

## May 5, 2009 – Fairborne Energy Ltd. Announces 2009 First Quarter Financial and Operating Results

## HIGHLIGHTS

*Financial* (\$thousands, except per share amounts)

	Three months ended March 31,		
	2009	2008	change
Petroleum and natural gas revenue	68,545	70,618	(3%)
Funds generated from operations <sup>(1)</sup>	32,970	42,101	(22%)
Per share – basic	\$0.38	\$0.50	(24%)
Per share – diluted	\$0.38	\$0.50	(24%)
Cash flow from operations (including changes in working capital)	34,782	42,857	(19%)
Per share – basic	\$0.40	\$0.51	(22%)
Per share – diluted	\$0.40	\$0.51	(22%)
Net income (loss)	(4,691)	10,145	(146%)
Per share – basic	\$(0.05)	\$0.12	(142%)
Per share – diluted	\$(0.05)	\$0.12	(142%)
Exploration and development expenditures	52,645	57,921	(9%)
Acquisitions, net of dispositions	–	1,189	–
Working capital deficit	31,641	27,255	16%
Bank indebtedness	209,925	85,634	145%
Convertible debentures	95,024	92,977	2%

*Operations* (Units as noted)

Average production			
Natural gas (Mcf per day)	67,520	56,813	19%
Crude oil (bbls per day)	3,599	2,413	49%
Natural gas liquids (bbls per day)	572	597	(4%)
Sulphur (tonnes per day) <sup>(2),(4)</sup>	93	210	(56%)
Total (BOE per day)	15,517	12,689	22%
Average sales price			
Natural gas (\$ per Mcf) <sup>(3)</sup>	6.39	8.35	(23%)
Crude oil (\$ per bbl) <sup>(3)</sup>	56.98	87.99	(35%)
Natural gas liquids (\$ per bbl)	27.24	58.74	(54%)
Sulphur (\$ per tonne) <sup>(3)</sup>	185.15	215.37	(14%)
Netback per BOE (\$ per BOE)			
Petroleum and natural gas sales <sup>(3)</sup>	43.35	61.09	(29%)
Royalties	(5.78)	(10.66)	(46%)
Operating expenses	(12.47)	(8.16)	53%
Transportation	(1.14)	(0.90)	27%
Operating netback	23.96	41.37	(42%)
Wells drilled (gross)	16	25	(36%)
Undeveloped land (net acres)	222,936	201,415	11%

(1) Funds generated from operations is calculated using cash flow from operations as presented in the consolidated statement of cash flows before non-cash working capital and asset retirement expenditures.

(2) A BOE conversion ratio has been calculated using a conversion rate of one tonne of sulphur to one barrel.

(3) Excludes unrealized gains and losses on derivatives and revenue from the sale of inventory at the West Pembina sulphur block.

(4) Excludes the sale of inventory at the West Pembina sulphur block.

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### 2009 FIRST QUARTER HIGHLIGHTS

- ▶ Quarterly production of 15,517 BOE per day, a 6% decrease from the fourth quarter 2008 and 22% increase over the first quarter of 2008.
- ▶ Current production is approximately 16,000 BOE per day.
- ▶ Funds generated from operations of \$33.0 million (\$0.38 per share).
- ▶ Operating netback of \$27.80 per BOE, including sulphur block sales.
- ▶ First quarter activity included 16 (11.2 net) wells drilled and \$52.6 million in capital spending, including \$3.9 million on land and seismic.
- ▶ The first horizontal well at Marlboro was drilled and tested at 5 MMcf per day and is currently producing at a rate of 4.4 MMcf per day.
- ▶ The fourth Nordegg horizontal at Harlech was successfully drilled, is currently being tied-in and will be flow tested inline.
- ▶ Expanded the Harlech land base to 180 (128.5 net) sections of land. Year to date Fairborne has added 17 (8.5 net) sections of undeveloped land to its dominant land position in the Harlech area.
- ▶ The Board of Directors has approved a capital budget of \$51 million for the second half of 2009.
- ▶ The Company has received approval from its banking syndicate to maintain its borrowing base at the current level of \$285 million.

### PRODUCTION OUTLOOK

First quarter production averaged 15,517 BOE per day, a decrease of 6% over fourth quarter 2008, consisting of 67.5 MMcf per day of natural gas, 4,171 bbls per day of oil and natural gas liquids and 93 tonnes per day of sulphur. In response to the Government of Alberta's royalty incentive for new wells commencing production after April 1, 2009, the Company delayed the tie in of three (2.7 net) new wells drilled during the first quarter of 2009. These wells were brought on production during the first week of April resulting in current production of 16,000 BOE per day. Second quarter production will be negatively impacted by approximately 500 BOE per day for the quarter as a result of scheduled turn around activity at a large sour gas plant that processes gas from the Company's Wild River wells.

### OPERATIONS

#### *Harlech*

Fairborne drilled five (3.4 net) wells in Harlech during the first quarter, including two Nordegg horizontal wells, two vertical Viking/Gething wells and one Belly River oil well.

#### NORDEGG

To date, Fairborne has successfully completed the Jurassic Nordegg gas zone in 11 (8.3 net) vertical wells, encountered the Nordegg zone in 14 (10.5 net) other wells and successfully drilled and completed three (2.4 net) horizontal wells. The results continue to confirm the presence of the Nordegg sandstone reservoir over the Company's extensive land position at Harlech. Based on these results, significant acreage was added during the first quarter of 2009 through successful crown acquisitions, increasing the Company's current land position by 10% to 180 (128.5 net) sections.

During the first quarter, Fairborne's third Nordegg horizontal well, 14-13 (50% working interest) was drilled to a depth of 3,535 meters and cased with the well orientation being near horizontal, just penetrating the top of the Nordegg. The casing was cemented in and after numerous attempts to resume drilling operations on the horizontal section of the well with no progress, a

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casing inspection log was run and it revealed that the lowest most joint of casing had parted. In order to remain within capital budget constraints, it was decided to suspend operations until after breakup. A plan is currently being developed as to how to best utilize the existing wellbore in future drilling operations.

The Company also successfully drilled and completed its fourth horizontal well using multi-stage fracture stimulation in the Nordegg Formation. The 1-31 well (75% working interest) was drilled to a total depth of 4,394 meters, with a horizontal length of 960 meters and was fracture stimulated over eight intervals with 666 tonnes of propan. The 1-31 well flow test was shortened to 36 hours in order to allow sufficient time to tie the well in prior to breakup. Final rates will be evaluated while testing inline to production facilities.

### VIKING/GETHING

The Viking formation at Harlech has been the focus of extensive vertical drilling for Fairborne over the last three years, with 24 (17.7 net) wells currently on production. The Viking is a typical tight gas sand with high initial rates in vertical wells (up to 5 MMcf per day) that typically exhibit a steep initial decline of 50% to 60% followed by a number of years of shallow declines. During the fourth quarter of 2008, Fairborne attempted to drill a horizontal Viking well at 13-23-44-14W5. This well encountered significant over-pressuring and gas flow to surface while drilling the high angle portion of the well through the lower Second White Specks Shale. The well was re-drilled as a vertical well during the first quarter of 2009 and was successfully completed in the Viking and Gething formations. The Viking zone tested at rates up to 7.0 MMcf per day with associated liquids. This well is on production at a restricted rate of approximately 1.8 MMcf per day due to regulatory restrictions regarding commingled production in this area.

### Deep Basin

Fairborne's Deep Basin strategy is to pursue lower risk Cretaceous gas zones at Marlboro, Pine Creek and Lambert and to drill exploration wells targeting deep sour gas in the Nisku and Leduc.

Fairborne has been developing and improving completion and stimulation techniques to take advantage of the multizone potential at Marlboro. Since 2008, the Company has drilled 13 (9.1 net) gas wells with a 100% success rate. Through the application of 3D seismic, 2008 drills have successfully stacked up to four zones for completion and initial production rates have increased from 1 MMcf per day to over 3 MMcf per day. Production from this area has grown by approximately 500% over the past year.

During the first quarter of 2009, Fairborne drilled a horizontal well for the basal most zone of stacked sands at Marlboro (48% working interest). The well has a horizontal length of 1,301 meters and a total measured depth of 4,226 meters. This well was completed using multistage fracturing over eight intervals and tested at 5 MMcf per day. It commenced production in early April at a rate of 4.4 MMcf per day and will qualify for significant royalty incentives from the Alberta government.

