTIONAL NATURAL GAS		COAL BED METHANE		NATURAL GAS LIQUIDS	
	Gross (Mbbls)	Net (Mbbls)	Gross (Mbbls)	Net (Mbbls)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbls)	Net (Mbbls)
PROVED										
Developed Producing	3,574	3,093	16	14	65,323	50,312	18,318	15,968	1,850	1260
Developed Non-Producing	273	242	0	0	7,882	6,153	530	443	338	233
Undeveloped	962	826	376	327	26,971	21,573	16,408	14,103	1,529	1,095
TOTAL PROVED	4,809	4,161	393	341	100,176	78,038	35,255	30,514	3,718	2,588
PROBABLE	1,982	1,714	260	221	73,298	58,228	11,724	10,258	2,808	1,898
TOTAL PROVED PLUS PROBABLE	6,791	5,875	652	563	173,474	136,266	46,980	40,772	6,525	4,486

NET PRESENT VALUES OF FUTURE NET REVENUE

RESERVES CATEGORY	BEFORE INCOME TAXES DISCOUNTED AT					AFTER INCOME TAXES DISCOUNTED AT (%/year)				
	(%/year)									
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
PROVED										
Developed Producing	614,504	497,788	423,664	371,900	333,424	614,050	497,062	423,584	371,863	333,406
Developed Non-Producing	64,471	49,011	39,152	32,430	27,601	50,730	40,178	33,184	28,234	24,555
Undeveloped	224,959	153,369	109,472	80,365	59,984	167,352	111,624	77,491	54,919	39,179
TOTAL PROVED	903,933	700,167	572,289	484,695	421,009	832,131	649,405	534,259	455,016	397,140
PROBABLE	591,340	350,156	236,455	171,894	130,945	441,961	260,349	174,915	126,456	95,751
TOTAL PROVED PLUS PROBABLE	1,495,273	1,050,324	808,744	656,589	551,954	1,274,092	909,753	709,174	581,472	492,891

**TOTAL FUTURE NET REVENUE
(UNDISCOUNTED)
AS OF DECEMBER 31, 2007
FORECAST PRICES AND COSTS
(\$000s)**

RESERVES CATEGORY	REVENUE	ROYALTIES	OPERATING COSTS	DEVELOPMENT COSTS	ABANDONMENT AND RECLAMATION COSTS	FUTURE NET REVENUE BEFORE INCOME TAXES	INCOME TAXES	FUTURE NET REVENUE AFTER INCOME TAXES
Proved Reserves	1,779,488	326,958	403,141	126,476	18,980	903,933	71,802	832,131
Proved Plus Probable Reserves	2,954,356	548,248	689,439	195,914	25,481	1,495,273	221,181	1,274,092

**FUTURE NET REVENUE
BY PRODUCTION GROUP
AS OF DECEMBER 31, 2007
FORECAST PRICES AND COSTS**

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (discounted at 10%/year) (\$000s)	Unit Value Before Income Tax Discounted at 10%/year (Units as noted)
Proved	Light and Medium Crude Oil (including solution gas and other by-products)	168,828	\$34.46 per Bbl
	Heavy Oil (including solution gas and other by-products)	721	\$2.11 per Bbl
	Natural Gas (including by-products but excluding solution gas from oil wells)	319,010	\$3.58 per Mcf
	Coal Bed Methane	83,730	\$2.74 per Mcf
Proved Plus Probable	Light and Medium Crude Oil (including solution gas and other by-products)	217,282	\$31.18 per Bbl
	Heavy Oil (including solution gas and other by-products)	2,622	\$4.66 per Bbl
	Natural Gas (including by-products but excluding solution gas from oil wells)	482,281	\$3.08 per Mcf
	Coal Bed Methane	106,559	\$2.61 per Mcf

Notes to Reserves Data Tables:

1. Columns may not add due to rounding.
2. The crude oil, natural gas liquids and natural gas reserve estimates presented in the Fairborne Reserve Report are based on the definitions and guidelines contained in the COGE Handbook. A summary of those definitions are set forth below.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on

- analysis of drilling, geological, geophysical and engineering data;
- the use of established technology; and
- specified economic conditions.

Reserves are classified according to the degree of certainty associated with the estimates.

- (a) **Proved reserves** are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) **Probable reserves** are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

Other criteria that must also be met for the categorization of reserves are provided in the COGE Handbook.

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (c) **Developed reserves** are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing.
 - (i) **Developed producing reserves** are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
 - (ii) **Developed non-producing reserves** are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (d) **Undeveloped reserves** are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

Additional clarification of certainty levels associated with reserves estimates and the effect of aggregation is provided in the COGE Handbook.

3. Forecast Prices and Costs

Forecast prices and costs are those:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which we are legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast cost and price assumptions assume increases in wellhead selling prices and take into account inflation with respect to future operating and capital costs. Crude oil and natural gas benchmark reference pricing, inflation and exchange rates utilized by GLJ and Sproule in the Fairborne Reserve Report were GLJ's forecasts as at January 1, 2008, which were as follows:

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS FORECAST PRICES AND COSTS

OIL

Year	WTI	Edmonton	Hardisty	Cromer	NATURAL GAS			Edmonton	INFLATION RATES ⁽¹⁾ %/Year	EXCHANGE RATE ⁽²⁾ (\$US/\$Cdn)
	Cushing Oklahoma (\$US/Bbl)	Par Price 40° API (\$Cdn/Bbl)	Heavy 12° API (\$Cdn/Bbl)	Medium 29.3° API (\$Cdn/Bbl)	AECO Gas Price (\$Cdn/MMBtu)	Edmonton Propane (\$Cdn/Bbl)	Edmonton Butane (\$Cdn/Bbl)	Pentanes Plus (\$Cdn/Bbl)		
Forecast										
2008	92.00	91.10	54.02	79.26	6.75	58.30	72.88	92.92	2.0	1.000
2009	88.00	87.10	51.61	75.78	7.55	55.74	69.68	88.84	2.0	1.000
2010	84.00	83.10	49.19	72.30	7.60	53.18	66.48	84.76	2.0	1.000
2011	82.00	81.10	47.98	70.56	7.60	51.90	64.88	82.72	2.0	1.000
2012	82.00	81.10	47.98	70.56	7.60	51.90	64.88	82.72	2.0	1.000
2013	82.00	81.10	49.04	70.56	7.60	51.90	64.88	82.72	2.0	1.000
2014	82.00	81.10	50.09	70.56	7.80	51.90	64.88	82.72	2.0	1.000
2015	82.00	81.10	51.15	70.56	7.97	51.90	64.88	82.72	2.0	1.000
2016	82.02	81.12	52.21	70.57	8.14	51.91	64.89	82.74	2.0	1.000
2017	83.66	82.76	53.29	72.00	8.31	52.97	66.21	84.42	2.0	1.000
Thereafter	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	Escalate at 2.0% per year			2.0	1.000

Notes:

- (1) Inflation rates for forecasting prices and costs.
 (2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average historical prices realized by us for the year ended December 31, 2007, were \$7.16/Mcf for natural gas, \$73.57/Bbl for crude oil and \$47.64/Bbl for natural gas liquids.

4. Estimated future abandonment costs related to a property have been taken into account by GLJ and Sproule in determining reserves that should be attributed to a property and in determining the aggregate future net revenue therefrom, there was deducted the reasonable estimated future well abandonment costs. No allowance was made, however, for reclamation of wellsites or the abandonment and reclamation of any facilities.
5. The forecast price and cost assumptions assume the continuance of current laws and regulations.
6. The extent and character of all factual data supplied to GLJ and Sproule were accepted by GLJ and Sproule as represented. No field inspection was conducted.
7. Net present values reflected in the above tables have been determined under the existing Alberta royalty regime as the NRF has not yet been enacted.
8. Sensitivity to the New Alberta Royalty Framework

Corporate total economic forecasts were rerun to examine the impact of the NRF. The government has not yet clarified certain aspects of the new royalty calculations. Accordingly, high and low sensitivities to the NRF were conducted using the Consultant's Consensus Methodology recommended by the Society of Petroleum Evaluation Engineers, Calgary Chapter. The "NRF High" scenario represents a more optimistic or high value sensitivity of the NRF impact, and the "NRF Low" scenario represents the low value sensitivity. The following table summarizes the potential impact of the NRF. The government has stated its intention to consult with industry and review the NRF for unintended consequences. The following analysis does not take into account any potential changes to the NRF prior to its implementation that may result from such consultations. Fairborne will continue to monitor government announcements and proposed revisions as they become available.

POTENTIAL IMPACT OF THE NEW ALBERTA ROYALTY FRAMEWORK

	<u>NRF Low (percent change)</u>	<u>NRF High (percent change)</u>
Proved plus Probable Reserves		
Gross	0%	0%
Net	-3%	0%
Net Present Value of Future Net Revenue before income tax deducted discounted at 10%/year (total proved plus probable)	-6%	-3%

Reconciliation of Changes in Reserves

The following table sets out the reconciliation of our gross reserves as at December 31, 2006 compared to December 31, 2007 based on forecast prices and costs by principal product type:

FACTORS	LIGHT AND MEDIUM OIL			HEAVY OIL			ASSOCIATED AND NON-ASSOCIATED GAS		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcft)	Gross Probable (MMcft)	Gross Proved Plus Probable (MMcft)
December 31, 2006	5,128	2,148	7,276	407	288	695	70,361	46,196	116,557
Extensions and Improved Recovery	194	(14)	180	-	-	-	14,954	5,954	20,908
Technical Revisions	138	(293)	(156)	11	(29)	(18)	(4,243)	(7,907)	(12,150)
Discoveries	2	1	3	-	-	-	4,006	4,120	8,126
Acquisitions	382	295	677	-	-	-	31,744	26,044	57,788
Dispositions	(153)	(154)	(307)	-	-	-	(598)	(1,095)	(1,693)
Economic Factors	(2)	-	(2)	-	-	-	148	(14)	134
Production	(880)	-	(880)	(25)	-	(25)	(16,196)	-	(16,196)
December 31, 2007	4,809	1,982	6,791	393	260	652	100,176	73,298	173,474

FACTORS	NATURAL GAS LIQUIDS			COAL BED METHANE		
	Gross Proved (Mbbbl)	Gross Probable (Mbbbl)	Gross Proved Plus Probable (Mbbbl)	Gross Proved (MMcft)	Gross Probable (MMcft)	Gross Proved Plus Probable (MMcft)
December 31, 2006	1,512	1,022	2,533	34,211	14,671	48,883
Extensions and Improved Recovery	858	654	1,512	2,010	2,534	4,544
Technical Revisions	293	184	477	1,805	(5,638)	(3,833)
Discoveries	44	37	81	-	-	-
Acquisitions	1,191	912	2,103	204	46	250
Dispositions	(1)	-	(1)	-	-	-
Economic Factors	-	(1)	(1)	138	111	249
Production	(179)	-	(179)	(3,113)	-	(3,113)
December 31, 2007	3,718	2,807	6,525	35,255	11,724	46,980

Notes:

- (1) Gross Reserves in the tables above are the Corporation's interest share before deduction of royalties and without including any royalty interests of the Corporation.

Additional Information Relating to Reserves Data**Undeveloped Reserves**

The following tables set forth the proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to Fairborne's assets for the years ended December 31, 2007, 2006 and 2005 and, in the aggregate, before that time based on forecast prices and costs.

