

Q2/07

August 10, 2007 - Fairborne Energy Trust – Second Quarter Financial and Operating Results

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
<i>FINANCIAL (\$thousands, except per unit amounts)</i>				
Petroleum and natural gas sales ⁽¹⁾	49,501	50,914	99,167	105,703
Funds generated from operations ⁽²⁾	25,547	30,340	51,580	58,964
Per unit – basic	\$0.48	\$0.64	\$1.03	\$1.26
Per unit – diluted	\$0.44	\$0.57	\$0.92	\$1.11
Cash flow from operations (including changes in working capital)	27,724	38,037	55,474	67,616
Per unit – basic	\$0.52	\$0.80	\$1.11	\$1.44
Per unit – diluted	\$0.47	\$0.71	\$0.99	\$1.27
Net income	6,739	13,881	13,899	24,740
Per unit – basic	\$0.13	\$0.30	\$0.28	\$0.53
Per unit – diluted	\$0.11	\$0.28	\$0.26	\$0.51
Exploration and development expenditures	6,739	8,290	33,963	37,522
Acquisitions, net of dispositions	226,328	–	226,328	–
Working capital surplus (deficit)	11,594	(3,199)	11,594	(3,199)
Bank indebtedness	179,120	147,202	179,120	147,202
Convertible debentures	91,389	–	91,389	–
<i>OPERATIONS (Units as noted)</i>				
Average production				
Natural gas (Mcf per day)	48,689	43,441	46,885	44,948
Crude oil (bbls per day)	2,303	2,607	2,349	2,591
Natural gas liquids (bbls per day)	449	432	426	408
Total (BOE per day)	10,867	10,280	10,589	10,491
Average sales price				
Natural gas (\$ per Mcf) ⁽¹⁾	7.43	7.74	7.93	8.38
Crude oil (\$ per bbl) ⁽¹⁾	69.90	74.34	67.00	69.43
Natural gas liquids (\$ per bbl)	50.37	51.94	44.52	51.64
Netback per BOE (\$ per BOE)				
Petroleum and natural gas sales ⁽¹⁾	50.33	54.43	52.04	55.67
Royalties	(8.82)	(7.04)	(9.14)	(10.00)
Transportation	(0.47)	(1.00)	(0.77)	(1.58)
Operating expenses	(8.01)	(9.82)	(8.92)	(9.23)
Operating netback	33.03	36.57	33.21	34.86
Wells drilled (gross)	1	4	28	29
Undeveloped land (net acres)	233,467	182,034	233,467	182,034

(1) Excludes unrealized gains (losses) on financial instruments.

(2) 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.

SECOND QUARTER HIGHLIGHTS

- > Average daily production of 10,867 BOE per day, an increase of 5% compared to the first quarter.
- > Current production is 13,000 BOE per day, an increase of 20% over second quarter average production.
- > Completed the acquisition of Fairquest Energy Limited ("Fairquest") effective June 4th.
- > Strong operating netback of \$33.03 per BOE.
- > Operating costs of \$8.01 per BOE reflected reductions in field operating costs as well as recoveries from third party equalizations for 2005 and 2006.
- > Realized gas price of \$7.43 per Mcf was 5% higher than average daily AECO prices reflecting an active risk management program and high heat content natural gas.
- > Cash flow of \$25.5 million (\$0.44 per unit, diluted)
- > Production was negatively impacted by approximately 300 BOE per day due to third party outages at Westeros and Wild River.
- > In July, the Trust acquired an additional 40 sq miles of 3D seismic over the Trust's Marlboro/Pine Creek property.

FAIRQUEST ACQUISITION

The Trust successfully completed the acquisition of Fairquest on June 4th, 2007. The acquisition added approximately 2,800 BOE per day of production, 11.3 million proved plus probable reserves and over 68,000 net acres of undeveloped land. The Fairquest acquisition provides the Trust with the unique opportunity to increase its interest and participation in exploitation and exploration prospects in its existing areas of focus as well as facilities including the Harlech Compressor Station (now owned 100% by Fairborne) and the West Pembina Sour Gas Plant. Fairquest's large acreage position in the Marsh/Lambert/Pedley areas of the deep basin provide access to additional exploration properties where Fairquest had established joint venture relationships and developed a number of deep exploration prospects.

As consideration for the Fairquest acquisition, the Trust issued 15.8 million Trust units to Fairquest shareholders and assumed \$50.7 million of net debt, resulting in bank debt of \$179.1 million at June 30 against an increased borrowing base of \$220 million. Results of operations from Fairquest properties have been included in Fairborne's results beginning June 4th, 2007.

OPERATIONS UPDATE

Production for the second quarter of 2007 averaged 10,867 BOE per day, with production from Fairquest properties included beginning June 4th. Second quarter production was negatively impacted by outages and interruptions including a turnaround at a third party facility in Westeros, and a power failure at a third party facility in Wild River as well as a compressor installation. The impact of outages and interruptions reduced second quarter average production by approximately 300 BOE per day. With significant second quarter outages corrected during the third quarter, and two new wells tied in during the month of July, current production is 13,000 BOE per day, with production expected to range between 13,000 and 13,300 BOE per day for the third and fourth quarters of 2007.

Fairborne continued to record a strong operating netback for the second quarter of \$33.03 per BOE, with operating costs of \$8.01 per BOE. Net recoveries of \$1.5 million (\$1.50 per BOE) were recorded during the second quarter of 2007, the majority of which related to 2005 and 2006 equalizations at a third party operated gas facility in West Pembina. Based on current production levels and the Trust's existing properties, the Trust expects operating costs to average between \$9.00 and \$9.50 per BOE for the remainder of 2007.

Fairborne's estimated capital program for the remainder of 2007 will be allocated 65% for drilling and completion activities, 26% on equipping and tie-ins of wells, and 9% on land and seismic activities. Drilling activities for the balance of the year will result in Fairborne participating in an additional 42 wells (27.3 net) in a variety of different areas. The largest number of wells will be drilled in the Clive area where Fairborne plans to either drill or participate in 22 wells (15.2 net). In addition, Fairborne plans to be actively drilling in Westeros, the Belly River Unit, Columbia/Harlech, the Deep Basin as well as the Peace River Arch.