Fairborne recently drilled and evaluated a well on the eastern edge of the Wild River Nisku pool at 5-13-57-23W5 (80% working interest). Petrophysical logs indicated that the well encountered approximately 50% of the total reef thickness present in the original Wild River discovery well. This equated to a reef top approximately equivalent to the original gas-water contact for the reservoir and the well has been suspended pending an application to convert it to a water disposal well or to drill a side track hole closer to the original discovery well. Reserves for the Wild River Nisku pool have been assigned based on pressure data from over four years of production history from the original discovery well and the Company does not anticipate that the 5-13 results will materially impact these reserves.



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### *Sinclair, Manitoba*

During the first quarter, Fairborne drilled one well (1.0 net) at Sinclair, as well as commenced construction on a central oil battery which included an extensive oil gathering pipeline system. Fairborne also re-completed a shut-in vertical oil producer to a water injection well that will be used to dispose of produced water from the battery. The central battery will significantly reduce operating costs by removing oil and water trucking costs, water disposal costs and single well battery fuel costs. In aggregate it is anticipated that overall operating costs in the Sinclair area will be reduced by as much as 70%.

### *Clive*

The Company continues to work with its partner, Enhance Energy, to advance the CO<sub>2</sub> project at Clive. The recently announced Federal Government funding will be utilized in the design, engineering and modeling phases of the project. In June, 2009 the Alberta Government is also scheduled to release funding approvals as part of the \$2 billion Carbon Capture and Storage program.

## **OUTLOOK**

In the midst of continued economic instability, Fairborne's efforts are focused on the prudent management of our financial resources. Our strategies include an active hedging program to provide stability to operating cash flows; the sale of inventory from our sulphur block which currently provides monthly cash inflows of US\$2.25 million; and the active management of our capital program to maintain financial flexibility.

During the first quarter of 2009, a number of additional hedges were put in place to ensure sufficient cash flows to support a strong capital program for the balance of 2009 and into 2010. Fairborne currently has 40% of our natural gas production hedged for the remainder of 2009 at an average price of \$7.78 per Mcf and 27% of our oil production hedged at an average floor price of \$52.85 per bbl. In addition, 17% of natural gas production for 2010 is hedged at an average of \$6.49 per Mcf and 25% of 2010 crude oil production is hedged at an average floor price of \$55.00 per bbl. We have received confirmation from our syndicate of banks that they have completed their annual review and Fairborne's credit facilities will be maintained at \$285 million. The Board of Directors has approved a capital budget of \$51 million for the second half of 2009. We will continue to pursue a carefully designed capital expenditure program which allows us to add production, reserves and cash flow in a cost effective manner while maintaining a level of flexibility in our balance sheet.

In addition to our drilling based strategy, we continue to look at acquisitions in our core operating areas as well as opportunities in new areas that would provide for accretive production and reserve growth. As always, we continue to add undeveloped land to utilize our strong technical staff for organic growth opportunities.



*Steven R. Vansickle*

President and CEO

May 4, 2009

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### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, May 4, 2009. This document is provided by the management of Fairborne Energy Ltd. ("Fairborne" or the "Company") to review first quarter 2009 activities and results as compared to the same period in the previous year, and should be read in conjunction with the unaudited interim consolidated financial statements including selected notes for the three months ended March 31, 2009 and the audited consolidated financial statements including notes for the year ended December 31, 2008 and 2007. This MD&A should also be read in conjunction with the Company's MD&A for the year ended December 31, 2008, as disclosure which is unchanged from the December 31, 2008 MD&A has not been duplicated herein. Additional information relating to Fairborne, including Fairborne's annual information form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

**Nature of Business:** Fairborne is a growth-oriented exploration and production company resulting from the reorganization of Fairborne Energy Trust (the "Trust") on December 19, 2007 (the "Reorganization"). If the context requires, reference herein to "Fairborne" also includes a reference to the Trust prior to the Reorganization.

The Company maintains its head office in Calgary and is engaged in the business of exploring for, developing, acquiring and producing crude oil and natural gas in Western Canada. Fairborne follows a strategy of balancing risk and reward by focusing on opportunities by geographic area and prospect type. Within these selected areas, the Company develops a portfolio of exploration and development prospects in conjunction with an active acquisition strategy.

**Forward Looking Statements:** This document contains forward-looking statements. Management's assessment of future plans and operations, the effect on production of a plant turn-around, the effect of recent drilling on reserves for the Wild River pool and plans for the Wild River well, expected reductions in operating costs, capital expenditures, methods of financing capital expenditures and expected commodity prices may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, 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, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, the Company's actual results may differ materially from those expressed in, or implied by, the forward looking statements. Forward looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Fairborne believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Fairborne operates; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; Fairborne's ability to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and Fairborne's ability to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company'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](http://www.sedar.com)) or at the Company's website ([www.fairborne-energy.com](http://www.fairborne-energy.com)). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

**Non-GAAP Terms:** This document contains the terms "funds generated from operations", "funds generated from operations per share", "cash flow from operations per share" and "netbacks" which are non-GAAP terms. The Company uses these measures to help evaluate its performance. The Company considers corporate netbacks a key measure as it demonstrates its profitability relative to current commodity prices. The Company considers funds generated from operations a key measure as it demonstrates Fairborne's ability to generate funds necessary to repay debt and to fund future growth through capital investment. Funds generated from operations should not be considered as an alternative to, or more meaningful than, cash flow from operating activities as determined in accordance with Canadian GAAP as an indicator of Fairborne's performance. Fairborne's determination of funds generated from operations may not be comparable to that reported by other companies. The reconciliation between cash flow from operations and funds generated from operations can be found in the statement of cash flows in the consolidated financial statements with funds generated from operations calculated before non-cash working capital and asset retirement expenditures. Fairborne also presents funds generated from operations per share and cash flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

**BOE Conversions:** Barrel of oil equivalent ("BOE") amounts may be misleading, particularly if used in isolation. A BOE conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel and one tonne of sulphur to one barrel. This conversion ratio of six thousand cubic feet of natural gas to one barrel is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.



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### FIRST QUARTER 2009 FINANCIAL RESULTS

#### *Production*

	Three months ended March 31,		
	2009	2008	change
Natural gas ( <i>Mcf per day</i> )	<b>67,520</b>	56,813	19%
Crude oil ( <i>bbls per day</i> )	<b>3,599</b>	2,413	49%
Natural gas liquids ( <i>bbls per day</i> )	<b>572</b>	597	(4%)
Sulphur ( <i>tonnes per day</i> ) <sup>(1) (2)</sup>	<b>93</b>	210	(56%)
Total ( <i>BOE per day</i> )	<b>15,517</b>	12,689	22%
Natural gas % of production	<b>73%</b>	75%	–

(1) A BOE conversion ratio has been calculated using a conversion rate of one tonne of sulphur to one barrel.

(2) Excludes the sale of inventory at the West Pembina sulphur block.

Fairborne reported average production of 15,517 BOE per day for the first quarter of 2009, 6% lower than the preceding fourth quarter of 2008 (16,458 BOE per day), and 22% higher than the comparative first quarter of 2008 (12,689 BOE per day). Fairborne elected to defer tie-in operations on certain new wells drilled during the first quarter of 2009 in order to benefit from Alberta royalty incentive programs for wells brought on production after April 1, 2009. The decrease in production compared to the preceding quarter reflected this decision as well as natural declines.

Fairborne's exploration and development activities continue to focus on natural gas properties with 73% of first quarter production from natural gas. Natural gas production of 67.5 MMcf per day during the first quarter of 2009 was 3% lower than the preceding fourth quarter of 2008 (69.5 MMcf per day) reflecting natural declines. Compared to 2008, first quarter natural gas production increased 19% reflecting the Company's successful drilling program on its Harlech, Clive and Deep Basin properties throughout 2008.

Crude oil and NGL production of 4,171 bbls per day for the first quarter of 2009 also reflected natural declines as compared to the preceding fourth quarter of 2008 (4,743 BOE per day). The 39% increase from the comparative first quarter of 2008 (3,010 BOE per day) was primarily attributed to the 2008 acquisition of Grand Banks Energy Corporation ("Grand Banks") and the successful development of the Sinclair property subsequent to the acquisition.