Company Gross Reserves First Attributed By Year

Product Type	Units	Prior	2005	2006	2007	Total
Proved Undeveloped						
Light & Medium Oil	Mbbl	212	750	0	0	962
Heavy Oil	Mbbl	0	376	0	0	376
Natural Gas	MMcf	599	4,376	9,119	12,876	26,971
Natural Gas Liquids	Mbbl	12	217	558	743	1,529
Coalbed Methane	MMcf	5,550	4,506	4,771	1,582	16,408
Total: Oil Equivalent	Mbbl	1,249	2,823	2,873	3,153	10,097
Probable Undeveloped						
Light & Medium Oil	Mbbl	114	780	0	0	894
Heavy Oil	Mbbl	0	259	0	0	259
Natural Gas	MMcf	536	13,618	11,869	17,873	43,896
Natural Gas Liquids	Mbbl	29	706	429	704	1,869
Coalbed Methane	MMcf	2,362	506	583	1,919	5,369
Total: Oil Equivalent	Mbbl	626	4,099	2,504	4,003	11,233

Proved and probable undeveloped reserves have been estimated in accordance with procedures and standards contained in the COGE Handbook. The majority of undeveloped reserves are scheduled to be developed within the next two years. Fairborne has areas where multiple zones have been assigned reserves in a well. Once the producing zones are depleted, capital will be spent recompleting the well in another zone. Some of these expenditures are planned to occur in 2009 and beyond, the timing dictated by the predicted reserve life for the currently producing zones. A significant capital program is required for new wells in our coal bed methane and Columbia/Harlech areas. For these areas we plan to develop proved and probable undeveloped reserves over a period of four years. This phasing will allow us to optimize capital allocation and facility utilization. A number of factors that could result in delayed or cancelled development are as follows:

- changing economic conditions (due to pricing, operating and capital expenditure fluctuations);
- changing technical conditions (production anomalies (such as water breakthrough, accelerated depletion));
- multi-zone developments (such as a prospective formation completion may be delayed until the initial completion is no longer economic);
- a larger development program may need to be spread out over several years to optimize capital allocation and facility utilization; and
- surface access issues (landowners, weather conditions, regulatory approvals).

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions. Revisions to reserve

estimates can arise from changes in year end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

While we do not anticipate any significant economic factors or significant uncertainties will affect any particular components of the reserves data, the reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond our control (see "*Risk Factors*").

Future Development Costs

The following table sets forth development costs deducted in the estimation of our future net revenue attributable to the reserve categories noted below (\$000s):

Year	Forecast Prices and Costs	
	Proved Reserves (\$000s)	Proved Plus Probable Reserves (\$000s)
2008	41,559	66,159
2009	38,543	66,794
2010	44,606	55,191
2011	531	4,455
2012	654	914
Thereafter	583	2,401
Total: Undiscounted	126,476	195,914

We expect that the capital listed in the preceding table will be funded through internally generated cash flows and will not have any associated funding costs. Therefore, the capital commitments will not affect the disclosed reserves of future net revenue.

Other Oil and Gas Information

Principal Properties

The following is a description of our principal oil and natural gas properties as at December 31, 2007. Unless otherwise indicated, production stated is average production for 2007 received in respect of our working interest share before deduction of royalties. Unless otherwise specified, gross and net acres and well count information is as at December 31, 2007.

Clive

Fairborne's interest in the Clive area, located approximately 50 kilometers northeast of Red Deer, Alberta, includes conventional crude oil and natural gas production from reservoirs developed in Devonian aged Nisku and Leduc reefs, as well as, sandstone reservoirs in the Belly River Formation. In addition, Fairborne has developed an extensive CBM project at Clive, which targets sweet gas from coal reservoirs within the Cretaceous Horseshoe Canyon Formation. Fairborne's land position in Clive includes 63,179 gross (47,103 net) acres of land, with approximately 28% of net acres currently undeveloped.

Clive (Units and Non-Unit Wells)

Fairborne's position in the conventional oil and natural gas production at Clive includes a working interest in the Clive Leduc (D3) Unit #1 and the Clive Nisku (D2) Unit #1 as well as non-unitized wells. Fairborne operates both units with a 93.9% and 98.9% unit interest respectively. All oil and gas is initially processed at an operated facility in the immediate vicinity, with gas then transported to the Nevis Gas plant (operated by Duke) for further processing and natural gas liquids recovery. In April 2007 Fairborne signed a letter of intent with a third party producer to investigate and potentially develop a CO2 flood in the Clive D2 and D3 units. The combined original oil in place of these two carbonate reservoirs was 122 million barrels of 38° API oil (EUB ST98 – 2006 Report), and have, to date, produced 70 million barrels. Preliminary reservoir modeling and simulation indicate 10% to 20% incremental recovery from these reservoirs is possible. In 2007, conventional oil and gas production from Clive averaged 5,280 Mcf/d of natural gas and 605 Bbls/d of oil and NGLs.

Clive Coal Bed Methane (CBM)

Since its initial drilling program in 2003, Fairborne has developed an extensive CBM resource on its Clive property by drilling and recompleting 148 well bores. In 2007 Fairborne drilled 38 (28.0 net) wells with a 100% success rate. Average net daily CBM production from this area in 2007 was 8,658 Mcf/d (1,440 Boe/d) of natural gas produced from the Horseshoe Canyon formation.

In 2008 Fairborne plans to drill approximately 58 (44.7 net) wells. Long term development plans for CBM at Clive involve drilling four wells per square mile for a minimum of 200 wells in the fully developed model with an initial well average production rate, for wells developed to date, of 130 Mcf/d per well. Current CBM wells decline at rates of 8% to 12% and therefore are expected to have the effect of lessening the overall corporate decline rate for the next two to three years as CBM accounts for a higher and higher percentage of Fairborne's total production. The current reserve life index of Fairborne's CBM production at Clive is over 14 years.

Columbia/Harlech

The Columbia/Harlech property is located in the outer foothills trend of west central Alberta. The property is characterized by numerous stacked reservoir horizons located at depths ranging from 2,500 to 3,500 metres. The sedimentary section in this trend is commonly overpressured and contains condensate rich natural gas reservoirs in numerous stratigraphic and structural traps. Additionally, the shallower part of the section is made up of thick fluvial sandstone deposits at depths between 1,300 and 2,000 metres that contain both light oil and sweet natural gas accumulations.

Fairborne acquired the Columbia/Harlech undeveloped land base (approximately 37,000 gross acres) in 2004 through an asset sale from BP Canada. A comprehensive exploration and development program implemented by Fairborne over the past 3 years has grown the property from less than 100 Boe/d at the time of acquisition, to 2007 average daily production of 2,218 Boe/d including 9,144 Mcf/d and 694 Bbls/d in associated NGLs.

Over the past year Fairborne expanded its pipeline infrastructure in the area by constructing a significant pipeline crossing under the Brazeau River. This crossing allowed for the tie in and gathering of natural gas and associated condensates from new hydrocarbon pools discovered by Fairborne in 2007. In addition, Fairborne expanded its centralized compression facilities located at 16-36-44-14W5 from 18 MMcf/d to 25 MMcf/d throughput to handle increased production rates from these new pools.

Fairborne's extensive 3D seismic coverage and proprietary reservoir knowledge in the area has allowed it to progressively move from an exploratory phase of drilling to a lower risk development program of pool delineation and field development. Fairborne plans to drill 12 (8 net) wells in 2008 which will target a combination of Belly River oil bearing reservoirs and condensate rich natural gas accumulations in Cardium, Viking, Mannville and Jurassic Group reservoirs. Additionally, Fairborne plans on recompleting 4 (2.7 net) existing wellbores within the field area to capture bypass Cretaceous and Jurassic gas located proximal to existing company operated infrastructure.

Finally, several new unconventional resource plays will be pursued in the Columbia/Harlech area in 2008. The first play type is a fractured Second White Specks gas shale resource which will be tested in several cased wells proximal to Fairborne pipelines. The second play type occurs within the Fernie Group at the Nordegg level. Fairborne has commenced a pilot project on two wells which are currently producing gas from fractured Nordegg shales and sandstones. Additionally, Fairborne is in the planning stages of selecting a location to exploit this Nordegg gas resource using horizontal and staged fracture stimulation methods.

Brazeau – Belly River Oil

The Brazeau operating area is located in west central Alberta, approximately 160 kilometres southwest of Edmonton. Fairborne pursues two main play types in this area: Nisku sour gas reef traps and sweet oil and gas charged Belly River Formation fluvial sandstones. Fairborne's primary goal for 2008 is to pursue oil and gas opportunities within the Belly River section at Brazeau. Fairborne has an 87.7% working interest in the Brazeau Belly River Unit #6 (the "**Brazeau Unit**") as well as various non-unitized wells in close proximity to the Brazeau Unit. The Brazeau Unit is one of the deepest Belly River oil fields in the basin and represents a 500 m thick section of stacked fluvial traps with oil and gas reservoirs at various levels through the section. Average daily production from this area in 2007 was 860 Boe/d including 1,615 Mcf/d of natural gas and 591 Bbls/d of oil and NGLs.

Fairborne has recently acquired a 3D seismic survey over the Brazeau Unit. As operator of the Brazeau Unit, Fairborne currently plans to drill 11 (9.8 net) wells in 2008 which will target various oil bearing sands in the Belly River and Edmonton Group. In addition to the drilling program, recompletions to other potential zones in the Belly River are being planned for 8 (6.8 net) wells.

Deep Basin

The Deep Basin area, located approximately 250 kilometers west of Edmonton, between Hinton and Grand Prairie, Alberta, began as a higher reward/higher risk exploration area for Fairborne in 2004 and has been an active growth area since. Fairborne made a new pool discovery in the Wild River area with a well drilled in early 2004 and followed up this discovery with two additional deep wells in 2005. In addition to Wild River, Fairborne has a large presence in the area with land it acquired in early 2004 from an acquisition completed with a major oil and gas producer. Since completing this acquisition, Fairborne has been very active in the area drilling both Cretaceous and deep Devonian targets. A recent well at Peppers 16-16 resulted in a new pool Devonian discovery in December 2007. A new pool wildcat was recently spud at 13-10 offsetting this discovery and is targeting multiple horizons within the Devonian section. Average daily production from this area in 2007 was 2,385 Boe/d including 14,126 Mcf/d natural gas and 31 Bbls/d in associated NGLs.

In 2008, Fairborne plans to drill between twelve and fourteen (5.5 and 6.3 net) wells and recomplete an additional two to three (1.0 to 1.5 net) wells. The Deep Basin is characterized by multi zone potential in the deep wellbores. Wells in the area are typically in excess of 2,750 metres and up to 5,000 metres in depth and as such have several Cretaceous formations as well as multi zone prospectivity in the deep Devonian portions of the stratigraphic section that are capable of being productive.

Peace River Arch ("PRA")

The Peace River Arch has been an integral part of Fairborne's portfolio. During 2007, Fairborne's average daily production was 1,022 Boe/d including 5,622 Mcf/d natural gas and 85 Bbls/d oil and associated liquids. The PRA comprises six different producing properties with Valhalla/Rycroft being the single largest producing property.

In early 2007 Fairborne entered into a farmout agreement with a third party to expedite the development of lands in the Gordondale area of the PRA. The agreement was comprised of both a drilling and an optimization commitment and, to date, the third party has drilled seven wells with a 100% success rate and recompleted or tied in an additional five wells. It is currently expected that the third party will have substantially completed its earning portion of the agreement by the first quarter of 2008, at which time earning will entitle them to drill additional wells in which Fairborne will participate, on previously earned lands.

In 2008, Fairborne plans to drill between three to five wells primarily targeting Upper Montney gas and oil. Horizontal wells and slick water fracture treatments are being considered as techniques for increasing initial well deliverability and obtaining better gas recoveries. Also, Fairborne will complete or re-complete an additional six to seven wells during 2008 primarily targeting Bluesky, Gething and Montney gas. In addition to these projects Fairborne plans to re-complete one existing well to a water disposal well that management believes will help in reducing operating costs as well as general third party disposal fees in an area that is in short supply of disposal capacity.

Pigeon Lake/Westerose

The Pigeon Lake/Westerose property, located approximately 40 kilometers south and west of the city of Edmonton, Alberta, offers a diverse range of exploration and development opportunities. In 2007 Fairborne drilled one (0.5 net) successful well and recompleted an additional three (2.5 net) wells in either the Wabamun (sour gas) or the Glauconite (sweet gas) formations. Average daily production from this area in 2007 was 387 Boe/d including 1,708 Mcf/d natural gas and 103 Bbls/d in associated NGLs. In 2008, Fairborne plans to drill a 100% working interest 3D seismic defined Leduc pinnacle reef oil prospect on its land as well recomplete an additional two to three wells in the Glauconite zone.

Minor Properties

In addition to the foregoing, Fairborne has an interest in other minor properties that contributed, in aggregate, 1,986 Boe/d of production in 2007.

Oil and Gas Wells

The following table sets forth the number and status of wells in which we have a working interest as at December 31, 2007.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	272	192.1	70	53.5	397	267.6	99	53.8
Saskatchewan	55	29.9	2	0.5	-	-	-	-
Total	327	222.0	72	54.0	397	267.6	99	53.8

Properties with No Attributed Reserves

The following table sets out our developed and undeveloped land holdings as at December 31, 2007.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	185,471	114,358	301,101	198,304	486,572	312,662
British Columbia	673	96	2,665	258	3,338	354
Saskatchewan	3,139	1,955	2,312	782	5,451	2,737
United States	-	-	54,595	30,589	54,595	30,589
Total	189,283	116,409	360,673	229,933	549,956	346,342

We expect that rights to explore, develop and exploit 19,615 net acres of our undeveloped land holdings may expire by December 31, 2008. We plan to drill or submit application to continue selected portions of the above acreage.