The Trust is continuing its evaluation and program development of a proposed miscible flood at the Trust's Clive property. Two excellent reservoirs exist at Clive, the Nisku and Leduc, that are the targets for the CO₂ flooding. The combined original oil in place of these two carbonate reservoirs was 122 million barrels of 38^o API oil (EUB ST98 – 2006 Report); production to date has totalled 70 million barrels. Preliminary reservoir modeling and simulation indicate 10% to 20% incremental recovery from these reservoirs is possible. The Trust has signed a letter of intent with Enhance Energy Inc. for the supply of CO₂. Additional work, final registration and regulatory approval are still required prior to implementing the CO₂ flood at Clive.

Based on volatility in commodity prices and softening of natural gas prices, Fairborne continued with its hedging program in order to sustain cash flow and maintain distributions to unitholders. For the remainder of 2007, the Trust has approximately 25% of natural gas volumes at a minimum average price of \$8.64 per Mcf and approximately 18% of crude oil volumes hedged at a floor price of US\$70.83 per bbl.

OUTLOOK

Fairborne will continue to focus on operational, development and acquisition opportunities which enable us to deliver sustainable results to our unitholders. Having completed the acquisition of Fairquest, the Trust has increased its production base which, combined with a moderate level of commodity price protection, will enable us to pursue the prudent development of our extensive inventory of internal growth projects while paying a competitive distribution to unitholders. We look forward to an active capital program in the latter half of 2007 with a goal to maintain or improve current production levels.



STEVEN R. VANSICKLE

President and Chief Executive Officer

August 9, 2007

Calgary, Alberta

The following Management Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") was prepared at, and is dated, August 9, 2007. This MD&A is provided by the management of Fairborne Energy Trust ("Fairborne" or the "Trust") to review second quarter 2007 activities and results as compared to the previous year, and should be read in conjunction with the unaudited interim consolidated financial statements including selected notes for the six months ended June 30, 2007 and the audited consolidated financial statements including notes for the years ended December 31, 2006 and 2005. Additional information relating to Fairborne, including Fairborne's annual information form, is available on SEDAR at www.sedar.com.

NATURE OF BUSINESS: *Fairborne Energy Ltd. was incorporated as a private company and commenced active operations in June, 2002. In 2003, Fairborne Energy Ltd. became a publicly traded company. Effective June 1, 2005, Fairborne Energy Ltd. was reorganized resulting in two new entities, Fairquest Energy Limited ("Fairquest"), a publicly traded exploration-focused company, and Fairborne Energy Trust, an open-ended unincorporated investment trust. If the context requires, reference herein to "Fairborne" also includes a reference to Fairborne Energy Ltd. prior to the reorganization.*

The Trust maintains its head office in Calgary and is engaged in the business of 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. The Trust's mandate is to generate stable, monthly distributions while maintaining a solid production base.

FORWARD LOOKING STATEMENTS: *This MD&A contains forward-looking statements. Management's assessment of future plans and operations, wells to be drilled, expected transportation costs, production estimates and expected production rates, levels of distributions on Trust Units and the payout ratio, cash available for distribution and its availability for capital expenditures and distributions, expected taxability of distributions, capital expenditures, and methods of financing capital expenditures 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, 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 Trust's actual results may differ materially from those expressed in, or implied by, 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 the Trust'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) or at the Trust's website (www.fairbornetrust.com). Furthermore, the forwardlooking statements contained in this MD&A are made as at the date of this MD&A and the Trust does not undertake any obligation to update publicly or to revise any of the included forwardlooking 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", "distributable cash/cash available for distribution", "payout ratio" and "netbacks" which are non-GAAP terms. The Trust uses these measures to help evaluate its performance. The Trust considers corporate netback a key measure as it demonstrates its profitability relative to current commodity prices. The Trust considers funds generated from operations, distributable cash/cash available for distribution and payout ratio key measures as they demonstrate Fairborne's ability to generate funds necessary to repay debt, make distributions to Unitholders 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, distributable cash/cash available for distribution and payout ratio 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 section entitled "Distributable Cash and Distributions" with funds generated from operations calculated before non-cash working capital and asset retirement expenditures. Fairborne also presents funds generated from operations per unit whereby per unit amounts are calculated using weighted average units outstanding consistent with the calculation of income per unit with diluted per unit calculations including the effect of convertible debentures.*

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 is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead.*

BUSINESS COMBINATION WITH FAIRQUEST ENERGY LIMITED

On June 4, 2007, Fairborne completed the acquisition of Fairquest Energy Limited ("Fairquest"). As consideration for the acquisition, the Trust issued 15.8 million Trust units to Fairquest shareholders and assumed \$50.7 million of net debt. In addition, the Trust also issued 4.6 million warrants to acquire an additional 1.8 million Trust units at an exercise price of \$8.13 per Trust unit in exchange for outstanding Fairquest warrants. Results of operations from Fairquest properties have been included in Fairborne's results beginning June 4, 2007.

The immediate impact of the combination resulted in increased production and cash flow for the Trust, thereby providing the opportunity to develop a more extensive capital investment program on a broader range of prospects. Moving forward, the combined resources of the Trust and Fairquest are significant in terms of development drilling opportunities, undeveloped land, prospects and property enhancement projects. The combination also provided the Trust with the unique opportunity to increase its interest in core areas of exploration and development. In Columbia/Harlech, Fairquest's exploration drilling activities over the past 2 years have significantly lowered the risk profile of the area, transitioning it from an exploration focus to a lower risk area with more development drilling projects.

SECOND QUARTER 2007 FINANCIAL RESULTS

PRODUCTION

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Natural gas (<i>Mcf per day</i>)	48,689	43,441	12%	46,885	44,948	4%
Crude oil (<i>bbls per day</i>)	2,303	2,607	(12%)	2,349	2,591	(9%)
Natural gas liquids (<i>bbls per day</i>)	449	432	4%	426	408	4%
Total (<i>BOE per day</i>)	10,867	10,280	6%	10,589	10,491	1%
Natural gas % of production	75%	70%	-	74%	71%	-

Fairborne's second quarter production, which included Fairquest properties from June 4 to June 30, averaged 10,867 BOE per day, 5% higher than the preceding first quarter of 2007 (10,308 BOE per day), and 6% higher than the comparative second quarter of 2006 (10,280 BOE per day).