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### Commodity Prices & Risk Management Activities

	Three months ended		
	2009	March 31, 2008	change
<b>Average Prices</b>			
Natural gas (\$ per Mcf) <sup>(1)</sup>	<b>6.39</b>	8.35	(23%)
Crude oil (\$ per bbl) <sup>(1)</sup>	<b>56.98</b>	87.99	(35%)
Natural gas liquids (\$ per bbl)	<b>27.24</b>	58.74	(54%)
Sulphur (\$ per tonne) <sup>(2)</sup>	<b>185.15</b>	215.37	(14%)
BOE (\$ per BOE) <sup>(1) (2)</sup>	<b>43.13</b>	60.45	(29%)
<b>Benchmark Prices</b>			
AECO Daily Index (Cdn\$ per Mcf)	<b>4.92</b>	7.98	(38%)
AECO Monthly Index (Cdn\$ per Mcf)	<b>5.63</b>	7.13	(21%)
Edmonton par (Cdn\$ per bbl)	<b>48.23</b>	98.13	(51%)
Nymex Calendar Average (US\$ per bbl)	<b>43.08</b>	97.90	(56%)

(1) Excludes unrealized gains and losses on derivatives.

(2) Excludes revenue from the sale of inventory at the West Pembina sulphur block.

### Risk Management – Physical Sales Contracts

Fairborne's risk management strategy is based on the following objectives:

- protect shareholder return on investment;
- reduce risk exposure in budgeted annual funds flow projections; and
- help ensure transaction economics on acquisitions.

### NATURAL GAS

Natural gas prices continued to experience significant volatility during the first quarter of 2009, with an overall decrease from average prices at the end of 2008. During the first quarter of 2009, Fairborne realized natural gas prices that were 23% lower than the average price received during the same period in the prior year. The decrease from the previous year was due to lower average spot prices received in 2009; however, Fairborne's first quarter realized prices were still 30% higher than the AECO Daily benchmark reference price due to corporate hedging activities and the higher heat content of Fairborne's production. An average of 23,416 Mcf per day was sold under fixed price physical sales contracts during the first quarter of 2009 representing 35% of the Company's natural gas production. Risk management activities during the first three months of 2009 increased the Company's natural gas revenue by \$7.5 million which had an effect of increasing Fairborne's realized natural gas price by \$1.24 per Mcf to \$6.39 per Mcf.



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The following table summarizes the outstanding fixed price physical sales and derivative contracts for natural gas, including contracts outstanding at March 31, 2009 as well as contracts entered into after March 31, 2009:

	Q2/09	Q3/09	Q4/09	2010
<b>Swaps</b>				
Volume (Mcf per day)	24,774	27,027	27,027	12,162
Average price (\$ per Mcf)	7.96	7.71	7.71	6.49

Conversion factor: 1 Mcf = 1.11 GJ

Fairborne has also locked in the AECO basis on 5,000 mmbtu per day at NYMEX less US\$0.765 per mmbtu for the period April 1, 2009 to October 31, 2009. This basis swap, along with a previous crude oil derivative contract that was converted to a natural gas swap, have been accounted for as derivatives and the mark-to-market value of the contracts has been recorded as an asset of \$10.4 million at March 31, 2009.

### CRUDE OIL

During the first quarter of 2009, Fairborne had an average of 828 bbls per day of crude oil under fixed price physical sales contracts representing 23% of crude oil production. Risk management activities, including option costs for puts purchased during the year increased the Company's crude oil revenue by \$1.8 million for the first quarter of 2009 (\$5.62 per bbl). Similar to natural gas, crude oil prices during the first quarter of 2009 showed continued volatility. The Company's realized crude oil price of \$56.98 per bbl for the first quarter of 2009 represented a decrease of 35% from the same period in 2008, reflecting the overall decrease in average market prices.

The following table summarizes the outstanding fixed price physical sales and derivative contracts on crude oil, including contracts outstanding at March 31, 2009 as well as contracts entered into after March 31, 2009:

	Q2/09	Q3/09	Q4/09	2010
<b>Collars</b>				
Volume (bbls per day)	500	1,500	1,500	1,000
Average floor price (\$per bbl)	\$50.00	\$53.33	\$53.33	\$55.00
Average ceiling price (\$per bbl)	\$94.65	\$92.35	\$92.35	\$105.50

At March 31, 2009, Fairborne had three crude oil collars that were accounted for as derivative contracts and the combined mark-to-market value of these contracts was recorded as an asset of \$125,000 at March 31, 2009.

### SULPHUR

The Company's average realized sulphur price for the first quarter of 2009 was \$185.15 per tonne, a decrease of 28% from the average realized price for 2008 of \$257.87 per tonne. Sulphur prices significantly decreased during the fourth quarter of 2008 and continued to decrease during the first quarter of 2009.

In July 2008, Fairborne executed a contract for the sale of its share of sulphur inventory at the storage block in West Pembina. Pursuant to the contract, the purchaser is committed to make monthly payments to Fairborne. To the extent that the purchaser takes delivery from the sulphur block, the cash received will be recorded as revenue; however, if the purchaser does not take delivery, the cash received will be recorded as deferred revenue. Deliveries stopped in mid-November 2008 but have resumed as of February 2009.

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As a result, deferred revenue of \$4.5 million has been recorded as at March 31, 2009, representing payments received in excess of deliveries. Fairborne is scheduled to receive cash receipts of approximately US\$27.0 million in 2009 under this contract. As at March 31, 2009, Fairborne had received US\$6.8 million under the terms of the contract.

### *Petroleum and Natural Gas Revenue*

<i>(\$thousands except as noted)</i>	Three months ended March 31,		
	2009	2008	change
Petroleum and natural gas sales:			
Natural gas	<b>38,836</b>	43,176	(10%)
Crude oil	<b>18,453</b>	19,319	(4%)
Natural gas liquids	<b>1,403</b>	3,193	(56%)
Sulphur	<b>1,545</b>	4,114	(62%)
Total	<b>60,237</b>	69,802	(14%)
Per BOE	<b>\$43.13</b>	\$60.45	(29%)
Other revenue items:			
Sulphur block	<b>5,353</b>	–	–
Unrealized gain on derivatives	<b>2,643</b>	78	–
Other income	<b>312</b>	738	(58%)
Total	<b>8,308</b>	816	–
Total petroleum and natural gas revenue	<b>68,545</b>	70,618	(3%)
Per BOE	<b>\$49.08</b>	\$61.16	(20%)

Fairborne reported revenue of \$68.5 million for the first quarter of 2009, representing a 20% decrease when compared to the immediately preceding fourth quarter of 2008 (\$85.2 million) and a 3% decrease when compared to the first quarter of 2008 (\$70.6 million). Despite increased production from first quarter 2008, 2009 revenue reflected weaker commodity prices which were only partially offset by sulphur block revenue received in 2009.

### *Royalties*

<i>(\$thousands except as noted)</i>	Three months ended March 31,		
	2009	2008	change
Crown	<b>6,357</b>	10,902	(42%)
Freehold and overriding	<b>1,716</b>	1,407	22%
Total	<b>8,073</b>	12,309	(34%)
Crown (% of P&NG sales)	<b>10.6%</b>	15.4%	(31%)
Freehold and overriding (% of P&NG sales)	<b>2.8%</b>	2.0%	40%
Total (% of P&NG sales)	<b>13.4%</b>	17.4%	(23%)
Per BOE	<b>\$5.78</b>	\$10.66	(46%)



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Fairborne recorded \$8.1 million of royalties for the first quarter of 2009, representing a royalty rate of 13.4%, down from 17.4% in the first quarter of 2008. Fairborne's risk management program in the first quarter increased oil and gas revenues resulting in higher realized prices than the prices utilized in calculating royalties. Other factors contributing to the reduced effective royalty rate in 2009 were increased deductions for allowable operating costs and gas cost allowance as well as a \$1.8 million credit received for deep gas royalty holidays on 2008 production from Fairborne's Harlech and Pedley properties. On a normalized basis, excluding hedging gains and deep gas royalty credits, first quarter royalties averaged approximately 19% of petroleum and natural gas sales.