Forward Contracts and Marketing

Our crude oil and natural gas production is currently sold directly to credit-worthy counterparties, with the exception of small quantities of non-operated properties which are marketed by the operator.

We periodically hedge the price on a portion of our crude oil and natural gas production. During 2007, our realized price for crude oil and NGLs was increased by \$2.64 per barrel in the first quarter, increased by \$1.46 per barrel in the second quarter, reduced by \$0.84 per barrel in the third quarter and decreased by \$0.32 per barrel in the fourth quarter as we hedged an average of 34 percent of total crude oil production during the twelve months ended December 31, 2007.

The prices received for natural gas were increased by \$0.96 per Mcf in the first quarter, increased by \$0.32 per Mcf in the second quarter, increased by \$0.76 per Mcf in the third quarter and increased by \$0.63 per Mcf in the fourth quarter as we hedged an average of 41 percent of total natural gas production during the twelve months ended December 31, 2007.

The following crude oil fixed price physical contracts were outstanding at December 31, 2007:

Remaining Term	Volume (Bbls/d)	Price (US\$ per Bbl)	Type	Settlement Index
Jan. 1 - Mar 31, 2008	500	70.70	Swap	WTI
Apr. 1 - Jun 31, 2008	500	70.55	Swap	WTI
Jan. 1 - Jun 30, 2008	500	70.00 - 75.60	Collar	WTI
Jul. 1 - Dec. 31, 2008	500	70.00 - 74.00	Collar	WTI

The following natural gas fixed price physical contracts were outstanding at December 31, 2007:

Remaining Term	Volume (GJ per day)	Price (CDN\$ per GJ)	Type	Settlement Index
Jan. 1 – Mar.31, 2008	3,000	8.00 – 10.00	AECO Collar	AECO C Daily
Jan. 1 – Mar.31, 2008	1,000	8.00 – 10.00	AECO Collar	AECO C Daily
Jan. 1 – Mar.31, 2008	2,000	8.00 – 10.45	AECO Collar	AECO C Daily
Jan. 1 – Mar.31, 2008	1,500	8.25	AECO Swap	AECO C Monthly
Jan. 1 – Mar.31, 2008	2,500	8.71	AECO Swap	AECO C Monthly
Jan. 1 – Mar.31, 2008	1,500	9.00	AECO Swap	AECO C Monthly
Jan. 1 – Mar.31, 2008	1,500	9.27	AECO Swap	AECO C Monthly
Jan. 1 – Dec.31, 2008	1,000	7.53	AECO Swap	AECO C Monthly
Jan. 1 – Dec.31, 2008	1,500	6.52	AECO Swap	AECO C Monthly
Jan. 1 – Dec.31, 2008	2,638	7.015	AECO Swap	AECO C Monthly

Remaining Term	Volume (mmbtu per day)	Price (US\$ per mmbtu)	Type	Settlement Index
Apr. 1 – Jun. 30, 2008	5,000	NYMEX-US\$0.845	Swap	NYMEX LD
Jul. 1 – Sep. 30, 2008	5,000	NYMEX-US\$0.845	Swap	NYMEX LD

Additional Information Concerning Abandonment and Reclamation Costs

We use our internal historical costs to estimate our abandonment and reclamation costs when available. The costs are estimated on an area by area basis. The industry's historical costs are used when available. If representative comparisons are not readily available, an estimate is prepared based on the various regulatory abandonment requirements. We currently have 597.4 net wells for which we expect to incur abandonment and reclamation costs.

The total abandonment cost in respect of proved reserves using forecast prices is \$19.0 million (undiscounted) and \$8.3 million (discounted at 10%). 100% of such amounts were deducted as abandonment costs in estimating our future net revenue as disclosed above.

The following table sets forth the abandonment costs deducted in the estimation of our future net revenue:

Forecast Prices and Costs (Total Proved) (\$000s)	
Year	Abandonment Costs (Undiscounted)
2008	426
2009	375
2010	1,764
Thereafter	16,415
Total Undiscounted	18,980
Total Discounted @ 10%	8,293

Tax Horizon

The Corporation was not required to pay any cash income taxes for the period ended December 31, 2007. Based on current estimates of the Corporation's future taxable income and levels of tax deductible expenditures, management believes that the Corporation will not be required to pay cash income taxes until 2009 or later.

Capital Expenditures

The following table summarizes capital expenditures related to our assets and activities for the year ended December 31, 2007:

	\$000s
Property acquisition costs	
Proved properties	19,330
Undeveloped properties	2,945
Exploration costs	11,090
Development costs	57,924
Dispositions	(3,295)
Corporate Acquisition - Fairquest	221,426
Corporate Assets	-
Total	<u>309,420</u>

Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells associated with our assets in which Fairborne participated during the year ended December 31, 2007. This table does not include wells drilled in Fairquest prior to its acquisition by Fairborne on June 4, 2007.

	<u>Exploratory Wells</u>		<u>Development Wells</u>	
	<u>Gross</u>	<u>Net</u>	<u>Gross</u>	<u>Net</u>
Light and Medium Oil	-	-	1	1.0
Heavy Oil	-	-	-	-
Natural Gas	9	3.7	11	6.0
Coal Bed Methane	-	-	40	28.0
Service	-	-	-	-
Dry	-	-	1	0.4
Total	<u>9</u>	<u>3.7</u>	<u>53</u>	<u>35.4</u>

For details on the important current and likely exploration and development activities during 2008, see "Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Principal Properties".

Production Estimates

The following tables sets out the volume of our production estimated for the year ended December 31, 2008, which is reflected in the estimate of gross proved reserves and gross probable reserves disclosed in the tables contained under "Disclosure of Reserves Data" above.

<u>Reserves Category</u>	<u>Light And Medium Oil</u>		<u>Heavy Oil</u>		<u>Conventional Natural Gas</u>		<u>Coal Bed Methane</u>		<u>Natural Gas Liquids</u>		<u>Total</u>	
	<u>Gross (Bbls/d)</u>	<u>Net (Bbls/d)</u>	<u>Gross (Bbls/d)</u>	<u>Net (Bbls/d)</u>	<u>Gross (Mcf/d)</u>	<u>Net (Mcf/d)</u>	<u>Gross (Mcf/d)</u>	<u>Net (Mcf/d)</u>	<u>Gross (Bbls/d)</u>	<u>Net (Bbls/d)</u>	<u>Gross (BOE/d)</u>	<u>Net (BOE/d)</u>
PROVED												
Columbia/Harlech	140	100	-	-	12,258	9,754	-	-	787	606	2,970	2,332
Other Properties	1,704	1,457	45	40	33,374	24,194	11,652	9,859	434	287	9,687	7,459
TOTAL PROVED	1,844	1,557	45	40	45,632	33,948	11,652	9,859	1,222	894	12,658	9,791
PROVED PLUS PROBABLE												
Columbia/Harlech	141	101	-	-	14,778	11,919	-	-	951	744	3,555	2,831
Other Properties	1,745	1,489	47	42	37,035	26,773	11,753	9,941	459	292	10,382	7,941
TOTAL PROVED PLUS PROBABLE	1,886	1,590	47	42	51,813	38,692	11,753	9,941	1,410	1,035	13,937	10,772

No other individual property accounts for more than 20% of the estimated production disclosed.

Production History

The following tables summarize certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback associated with our assets for the periods indicated below:

	2007			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Daily Production⁽¹⁾				
Light and Medium Crude Oil (Bbls/d)	2,527	2,549	2,232	2,288
Heavy Oil (Bbls/d)	88	51	72	107
Conventional Gas (Mcf/d)	48,198	50,144	40,652	37,764
Coal Bed Methane (Mcf/d)	10,997	8,291	8,031	7,302
NGLs (Bbls/d)	524	581	449	402
Combined (BOE/d)	13,005	12,921	10,867	10,308
Average Price Received				
Light and Medium Crude Oil (\$/Bbl)	83.10	77.57	70.85	65.56
Heavy Oil (\$/Bbls)	41.43	52.39	39.60	35.59
Conventional Gas (\$/Mcf)	7.18	6.34	7.49	8.59
Coal Bed Methane (\$/Mcf)	5.65	5.44	7.13	7.95
NGLs (\$/Bbls)	51.88	48.33	50.37	37.91
Combined (\$/BOE)	50.21	46.30	50.33	53.87
Royalties Paid				
Light and Medium Crude Oil (\$/Bbls)	15.75	11.23	11.23	12.07
Heavy Oil (\$/Bbls)	8.01	11.47	12.60	13.16
Conventional Gas (\$/Mcf)	0.58	1.22	1.55	1.55
Coal Bed Methane (\$/Mcf)	0.61	0.78	0.46	1.00
NGLs (\$/Bbls)	8.23	7.46	7.14	7.02
Combined (\$/BOE)	6.12	7.83	8.82	9.48
Transportation costs				
Light and Medium Crude Oil (\$/Bbls)	0.49	0.17	0.31	0.01
Heavy Oil (\$/Bbls)	-	-	-	-
Conventional Gas (\$/Mcf)	0.25	0.19	0.11	0.29
Coal Bed Methane (\$/Mcf)	-	-	-	-
NGLs (\$/Bbls)	-	-	-	-
Combined (\$/BOE)	1.00	0.77	0.47	1.08
Operating Expenses				
Light and Medium Crude Oil (\$/Bbls)	9.50	9.30	6.89	9.68
Heavy Oil (\$/Bbls)	54.99	5.86	20.82	12.91
Conventional Gas (\$/Mcf)	1.63	1.71	1.52	1.80
Coal Bed Methane (\$/Mcf)	0.49	0.20	0.70	0.95
NGLs (\$/Bbls)	8.70	6.95	6.10	9.24
Combined (\$/BOE)	9.02	8.94	8.01	9.90
Netback Received (\$/BOE)⁽²⁾				
Light and Medium Crude Oil (\$/Bbls)	57.48	56.87	52.54	43.80
Heavy Oil (\$/Bbls)	(21.56)	35.07	6.17	9.53
Conventional Gas (\$/Mcf)	4.87	3.34	4.36	5.05
Coal Bed Methane (\$/Mcf)	4.55	4.47	5.98	6.00
NGLs (\$/Bbls)	34.96	33.92	37.13	21.65
Combined (\$/BOE)	34.07	28.76	33.03	33.41

Notes:

- (1) Before deduction of royalties.
- (2) Netbacks are calculated by subtracting royalties, transportation costs and operating costs from revenues.

The following table indicates average daily gross production from important fields in respect of our assets for the year ended December 31, 2007:

	Light and Medium Crude Oil (Bbls/d)	Heavy Oil (Bbls/d)	Conventional Gas (Mcf/d)	Coal Bed Methane (Mcf/d)	NGLS (Bbls/d)	BOE (BOE/d)
Brazeau	515	-	1,615	-	76	860
West Pembina	86	-	3,500	-	30	700
Columbia/Harlech	498	-	9,144	-	196	2,218
Clive	572	-	8,658	5,280	33	2,928
Peace River Arch	73	-	5,622	-	12	1,022
Wild River	-	-	12,325	-	6	2,061
Wood River	71	-	1,151	-	17	280
Pigeon Lake/Westerose	18	-	1,708	-	85	387
Haynes	301	-	710	-	19	439
Basset Lake	29	-	1,215	-	-	232
Miscellaneous	15	-	1,971	-	16	358
Total Alberta	2,178	-	47,619	5,280	490	11,485
Weyburn	199	-	-	-	-	199
Miscellaneous	-	79	-	-	-	79
Total Saskatchewan	199	79	-	-	-	278
U.S.	23	-	-	-	-	23
Total	2,400	79	52,899	5,280	490	11,786

Crude oil production from our assets for the year ended December 31, 2007 was 97% light and medium quality crude oil (25° API or greater) and 3% heavy crude oil (less than 15° API).

For the twelve months ended December 31, 2007, approximately 69% of gross revenue from our assets was derived from natural gas production and 31% was derived from crude oil production.