Natural gas production of 48.7 MMcf per day in the second quarter (Q1 2007 – 45.1 MMcf per day) reflected the addition of properties acquired in the Fairquest acquisition from June 4 to June 30. Second quarter production was also negatively impacted by several outages and interruptions, including a turnaround at a third party facility in Westeros, and a power failure and compressor installation at a third party facility in Wild River. The impact of outages and interruptions reduced second quarter average production by approximately 300 BOE per day. On a year-to-date basis, natural gas production of 46.9 MMcf per day in 2007 is 4% higher than the prior year average of 44.9 MMcf per day.

Average crude oil and NGL production of 2,752 bbls per day for the second quarter of 2007 is consistent with the preceding first quarter 2007 (2,798 bbls per day).

With significant second quarter outages corrected during the third quarter and two new wells tied in during the month of July, the Trust expects production to range between 13,000 and 13,300 BOE per day for the remainder of 2007.

COMMODITY PRICES & RISK MANAGEMENT ACTIVITIES

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Average Prices						
Natural gas (\$ per Mcf)*	7.43	7.74	(4%)	7.93	8.38	(5%)
Crude oil (\$ per bbl)*	69.90	74.34	(6%)	67.00	69.43	(3%)
Natural gas liquids (\$ per bbl)	50.37	51.94	(3%)	44.52	51.64	(14%)
BOE (\$ per BOE)	50.17	53.77	(7%)	51.78	55.08	(6%)
Benchmark Prices						
AECO Daily Index (Cdn\$ per Mcf)	7.07	6.01	18%	7.24	6.76	7%
AECO Monthly Index (Cdn\$ per Mcf)	7.37	6.27	18%	7.41	7.77	(5%)
WTI – Edmonton par (Cdn\$ per bbl)	72.62	78.89	(8%)	70.19	74.15	(5%)

* Excludes unrealized loss on derivatives.

Risk Management – Physical Sales Contracts and Derivatives

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

- > provide greater certainty and stability to distributions;
- > protect unitholder return on investment;
- > reduce risk exposure in budgeted annual funds flow projections; and
- > help ensure transaction economics on acquisitions.

Natural Gas

Natural gas prices decreased during the second quarter of 2007, with average AECO daily prices falling 5% and monthly prices remaining relatively constant, decreasing by only 1%, when compared to the first quarter of 2007. Compared to the second quarter of 2006, AECO daily and monthly prices increased 18%. US storage fundamentals worsened during the second quarter of 2007 as the North American market experienced record levels of liquid natural gas ("LNG") imports. In combination with increased lower 48 production, current storage levels are 14% above the 5 year average and 3% below the record levels established for the same period in 2006.

During the second quarter of 2007, Fairborne continued to realize above-average natural gas prices due to the higher heat content of the Trust's production and an active risk management program. An average of 28.2 MMcf per day was sold under fixed price physical sales contracts during this quarter representing 58% of the Trust's natural gas production. Risk management activities for the second quarter of 2007 increased the Trust's realized natural gas revenue by \$1.4 million which had an effect of increasing the Trust's natural gas price by \$0.32 per Mcf to \$7.43 per Mcf, a 5% premium to the weighted average daily AECO index. At June 30, 2007, the Trust had two basis swap contracts outstanding which qualify as derivative contracts. The mark-to-market value of these contracts has been recorded as an unrealized loss of approximately \$10,000 at June 30, 2007.

The Trust continues to use its risk management program to manage downside price risk and provide stability to expected funds generated from operations. Currently, Fairborne has 25% of its gas production under fixed price physical sales contracts for the third and fourth quarters of 2007 at a minimum average price of \$8.64 per Mcf. On an annualized basis for the 2007 calendar year, the Trust has an average of 41% of its natural gas protected at an average price of \$8.63 per Mcf. In addition, 19% of the Trust's estimated gas production for the first quarter of 2008 is allocated to fixed price physical sales contracts at a minimum average price of \$9.26 per Mcf.

The following table summarizes the outstanding fixed price physical sales contracts for natural gas, including contracts outstanding at June 30, 2007 as well as contracts entered into after June 30, 2007:

	Q3/07	Q4/07	Q1/08
Collars			
Volume (Mcf per day)	–	7,277	5,458
Average floor (\$ per Mcf)	–	\$8.80	\$8.80
Average ceiling (\$ per Mcf)	–	\$10.66	\$11.16
Puts and Participating Swaps			
Volume (Mcf per day)	10,460	1,364	–
Average floor (\$ per Mcf)	\$8.17	\$8.34	–
Swaps			
Volume (Mcf per day)	4,548	6,216	6,367
Average price (\$ per Mcf)	\$8.91	\$9.12	\$9.67
Total volume (Mcf per day)	15,008	14,857	11,825
Average floor price (\$ per Mcf)	\$8.39	\$8.89	\$9.26

Conversion factor: 1 Mcf = 1.09 GJ

The Trust has also locked in the AECO basis on 5,000 mmbtu/d at NYMEX less US\$0.845/mmbtu for the second quarter of 2008 and NYMEX less US\$0.865/mmbtu for the third quarter of 2008. These basis swap contracts are accounted for as derivative contracts.

Crude Oil

Crude oil prices strengthened in the second quarter of 2007, increasing by 7% compared to average market prices in the preceding quarter. For the second quarter of 2007, the Trust had an average of 1,000 bbls per day of crude oil under fixed price physical sales contracts and derivative contracts representing 40% of crude oil production. Risk management activities, including option costs for puts purchased during the year increased the Trust's realized crude price by \$0.3 million or \$1.46 per bbl for the quarter. The change in the mark-to-market value of derivative contracts from March 31 to June 30, 2007, resulted in a \$0.3 million loss during the second quarter. Compared to the same period in 2006, the Trust's realized crude oil price of \$69.90 per bbl for Q2 2007 (\$68.63 per bbl including unrealized loss on derivatives) represented a decrease of 6% from \$74.34 per bbl in 2006. For the remainder of 2007, the Trust has 18% of its estimated crude oil production protected at a minimum average price of US\$70.83 per bbl.