### Operating Costs

(\$thousands except as noted)	Three months ended March 31,		
	2009	2008	change
Operating costs			
Natural gas	12,472	7,012	78%
Oil and NGLs	4,932	2,419	104%
Total	17,404	9,431	85%
Per BOE	\$12.47	\$8.16	53%

Fairborne recorded operating costs of \$17.4 million (\$12.47 per BOE) during the first quarter of 2009, an increase of 13% from the preceding fourth quarter of 2008 (\$11.08 per BOE). Operating costs in the first three months of 2009 included costs related to water trucking at the Company's Wild River and Sinclair properties as well as increased processing charges at third party operated plants and decreased recoveries from third party processing at Clive. Operating costs for the Wild River and Sinclair properties were under-estimated in the fourth quarter of 2008 resulting in higher costs booked in the first quarter of 2009. Other significant items in the first quarter of 2009 included trucking and access charges for liquids at Fairborne's Basset property, which has winter access only, and expenses for increased workovers on several operated and non-operated wells.

During the first three months of 2009, Fairborne commenced construction on a central oil battery at the Sinclair, Manitoba property, which included an extensive oil gathering pipeline system. This project is expected to significantly reduce operating costs by eliminating water trucking costs, water disposal fees and single well battery fuel costs. In addition, Fairborne constructed a water disposal pipeline at its Wild River property during the first quarter of 2009 which is expected to materially reduce water disposal fees. The combined impact of these initiatives should result in a decrease in the Company's operating costs to more historic levels for the remainder of the year.

### Transportation Expenses

(\$thousands)	Three months ended March 31,		
	2009	2008	change
Transportation	1,594	1,037	54%
Per BOE	\$1.14	\$0.90	27%

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Transportation costs of \$1.6 million (\$1.14 per BOE) for the first quarter of 2009 included clean oil trucking, trucking of natural gas liquids, certain third party fuel charges and transportation and fuel costs associated with the usage of natural gas pipelines. Compared to the fourth quarter of 2008 (\$1.06 per BOE), transportation costs increased primarily due to clean oil and NGL trucking at the Company's Harlech property. Compared to the first quarter of 2008, transportation costs have also increased due to costs associated with properties acquired from Grand Banks.

### Operating Netbacks

(\$ per BOE)	Three months ended March 31,		
	2009	2008	change
Petroleum and natural gas sales <sup>(1)</sup>	43.13	60.45	(29%)
Other income	0.22	0.64	(66%)
Royalties	(5.78)	(10.66)	(46%)
Operating costs	(12.47)	(8.16)	53%
Transportation	(1.14)	(0.90)	27%
Operating netback	23.96	41.37	(42%)

(1) Excludes unrealized gains and losses on derivatives and sulphur block revenue.

Fairborne's operating netback of \$23.96 per BOE decreased 15% when compared to the fourth quarter of 2008 (\$28.07 per BOE) and 42% when compared to the first quarter of 2008 (\$41.37 per BOE). The decrease in the operating netback largely reflects weaker commodity prices.

### General and Administrative ("G&A") Expenses

(\$thousands except as noted)	Three months ended March 31,		
	2009	2008	change
G&A expenses, net of recoveries	2,151	2,853	(25%)
Compensation costs	2,670	2,006	33%
Total G&A expenses	4,821	4,859	(1%)
G&A expenses, net of recoveries, per BOE	\$1.54	\$2.47	(38%)
Compensation costs, per BOE	\$1.91	\$1.74	10%

Fairborne recorded \$2.2 million (Q1 2008 – \$2.9 million) of G&A expenses, net of recoveries, in the first quarter of 2009, representing \$1.54 per BOE (Q1 2008 – \$2.47 per BOE). G&A expenses, net of recoveries, for the first quarter of 2009 decreased 25% from the comparable quarter in 2008 primarily due to the reversal of an accrual for the 2008 employee bonus program. Due to the continuation of a low commodity price environment through the first quarter of 2009, the actual payments under the bonus program were less than originally anticipated. Compared to the preceding fourth quarter of 2008, G&A expenses, net of recoveries, decreased 37% from \$3.4 million.



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Compensation expense of \$2.7 million in the first quarter of 2009 was 33% higher than the \$2.0 million recorded during the first quarter of 2008. Compensation expense recorded during the first quarter of 2009 included \$3.0 million related to the stock option plan, instituted in July 2008, and \$0.1 million representing the amortization of the remaining Restricted Units and Performance Units, partially offset by a \$0.5 million recovery of compensation expense due to the decrease in the intrinsic value of the retention award program. As at March 31, 2009, the intrinsic value of the retention award plan was zero. Compensation expense recorded during the first quarter of 2008 included \$1.4 million related to the intrinsic value of the retention award program and \$0.6 million representing the amortization of the remaining Restricted Units and Performance Units held by certain senior officers and directors.

### Interest

(\$thousands except as noted)	Three months ended March 31,		
	2009	2008	change
Interest expense	3,559	2,809	27%
Accretion of convertible debentures	502	522	(4%)
Total interest	4,061	3,331	22%
Per BOE	\$2.91	\$2.89	1%

Fairborne recorded \$4.1 million in interest expense in the first quarter of 2009, a decrease of 7% from the preceding quarter (Q4 2008 – \$4.4 million) and an increase of 22% from \$3.3 million recorded in the first quarter of 2008. The decrease in interest expense from the preceding quarter is consistent with falling interest rates during the first three months of 2009. Interest expense decreased despite an increase in debt levels from \$196.3 million as at December 31, 2008 to \$209.9 million as at March 31, 2009. Compared to the prior year, the increase in interest expense primarily reflects an overall increase in the Company's debt levels from \$85.6 million at the end of the first quarter of 2008. Also included in interest expense is the accretion of convertible debentures. The costs associated with the debenture offering along with the amount allocated to the conversion feature are included in interest expense over the term of the debentures.

### Depletion, Depreciation and Accretion (DD&A)

(\$thousands)	Three months ended March 31,		
	2009	2008	change
Depletion, depreciation and accretion	37,541	24,956	50%
Per BOE	\$26.88	\$21.61	24%

Fairborne recorded \$37.5 million in depletion and depreciation of capital assets and accretion of asset retirement obligations during the first quarter of 2009. On a BOE basis, the 2009 first quarter DD&A rate of \$26.88 per BOE was 12% higher than the average DD&A rate for the prior year (\$23.99 per BOE) and 24% higher than the first quarter 2008 (\$21.61 per BOE). Capital expenditures during the first quarter of 2009 increased reserves at a higher cost than the average cost of reserve additions during 2008, resulting in an increased DD&A rate for the quarter.

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### Taxes

	Three months ended March 31,		
	2009	2008	change
Future tax expense (reduction) ( <i>\$thousands</i> )	(258)	4,550	(106%)
Per BOE	<b>\$(0.18)</b>	\$3.94	(105%)

Fairborne recorded a future tax recovery of \$0.3 million in the first quarter of 2009 compared to a future tax expense of \$4.6 million recorded during the first quarter of 2008, both of which reflect a provision for future tax at tax rates expected to apply when the related temporary differences reverse. The decline in tax expense is consistent with the decline in net earnings before taxes.

### Net Income (Loss) and Funds Generated from Operations

<i>(\$thousands except as noted)</i>	Three months ended March 31,		
	2009	2008	change
Funds generated from operations	<b>32,970</b>	42,101	(22%)
Per share – basic	<b>\$0.38</b>	\$0.50	(24%)
Per share – diluted	<b>\$0.38</b>	\$0.50	(24%)
Cash flow from operations (including changes in working capital)	<b>34,782</b>	42,857	(19%)
Per share – basic	<b>\$0.40</b>	\$0.51	(22%)
Per share – diluted	<b>\$0.40</b>	\$0.51	(22%)
Net income (loss)	<b>(4,691)</b>	10,145	(146%)
Per share – basic	<b>\$(0.05)</b>	\$0.12	(142%)
Per share – diluted	<b>\$(0.05)</b>	\$0.12	(142%)

The following table provides a reconciliation between cash flow from operations and funds generated from operations.