DIVIDEND POLICY

Fairborne has not paid any dividends on the outstanding Common Shares. The Board of Directors of Fairborne will determine the actual timing, payment and amount of dividends, if any, that may be paid by Fairborne from time to time based upon, among other things, the cash flow, results of operations and financial conditions of Fairborne, the need for funds to finance ongoing operations and other business considerations as the Board of Directors of Fairborne considers relevant.

Distribution History

Prior to the completion of the 2007 Reorganization, the following cash distributions were paid by the Trust to Trust Unitholders for the periods indicated:

For the Month Ending	Cash Distribution Per Unit		
	2007	2006	2005
January	\$0.13	\$0.13	-
February	\$0.13	\$0.13	-
March	\$0.09	\$0.13	-
April	\$0.09	\$0.13	-
May	\$0.09	\$0.13	-
June	\$0.09	\$0.13	\$0.11
July	\$0.09	\$0.13	\$0.11
August	\$0.09	\$0.13	\$0.11
September	\$0.09	\$0.13	\$0.11
October	\$0.09	\$0.13	\$0.11
November	\$0.09	\$0.13	\$0.13
December	-	\$0.13	\$0.13

DESCRIPTION OF CAPITAL STRUCTURE

Fairborne is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to the securities of Fairborne.

Common Shares

Holders of Common Shares are entitled to one vote per share at meetings of shareholders of Fairborne, to receive dividends if, as and when declared by the board of directors of Fairborne and to receive pro rata the remaining property and assets of Fairborne upon its dissolution or winding-up, subject to the rights of shares having priority over the Common Shares.

Preferred Shares

Each series of preferred shares shall consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the board of directors of Fairborne prior to the issuance thereof. Holders of preferred shares, except as required by law, will not be entitled to vote at meetings of shareholders of Fairborne. With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or winding-up of Fairborne, whether voluntary or involuntary, the preferred shares are entitled to preference over the Common Shares and any other shares ranking junior to the preferred shares from time to time and may also be given such other preferences over the common shares and any other shares ranking junior to the preferred shares as may be determined at the time of creation of such series. At the date hereof, no series of preferred shares has been created.

MARKET FOR SECURITIES

The Common Shares and the Debentures are listed and posted for trading on the TSX under the symbols "FEL" and "FEL.DB", respectively.

The following sets forth trading information for the Common Shares as reported by the TSX for the period commencing with the date the Common Shares began trading on the TSX following completion of the 2007 Reorganization:

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<u>2007</u>			
December (24-31)	6.66	5.50	726,451
<u>2008</u>			
January	6.74	5.00	9,358,009
February	6.78	5.50	8,736,564
March (1-7)	7.88	6.40	8,582,169

The following sets forth trading information for the Trust Units of the Trust as reported by the TSX for the periods indicated prior to completion of the 2007 Reorganization:

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<u>2007</u>			
January	10.51	9.10	4,867,911
February	10.37	9.42	3,817,526
March.....	9.94	8.46	8,555,619
April.....	8.83	7.97	5,370,303
May	9.90	8.55	5,231,389
June.....	9.47	8.10	6,057,939
July.....	8.44	7.25	4,763,267

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
August.....	7.50	6.75	4,900,416
September.....	7.37	6.06	5,372,548
October.....	7.14	6.00	17,532,964
November.....	7.03	5.50	6,825,475
December (1-21)	6.09	5.20	10,574,452

The following sets forth trading information for the Debentures as reported by the TSX for the periods indicated:

<u>Period</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
<u>2007</u>			
January	96.74	93.61	78,010
February	97.99	94.51	37,610
March	96.99	91.00	100,070
April	96.00	93.02	50,060
May	99.00	95.75	27,500
June	98.50	94.00	14,770
July.....	97.95	95.26	13,330
August.....	97.80	90.00	23,620
September	94.00	86.01	14,060
October.....	97.00	92.40	15,920
November.....	97.25	92.90	14,810
December	98.00	92.90	13,810
<u>2008</u>			
January	99.00	87.00	19,270
February	97.00	90.00	10,540
March (1-7)	97.00	94.51	2,890

ESCROWED SECURITIES

There are no securities of the Corporation currently held in escrow.

DIRECTORS AND OFFICERS

The following table sets forth the name, age, municipality of residence, date first elected as a director of Fairborne where applicable and office held for each of the directors and officers of Fairborne together with their principal occupations during the last five years. The directors of Fairborne shall hold office until the next annual meeting of shareholders or until their respective successors have been duly elected or appointed.

<u>Name, Age and Municipality of Residence</u>	<u>Office Held</u>	<u>Date First Elected or Appointed as Director of Fairborne</u>	<u>Principal Occupation</u>
Richard A. Walls Calgary, Alberta Age: 58	Chairman and a Director	January 9, 2002	Chairman of Fairborne since May, 2005; President and Chief Executive Officer of Fairquest from May, 2005 to June, 2007; prior thereto, President and Chief Executive Officer of Fairborne from May 2002 to May 2005; prior thereto, special advisor to Duke Energy Field Services Canada Ltd. (" Duke Energy ") from May 2001 to January 2002; prior thereto, from April 1999 to May 2001 President and Chief Executive Officer of Canadian

Name, Age and Municipality of Residence	Office Held	Date First Elected or Appointed as Director of Fairborne	Principal Occupation
Steven R. VanSickle Calgary, Alberta Age: 43	President and Chief Executive Officer and a Director	May 30, 2005	Midstream Services Ltd. ("CMSL") (a private oil and natural gas midstream company); and prior thereto, from July 1993 to November 1998 President and Chief Executive Officer of Pan East Petroleum Corp. (" Pan East ") (a public oil and natural gas company).
Robert B. Hodgins ⁽¹⁾⁽²⁾⁽⁴⁾ Calgary, Alberta Age: 56	Director	May 30, 2005	President and Chief Executive Officer of Fairborne since May, 2005; prior thereto, Senior Vice-President, Exploration of Fairborne from May 2002 to May 2005; prior thereto, Vice-President, Business Development of Duke Energy from May 2001 to May 2002; prior thereto, Vice-President, Business Development of CMSL from April 1999 to May 2001; and prior thereto, Manager, Business Development of PanEast from January 1998 to November 1998.
Johannes J. Nieuwenburg ⁽²⁾⁽³⁾⁽⁴⁾ Calgary, Alberta Age: 52	Director	May 30, 2005	Private investor and corporate director since 2004; prior thereto, Chief Financial Officer of Pengrowth Energy Trust from 2002 to 2004; prior thereto from 1998 to 2002, Vice President and Treasurer of Canadian Pacific Limited; and prior thereto, Chief Financial Officer of TransCanada Pipelines Limited from 1993 to 1998 and held various other senior positions at TransCanada commencing in 1981.
Michael E.J. Phelps ⁽¹⁾⁽³⁾⁽⁴⁾ Vancouver, B.C. Age: 60	Lead Director	July 19, 2002	Private businessman and corporate director since 2001; prior thereto, President and Chief Executive Officer of Petromet Resources Limited from May, 1998 to May, 2001 and Executive Vice President and Chief Operating Officer thereof from March, 1998; prior thereto, Vice President, Asset Management of Norcen Energy Resources Limited from March, 1997 to March, 1998; and prior thereto, held various positions with Amoco Energy Group, North America from May, 1980 to March, 1997, with the last position being General Management, Business Development.
Carl J. Tricoli Houston, Texas Age: 52	Director	December 19, 2007	Chairman, Dornoch Capital Inc. (a private investment company); prior thereto, Chairman and Chief Executive Officer of Westcoast Energy Inc. until its merger with Duke Energy in 2002; from 2003 to 2005, Chair of the "Wise Persons Committee" – a Committee formed to review the structure of securities regulation in Canada.
Carl J. Tricoli Houston, Texas Age: 52	Director	December 19, 2007	Senior Managing Director of Denham Capital Management LP and its predecessor since August 2004; prior thereto President of GeosCapital LLC from January 2002 to August 2004; prior thereto Vice President at Enron Corporation from April 1999 to January 2002; prior thereto Managing Director at Koch Industries from September 1997 to April 1999; prior thereto President of Black Hawk Resources from August 1996 to September 1997; and prior thereto held various positions at NationsBank Capital Markets with the last position being Managing Director and Head of Energy Corporate Finance.

Name, Age and Municipality of Residence	Office Held	Date First Elected or Appointed as Director of Fairborne	Principal Occupation
Rodney D. Wimer ⁽¹⁾⁽²⁾⁽³⁾ Bend, Oregon Age: 58	Director	May 31, 2002	President, Mazama Capital Partners (a private investment firm) since January 2002; prior thereto, from March 2001 to January 2002, President, Commercial Power Division of Dynegy, Inc. and from January 1997 to March 2001, President and Chief Executive Officer of Dynegy Canada Inc.
David L. Summers Calgary, Alberta Age: 48	Chief Operating Officer	N/A	Chief Operating Officer of Fairborne since May, 2005; prior thereto, Vice-President, Operations and Chief Operating Officer of Fairborne from May 2002 to May 2005; prior thereto, Senior Vice-President of Commercial and Operations of Duke Energy from May 2001 until May 2002; prior thereto, Vice-President, Operations and Chief Operating Officer of CMSL from April 1999 to May 2001; and prior thereto, Vice-President, Operations of PanEast from October 1997 to November 1998 and Chief Operating Officer of PanEast from June 1998 to November 1998.
Aaron G. Grandberg Calgary, Alberta Age: 36	Chief Financial Officer	N/A	Chief Financial Officer of Fairborne since June 2005 and Vice-President, Finance of Fairborne from June 2005 to March 2007; prior thereto, Controller of NAL Oil & Gas Trust since December 1999; prior thereto, Manager of Financial Reporting for NAL Oil & Gas Trust; and prior thereto, Mr. Grandberg was employed for five years with a national accounting firm. Mr. Grandberg received his Chartered Accountant designation in 1997.
Scott Hadley Calgary, Alberta Age: 45	Vice-President, Exploration	N/A	Vice-President, Exploration of Fairborne since December 2007; prior thereto, Manager, Exploration of Fairborne Energy Trust since May 2007; prior thereto, Chief Geologist of Fairborne since May 2004; prior thereto, Senior Geologist of Fairborne since May 2002; prior thereto, Manager Exploration of Range Energy Inc. since July 1998; and prior thereto and from July 1997 Staff Petrophysicist for the Amoco Canada Exploration and Production Technology Group.
David E.T. Pyke Calgary, Alberta Age: 53	Vice-President, Land	N/A	Vice-President, Land of Fairborne since July 2003; prior thereto, Vice-President Land of Pivotal since January 2003 and prior thereto Vice-President, Land and Contracts of Cigar Oil & Gas Ltd., a predecessor of Pivotal from January 1999; prior thereto and from October 1998, businessman; prior thereto and from August 1997, Vice President Land and Contracts of Barrington Petroleum Ltd. (a public oil and natural gas company); and prior thereto and from April 1996, Vice President Business Development of AEC Oil & Gas Ltd. (a public oil and natural gas company).
Gary M. Poirier Calgary, Alberta Age: 45	Vice-President, Production	N/A	Vice-President, Operations of Fairborne since August 2004; prior thereto, Manager of Operations and Engineering of Fairborne since May 2002; prior thereto and from August 2000, Operations Manager at Dominion Energy Canada Ltd.; and prior thereto and from March 1997, Business Unit Manager for the Yellowhead and Eastern business units of Mobil Oil Canada.