The following table summarizes the outstanding fixed price physical sales contracts on crude oil, including contracts outstanding at June 30, 2007 as well as contracts entered into after June 30, 2007:

	Q3/07	Q4/07	Q1/08	Q2/08
Swaps				
Volume (bbl per day)	500	500	500	500
Average price (\$US per bbl)	\$70.68	\$70.98	\$70.70	\$70.55

PETROLEUM AND NATURAL GAS REVENUE

(\$thousands except as noted)	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Natural gas	32,907	30,612	8%	67,327	68,210	(1%)
Crude oil	14,647	17,639	(17%)	28,489	32,565	(13%)
Natural gas liquids	2,058	2,042	1%	3,430	3,817	(10%)
Unrealized loss on derivatives	(266)	-	n/a	(579)	-	n/a
Other income	155	621	(75%)	500	1,111	(55%)
Total	49,501	50,914	(3%)	99,167	105,703	(6%)
Per BOE	\$50.06	\$54.43	(8%)	\$51.74	\$55.67	(7%)

Fairborne's reported revenue of \$49.5 million for the second quarter 2007 was marginally lower than the \$49.7 million recorded in the first quarter of 2007. The impact of increased production in the second quarter was offset by decreases in realized commodity prices. Compared to the prior year, both the second quarter and year-to-date revenue were lower in 2007 with higher production levels more than offset by weaker commodity prices and unrealized losses on financial instruments in 2007.

ROYALTIES

(\$thousands except as noted)	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Crown	6,396	4,152	54%	13,068	13,946	(6%)
Freehold and overriding	2,326	2,436	(5%)	4,448	5,038	(12%)
Total	8,722	6,588	32%	17,516	18,983	(8%)
Crown (% of revenue)	12.9%	8.1%	59%	13.2%	13.2%	-
Freehold and overriding (% of revenue)	4.7%	4.8%	(2%)	4.5%	4.8%	(6%)
Total (% of revenue)	17.6%	12.9%	36%	17.7%	18.0%	(2%)
Per BOE	\$8.82	\$7.04	25%	\$9.14	\$10.00	(9%)

The Trust recorded \$8.7 million of royalties for the second quarter of 2007, representing a rate of 17.6%, consistent with the first quarter of 2007 (17.7%), the six months ended June 30, 2007 (17.7%) and the first six months of 2006 (18.0%). Throughout 2006 and the first six months of 2007, Fairborne's realized gas price was well in excess of the reference price utilized in calculating crown royalties due to the Trust's risk management program, resulting in a lower effective royalty rate. In addition, crown royalty credits of \$0.9 million were received in June 2007 relating to 2006 crown cost deductions and capital cost allowance. Similarly, \$2.6 million of crown royalty credits were recorded in June 2006 related to 2005 crown cost deductions and capital cost allowance, resulting in a comparatively lower rate of 12.9% in the second quarter 2006.

TRANSPORTATION EXPENSES

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Transportation costs (\$thousands)	465	930	(50%)	1,469	3,005	(51%)
Per BOE	\$0.47	\$1.00	(53%)	\$0.77	\$1.58	(51%)

Transportation costs include 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. During the second quarter of 2007, Fairborne's transportation

costs were reduced by an accounting adjustment of \$0.7 million which related to natural gas transportation costs from June 2005 to current. Based on existing transportation commitments, the Trust expects transportation costs to be between \$1.00 to \$1.10 per BOE for the remainder of 2007.

OPERATING COSTS

(\$thousands except as noted)	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Operating costs						
Natural gas	6,131	6,559	(7%)	12,867	12,525	3%
Oil and NGLs	1,785	2,623	(32%)	4,236	4,992	(15%)
Total	7,916	9,182	(14%)	17,103	17,517	(2%)
Per BOE	\$8.01	\$9.82	(18%)	\$8.92	\$9.23	(3%)

Operating costs of \$7.9 million during the second quarter of 2007 (\$8.01 per BOE) were reduced by approximately \$1.5 million (\$1.50 per BOE) for facility equalizations primarily related to 2005 and 2006. The most significant equalization related to a major third party facility in the Trust's West Pembina area, with additional equalizations on operated facilities also recorded during the second quarter, for a net effect of \$1.50 per BOE. Excluding the impact of equalizations, regular operating costs for the second quarter were approximately \$9.50 per BOE, consistent with first quarter costs of \$9.46, also excluding equalizations.

Based on current production levels and the Trust's existing properties, the Trust expects operating costs to average between \$9.00 and \$9.50 per BOE for the remainder of 2007.

OPERATING NETBACKS

	Natural Gas (\$/Mcf)		Three months ended June 30,		2006		Change
			2007	2006	BOE	BOE	
		CBM (\$/Mcf)	Crude oil (\$/bbl)	NGL's (\$/bbl)	Production (\$/BOE)	Production (\$/BOE)	
Petroleum and natural gas sales ⁽¹⁾	7.49	7.13	69.90	50.37	50.17	53.77	(7%)
Other income	0.05	0.01	(0.27)	-	0.16	0.66	(76%)
Royalty expense	(1.55)	(0.46)	(11.27)	(7.14)	(8.82)	(7.04)	25%
Transportation expense	(0.11)	-	(0.31)	-	(0.47)	(1.00)	(53%)
Operating costs	(1.52)	(0.70)	(7.33)	(6.10)	(8.01)	(9.82)	(18%)
Operating netback	4.36	5.98	50.72	37.13	33.03	36.57	(10%)

(1) Excludes unrealized loss on derivatives

	Natural Gas (\$/Mcf)		Six months ended June 30,		2006		Change
			2007	2006	BOE	BOE	
		CBM (\$/Mcf)	Crude oil (\$/bbl)	NGL's (\$/bbl)	Production (\$/BOE)	Production (\$/BOE)	
Petroleum and natural gas sales ⁽¹⁾	8.02	7.52	67.00	44.52	51.78	55.08	(6%)
Other income	0.08	-	(0.12)	-	0.26	0.59	(56%)
Royalty expense	(1.55)	(0.72)	(11.70)	(7.07)	(9.14)	(10.00)	(9%)
Transportation expense	(0.20)	-	(0.15)	-	(0.77)	(1.58)	(51%)
Operating costs	(1.65)	(0.81)	(8.59)	(7.57)	(8.92)	(9.23)	(3%)
Operating netback	4.70	5.99	46.44	29.88	33.21	34.86	(5%)

(1) Excludes unrealized loss on derivatives

The Trust's operating netback of \$33.03 per BOE for the second quarter decreased by 1% compared to the first quarter (\$33.41 per BOE). The impact of reduced commodity prices was only partially offset by lower royalties and operating costs during the second quarter. Reductions in operating netbacks compared to 2006 on both a quarter-over-quarter and year-to-date basis are also primarily attributable to reduced commodity prices.

GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

<i>(\$thousands except as noted)</i>	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
G&A expenses, net of recoveries	3,384	2,023	67%	5,119	3,406	50%
Trust Unit compensation costs	1,869	1,390	34%	3,658	2,358	55%
Total G&A expenses	5,253	3,413	54%	8,777	5,764	52%
G&A expenses, per BOE	\$3.42	\$2.16	58%	\$2.67	\$1.79	49%
Compensation costs, per BOE	\$1.89	\$1.49	27%	\$1.91	\$1.24	54%

Fairborne recorded \$3.4 million of G&A expenses, net of recoveries in the second quarter of 2007 (Q2 2006 - \$2.0 million), representing \$3.42 per BOE (Q2 2006 - \$2.16 per BOE). G&A expenses for the second quarter increased from \$1.7 million in the first quarter of 2007 primarily due to increased employee compensation with cash bonuses paid out in April, 2007. No such incentives were paid out during 2006. For the remainder of 2007, Fairborne expects G&A expenses, net of recoveries, to average between \$1.75 and \$1.85 per BOE.

G&A expenses were offset by recoveries from Fairquest under the Technical Services Agreement prior to June 4, 2007. Fairborne recorded a recovery of \$1.7 million under this agreement during the six months ended June 30, 2007 compared to \$1.2 million for the same period last year.

Compensation expense of \$1.9 million in the second quarter of 2007 (Q2 2006 - \$1.4 million) was comparable to the first quarter of 2007 (\$1.8 million). Compensation expense includes amortization of the fair value of Trust units anticipated to be issued pursuant to the Trust's Incentive Plan. The increase in compensation expense compared to the prior year is consistent with additional Restricted and Performance Units issued to employees as part of the Trust's annual compensation reviews.

INTEREST AND FINANCING COSTS

<i>(\$thousands except as noted)</i>	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Interest expense	3,733	2,075	80%	6,959	3,615	93%
Accretion of convertible debentures	570	-	n/a	1,087	-	n/a
Total interest and financing costs	4,303	2,075	107%	8,046	3,615	123%
Per BOE	\$4.35	\$2.22	96%	\$4.20	\$1.90	121%

Fairborne recorded \$3.7 million in interest expense in the second quarter of 2007, a 16% increase from the first quarter (\$3.2 million) and an 80% increase from \$2.1 million in the second quarter of 2006. The increase in interest expense reflects an increase in interest rates as well as an increase in the Trust's debt levels which include \$100 million of convertible debentures issued in October 2006 with interest at 6.5% per annum. Fairborne's debt levels increased further effective June 4, 2007 with the assumption of \$50.7 million of net debt on the acquisition of Fairquest.

Also included in interest and financing costs is the accretion of convertible debentures beginning in October 2006. The costs associated with the debenture offering along with the amount allocated to the conversion feature will be included in interest and financing costs over the term of the debentures.

DEPLETION, DEPRECIATION AND ACCRETION (DD&A)

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Depletion, depreciation and accretion (<i>\$thousands</i>)	22,825	17,519	30%	42,195	35,024	20%
Per BOE	\$23.08	\$18.73	23%	\$22.01	\$18.44	19%

The Trust recorded \$22.8 million in depletion and depreciation of capital assets and accretion of asset retirement obligations during the second quarter of 2007. On a BOE basis, the DD&A rate of \$23.08 for the second quarter of 2007 is 11% higher than the rate for the first quarter of 2007 (Q1 2007 - \$20.88) and 23% higher than the rate for the second quarter of 2006 (Q2 2006 - \$18.73). The increase in the DD&A rate is attributable to an increase in Fairborne's depletable base resulting from several factors: the acquisition of Fairquest assets at their estimated fair market value, capital spending during the quarter and accounting for exchangeable shares, whereby the conversion of exchangeable shares results in an increase to depletable assets, with no corresponding increase in reserves.

TAXES

<i>(\$thousands except as noted)</i>	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Future (reduction)	(7,026)	(3,848)	82%	(10,805)	(5,809)	86%
Capital (recovery)	-	(224)	n/a	-	213	n/a
Total taxes	(7,026)	(4,072)	73%	(10,805)	(5,596)	93%
Per BOE	\$(7.10)	\$(4.35)	63%	\$(5.64)	\$(2.95)	91%

Fairborne recorded a future tax recovery of \$7.0 million in the second quarter of 2007 (Q2 2006 - \$3.8 million) with a \$10.8 million recovery booked for the first six months of 2007 (June 30, 2006 - \$5.8 million). The future tax recovery results from additional interest deductions associated with the Trust's structure.

On October 31, 2006 the Federal Finance Minister announced a proposal to apply a tax at the trust level on distributions of certain income from publicly traded mutual fund trusts and certain other entities at rates of tax comparable to the combined federal and provincial corporate tax and to treat such distributions as dividends to the unitholders. The Finance Minister said existing trusts would have a four year transition period and would not be subject to the new rules until 2011 (provided that the trust only experiences "normal growth" and no "undue expansion" before then).

On June 12, 2007, the Legislation that results in distributions from flow-through entities, like Fairborne, being taxed at a rate of 31.5% was substantively enacted for purposes of Canadian GAAP. As such, trusts which qualify under this legislation ("SIFT tax"), including Fairborne, must recognize future income tax assets and liabilities in the current period with a corresponding amount included in future tax expense on the statement of operations pertaining to temporary differences at the trust level. Previously, temporary differences at the trust level were not subject to current or future income taxes. At the trust level, Fairborne does not have any significant future income tax assets or liabilities and, as such, the substantive enactment of the SIFT tax did not result in a significant future tax expense or recovery being recognized in the second quarter financial statements.