<i>(\$thousands)</i>	Three months ended March 31,	
	2009	2008
Cash flow from operations	<b>34,782</b>	42,857
Change in non-cash working capital	<b>(2,311)</b>	(994)
Asset retirement expenditures	<b>499</b>	238
Funds generated from operations	<b>32,970</b>	42,101

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*BOE Analysis*

	Three months ended March 31,			
	2009		2008	
	(\$thousands)	(\$ per BOE)	(\$thousands)	(\$ per BOE)
Petroleum and natural gas revenue <sup>(1)</sup>	<b>68,545</b>	<b>49.08</b>	70,618	61.16
Royalties	<b>(8,073)</b>	<b>(5.78)</b>	(12,309)	(10.66)
Operating expenses	<b>(17,404)</b>	<b>(12.47)</b>	(9,431)	(8.16)
Transportation	<b>(1,594)</b>	<b>(1.14)</b>	(1,037)	(0.90)
Unrealized gain on derivatives	<b>(2,643)</b>	<b>(1.89)</b>	(78)	(0.07)
General & administrative <sup>(2)</sup>	<b>(2,151)</b>	<b>(1.54)</b>	(2,853)	(2.47)
Compensation expense <sup>(3)</sup>	<b>(151)</b>	<b>(0.11)</b>	–	–
Interest expense <sup>(4)</sup>	<b>(3,559)</b>	<b>(2.55)</b>	(2,809)	(2.44)
Funds generated from operations	<b>32,970</b>	<b>23.60</b>	42,101	36.46
Unrealized gain on derivatives	<b>2,643</b>	<b>1.89</b>	78	0.07
Compensation expense – non-cash	<b>(2,519)</b>	<b>(1.80)</b>	(2,006)	(1.74)
Accretion of convertible debentures	<b>(502)</b>	<b>(0.36)</b>	(522)	(0.45)
Depletion, depreciation and accretion	<b>(37,541)</b>	<b>(26.88)</b>	(24,956)	(21.61)
Future tax reduction (expense)	<b>258</b>	<b>0.18</b>	(4,550)	(3.94)
Net income (loss)	<b>(4,691)</b>	<b>(3.37)</b>	10,145	8.79

(1) Including unrealized gain/loss on derivatives (non-cash).

(2) Net of compensation expense (non-cash).

(3) Cash component of compensation expense which resulted from the cash settlement of Restricted Units and Performance Units.

(4) Net of accretion on convertible debentures (non-cash).

Fairborne reported funds generated from operations of \$33.0 million (\$23.60 per BOE) for the first quarter of 2009, down 18% from the preceding fourth quarter of 2008 (\$40.3 million) and 22% from the first quarter of 2008 (\$42.1 million). The decrease in cash flow reflected the continued decline in commodity prices as well as increases in operating costs and interest expense in 2009. The net loss of \$4.7 million (\$3.37 per BOE) for the first quarter of 2009 reflected the impact of decreased cash flows and a higher depletion rate, partially offset by the future tax reduction recorded during the quarter.

## 2009 First Quarter Interim Report and News Release

### LIQUIDITY AND CAPITAL RESOURCES

#### *Capital Expenditures*

<i>(\$thousands)</i>	Three months ended March 31,	
	2009	2008
Exploration and development		
Land and lease acquisitions	3,810	316
Geological and geophysical	84	–
Drilling, completions and workovers	39,370	45,259
Well equipment and facilities	9,292	12,346
Corporate assets	89	–
	<b>52,645</b>	57,921
Property acquisitions, net of dispositions	–	1,189
Total	<b>52,645</b>	59,110

During the first quarter of 2009, Fairborne's exploration and development expenditures totaled \$52.6 million with capital expenditures financed through a combination of bank debt and funds generated from operations. Land and lease acquisitions of \$3.8 million during the quarter were primarily focused in the Harlech area where \$2.4 million was utilized to acquire additional acreage at provincial land sales.

Fairborne spent \$39.4 million on drilling and completion activities in the first quarter of 2009 with a total of 16 wells (11.2 net) drilled resulting in eight natural gas wells (5.7 net), one coal bed methane ("CBM") well (0.8 net), six oil wells (4.2 net) and one (0.5 net) dry hole. First quarter drilling activities were focused on Fairborne's Harlech, Clive and Deep Basin properties, with five wells (3.4 net) drilled in Harlech, three wells (2.5 net) drilled on the Company's Clive property, three wells (2.3 net) drilled in the Deep Basin area, one well (1.0 net) drilled on Fairborne's Sinclair property, and three wells (1.5 net) drilled on other Saskatchewan properties. Two (1.3 net) natural gas wells were suspended pending further evaluation.

Tangible capital expenditures during the three months ended March 31, 2009 included the installation of a new compressor at Harlech, the construction of a pipeline at Fairborne's Wild River property and the tie-in of various wells at Harlech and Sinclair.



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### *Working Capital and Bank Indebtedness*

At March 31, 2009, Fairborne had drawn \$209.9 million (December 31, 2008 – \$196.3 million) against its credit facilities and had a working capital deficit of \$31.6 million (December 31, 2008 – working capital deficit of \$27.9 million). With continued volatility in commodity and capital markets, Fairborne intends to limit its 2009 capital expenditure program to a level which it anticipates will be able to be funded entirely from its annual 2009 cash flow from operations. The annual capital expenditure budget was more heavily weighted to the first quarter of 2009 with drilling activities planned prior to spring break-up. As such, the Company utilized credit facilities and working capital to finance capital expenditures in excess of cash generated from operations. On an annualized basis, Fairborne anticipates capital expenditures to be financed from cash flow from operations.

Fairborne's credit facilities at March 31, 2009 included a \$270 million extendible revolving term credit facility and a \$15 million demand operating credit facility for a total available facility of \$285 million. Subsequent to March 31, 2009, Fairborne's borrowing base was renewed at \$285 million on substantially the same terms and conditions. The extendible revolving term facility is now available on a revolving basis until May 28, 2010 and, if not renewed at this date, repayment of the amounts drawn will be required on May 28, 2011. The facilities continue to be subject to semi-annual reviews.

### *Convertible Debentures*

Fairborne had 100,000 Convertible Unsecured Subordinated Debentures outstanding at March 31, 2009 with a principal amount of \$100 million. The Debentures bear interest at a rate of 6.5% per annum, which is payable semi-annually in arrears on December 31 and June 30 of each year. The Debentures mature on December 31, 2011 and can be converted into common shares of Fairborne at any time at the option of the holders at a conversion price of \$13.50 per share.

### *Shareholders' Equity*

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

On May 28, 2008, pursuant to a private placement, Fairborne issued 2.3 million flow-through common shares at a price of \$12.35 per flow-through common share, resulting in gross proceeds of \$28.4 million. As a result of the financing, the Company had a commitment to spend \$28.4 million on qualifying Canadian exploration expenditures. The expenditures were renounced to investors with an effective date of renunciation of December 31, 2008. As at March 31, 2009, the flow-through commitment has been satisfied.

## 2009 First Quarter Interim Report and News Release

The following table provides a summary of outstanding common shares, warrants, convertible debentures, shares under Incentive Plans and stock options at the dates indicated:

<i>(thousands)</i>	<b>April 30, 2009</b>	<b>March 31, 2009</b>	December 31, 2008
Common shares	<b>87,033</b>	<b>87,033</b>	86,933
Warrants <sup>(1)</sup>	<b>4,406</b>	<b>4,406</b>	4,406
Convertible debentures <sup>(2)</sup>	<b>\$100,000</b>	<b>\$100,000</b>	\$100,000
Incentive plans			
Restricted Units	<b>30</b> <sup>(3)</sup>	<b>30</b> <sup>(3)</sup>	78
Performance Units	<b>92</b> <sup>(4)</sup>	<b>92</b> <sup>(4)</sup>	204
Stock options	<b>8,613</b>	<b>8,559</b>	6,904
Weighted average common shares			
Basic	<b>n/a</b>	<b>86,964</b>	85,854
Diluted	<b>n/a</b>	<b>86,964</b>	86,216

(1) Each warrant entitles the holder to acquire 0.39 of a common share at an exercise price of \$8.13 per common share, exercisable until June 1, 2010.

(2) The convertible debentures are convertible into common shares at a conversion price of \$13.50 per share.