Name, Age and Municipality of Residence	Office Held	Date First Elected or Appointed as Director of Fairborne	Principal Occupation
David S. Cymbalisky Calgary, Alberta Age: 43	Vice-President, Engineering	N/A	Vice-President, Engineering of Fairborne since August, 2004; prior thereto Manager of Drilling and Completions of Fairborne since October 2003; prior thereto and since August 2002, Vice-President, Engineering and Chief Environmental Safety Officer of Pivotal; and prior thereto and since September 2001, President of Pan Ridge Oil Corp., a private oil and gas company; and prior thereto and from December 1998, Vice-President, Operations at Ionic Energy Inc.
F. Tom Park Calgary, Alberta Age: 38	Vice-President, Marketing	N/A	Vice-President, Marketing of Fairborne since March 2005; prior thereto Director, Producer Origination & Financial Products of BP Canada Energy Company from March 2001; and prior thereto and from December 1998, Supervisor, Gas Supply & Operations, Berkley Petroleum Corp.
Jacqueline M. Cugnet⁽⁶⁾ Calgary, Alberta Age: 39	Vice-President, Finance	N/A	Vice-President, Finance of Fairborne since March 2007; prior thereto Manager of Taxation and Special Projects of Fairborne from September 2004; prior thereto Vice-President, Finance and Chief Financial Officer of Qwesterre Energy Corp., from August 2003; and prior thereto and from June 2002, Vice-President, Finance and Chief Financial Officer of Pivotal; prior thereto and from January 2000 financial consultant; and prior thereto and since August 1994, Controller, Summit Resources Ltd.
C. Steven Cohen Calgary, Alberta Age: 52	Secretary	N/A	Partner with Burnet, Duckworth & Palmer LLP (barristers and solicitors)

Notes:

- (1) Member of Audit Committee.
- (2) Member of Reserves Committee.
- (3) Member of Compensation Committee.
- (4) Member of Corporate Governance Committee.
- (5) The term of office of all directors will expire on the date of the next annual meeting of holders of Common Shares.
- (6) Ms. Cugnet was Vice-President, Finance and Chief Financial Officer of Qwesterre Energy Corporation ("**Qwesterre**") in 2003 when Qwesterre made a proposal under the Company Creditors' Arrangement Act (Canada) to settle outstanding liabilities, which proposal received court and creditor approval and was implemented.

As at March 3, 2008, the directors and officers of Fairborne, as a group, beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 7,999,951 Common Shares, representing approximately 9.5% of the issued and outstanding Common Shares.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of Fairborne are subject to in connection with the operations of Fairborne. In particular, certain of the directors and officers of Fairborne are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with Fairborne or with entities which may, from time to time, provide financing to, or make equity investments in, Fairborne's competitors. In accordance with the ABCA, directors who have a material interest or any person who is a party to a material contract or a proposed material contract with us are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract.

AUDIT COMMITTEE INFORMATION

Audit Committee Mandate and Terms of Reference

The Mandate of the Audit Committee of the board of directors of Fairborne is attached hereto as Schedule "C".

Composition of the Audit Committee

The following table sets forth the names of each current member of the Audit Committee, whether such member is independent (in accordance with National Instrument 52-110), whether such member is financially literate and the relevant education and experience of such member:

<u>Name and municipality of residence</u>	<u>Independent</u>	<u>Financially literate</u>	<u>Relevant education and experience</u>
Robert B. Hodgins Calgary, Alberta	Yes	Yes	Mr. Hodgins is a Chartered Accountant (Ontario and Alberta) and holds a Bachelor of Arts in Business from the Richard Ivey School of Business. Mr. Hodgins' career culminated in an executive role following a career that spanned more than 25 years with several senior Canadian corporations and is an investor and a corporate director. Most recently, from 2002 to 2004, he served as the Chief Financial Officer of Pengrowth Energy Trust. Beginning in April 1998 until October 2001, he was Vice President and Treasurer of Canadian Pacific Limited. Prior to that he was the Chief Financial Officer of TransCanada Pipelines Limited from 1993 to 1998 and held various other senior positions at TransCanada commencing in 1981. Mr. Hodgins is also a director of Enerflex Systems Ltd., Enerplus Resources Fund, MGM Energy Corp as well as Altagas General Partner Inc.
Michael E.J. Phelps Vancouver, BC	Yes	Yes	Mr. Phelps is Chairman of Dornoch Capital Inc., a private investment company. In 2003, the federal government appointed Mr. Phelps as Chairman of The Wise Persons' Committee, a panel developed to review Canada's system of securities regulation. From January 1988 to 2002, he served as President and Chief Executive Officer, and subsequently as Chairman and Chief Executive Officer of Westcoast Energy Inc. Mr. Phelps sits on the Board of Directors of several public companies including: Spectra Energy Corporation, Canadian Pacific Railway Company and Canfor Corporation.
Rodney D. Wimer Bend, Oregon	Yes	Yes	Mr. Wimer is a graduate of the Stanford University Executive Program. Mr. Wimer is the Managing Director of Mazama Capital Partners (a private investment firm). Mr. Wimer serves as a director of EPCOR Power LP and is a general and limited partner and director of Fulcrum Power Services LP.

Pre-Approval of Policies and Procedures

Fairborne has adopted the following policies and procedures with respect to the pre-approval of audit and permitted non-audit services to be provided by KPMG LLP: The audit committee approves a schedule which summarizes the services to be provided that the audit committee believes to be typical, recurring or otherwise likely to be provided by KPMG LLP. The schedule generally covers the period between the adoption of the schedule and the end of the year, but at the option of the audit committee, may cover a shorter or longer period. The list of services is sufficiently detailed as to the particular services to be provided to ensure that (i) the audit committee knows precisely what services it is being asked to pre-approve and (ii) it is not necessary for any member of the Corporation's management to make a judgment as to whether a proposed service fits within the pre-approved services. Services that arise that were not contemplated in the schedule must be pre-approved by the audit committee chairman or a delegate of the audit committee. The full audit committee is informed of the services at its next meeting.

Fairborne has not approved any non-audit services on the basis of the de minimis exemptions. All non-audit services are pre-approved by the Audit Committee in accordance with the pre-approval policy referenced herein.

External Auditor Service Fees

Audit Fees

The aggregate fees billed by our external auditor in each of the last two fiscal years for audit services were \$185,000 in 2007 and \$162,500 in 2006.

Audit – Related Fees

The aggregate fees billed in each of the last two fiscal years for assurance related services by our external auditor that are reasonably related to the performance of the audit or review of our financial statements that are not reported under "Audit Fees" above were \$198,956 in 2007 and \$109,000 in 2006. These services relate to securities filings including short form prospectuses, business acquisition reports and information circulars.

Tax Fees

The aggregate fees billed in each of the last two fiscal years for professional services rendered by our external auditor for tax compliance, tax advice and tax planning were \$26,168 in 2007 and \$66,033 in 2006.

All Other Fees

No other fees were billed in each of the last two fiscal years for products and services provided by our auditors other than services reported above.

INDUSTRY CONDITIONS

The oil and natural gas industry is subject to extensive controls and regulations governing its operations (including land tenure, exploration, development, production, refining, transportation, and marketing) imposed by legislation enacted by various levels of government and with respect to pricing and taxation of oil and natural gas by agreements among the governments of Canada, Alberta, British Columbia, and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these controls or regulations will affect the Corporation's operations in a manner materially different than they would affect other oil and gas companies of similar size. All current legislation is a matter of public record and the Corporation is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Pricing and Marketing Oil and Natural Gas

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil quality, prices of competing fuels, distance to the markets, value of refined products, the supply/demand balance, and other contractual terms. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

The price of natural gas is determined by negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas (other than propane, butane and ethane) exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m³/day), must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or a larger quantity requires an exporter to obtain an export licence from the NEB and the issuance of such licence requires the approval of the Governor in Council.

The governments of Alberta, British Columbia, and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere based on such factors as reserve availability, transportation arrangements, and market considerations.

Pipeline Capacity

Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and to market natural gas production. In addition, the pro-rationing of capacity on the inter-provincial pipeline systems also continues to affect the ability to export oil and natural gas.

The North American Free Trade Agreement

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, United States of America, and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada United States Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to domestic use (based upon the proportion prevailing in the most recent 36 month period); (ii) impose an export price higher than the domestic price subject to an exception with respect to certain voluntary measures which only restrict the volume of exports; and (iii) disrupt normal channels of supply. All three countries are prohibited from imposing minimum or maximum export or import price requirements, provided, in the case of export price requirements, prohibition in any circumstances in which any other form of quantitative restriction is prohibited, and in the case of import-price requirements, such requirements do not apply with respect to enforcement of countervailing and anti-dumping orders and undertakings.

NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector by 2010 and prohibits discriminatory border restrictions and export taxes. NAFTA also contemplates clearer disciplines on regulators to ensure fair implementation of any regulatory changes and to minimize disruption of contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, which is important for Canadian natural gas exports.

Provincial Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations which govern land tenure, royalties, production rates, environmental protection, and other matters. The royalty regime is a significant factor in the profitability of crude oil, natural gas liquids, sulphur, and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the mineral owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Crown royalties are determined by governmental regulation and are generally calculated as a percentage of the value of the gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery, and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays, and tax credits, and are generally introduced when commodity prices are low. The programs are designed to encourage exploration and development activity by improving earnings and cash flow within the industry. Royalty holidays and reductions would reduce the amount of Crown royalties paid by oil and gas producers to the provincial governments and would increase the net income and funds from operations of such producers. However, the trend in recent years has been for provincial governments to eliminate, amend or allow such incentive programs to expire without renewal, and consequently few such incentive programs are currently operative.

The Canadian federal corporate income tax rate levied on taxable income is 22.1% effective January 1, 2007 for active business income including resource income. With the elimination of the corporate surtax effective January 1,

2008 and other rate reductions introduced in the October 2007 Economic Statement and Notice of Ways and Means Motion, the federal corporate income tax rate will decrease to 15% in five steps: 19.5% on January 1, 2008, 19% on January 1, 2009, 18% on January 1, 2010, 16.5% on January 1, 2011 and 15% on January 1, 2012.

Alberta

In Alberta, companies are granted the right to explore, produce and develop petroleum and natural gas resources in exchange for royalties, bonus bid payments and rents. Currently, the amount of royalties that are payable is influenced by the oil production, density of the oil, and the vintage of the oil. Originally, the vintage classified oil as "new oil" and "old oil" depending on when the oil pools were discovered. If the pool was discovered prior to March 31, 1974 it is considered "old oil", if it was discovered after March 31, 1974 and before September 1, 1992, it is considered "new oil". The Alberta government introduced in 1992 a Third Tier Royalty with a base rate of 10% and a rate cap of 25% for oil pools discovered after September 1, 1992. The new oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 30%. The old oil royalty reserved to the Crown has a base rate of 10% and a rate cap of 35%.

The royalty reserved to the Crown in respect of natural gas production, subject to various incentives, is between 15% and 30%, in the case of new natural gas, and between 15% and 35%, in the case of old natural gas, depending upon a prescribed or corporate average reference price. Natural gas produced from qualifying intervals in eligible gas wells spudded or deepened to a depth below 2,500 metres is also subject to a royalty exemption, the amount of which depends on the depth of the well.

Oil sands projects are subject to a specific regulation made effective July 1, 1997, and expiring June 30, 2009, which, among other things, determines the Crown's share of crude and processed oil sands products.

Regulations made pursuant to the Mines and Minerals Act (Alberta) provided various incentives for exploring and developing oil reserves in Alberta. However, the Alberta Government announced in August of 2006 that four royalty programs were to be amended, a new program was to be introduced and the Alberta Royalty Tax Credit Program ("**ARTC**") was to be eliminated, effective January 1, 2007. The programs affected by this announcement are: (i) Deep Gas Royalty Holiday; (ii) Low Productivity Well Royalty Reduction; (iii) Reactivated Well Royalty Exemption; and (iv) Horizontal Re-Entry Royalty Reduction. The program being introduced is the Innovative Energy Technologies Program (the "**IETP**") which is intended to promote the producers' investment in research, technology and innovation for the purposes of improving environmental performance while creating commercial value. The IETP provides royalty reductions which are presumed to reduce financial risk. Alberta Energy will be the one to decide which projects qualify and the level of support that will be provided. The deadline for the IETP's third round of applications was May 31, 2007. The successful applicants have not yet been announced and it appears, based on the previous two rounds, that the selection process can take at least 8 months. The technical information gathered from this program is to be made public once a two year confidentiality period expires.

On October 25, 2007, the Alberta government released a report entitled "The New Royalty Framework" containing the government's proposals for Alberta's new royalty regime which is scheduled to be effective on January 1, 2009. The proposed NRF includes new royalty formulas for conventional oil and natural gas that will operate on sliding scales that are determined by commodity prices and well productivity. Substantial legislative, regulatory and systems updates will be introduced before changes become fully effective in January 2009. See "*General Development of Our Business – Recent Developments – The New Alberta Royalty Framework*" and "*Risk Factors – New Alberta Royalty Regime*".