NON-CONTROLLING INTEREST

As a result of the Plan of Arrangement in 2005, Fairborne issued 7.0 million exchangeable shares of a subsidiary of the Trust to former shareholders of Fairborne Energy Ltd. During the first six months of 2007, 1,443,584 exchangeable shares were converted into 1,780,507 Trust Units. A total of 3.2 million exchangeable shares remain outstanding on June 30, 2007 with an exchange ratio for the retraction of exchangeable shares into Trust units of 1:1.25856.

The exchangeable shares are listed on the Toronto Stock Exchange (trading symbol: FXL), trade separately from the trust units and represent a non-controlling interest to the Trust. Holders of exchangeable shares do not receive cash distributions from the Trust; however, the conversion ratio is adjusted monthly to reflect accumulated distributions. The exchangeable shares are recorded as a non-controlling interest and are allocated a pro rata share of net income as required by Canadian accounting standards.

UNIT ANALYSIS

	Three months ended June 30,			
	2007		2006	
	(\$thousands)	(\$/BOE)	(\$thousands)	(\$/BOE)
Petroleum and natural gas revenue ⁽¹⁾	49,767	50.33	50,914	54.43
Royalties	(8,722)	(8.82)	(6,588)	(7.04)
Transportation costs	(465)	(0.47)	(930)	(1.00)
Operating expenses	(7,916)	(8.01)	(9,182)	(9.82)
General & administrative ⁽²⁾	(3,384)	(3.42)	(2,023)	(2.16)
Interest expense ⁽³⁾	(3,733)	(3.78)	(2,075)	(2.22)
Capital taxes	-	-	224	0.24
Funds generated from operations	25,547	25.83	30,340	32.43
Unrealized loss on derivatives	(266)	(0.27)	-	-
Compensation expense	(1,869)	(1.89)	(1,390)	(1.49)
Accretion of convertible debentures	(570)	(0.57)	-	-
Depletion, depreciation and accretion	(22,825)	(23.08)	(17,519)	(18.73)
Future tax reduction	7,026	7.10	3,848	4.11
Non-controlling interest	(304)	(0.31)	(1,398)	(1.49)
Net income	6,739	6.81	13,881	14.83

(1) net of unrealized loss on derivatives (non-cash)

(2) net of compensation expense (non-cash)

(3) net of accretion on convertible debentures (non-cash)

	Six months ended June 30,			
	2007		2006	
	(\$thousands)	(\$/BOE)	(\$thousands)	(\$/BOE)
Petroleum and natural gas revenue ⁽¹⁾	99,746	52.04	105,703	55.67
Royalties	(17,516)	(9.14)	(18,983)	(10.00)
Transportation costs	(1,469)	(0.77)	(3,005)	(1.58)
Operating expenses	(17,103)	(8.92)	(17,517)	(9.23)
General & administrative ⁽²⁾	(5,119)	(2.67)	(3,406)	(1.79)
Interest expense ⁽³⁾	(6,959)	(3.63)	(3,615)	(1.90)
Capital taxes	-	-	(213)	(0.11)
Funds generated from operations	51,580	26.91	58,964	31.06
Unrealized loss on derivatives	(579)	(0.30)	-	-
Compensation expense	(3,658)	(1.91)	(2,358)	(1.24)
Accretion of convertible debentures	(1,087)	(0.57)	-	-
Depletion, depreciation and accretion	(42,195)	(22.01)	(35,024)	(18.44)
Future tax reduction	10,805	5.64	5,809	3.06
Non-controlling interest	(967)	(0.51)	(2,651)	(1.40)
Net Income	13,899	\$7.25	24,740	\$13.04

(1) net of unrealized loss on derivatives (non-cash)

(2) net of compensation expense (non-cash)

(3) net of accretion on convertible debentures (non-cash)

Fairborne reported funds generated from operations of \$25.5 million (\$25.83 per BOE) for the second quarter of 2007, consistent with the first quarter of 2007 (\$26.0 million) and down 16% from the second quarter of 2006 (\$30.3 million). Net income of \$6.7 million (\$6.81 per BOE) for the second quarter of 2007 reflected the impact of increased DD&A rates as well as increased interest and compensation expense.

LIQUIDITY AND CAPITAL RESOURCES

CAPITAL EXPENDITURES

(\$thousands)	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Exploration and development				
Land and lease acquisitions	632	587	1,055	1,615
Geological and geophysical	28	17	28	1,729
Drilling, completions and workovers	668	3,557	16,502	20,370
Well equipment and facilities	4,767	3,918	16,378	13,515
Corporate assets	-	211	-	293
	6,095	8,290	33,963	37,522
Property acquisitions, net of dispositions	6,324	-	6,324	-
Corporate acquisitions	220,004	-	220,004	-
Conversion of exchangeable shares	8,802	684	13,570	13,084
Total	241,225	8,974	273,861	50,606

Fairborne's second quarter capital expenditures included \$6.1 million of exploration and development spending primarily focused on significant facility projects which were started during the first quarter. The Trust also completed a \$6.3 million property acquisition and the acquisition of Fairquest during the second quarter. The property acquisition, which increased the Trust's interest in the core area of Brazeau, was financed through a combination of funds generated from operations and the Trust's bank credit facilities. The Fairquest corporate acquisition was financed through the issue of Trust units and the assumption of Fairquest's net debt.

In the first six months of 2007, Fairborne's \$34 million of capital spending has been split evenly between drilling and completion activities and well equipment and facilities. With spring break-up and completion of the Fairquest acquisition, the Trust drilled one natural gas well (0.4 net) during the second quarter for a year-to-date total of 28 wells (17.1 net) resulting in 10 natural gas wells (4.5 net), 17 coal bed methane wells (12.1 net) and one dry hole. Tangible capital expenditures during the first six months included installation of additional compression at Wild River, Clive and Columbia/Harlech as well as construction of a major pipeline at West Pembina.

The conversion of exchangeable shares to trust units during the second quarter was recorded as an \$8.8 million (Q2 2006 - \$0.1 million) acquisition of petroleum and natural gas assets, with \$13.6 million (2006 - \$13.1 million) recorded during the six months ended June 30, 2007. The addition to petroleum and natural gas assets is based on the market value of trust units issued on conversion and the carrying value of the non-controlling interest.