(3) The Restricted Units entitle the holders to acquire an aggregate of 35,125 common shares of the Company, subject to vesting in accordance with the restricted unit and performance unit incentive plan (the "Incentive Plan").

(4) The Performance Units entitle the holders to acquire an aggregate of 84,714 common shares of the Company, subject to vesting in accordance with the Incentive Plan.

### BUSINESS ENVIRONMENT AND RISK

The business risks the Company is exposed to are those inherent in the oil and gas industry as well as those governed by the individual nature of Fairborne's operations. Geological and engineering risks, the uncertainty of discovering commercial quantities of new reserves, commodity prices, interest rate and foreign exchange risks, competition and government regulations – all of these govern the businesses and influence the controls and management at the Company. Fairborne manages these risks by:

- attracting and retaining a team of highly qualified and motivated professionals who have a vested interest in the success of the Company;
- operating properties in order to maximize opportunities;
- employing risk management instruments to minimize exposure to volatility of commodity prices, interest rate and foreign exchange rates;
- maintaining a strong financial position; and
- maintaining strict environmental, safety and health practices.



## 2009 First Quarter Interim Report and News Release

### CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

#### *International Financial Reporting Standards ("IFRS")*

Effective January 1, 2011, Canadian public companies are required to adopt International Financial Reporting Standards ("IFRS"). In the time leading up to the conversion date, some existing Canadian standards will change to converge with IFRS. Fairborne's financial statements up to and including the December 31, 2010 financial statements will continue to be reported in accordance with Canadian GAAP as it exists on each reporting date. Financial statements for the quarter ended March 31, 2011, including comparative amounts, will be prepared on an IFRS basis.

In order to transition to IFRS, Management has established a project team and formed an executive steering committee. A transition plan has been developed to convert the financial statements to IFRS. The transition effort is proceeding as planned. Training has been provided to key employees and the Company continues to monitor the effect of the transition on information systems, internal controls over financial reporting and disclosure controls and procedures. Analysis of differences between IFRS and Fairborne's current accounting policies continues, and the impact of various alternatives is being assessed. Changes in accounting policy are likely and may materially impact the financial statements. Due to anticipated changes in IFRS prior to the conversion date, the final impact of the conversion on Fairborne's financial statements cannot be measured.

### CONTROLS AND PROCEDURES

#### *Disclosure Controls and Procedures*

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

#### *Internal Controls over Financial Reporting*

Fairborne's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

No material changes in Fairborne's internal controls over financial reporting were identified during the three months ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including Fairborne's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

## 2009 First Quarter Interim Report and News Release

### QUARTERLY FINANCIAL INFORMATION

The following is a summary of select financial information for the quarterly periods indicated:

	Q1 2009	Q4 2008	Q3 2008	Q2 2008
<i>Financial (\$thousands, except per share amounts)</i>				
Petroleum and natural gas revenue	68,545	85,165	97,489	85,670
Funds generated from operations	32,970	40,309	55,307	51,458
Per share – basic	\$0.38	\$0.46	\$0.64	\$0.60
Per share – diluted	\$0.38	\$0.46	\$0.63	\$0.60
Cash flow from operations (including changes in working capital)	34,782	37,693	65,598	41,650
Per share – basic	\$0.40	\$0.43	\$0.76	\$0.49
Per share – diluted	\$0.40	\$0.43	\$0.76	\$0.48
Net income (loss)	(4,691)	11,657	19,182	3,717
Per share – basic	\$(0.05)	\$0.14	\$0.22	\$0.04
Per share – diluted	\$(0.05)	\$0.14	\$0.22	\$0.04
Total assets	1,023,526	1,013,177	999,065	946,025
Working capital deficit	31,641	27,917	64,814	7,363
Bank indebtedness	209,925	196,282	161,302	180,977
Convertible debentures	95,024	94,522	94,020	93,499
<i>Operations</i>				
Average production				
Natural gas (Mcf per day)	67,520	69,460	62,601	59,529
Crude oil (bbls per day)	3,599	4,086	3,312	2,506
Natural gas liquids (bbls per day)	572	657	580	610
Sulphur (tonnes per day) <sup>(1)</sup>	93	138	129	106
Total (BOE per day)	15,517	16,458	14,454	13,143

(1) Excludes the sale of inventory at the West Pembina sulphur block.



## 2009 First Quarter Interim Report and News Release

	Q1 2008	Q4 2007	Q3 2007 <sup>(1)</sup>	Q2 2007 <sup>(1)</sup>
<b>Financial</b> ( <i>\$thousands, except per share amounts</i> )				
Petroleum and natural gas revenue	70,618	59,976	54,648	49,501
Funds generated from operations	42,101	29,363	27,164	25,547
Per share – basic	\$0.50	\$0.43	\$0.41	\$0.45
Per share – diluted	\$0.50	\$0.43	\$0.38	\$0.41
Cash flow from operations (including changes in working capital)	42,857	36,004	24,159	27,724
Per share – basic	\$0.51	\$0.53	\$0.37	\$0.47
Per share – diluted	\$0.51	\$0.53	\$0.34	\$0.43
Net income (loss)	10,145	(1,136)	2,271	6,739
Per share – basic	\$0.12	(\$0.03)	\$0.03	\$0.11
Per share – diluted	\$0.12	(\$0.03)	\$0.03	\$0.10
Total assets	792,918	749,715	732,276	753,661
Working capital (surplus) deficit	27,255	7,467	27,051	(11,594)
Bank indebtedness	85,634	86,866	159,834	179,120
Convertible debentures	92,977	92,455	91,933	91,389
<b>Operations</b>				
Average production				
Natural gas ( <i>Mcf per day</i> )	56,813	59,194	58,435	48,689
Crude oil ( <i>bbls per day</i> )	2,413	2,616	2,600	2,303
Natural gas liquids ( <i>bbls per day</i> )	597	524	582	449
Sulphur ( <i>tonnes per day</i> ) <sup>(2)</sup>	210	–	–	–
Total ( <i>BOE per day</i> )	12,689	13,005	12,921	10,867

(1) Amounts shown prior to the effective date of the Reorganization are in respect of the Trust and per share numbers are per unit.

(2) Excludes the sale of inventory at the West Pembina sulphur block.

## 2009 First Quarter Interim Report and News Release

### INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(\$thousands)</i>	<b>March 31, 2009</b>	December 31, 2008
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 124	\$ 126
Accounts receivable	40,627	47,915
Derivative asset	10,666	8,023
Prepaid expenses and deposits	6,250	6,742
	<b>57,667</b>	62,806
Petroleum and natural gas properties and equipment <i>(Note 1)</i>	<b>949,689</b>	934,201
Goodwill	<b>16,170</b>	16,170
	<b>\$ 1,023,526</b>	\$1,013,177
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 84,579	\$ 88,877
Current portion of compensation plans <i>(Note 5)</i>	232	396
Deferred revenue	4,497	1,450
	<b>89,308</b>	90,723
Bank indebtedness <i>(Note 2)</i>	<b>209,925</b>	196,282
Convertible debentures <i>(Note 3)</i>	<b>95,024</b>	94,522
Compensation plans <i>(Note 5)</i>	–	111
Asset retirement obligation <i>(Note 4)</i>	<b>11,789</b>	11,904
Future income taxes	<b>88,760</b>	81,860
<b>Shareholders' Equity</b>		
Common shares <i>(Note 5)</i>	<b>470,110</b>	475,908
Warrants	<b>2,721</b>	2,721
Equity component of convertible debentures <i>(Note 3)</i>	<b>5,581</b>	5,581
Contributed surplus <i>(Note 5)</i>	<b>9,947</b>	8,513
Retained earnings	<b>40,361</b>	45,052
	<b>528,720</b>	537,775
	<b>\$ 1,023,526</b>	\$1,013,177

See accompanying notes to the interim consolidated financial statements.