British Columbia

Producers of oil and natural gas in the Province of British Columbia are required to pay annual rental payments with respect to the Crown leases and royalties and freehold production taxes in respect of oil and gas produced from Crown and freehold lands. The amount payable as a royalty in respect of oil depends on the type of oil, the value of the oil, the quantity of oil produced in a month, and the vintage of the oil. Generally, the vintage of oil is based on the determination of whether the oil is produced from a pool discovered before October 31, 1975 (old oil), between October 31, 1975, and June 1, 1998 (new oil), or after June 1, 1998 (third-tier oil). The royalty rates are calculated in three stages, which take into account the vintage of the oil, if the oil produced has already been sold and any royalty exempt value applicable (exempt wells). Oil produced from newly discovered pools may be exempt from the payment of a royalty for the first 36 months of production or 11,450m³ produced, whichever comes first; and the royalties for third tier oil are the lowest reflecting the higher costs of exploration and extraction that the producers would incur. The

royalty payable on natural gas is determined by a sliding scale based on a reference price, which is the greater of the price obtained by the producer, and a prescribed minimum price. However, when the reference price is below the select price (a parameter used in the royalty rate formula), the royalty rate is fixed. As an incentive for the production and marketing of natural gas, which may have been flared, natural gas produced in association with oil has a lower royalty than the royalty payable on non-conservation gas.

On May 30, 2003, the Ministry of Energy and Mines for the Province of British Columbia announced an Oil and Gas Development Strategy for the Heartlands ("**Strategy**"). The Strategy is a comprehensive program to address road infrastructure, targeted royalties and regulatory reduction, and British Columbia service sector opportunities. In addition, the Strategy will result in economic and employment opportunities for communities in British Columbia's heartlands.

Some of the financial incentives in the Strategy include:

- Royalty credits of up to \$30 million annually towards the construction, upgrading, and maintenance of road infrastructure in support of resource exploration and development. Funding will be contingent upon an equal contribution from industry.
- Changes to provincial royalties: new royalty rates for low productivity natural gas to enhance marginally economic resources plays, royalty credits for deep gas exploration to locate new sources of natural gas, and royalty credits for summer drilling to expand the drilling season.

Saskatchewan

In Saskatchewan, the amount payable as a royalty in respect of oil depends on the vintage of the oil, the type of oil, the quantity of oil produced in a month, and the value of the oil. For Crown royalty and freehold production tax purposes, crude oil is considered "heavy oil", "southwest designated oil", or "non-heavy oil other than southwest designated oil". The conventional royalty and production tax classifications ("fourth tier oil" introduced October 1, 2002, "third tier oil", "new oil", or "old oil") of oil production are applicable to each of the three crude oil types. The Crown royalty and freehold production tax structure for crude oil is price sensitive and varies between the base royalty rates of 5% for all "fourth tier oil" to 20% for "old oil". Marginal royalty rates are 30% for all "fourth tier oil" to 45% for "old oil".

The amount payable as a royalty in respect of natural gas is determined by a sliding scale based on a reference price (which is the greater of the amount obtained by the producer and a prescribed minimum price), the quantity produced in a given month, the type of natural gas, and the vintage of the natural gas. As an incentive for the production and marketing of natural gas which may have been flared, the royalty rate on natural gas produced in association with oil is less than on non-associated natural gas. The royalty and production tax classifications of gas production are "fourth tier gas" introduced October 1, 2002, "third tier gas", "new gas", and "old gas". The Crown royalty and freehold production tax for gas is price sensitive and varies between the base royalty rate of 5% for "fourth tier gas" and 20% for "old gas". The marginal royalty rates are between 30% for "fourth tier gas" and 45% for "old gas".

On October 1, 2002, the following changes were made to the royalty and tax regime in Saskatchewan:

- A new Crown royalty and freehold production tax regime applicable to associated natural gas (gas produced from oil wells) that is gathered for use or sale. The royalty/tax will be payable on associated natural gas produced from an oil well that exceeds approximately 65 thousand cubic metres in a month.
- A modified system of incentive volumes and maximum royalty/tax rates applicable to the initial production from oil wells and gas wells with a finished drilling date on or after October 1, 2002, was introduced. The incentive volumes are applicable to various well types and are subject to a maximum royalty rate of 2.5% and a freehold production tax rate of zero per cent.

- The elimination of the re entry and short section horizontal oil well royalty/tax categories. All horizontal oil wells with a finished drilling date on or after October 1, 2002, will receive the "fourth tier" royalty/ tax rates and new incentive volumes.

In 1975, the Government of Saskatchewan introduced a Royalty Tax Rebate ("**RTR**") as a response to the federal government disallowing crown royalties and similar taxes as a deductible business expense for income tax purposes. As of January 1, 2007, the remaining balance of any unused RTR will be limited in its carry forward to five years since the federal government had the initiative to reintroduce the full deduction of provincial resource royalties from federal and provincial taxable income.

In June 19, 2007, the Government of Saskatchewan introduced the Orphan Well and Facility Liability Management Program pursuant to the amendment of the *Oil and Gas Conservation Act* and the *Oil and Gas Conservation Regulations*, 1985. The program includes a security deposit, which has two purposes: (i) preventing the individual with insufficient financial capability from acquiring oil and gas wells or facilities; and (ii) in the case of a bankrupt company, the funds cover for the decommissioning and reclaiming of orphan property. An additional change introduced is the mandatory licensing of all upstream oil and gas facilities in Saskatchewan.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences, and permits for varying terms from two years, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

In December, 2002, the Government of Canada ratified the Kyoto Protocol ("**Protocol**"). The Protocol calls for Canada to reduce its greenhouse gas emissions to 6% below 1990 "business as usual" levels between 2008 and 2012. Given revised estimates of Canada's normal emissions levels, this target translates into an approximately 40% gross reduction in Canada's current emissions. It remains uncertain whether the Kyoto target of 6% below 1990 emission levels will be enforced in Canada. The Federal Government has introduced legislation aimed at reducing greenhouse gas emissions using a "intensity based" approach, the specifics of which have yet to be determined. Bill C 288, which is intended to ensure that Canada meets its global climate change obligations under the Kyoto Protocol, was passed by the House of Commons on February 14, 2007. On April 26, 2007, the Federal Government released its Action Plan to Reduce Greenhouse Gases and Air Pollution (the "**Action Plan**") also known as ecoACTION which includes the regulatory framework for air emissions. This Action Plan covers not only large industry, but regulates the fuel efficiency of vehicles and the strengthening of energy standards for a number of energy using products. The Government of Canada and the Province of Alberta released on January 31, 2008 the final report of the Canada-Alberta ecoENERGY Carbon Capture and Storage Task Force, which recommends among others: (i) incorporating carbon capture and storage into Canada's clean air regulations; (ii) allocating new funding into projects through competitive process; and targeting research to lower the cost of technology.

On March 10, 2008, the Government of Canada released "Turning the Corner – Taking Action to Fight Climate Change" (the "**Updated Action Plan**") which provides some additional guidance with respect to the Government of Canada's plan to reduce greenhouse gas emissions by 20% by 2020 and by 60% to 70% by 2050. The Updated Action Plan is primarily directed towards industrial emissions from certain specified industries including the oil sands, oil and gas and refining industries. The Updated Action Plan is intended to force industry to reduce greenhouse gas emissions and to create a carbon emissions trading market, including an offset system, to provide

incentive to reduce greenhouse gas emission and establish a market price for carbon. The Updated Action Plan provides for: (i) mandatory reductions of 18% from the 2006 baseline starting in 2010 and by an additional 2% in subsequent years for existing facilities; (ii) new facilities built between 2004 and 2011 will have mandatory emissions standards based upon clean fuel standards (natural gas) with a 2% reduction below the third years intensity levels; and (iii) oil sands plants built in 2012 and later which use heavier hydrocarbons and upgraders and in situ production will have mandatory standards in 2018 based carbon capture and storage or other green technologies intensity. For the upstream oil and gas industry the Updated Action Plan also provides for a company threshold of 10,000 boe/day and facility threshold of 3,000 tonnes of CO₂.

Environmental legislation in the Province of Alberta has been consolidated into the Environmental Protection and Enhancement Act (Alberta) (the "EPEA"), which came into force on September 1, 1993, and the Oil and Gas Conservation Act (Alberta) (the "OGCA"). The EPEA and OGCA impose stricter environmental standards, require more stringent compliance, reporting and monitoring obligations, and significantly increased penalties. In 2006, the Alberta Government enacted regulations pursuant to the EPEA to specifically target sulphur oxide and nitrous oxide emissions from industrial operations including the oil and gas industry. In addition, the reduction emission guidelines outlined in the Climate Change and Emissions Management Amendment Act came into effect on July 1, 2007. Under this legislation, Alberta facilities emitting more than 100,000 tonnes of greenhouse gases a year must reduce their emissions intensity by 12%. Industries have three options to choose from in order to meet the reduction requirements outlined in this legislation, and these are: (i) by making improvement to operations that result in reductions; (ii) by purchasing emission credits from other sectors or facilities that have emissions below the 100,000 tonne threshold and are voluntarily reducing their emission; or (iii) by contributing to the Climate Change and Emissions Management Fund. Industries can either choose one of these options or a combination thereof. Fairborne will be committed to meeting its responsibilities to protect the environment wherever it operates and anticipates making increased expenditures of both a capital and an expense nature as a result of the increasingly stringent laws relating to the protection of the environment, and will be taking such steps as required to ensure compliance with the EPEA and similar legislation in other jurisdictions in which it operates. Fairborne believes that it is in material compliance with applicable environmental laws and regulations. It also believes that it is reasonably likely that the trend towards stricter standards in environmental legislation and regulation will continue.

On January 24, 2008, the Alberta Government announced a new climate change action plan that will cut Alberta's projected 400 million tonnes of emissions in half by 2050. This plan is based on three areas: (i) carbon capture and storage, which will be mandatory for in situ oil sand facilities that use heavy fuels for steam generation; (ii) energy conservation and efficiency; and (iii) greening production through increased investment in clean energy technology, including supporting research on new oil sands extraction processes, as well as the funding of projects that reduce the cost of separating CO₂ from other emissions supporting carbon capture and storage.

British Columbia's Environmental Assessment Act became effective June 30, 1995. This legislation rolls the previous processes for the review of major energy projects into a single environmental assessment process with public participation in the environmental review process. On February 27, 2007 the Government of British Columbia unveiled the Energy Plan outlining the Province's strategy towards the environment and which includes targeting for zero net greenhouse gas emissions, promoting new investments in innovation, and becoming the world's leader in sustainable environmental management. For this purpose, on December 18, 2007 proposals were sought for applications to the Innovative Clean Energy Fund, in order to attract new technologies that will help solve energy and environmental issues. With regards to the oil and gas industry the objective is to achieve clean energy through conservation and energy efficient practices, whilst competitiveness is advocated in order to attract investment for the development of the oil and gas sector. Among the changes to be implemented are: (i) a new of Net Profit Royalty Program; (ii) the creation of a Petroleum Registry; (iii) the establishment of an infrastructure royalty program (combining roads and pipelines); (iv) the elimination of routine flaring at producing wells; (v) the creation of policies and measures for the reduction of emissions; (vi) the development of unconventional resources such as tight gas and coalbed gas; and (vii) new the Oil and Gas Technology Transfer Incentive Program that encourages the research, development and use of innovative technologies to increase recoveries from existing reserves and promotes responsible development of new oil and gas reserves. Furthering these initiatives, on February 19, 2008 the provincial Government announced that starting on July 1, 2008, provided the legislation is approved, a revenue-neutral carbon tax will be applied to all fossil fuels used in the Province. The tax would be phased in, and the initial rate would be based on CO₂e of \$10 per tonne for the first six months of 2009 and \$15 per tonne for the last six months of 2009, following \$5 per tonne increases on July of every year until 2012. Tax credits and reductions will be used in order to offset the tax revenues that the Government would receive otherwise.

Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not currently possible to predict either the nature of those requirements or the impact on Fairborne and its operations and financial condition at this time.

RISK FACTORS

An investment in Fairborne should be considered highly speculative due to the nature of Fairborne's activities and the present stage of its development. Investors should carefully consider the following risk factors:

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Fairborne depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, Fairborne's existing reserves, after completion of the Arrangement, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Fairborne's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Fairborne will be able to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of Fairborne may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Fairborne.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, Fairborne may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Fairborne. In accordance with industry practice, Fairborne will not be fully insured against all of these risks, nor are all such risks insurable. Although Fairborne will maintain liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Fairborne could incur significant costs that could have a material adverse effect upon its financial condition. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks could have a material adverse effect on Fairborne.