WORKING CAPITAL AND BANK INDEBTEDNESS

In June 2007, in conjunction with completion of the Fairquest acquisition, the Trust's credit facilities were increased to \$220 million including a \$205 million extendible revolving term credit facility and a \$15 million demand operating credit facility on the same terms and conditions of the existing facility. At June 30, 2007, the Trust had drawn \$179.1 million against its credit facilities and had a working capital surplus of \$11.6 million for a net debt position of \$167.5 million (March 31, 2007 - \$112.6 million). The increase in net debt during the second quarter was attributable to the assumption of \$50.7 million net debt as part of the Fairquest acquisition. During the second quarter the Trust also completed a \$6.3 million property acquisition, which was partially financed from the credit facility. The balance of the Trust's exploration and development expenditures were financed by funds generated from operations after distributions to unitholders.

CONVERTIBLE DEBENTURES

Fairborne had 100,000 Convertible Unsecured Subordinated Debentures outstanding at June 30, 2007 with a maturity value 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 with the first payment made on June 30, 2007. The Debentures have a face value of \$1,000 per debenture, mature on December 31, 2011 and can be converted into trust units of Fairborne at any time at the option of the holders at a conversion price of \$13.50 per unit. Based on the convertible nature of the Debentures, they are considered to represent both debt and equity to the Trust under generally accepted accounting principles. The debt component accretes up to the principal balance at maturity with accretion included in interest expense.

UNITHOLDERS' EQUITY

The Trust is authorized to issue an unlimited number of trust units. As part of the consideration for the Fairquest acquisition, Fairborne issued 15.8 million trust units to former shareholders of Fairquest. During the three months ended June 30, 2007 approximately 1.0 million trust units were issued on the conversion of exchangeable shares, with a total of 1.8 million trust units issued on the conversion of exchangeable shares during the first six months of 2007.

In conjunction with the Fairquest acquisition, the Trust also issued 4.6 million warrants to acquire 1.8 million Trust units in exchange for the outstanding Fairquest warrants. The warrants are exercisable at a price of \$8.13 per unit and can be exercised at anytime up to June 1, 2010.

The following table provides a summary of outstanding trust units, exchangeable shares, warrants and units under Trust Incentive Plans at the dates indicated:

<i>(thousands)</i>	July 31 2007	June 30 2007	December 31 2006
Trust units	65,586	65,574	47,677
Exchangeable shares	3,168	3,178	4,622
Warrants	4,627	4,627	-
Trust incentive plans			
Restricted units ⁽¹⁾	575	575	496
Performance units ^{(1),(2)}	914	914	629
Weighted average trust units			
Basic	n/a	50,178	47,244
Diluted	n/a	56,313	53,741

(1) The number of trust units that may be issued pursuant to the Restricted Units and Performance Units will be increased for accumulated distributions.

(2) The number of trust units that may be issued pursuant to the Performance Units is dependent on a payout multiplier which is based on the relative return on trust units as compared to trust units of members of a selected peer group. Depending on the payout multiplier, the number of trust units issuable may range between zero and two trust units per Performance Unit.

DISTRIBUTABLE CASH AND DISTRIBUTIONS

The Trust's monthly distributions of \$0.09 per unit in the second quarter of 2007 resulted in a second quarter payout ratio of 58% of cash available for distribution (excluding exchangeables) and a six month payout ratio of 61% (excluding exchangeables). Consistent with 2006, for tax purposes, all 2007 distributions are expected to be taxable as a return on capital with no return of capital.

<i>(\$thousands except as noted)</i>	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Cash flow from operations	27,724	38,037	55,474	67,616
Change in non-cash working capital	(2,185)	(7,812)	(4,092)	(8,917)
Asset retirement expenditures	8	115	198	265
Funds generated from operations	25,547	30,340	51,580	58,964
Cash withheld for capital expenditures and debt repayment	(10,824)	(11,902)	(20,072)	(22,315)
Cash distributions declared	14,723	18,438	31,508	36,649
Cash distributions per unit per month	\$0.09	\$0.13	\$0.09 to \$0.13	\$0.13
Payout ratio	58%	61%	61%	62%

BUSINESS ENVIRONMENT AND RISK

The business risks the Trust 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, environmental regulation and risks, competition and government regulations – all of these govern the businesses and influence the controls and management of the Trust. 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 Trust;
- > 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.

CHANGE IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

On January 1, 2007, the Trust adopted the new Canadian accounting standard for financial instruments – recognition and measurement, financial instruments – presentation and disclosures, hedging, comprehensive income and equity. As prescribed by the new standards, prior periods have not been restated.

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. Under the new standard, the Trust must recognize all financial instruments and non-financial derivatives, including embedded derivatives, on the balance sheet initially at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale” or “held-to-maturity” as defined by the standard.

Fairborne manages its exposure to commodity price fluctuations by using physical delivery contracts with fixed prices, collars, puts or participating swaps. Under the new accounting standards, the majority of these contracts have been designated as “normal sale” contracts; therefore, these commodity contracts are not recorded on the balance sheet at fair value. Amounts received on the settlement of the “normal sale” commodity contracts are included in petroleum and natural gas revenue as the

contracts settle. Certain of these contracts do not qualify as "normal sale" contracts and, as such, are accounted for as derivative contracts and recorded on the balance sheet at fair value. Changes in the fair value of derivative contracts are recorded in earnings for the corresponding period.

The effect of initially adopting the new financial instruments accounting standard resulted in recognition of a derivative asset of \$0.6 million with a corresponding amount recorded as an adjustment to opening retained earnings (\$0.4 million net of future income taxes). This adjustment represented the fair market value of the derivative contracts outstanding at January 1, 2007. At June 30, 2007, the estimated fair value of outstanding derivatives was a liability of \$10,000, resulting in an unrealized loss of \$0.6 million being charged to earnings for the six months ended June 30, 2007.

Management did not identify any material embedded derivatives which required separate recognition and measurement under the new accounting standards.

The new accounting standard on hedges had no impact on the Trust's financial statements as Fairborne does not apply hedge accounting.

The new accounting standards require a new statement of comprehensive income (loss); however, there are no amounts that Fairborne would include in other comprehensive income except net income.