## 2009 First Quarter Interim Report and News Release

**INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS**  
(Unaudited)

	For the three months ended March 31,	
	2009	2008
<i>(\$thousands except per share amounts)</i>		
<b>Revenue</b>		
Petroleum and natural gas	\$ 68,545	\$ 70,618
Royalties	(8,073)	(12,309)
	<b>60,472</b>	58,309
<b>Expenses</b>		
Operating	17,404	9,431
Transportation	1,594	1,037
General and administrative	4,821	4,859
Interest	4,061	3,331
Depletion, depreciation and accretion	37,541	24,956
	<b>65,421</b>	43,614
<b>Income (loss) before taxes</b>	<b>(4,949)</b>	14,695
Future taxes (reduction)	(258)	4,550
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(4,691)</b>	10,145
Retained earnings, beginning of period	45,052	351
<b>Retained earnings, end of period</b>	<b>\$ 40,361</b>	\$ 10,496
<b>Net income (loss) per share (Note 5)</b>		
Basic	\$ (0.05)	\$ 0.12
Diluted	\$ (0.05)	\$ 0.12

See accompanying notes to the interim consolidated financial statements.

## 2009 First Quarter Interim Report and News Release

### INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(\$thousands)</i>	For the three months ended March 31,	
	<b>2009</b>	2008
Cash provided by (used in):		
<b><i>Operating activities</i></b>		
Net income (loss)	\$ (4,691)	\$ 10,145
Items not involving cash:		
Depletion, depreciation and accretion	37,541	24,956
Compensation expense	2,519	2,006
Future taxes (reduction)	(258)	4,550
Accretion of convertible debentures	502	522
Unrealized gain on financial instruments	(2,643)	(78)
Asset retirement expenditures	(499)	(238)
	<b>32,471</b>	41,863
Change in non-cash working capital	2,311	994
	<b>34,782</b>	42,857
<b><i>Financing activities</i></b>		
Bank indebtedness	13,643	(1,232)
<b><i>Investing activities</i></b>		
Expenditures on petroleum and natural gas properties	(52,645)	(57,921)
Acquisition of petroleum and natural gas properties	–	(1,189)
Change in non-cash working capital	4,218	17,571
	<b>(48,427)</b>	(41,539)
Change in cash and cash equivalents	(2)	86
Cash and cash equivalents, beginning of period	126	116
<b><i>Cash and cash equivalents, end of period</i></b>	<b>\$ 124</b>	<b>\$ 202</b>
Interest paid	\$ 2,437	\$ 788

See accompanying notes to the interim consolidated financial statements.

## 2009 First Quarter Interim Report and News Release

### SELECTED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2009 (unaudited)

*(tabular amounts are stated in thousands and thousands of dollars except per share amounts)*

The interim consolidated financial statements of Fairborne Energy Ltd. (the “Company” or “Fairborne”) have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended December 31, 2008, except as noted below. The disclosure which follows is incremental to the disclosure included with the annual financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2008.

#### 1. PETROLEUM AND NATURAL GAS PROPERTIES AND EQUIPMENT

	<b>March 31, 2009</b>	December 31, 2008
Petroleum and natural gas properties and equipment	<b>\$ 1,402,802</b>	\$1,350,355
Accumulated depletion and depreciation	<b>(455,334)</b>	(418,156)
Corporate assets	<b>4,363</b>	4,037
Accumulated depreciation	<b>(2,142)</b>	(2,035)
	<b>\$ 949,689</b>	\$ 934,201

As at March 31, 2009, future development costs of \$180.5 million (December 31, 2008 – \$189.0 million) were included in the depletion calculation and costs of acquiring unproved properties in the amount of \$57.7 million (December 31, 2008 – \$59.1 million) were excluded from the depletion calculation.

#### 2. BANK INDEBTEDNESS

At March 31, 2009 the Company had a \$270 million extendible revolving term credit facility and a \$15 million demand operating credit facility available from a syndicate of Canadian chartered banks, subject to the banks’ semi-annual valuation of Fairborne’s petroleum and natural gas properties. The extendible revolving term facility is available on a revolving basis until May 30, 2009 (364 day facility) at which time it may be extended, at the lenders option. If the revolving period is not extended, the undrawn portion of the facility will be cancelled and the amount outstanding will convert to a 365 day non-revolving term facility. The amounts outstanding under the non-revolving term facility are required to be repaid at the end of the term facility being May 28, 2010. Interest payable on amounts drawn under the facilities is at the prevailing bankers’ acceptance rates plus stamping fees, lenders’ prime rate or LIBOR rates plus applicable margins, depending on the form of borrowing by the Company. The margins and stamping fees vary from 0.35 to 3.25% depending on financial statement ratios and the form of borrowing. The credit facilities are secured by a general security agreement and a first ranking floating charge on the assets of the Company. At March 31, 2009 letters of credit totaling \$0.6 million were outstanding. Subsequent to March 31, 2009, the Company has renewed its credit facility at the same amount and on substantially the same terms and conditions. The extendible revolving term facility continues to be available on a revolving basis until May 28, 2010 and if not renewed at this date repayment of the amounts drawn will be required on May 28, 2011.

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### 3. CONVERTIBLE DEBENTURES

The following table sets forth a reconciliation of the convertible debentures for the three months ended March 31, 2009:

	Number of Debentures	Debt component	Equity component
Balance, beginning of period	100,000	\$ 94,522	\$ 5,581
Accretion	–	502	–
Balance, end of period	<b>100,000</b>	<b>\$ 95,024</b>	<b>\$ 5,581</b>

### 4. ASSET RETIREMENT OBLIGATION

The following table sets forth a reconciliation of the asset retirement obligation for the three months ended March 31, 2009:

Balance, beginning of period	\$ 11,904
Liabilities incurred	128
Liabilities settled	(499)
Accretion expense	256
Balance, end of period	<b>\$ 11,789</b>

### 5. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

#### a) Common Shares

The following table sets forth a reconciliation of the common shares issued and outstanding for the three months ended March 31, 2009:

	Number of Shares	Amount
Balance, beginning of period	86,933	\$ 475,908
Tax effect of flow through shares issued in 2008	–	(7,158)
Issued on vesting of Restricted Units and Performance Units	100	1,360
Balance, end of period	<b>87,033</b>	<b>\$ 470,110</b>

During the quarter the remaining \$4.2 million of required flow-through expenditures pertaining to the issuance of the 2008 flow through shares were expended.



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### b) Per share amounts

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

	Three months ended March 31,	
	2009	2008
Numerator		
Net income (loss) for basic & diluted net income (loss) per share	\$ (4,691)	\$ 10,145
Denominator		
Weighted average shares – basic	86,964	84,294
Restricted Units	–	132
Performance Units	–	328
Denominator for diluted net income (loss) per share	86,964	84,754
Basic net income (loss) per share	\$ (0.05)	\$ 0.12
Diluted net income (loss) per share	\$ (0.05)	\$ 0.12

Excluded from the diluted number of shares for the three months ended March 31, 2009 is the effect of convertible debentures (7.4 million shares), warrants (1.7 million shares) and 8.6 million stock options as they are anti-dilutive to the net loss for the period. Excluded from the diluted number of shares for the three months ended March 31, 2008 is the effect of convertible debentures (7.4 million shares) and warrants (1.8 million shares) which are anti-dilutive to net income.

### c) Equity and liability based compensation plans

#### i) INCENTIVE PLAN

The following table sets forth a reconciliation of the restricted and performance incentive plan activity for the three months ended March 31, 2009:

	Number of Restricted Units	Number of Performance Units	Total
Balance, beginning of period	78	204	282
Exercised	(48)	(112)	(160)
Balance, end of period	30	92	122
Exercisable, end of period	–	–	–
Equivalent common shares, end of period <sup>(1)</sup>	35	85	120

(1) Including additional common shares to be issued for accumulated distributions earned and adjusted for the set performance factor.

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Pursuant to the terms of the plans, settlements of restricted and performance units can be made in cash, common shares or some combination thereof at the discretion of the Board of Directors. Prior to January 1, 2009 all settlements were in the form of equity, either in trust units or common shares. During the quarter ended March 31, 2009, 60,000 RTU's and PTU's were settled for cash. As such, the incentive plan is now accounted for as a liability based plan rather than an equity based plan resulting in the recognition of a \$0.3 million liability with a corresponding reduction in contributed surplus. The company paid \$0.1 million of the liability during the quarter on the cash settlement of the 60,000 RTU's and PTU's. As future awards vest a liability will be recorded equal to the number of awards vested multiplied by the Company's share price at the balance sheet date.