Operational Dependence

Other companies operate some of the assets in which Fairborne will have an interest after completion of the Arrangement. As a result, Fairborne will have limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Fairborne's financial performance. Fairborne's return on assets operated by others will therefore depend upon a number of factors that may be outside of Fairborne's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by Fairborne is and will continue to be affected by numerous factors beyond its control. Fairborne's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Fairborne may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

Both oil and natural gas prices are unstable and are subject to fluctuation. Any material decline in prices could result in a reduction of Fairborne's net production revenue. The economics of producing from some wells may change as a result of lower prices, which could result in reduced production of oil or gas and a reduction in the volumes of Fairborne's reserves. Fairborne might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Fairborne's expected net production revenue and a reduction in its oil and gas acquisition, development and exploration activities. In addition, bank borrowings available to Fairborne will be in part determined by Fairborne's borrowing base. A sustained material decline in prices from historical average prices could reduce Fairborne's expected borrowing base, therefore reducing the bank credit available to Fairborne which could require that a portion, or all, of Fairborne's expected bank debt be repaid and a liquidation of assets.

Project Risks

Fairborne will manage a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic.

Fairborne's ability to execute projects and market oil and natural gas will depend upon numerous factors beyond Fairborne's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Fairborne could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Competition

The petroleum industry is competitive in all its phases. Fairborne will compete with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Fairborne's competitors will include oil and natural gas companies that have substantially greater financial resources, staff and facilities than Fairborne. Fairborne's ability to increase its proposed reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so called "greenhouse gases". Fairborne's exploration and production facilities and other operations and activities emit greenhouse gases which will likely subject Fairborne to possible future legislation regulating emissions of greenhouse gases, such as the government of Canada's proposed Clean Air Act of 2006 and Alberta's recently enacted Climate Change and Emissions Management Act. The direct or indirect costs of these regulations may adversely affect the expected business of Fairborne. See "*Industry Conditions – Environmental Regulation*".

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Fairborne to incur costs to remedy such discharge. Although Fairborne believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise adversely affect Fairborne's financial condition, results of operations or prospects. See "*Industry Conditions – Environmental Regulation*".

Regulatory

Oil and natural gas operations (exploration, production, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "*Industry Conditions*". Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase Fairborne's costs, any of which may have a material adverse effect on Fairborne's intended business, financial condition and results of operations. In order to conduct oil and gas operations, Fairborne will require licenses from various governmental authorities. There can be no assurance that Fairborne will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

New Alberta Royalty Regime

On October 25, 2007, the Alberta government released a report entitled "The New Royalty Framework" containing the government's proposals for Alberta's new royalty regime which is scheduled to be effective on January 1, 2009. See "*General Development of our Business – Other Recent Developments – The New Royalty Framework*".

Fairborne cannot provide any assurance that the NRF will be implemented in the form proposed. If changes are made to the NRF before it is implemented by the Alberta government, such changes could result in the implementation of a new royalty regime that impacts Fairborne in a materially different manner, and that is more adverse to Fairborne, than the NRF as currently proposed.

Substantial Capital Requirements

Fairborne anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Fairborne's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt

or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Fairborne. The inability of Fairborne to access sufficient capital for its operations could have a material adverse effect on Fairborne's financial condition, results of operations and prospects.

Additional Funding Requirements

Fairborne's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times. From time to time, Fairborne may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause Fairborne to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Fairborne's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, Fairborne's ability to expend the necessary capital to replace its reserves or to maintain its production will be impaired. If Fairborne's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on favourable terms.

Variations in Foreign Exchange Rates and Interest Rates

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore effected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Such material increases in the value of the Canadian dollar have negatively impacted Fairborne's operating entities production revenues. Further material increases in the value of the Canadian dollar would exacerbate this negative impact. This increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates could accordingly impact the future value of Fairborne's reserves as determined by independent evaluators.

To the extent that Fairborne engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which Fairborne may contract.

An increase in interest rates could result in a significant increase in the amount Fairborne pays to service debt, which could negatively impact the market price of the Common Shares.

Issuance of Debt

From time to time Fairborne may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase Fairborne's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, Fairborne may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither Fairborne's articles nor its by laws limit the amount of indebtedness that Fairborne may incur. The level of Fairborne's indebtedness from time to time, could impair Fairborne's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time Fairborne may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Fairborne will not benefit from such increases. Similarly, from time to time Fairborne may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, Fairborne will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Fairborne and may delay exploration and development activities. To the extent Fairborne is not the operator of its oil and gas

properties, Fairborne will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat Fairborne's claim which could result in a reduction of the revenue received by Fairborne.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and NGL reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in the Trust AIF, the Fairquest Acquisition Material Change Report and in this Appendix are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. All such estimates are to some degree speculative, and classifications of reserves are only attempts to define the degree of speculation involved. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. Fairborne's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, GLJ and Sproule, as the case may be, have used both constant and forecast prices and costs in estimating the reserves and future net cash flows contained in the Trust Reserve Report and Fairquest Reserve Report, respectively. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from Fairborne's oil and gas reserves will vary from the estimates contained in the Trust Reserve Report and Fairquest Reserve Report, respectively, and such variations could be material. The Trust Reserve Report and Fairquest Reserve Report, respectively, are based in part on the assumed success of activities Fairborne intends to undertake in future years. The reserves and estimated cash flows set out in the Trust Reserve Report and Fairquest Reserve Report, respectively, will be reduced to the extent that such activities do not achieve the level of success assumed in the Trust Reserve Report and Fairquest Reserve Report, respectively.

Insurance

Fairborne's involvement in the exploration for and development of oil and natural gas properties may result in Fairborne becoming subject to liability for pollution, blow outs, property damage, personal injury or other hazards. Although Fairborne will maintain insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, Fairborne may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to Fairborne. The occurrence of a significant event that Fairborne is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Fairborne.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by Fairborne is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle-East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of Fairborne's net production revenue.

In addition, Fairborne's expected oil and natural gas properties, wells and facilities could be subject to a terrorist attack. As the oil and gas industry in Canada is a key supplier of energy to the United States, certain terrorist groups may target Canadian oil and gas properties, wells and facilities in an effort to choke the United States economy. If any of Fairborne's properties, wells or facilities are the subject of terrorist attack it could have a material adverse effect on Fairborne. Fairborne will not have insurance to protect against the risk from terrorism.

Dividends

Any decision to pay dividends on the Common Shares will be made by the board of directors of Fairborne on the basis of Fairborne's earnings, financial requirements and other conditions existing at such future time.

Conflicts of Interest

Certain directors of Fairborne are also directors of other oil and gas companies and as such may, in certain circumstances, have a conflict of interest requiring them to abstain from certain decisions. Conflicts, if any, will be subject to the procedures and remedies of the ABCA. See "*Directors and Officers – Conflicts of Interest*".

Dilution

Fairborne may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Fairborne which may be dilutive.

Management of Growth

Fairborne may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of Fairborne to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Fairborne to deal with this growth could have a material adverse impact on its business, operations and prospects.

Expiration of Licenses and Leases

Fairborne's properties are held in the form of licences and leases and working interests in licences and leases. If Fairborne or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of Fairborne's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on Fairborne's results of operations and business.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada. Fairborne is not aware that any claims have been made in respect of its expected property and assets; however, if a claim arose and was successful this could have an adverse effect on Fairborne and its operations.

Seasonality

The level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Also, certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding declines in the demand for the goods and services of Fairborne.

Third Party Credit Risk

Fairborne may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Fairborne, such failures could have a material adverse effect on Fairborne and its cash flow from operations. In addition, poor credit conditions in the industry and of joint venture partners may impact a joint venture partner's willingness to participate in Fairborne's ongoing capital program, potentially delaying the program and the results of such program until Fairborne finds a suitable alternative partner.

Absence of Market

Fairborne has received conditional approval for the listing of the Common Shares on the TSX, subject to Fairborne fulfilling the requirements of the TSX. There can be no assurance that the Common Shares will be listed on the TSX or on any other stock exchange, that an active trading market will develop or, if one develops, will be sustained.

Reliance on Key Personnel

Fairborne's success depends in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse affect on Fairborne. Fairborne does not have any key person insurance in effect for management. The contributions of the existing management team to the immediate and near term operations of Fairborne are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Fairborne will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Fairborne.

HUMAN RESOURCES

We currently employ 108 employees, of which 64 are located in the head office and 44 are field employees, and 8 consultants. We intend to add additional professional and administrative staff as the need arises.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of the Corporation, there are no legal proceedings material to the Corporation to which the Corporation is or was a party to or of which any of its properties is or was the subject of, during the financial year ended December 31, 2007 nor are there any such proceedings known to the Corporation to be contemplated.

During the year ended December 31, 2007, there were no (i) penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority; (ii) penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision, or (iii) settlement agreements the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors or executive officers of Fairborne, any holder of Common Shares who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares, or any known associate or affiliate of such persons, in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or is reasonably expected to materially affect Fairborne other than as follows:

1. In connection with the 2005 Arrangement pursuant to which the Trust was organized effective June 1, 2005 directors and executive officers of Fairborne held options to acquire common shares of Fairborne Energy Ltd. as it then existed which were either exercised on a cashless exercise basis or paid out in cash based on their intrinsic value immediately prior to completion of the 2005 Arrangement. In addition, certain of the directors and officers of Fairborne held common share purchase warrants which were exercised on a cashless exercise basis prior to completion of the 2005 Arrangement.
2. Mr. Richard A. Walls, the Chairman and a director of Fairborne, was the President and Chief Executive Officer and director of Fairquest prior to completion of the Fairquest Arrangement. Mr. Walls received \$618,750 in connection with the termination of his employment with Fairquest upon completion of the Fairquest Arrangement. Mr. Walls also held (i) 150,000 options to acquire common shares of Fairquest ("**Fairquest Options**") which were terminated for no consideration immediately prior to completion of the Fairquest Arrangement and (ii) 650,000 common share purchase warrants of Fairquest ("**Fairquest Warrants**") which were exchanged for Trust Unit purchase warrants in conjunction with completion of the Fairquest Arrangement based upon the same exchange ratio that Fairquest Shares were exchanged for Trust Units under the Fairquest Arrangement.
3. The directors and officers of Fairborne and their associates and affiliates, as a group, owned, directly or indirectly, or exercised control or direction over, an aggregate of 5,378,256 Fairquest Shares (including common shares issued upon conversion of performance shares of Fairquest immediately prior to completion of the Fairquest Arrangement) which were exchanged for an aggregate of 2,097,520 Trust Units under the Fairquest Arrangement. In addition, such individuals held in the aggregate 440,000 Fairquest Options and 2,711,334 Fairquest Warrants which were treated in the same fashion as those held by Mr. Walls as described above.
4. The directors and officers of Fairborne and their associates and affiliates, as a group, owned, directly or indirectly, or exercised control or direction over, an aggregate of 6,540,006 Trust Units and 1,473,734 Exchangeable Shares which were exchanged for an aggregate of 8,543,267 Common Shares under the 2007 Reorganization. In addition, the directors and officers of Fairborne also held an aggregate of 1,067,070 Trust Unit purchase warrants of the Trust which were adjusted so as to be exercisable for Common Shares, rather than Trust Units, following completion of the 2007 Reorganization. The directors and officers of Fairborne also held an aggregate of 286,379 Restricted Units and 555,675 Performance Units prior to completion of the 2007 Reorganization. While all outstanding Restricted Units and Performance Units vested pursuant to the terms of the Incentive Plan effective immediately prior to completion of 2007 Reorganization, the Non-Vesting Participants waived their right to accelerated vesting of their Restricted Units and Performance Units under the Incentive Plan and, accordingly, such individuals continue to hold in the aggregate 175,711 Restricted Units and 356,275 Performance Units, respectively, which continue to be held subject to the terms and conditions of the Incentive Plan but which are now exercisable for Common Shares, rather than Trust Units, at such times as they become vested.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are KPMG LLP, Chartered Accountants, Suite 2700, 205 - 5th Avenue S.W., Calgary, Alberta, T2P 4B9.

Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario is the transfer agent and registrar of the Common Shares and the Debentures.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, neither Fairborne nor its Subsidiaries have entered into any material contracts within the last financial year, or before the last financial year which are still in effect, other than as follows:

1. the Fairquest Arrangement Agreement;
2. the 2007 Reorganization Arrangement Agreement;
3. the Share Subscription Agreement; and
4. the Debenture Indenture.