### ii) STOCK OPTION PLAN

The following table sets forth a reconciliation of the stock option plan activity for the three months ended March 31, 2009:

	Number of awards	Weighted average exercise price
Balance, beginning of period	6,904	\$ 12.74
Granted	1,767	2.53
Forfeited	(112)	12.85
Balance, end of period	<b>8,559</b>	<b>\$ 10.63</b>
Exercisable, end of period	-	-

The weighted average fair value of options granted during the three months ended March 31, 2009 was \$0.91 per option using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of two percent, expected volatility of 59 percent, average expected life of three years and dividend rate of nil. An estimated forfeiture rate of two percent has been applied to the compensation costs recognized.

The following table summarizes stock options outstanding at March 31, 2009:

Exercise Price	Options outstanding	Remaining term (years)
\$2.00 – \$4.99	1,767	4.9
\$5.00 – \$7.99	30	4.5
\$8.00 – \$10.99	220	4.5
\$11.00 – \$13.99	6,542	4.3
	<b>8,559</b>	<b>4.4</b>

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### III) RETENTION AWARD PLAN

The following table sets forth a reconciliation of the retention award plan activity for the three months ended March 31, 2009:

	Number of awards	Weighted average exercise price
Balance, beginning of period	8,005	\$ 5.87
Forfeited	(140)	5.75
Balance, end of period	<b>7,865</b>	<b>\$ 5.89</b>
Exercisable, end of period	<b>2,620</b>	<b>\$ 5.65</b>

### d) Contributed Surplus

The following table sets forth a reconciliation of the contributed surplus for the three months ended March 31, 2009:

Balance, beginning of period	\$ 8,513
Equity based compensation	3,177
Restricted and Performance Units exercised	(1,360)
Reclassification to compensation plan liability (Note 5 (c)(i))	(383)
Balance, end of period	<b>\$ 9,947</b>

## 6. FINANCIAL INSTRUMENTS

As at March 31, 2009, the Company's accounts receivable is aged as follows:

<b>Aging</b>	
Current (less than 90 days)	\$ 35,965
Past due (more than 90 days)	4,662
Total	<b>\$ 40,627</b>

### *Fair value of financial instruments:*

The carrying value of Fairborne's financial instruments, other than bank indebtedness and convertible debentures, approximate their fair value due to their short maturity. The fair value of the bank indebtedness approximates its carrying value as it bears interest at a floating rate. The fair value of the convertible debentures at March 31, 2009 was \$74.3 million (December 31, 2008 – \$74.5 million).

### *Foreign currency exchange rate risk:*

Fairborne entered into a foreign exchange forward contract from March to December, 2009 for US\$1.0 million per month at a fixed exchange rate of CDN\$1.2804:US\$1.00. The fair value of this contract at March 31, 2009 was \$0.2 million which is included in the derivative asset.

## 2009 First Quarter Interim Report and News Release

### 7. COMMODITY CONTRACTS

Fairborne has a risk management program whereby the Company sells forward a portion of its future production through fixed price sales contracts with customers.

#### a) Commodity Contracts Recorded at Fair Value:

At March 31, 2009 the following oil and natural gas contracts have been recorded on the balance sheet at their estimated fair value as a \$10.5 million asset (December 31, 2008 – an asset of \$8.0 million). The change in the fair value has been recorded in petroleum and natural gas sales as an unrealized gain on financial instruments for the three months ended March 31, 2009.

#### NATURAL GAS:

	Volume (per day)	Price	Settlement Index
<b>Basis Swap</b>			
Apr 1, 2009 – Oct 31, 2009	5,000 mmbtu	Nymex – US\$0.765	Nymex LD
<b>AECO Swap</b>			
Apr 1, 2009 – Dec 31, 2009	15,000 GJ	CDN \$6.77	AECO C Monthly

#### OIL:

	Volume (bbls per day)	Price (\$ per bbl)	Settlement Index
<b>Collars</b>			
Apr 1, 2009 – Dec 31, 2009	500	50.00 – 94.65	WTI
Jul 1, 2009 – Dec 31, 2009	500	55.00 – 94.00	WTI
Jan 1, 2010 – Dec 31, 2010	500	55.00 – 108.00	WTI

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### *b) Commodity Contracts not Recorded at Fair Value:*

The following crude oil and natural gas fixed price physical sales contracts outstanding at March 31, 2009 have been entered into for the purpose of physical delivery of a non-financial item; therefore, the physical delivery contracts are not fair valued. Settlements on these contracts are included in petroleum and natural gas revenue as they settle.

#### **OIL:**

	Volume (bbls per day)	Price (\$ per bbl)	Settlement Index
<b>Collars</b>			
Jul 1, 2009 – Dec 31, 2009	500	55.00 – 88.40	WTI
Jan 1, 2010 – Dec 31, 2010	500	55.00 – 103.00	WTI

#### **NATURAL GAS:**

	Volume (GJ per day)	Price (\$ per GJ)	Settlement Index
<b>AECO Swaps</b>			
Apr 1, 2009 – Dec 31, 2009	5,000	7.76	AECO C Monthly
Apr 1, 2009 – Dec 31, 2009	5,000	7.50	AECO C Monthly
Apr 1, 2009 – Dec 31, 2009	2,500	7.70	AECO C Monthly
Jul 1, 2009 – Dec 31, 2009	2,500	4.51	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	5,000	5.86	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	2,500	5.67	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	1,500	5.90	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	1,500	5.86	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	1,500	5.88	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	1,500	6.00	AECO C Monthly

## 2009 First Quarter Interim Report and News Release

### FAIRBORNE ENERGY LTD.

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Telephone [403] 290-7750  
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### AUDITORS

*KPMG LLP*

### RESERVE EVALUATORS

*GLJ Petroleum Consultants Ltd.*

### BANKERS

*Royal Bank of Canada*  
*National Bank of Canada*  
*Canadian Imperial Bank of Commerce*  
*Alberta Treasury Branch*

### LEGAL COUNSEL

*Burnet, Duckworth & Palmer LLP*  
*McCarthy Tetrault LLP*

### STOCK EXCHANGE LISTING

*The Toronto Stock Exchange*  
Trading Symbol: FEL  
Convertible Debentures: FEL.DB

### CORPORATE GOVERNANCE

A system of corporate governance for Fairborne has been established to provide the Board of Directors, management and shareholders of the Company with effective governance. A more detailed discussion of corporate governance is available in the Information Circular for the Annual Meeting of Shareholders.

### DIRECTORS

*Greg Bay*  
President and CEO  
Cypress Capital Management Ltd.

*Robert B. Hodgins*  
Investor and Corporate Director

*Johannes J. Nieuwenburg*  
General Partner  
KERN Partners Ltd.

*Carl J. Tricoli*  
Founder and Managing Partner  
Denham Capital Management LP

*Steven R. VanSickle*  
President and CEO  
Fairborne Energy Ltd.

*Richard A. Walls*  
Chairman  
Fairborne Energy Ltd.

*Rodney D. Wimer*  
President  
Mazama Capital Partners

### GENERAL INFORMATION

Shareholders and interested investors are encouraged to visit our web site: <http://www.fairborne-energy.com>  
Historical public documents, corporate information, latest presentation material and press releases are all available. Filings also available at: [www.sedar.com](http://www.sedar.com)

### OFFICERS

*Steven R. VanSickle*  
President  
and Chief Executive Officer

*David L. Summers*  
Chief Operating Officer

*Aaron G. Grandberg*  
Chief Financial Officer

*Jackie M. Cugnet*  
Vice President  
Finance

*David S. Cymbalisky*  
Vice President  
Engineering

*Scott W. Hadley*  
Vice President  
Exploration

*F. Tom Park*  
Vice President  
Marketing

*Gary M. Poirier*  
Vice President  
Production

*David E.T. Pyke*  
Vice President  
Land and Contracts

### ANNUAL MEETING

The Annual Meeting of the Shareholders of Fairborne Energy Ltd. will be held at 3:00 pm, on Wednesday May 27, 2009 in the McMurray Room of the Calgary Petroleum Club, 319 – 5th Avenue S.W. Calgary, Alberta.





**FAIRBORNE  
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For further information please contact

*Steven R. VanSickle* — President & CEO or,

*Aaron G. Grandberg* – CFO