Copies of these documents have been filed on SEDAR at www.sedar.com.

INTERESTS OF EXPERTS

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under NI 51-102 by us during, or related to, our most recently completed financial year other than GLJ and Sproule, our independent engineering evaluators and KPMG LLP, as auditors. None of the principals of GLJ and Sproule had any registered or beneficial interests, direct or indirect, in any of our securities or other property or of our associates or affiliates either at the time they prepared the statement, report or valuation prepared by it, at any time thereafter or to be received by them. KPMG LLP, our auditors, are independent in accordance with the auditor's rules of professional conduct in Alberta.

ADDITIONAL INFORMATION

Additional information including information relating to remuneration and indebtedness of directors and officers of Fairborne, principal holders of Common Shares and securities authorized for issuance under our equity compensation plans, will be contained in the information circular relating to our annual meeting of Shareholders to be held on May 29, 2008. Additional financial information is provided in our comparative financial statements and management discussion and analysis of financial results for the year ended December 31, 2007 which can be found in the Corporation's 2007 Annual Report to Shareholders. Alternatively, additional information relating to us is available on SEDAR at www.sedar.com.

For copies of our information circular, our comparative consolidated financial statements, including any interim consolidated comparative financial statements and additional copies of the Annual Information Form please contact:

Fairborne Energy Ltd.
Suite 3400, 450 - 1st Street S.W.
Calgary, Alberta T2P 5H1
Tel: (403) 290-3217
Fax: (403) 290-7724

SCHEDULE "A"
FORM 51-101F3
REPORT OF MANAGEMENT AND DIRECTORS ON OIL AND GAS DISCLOSURE

Management of Fairborne Energy Ltd. ("**Fairborne**") is responsible for the preparation and disclosure of information with respect to Fairborne's oil and gas activities in accordance with securities regulatory requirements. This information includes reserves data, which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007 estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated Fairborne's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the board of directors of Fairborne has

- (a) reviewed Fairborne's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors of Fairborne has reviewed Fairborne's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 containing the reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 which is the report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

DATED as of this 12th day of March, 2008.

(signed) "*Steven R. VanSickle*"
Steven R. VanSickle
President and Chief Executive Officer

(signed) "*Aaron G. Grandberg*"
Aaron G. Grandberg
Chief Financial Officer

(signed) "*Johannes J. Nieuwenburg*"
Johannes J. Nieuwenburg
Director and Chairman of the Reserves
Committee

(signed) "*Robert B. Hodgins*"
Robert B. Hodgins
Director and Member of the Reserves
Committee

SCHEDULE "B"
FORM 51-101F2
REPORT ON RESERVES DATA
BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR

To the board of directors of Fairborne Energy Ltd. (the "**Company**"):

1. We have prepared and evaluation of the Company's reserves data as at December 31, 2007. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2007, and identifies the respective portions thereof that we have evaluated on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (County or Foreign Geographic Area)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)			
			Audited	Evaluated	Reviewed	Total
GLJ Petroleum Consultants	January 15, 2008	Canada	-	\$649,976		\$649,976

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation dates.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

EXECUTED as to our report referred to above.

GLJ Petroleum Consultants Ltd., Calgary, Alberta, Canada, February 22, 2008

Per: (signed) "*Doug R. Sutton*"

 Doug R. Sutton, P.Eng.
 Vice-President

**FORM 51-101F2
REPORT ON RESERVES DATA
BY INDEPENDENT QUALIFIED RESERVES EVALUATOR OR AUDITOR**

To the board of directors of Fairborne Energy Ltd. (the "**Company**"):

1. We have evaluated the Company's Reserves Data related to the unconventional (CBM) and associated conventional properties, as at December 31, 2007. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2007 estimated using Sproule Associated Limited (Sproule) and GLJ Petroleum Consultants (GLJ) forecast prices and costs.

2. The Reserves Data are the responsibility of the Company's management. Our responsibility is to express an opinion on the Reserves Data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

4. The following table sets forth the estimated future net revenue attributed to proved plus probable reserves, estimated using GLJ's forecast prices and costs on a before tax basis and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us as of December 31, 2007, and identifies the respective portions thereof that we have evaluated on to the Company's management and Board of Directors:

Independent Qualified Reserves Evaluator or Auditor	Description and Preparation Date of Evaluation Report	Location of Reserves (Country)	Net Present Value of Future Net Revenue (before income taxes, 10% discount rate - \$M)			
			Audited	Evaluated	Reviewed	Total
Sproule	Evaluation of certain P & NG reserves of Fairborne Energy Ltd., as of December 31, 2007, prepared December 2007 to February 2008 (GLJ's forecast prices and costs)	Canada	-	159,674	-	159,674

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook.

6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after its preparation date.

7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material. However, any variations should be consistent with the fact that reserves are categorized according to the probability of their recovery.

EXECUTED as to our report referred to above.

Sproule Associates Limited
Calgary, Alberta
March 5, 2008

(signed) "*Lucia M. Precul*"

Lucia M. Precul, P.Eng
Associate

(signed) "*Alec Kovaltchouk*"

Alec Kovaltchouk, P. Geol.
Associate

(signed) "*R. Keith MacLeod*"

R. Keith MacLeod, P. Eng.
President

SCHEDULE "C"
MANDATE OF THE AUDIT COMMITTEE

Role and Objective

The Audit Committee (the "**Committee**") is a committee of the board of directors (the "**Board**") of Fairborne Energy Ltd. ("**Fairborne**" or the "**Corporation**") to which the Board has delegated its responsibility for the oversight of the following:

1. nature and scope of the annual audit;
2. the oversight of management's reporting on internal accounting standards and practices;
3. the review of financial information, accounting systems and procedures;
4. financial reporting and financial statements,

and has charged the Committee with the responsibility of recommending, for approval of the Board, the audited financial statements, interim financial statements and other mandatory disclosure releases containing financial information.

The primary objectives of the Committee are as follows:

1. To assist directors of Fairborne ("**Directors**") in meeting their responsibilities (especially for accountability) in respect of the preparation and disclosure of the financial statements of the Corporation and related matters;
2. To provide better communication between Directors and external auditors;
3. To enhance the external auditor's independence;
4. To increase the credibility and objectivity of financial reports; and
5. To strengthen the role of the outside Directors by facilitating in depth discussions between Directors on the Committee, management of Fairborne ("**Management**") and external auditors.

Membership of Committee

1. The Committee will be comprised of at least three (3) Directors or such greater number as the Board may determine from time to time and all members of the Committee shall be "independent" (as such term is used in Multilateral Instrument 52-110 — Audit Committees ("MI 52-110") unless the Board determines that the exemption contained in MI 52 110 is available and determines to rely thereon.
2. The Board may from time to time designate one of the members of the Committee to be the Chair of the Committee.
3. All of the members of the Committee must be "financially literate" (as defined in MI 52 110) unless the Board determines that an exemption under MI 52 110 from such requirement in respect of any particular member is available and determines to rely thereon in accordance with the provisions of MI 52 110.

Mandate and Responsibilities of Committee

It is the responsibility of the Committee to:

1. Oversee the work of the external auditors, including the resolution of any disagreements between Management and the external auditors regarding financial reporting.

2. Satisfy itself on behalf of the Board with respect to Fairborne's internal control systems.
3. Review the annual and interim financial statements of the Corporation and related management's discussion and analysis ("MD&A") prior to their submission to the Board for approval. The process should include but not be limited to:
 - reviewing changes in accounting principles and policies, or in their application, which may have a material impact on the current or future years' financial statements;
 - reviewing significant accruals, reserves or other estimates such as the ceiling test calculation;
 - reviewing accounting treatment of unusual or non-recurring transactions;
 - ascertaining compliance with covenants under loan agreements;
 - reviewing disclosure requirements for commitments and contingencies;
 - reviewing adjustments raised by the external auditors, whether or not included in the financial statements;
 - reviewing unresolved differences between Management and the external auditors; and
 - obtain explanations of significant variances with comparative reporting periods.
4. Review the financial statements, prospectuses, MD&A, annual information forms ("AIF") and all public disclosure containing audited or unaudited financial information (including, without limitation, annual and interim press releases and any other press releases disclosing earnings or financial results) before release and prior to Board approval. The Committee must be satisfied that adequate procedures are in place for the review of Fairborne's disclosure of all other financial information and will periodically assess the accuracy of those procedures.
5. With respect to the appointment of external auditors by the Board:
 - recommend to the Board the external auditors to be nominated;
 - recommend to the Board the terms of engagement of the external auditor, including the compensation of the auditors and a confirmation that the external auditors will report directly to the Committee;
 - on an annual basis, review and discuss with the external auditors all significant relationships such auditors have with the Corporation to determine the auditors' independence;
 - when there is to be a change in auditors, review the issues related to the change and the information to be included in the required notice to securities regulators of such change; and
 - review and pre approve any non-audit services to be provided to Fairborne or its subsidiaries by the external auditors and consider the impact on the independence of such auditors. The Committee may delegate to one or more independent members the authority to pre-approve non-audit services, provided that the member(s) report to the Committee at the next scheduled meeting such pre-approval and the member(s) comply with such other procedures as may be established by the Committee from time to time.
6. Review with external auditors (and internal auditor if one is appointed by Fairborne) their assessment of the internal controls of Fairborne, their written reports containing recommendations for improvement, and Management's response and follow-up to any identified weaknesses. The Committee will also review

annually with the external auditors their plan for their audit and, upon completion of the audit, their reports upon the financial statements of Fairborne and its subsidiaries.

7. Review risk management policies and procedures of Fairborne (i.e. hedging, litigation and insurance).
8. Establish a procedure for:
 - the receipt, retention and treatment of complaints received by Fairborne regarding accounting, internal accounting controls or auditing matters; and
 - the confidential, anonymous submission by employees of Fairborne of concerns regarding questionable accounting or auditing matters.
9. Review and approve Fairborne's hiring policies regarding partners and employees and former partners and employees of the present and former external auditors of the Corporation.

The Committee has authority to communicate directly with the internal auditors (if any) and the external auditors of the Corporation. The Committee will also have the authority to investigate any financial activity of Fairborne. All employees of Fairborne are to cooperate as requested by the Committee.

The Committee may also retain persons having special expertise and/or obtain independent professional advice to assist in filling their responsibilities at such compensation as established by the Committee and at the expense of Fairborne without any further approval of the Board.

Meetings and Administrative Matters

1. At all meetings of the Committee every resolution shall be decided by a majority of the votes cast. In case of an equality of votes, the Chairman of the meeting shall be entitled to a second or casting vote.
2. The Chair will preside at all meetings of the Committee, unless the Chair is not present, in which case the members of the Committee that are present will designate from among such members the Chair for purposes of the meeting.
3. A quorum for meetings of the Committee will be a majority of its members, and the rules for calling, holding, conducting and adjourning meetings of the Committee will be the same as those governing the Board unless otherwise determined by the Committee or the Board.
4. Meetings of the Committee should be scheduled to take place at least four times per year. Minutes of all meetings of the Committee will be taken. The Chief Financial Officer of Fairborne will attend meetings of the Committee, unless otherwise excused from all or part of any such meeting by the Chairman.
5. The Committee will meet with the external auditor at least once per year (in connection with the preparation of the year-end financial statements) and at such other times as the external auditor and the Committee consider appropriate.
6. Agendas, approved by the Chair, will be circulated to Committee members along with background information on a timely basis prior to the Committee meetings.
7. The Committee may invite such officers, directors and employees of the Corporation and its subsidiaries as it sees fit from time to time to attend at meetings of the Committee and assist in the discussion and consideration of the matters being considered by the Committee.
8. Minutes of the Committee will be recorded and maintained and circulated to Directors who are not members of the Committee or otherwise made available at a subsequent meeting of the Board.
9. The Committee may retain persons having special expertise and may obtain independent professional advice to assist in fulfilling its responsibilities at the expense of the Corporation.

10. Any members of the Committee may be removed or replaced at any time by the Board and will cease to be a member of the Committee as soon as such member ceases to be a Director. The Board may fill vacancies on the Committee by appointment from among its members. If and whenever a vacancy exists on the Committee, the remaining members may exercise all its powers so long as a quorum remains. Subject to the foregoing, following appointment as a member of the Committee each member will hold such office until the Committee is reconstituted.
11. Any issues arising from these meetings that bear on the relationship between the Board and Management should be communicated to the Chairman of the Board by the Committee Chair.

March 3, 2008