NEW ACCOUNTING POLICIES

Two new Canadian accounting standards have been issued which require additional disclosure in the Trust's financial statements commencing January 1, 2008 related to the Trust's financial instruments as well as its capital program and how well it is managed.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Fairborne Energy Ltd.'s Chief Executive Officer and Chief Financial Officer are required to cause the Trust to disclose herein any change in the Trust's internal controls over financial reporting that occurred during the Trust's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Trust's internal controls over financial reporting. No material changes in the Trust's internal controls over financial reporting were identified during the three months ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Trust's internal controls of financial reporting.

It should be noted that a control system, including the Trust'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.

QUARTERLY FINANCIAL INFORMATION

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

	Q2/07	Q1/07	Q4/06	Q3/06
<i>FINANCIAL (\$thousands, except per unit amounts)</i>				
Petroleum and natural gas sales	49,501	49,666	49,581	48,845
Funds generated from operations	25,547	26,033	26,108	27,825
Per unit – basic	\$0.48	\$0.55	\$0.54	\$0.58
Per unit – diluted	\$0.44	\$0.48	\$0.43	\$0.51
Cash flow from operations (including changes in working capital)	27,724	27,750	10,189	29,969
Per unit – basic	\$0.52	\$0.59	\$0.19	\$0.63
Per unit – diluted	\$0.47	\$0.52	\$0.15	\$0.55
Net Income	6,739	7,160	8,900	10,439
Per unit – basic	\$0.13	\$0.15	\$0.18	\$0.22
Per unit – diluted	\$0.11	\$0.15	\$0.17	\$0.22
Total assets	753,664	561,906	539,579	514,681
Working capital surplus (deficit)	11,594	7,093	7,158	(2,395)
Bank indebtedness	179,120	119,645	101,156	177,595
Convertible debentures	91,389	90,819	90,302	–

OPERATIONS

Average production				
Natural gas (Mcf per day)	48,689	45,060	46,752	45,966
Crude oil (bbls per day)	2,303	2,396	2,522	2,604
Natural gas liquids (bbls per day)	449	402	308	376
Total (BOE per day)	10,867	10,308	10,623	10,640

	Q2/06	Q1/06	Q4/05	Q3/05
<i>FINANCIAL (\$thousands, except per unit amounts)</i>				
Petroleum and natural gas sales	50,914	54,789	68,751	61,656
Funds generated from operations	30,340	28,624	40,783	35,406
Per unit – basic	\$0.65	\$0.62	\$0.89	\$0.78
Per unit – diluted	\$0.57	\$0.54	\$0.77	\$0.67
Cash flow from operations (including changes in working capital)	38,037	29,579	30,731	30,001
Per unit – basic	\$0.82	\$0.64	\$0.67	\$0.66
Per unit – diluted	\$0.71	\$0.56	\$0.74	\$0.57
Net Income	13,881	10,859	20,444	15,482
Per unit – basic	\$0.30	\$0.23	\$0.43	\$0.34
Per unit – diluted	\$0.28	\$0.23	\$0.36	\$0.33
Total assets	499,826	522,482	499,920	458,603
Working capital surplus (deficit)	(3,199)	35	1,373	984
Bank indebtedness	147,202	153,933	136,302	128,548

OPERATIONS

Average production				
Natural gas (Mcf per day)	43,441	46,472	46,886	49,412
Crude oil (bbls per day)	2,607	2,575	2,770	2,684
Natural gas liquids (bbls per day)	432	384	438	402
Total (BOE per day)	10,280	10,705	11,022	11,321

INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(\$thousands)</i>	June 30, 2007	December 31, 2006
<i>Assets</i>		
Current assets		
Cash and cash equivalents	\$ 231	\$ 764
Accounts receivable	52,312	70,804
Prepaid expenses and deposits	4,116	3,278
	56,659	74,846
Capital assets <i>(Note 3)</i>	680,835	448,563
Goodwill	16,170	16,170
	\$ 753,664	\$ 539,579
<i>Liabilities</i>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 39,163	\$ 61,490
Distributions payable	5,902	6,198
	45,065	67,688
Bank indebtedness <i>(Note 4)</i>	179,120	101,156
Convertible debentures <i>(Note 5)</i>	91,389	90,302
Non-controlling interest <i>(Note 6)</i>	20,606	27,132
Asset retirement obligation <i>(Note 7)</i>	12,872	10,994
Future income taxes <i>(Note 8)</i>	53,204	41,592
<i>Unitholders' Equity</i>		
Unitholders' capital <i>(Note 9)</i>	380,504	216,575
Warrants <i>(Note 9)</i>	2,857	-
Equity component of convertible debentures <i>(Note 5)</i>	5,581	5,581
Contributed surplus <i>(Note 9)</i>	5,806	4,694
Deficit	(43,340)	(26,135)
	351,408	200,715
	\$ 753,664	\$ 539,579

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

(Unaudited)

(\$thousands except per unit amounts)	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
<i>Revenue</i>				
Petroleum and natural gas	\$ 49,501	\$ 50,914	\$ 99,167	\$ 105,703
Royalties	(8,722)	(6,588)	(17,516)	(18,983)
Transportation	(465)	(930)	(1,469)	(3,005)
	40,314	43,396	80,182	83,715
<i>Expenses</i>				
Operating	7,916	9,182	17,103	17,517
General and administrative	5,253	3,413	8,777	5,764
Interest	4,303	2,075	8,046	3,615
Depletion, depreciation and accretion	22,825	17,519	42,195	35,024
	40,297	32,189	76,121	61,920
<i>Income before taxes</i>	17	11,207	4,061	21,795
<i>Taxes (reduction)</i>				
Future	(7,026)	(3,848)	(10,805)	(5,809)
Capital	-	(224)	-	213
	(7,026)	(4,072)	(10,805)	(5,596)
<i>Net income before non-controlling interest</i>	7,043	15,279	14,866	27,391
Non-controlling interest	304	1,398	967	2,651
<i>Net income</i>	6,739	13,881	13,899	24,740
Retained earnings (deficit), beginning of period	(35,356)	(3,773)	(26,135)	3,579
Retained earnings adjustment, financial instruments (Note 1)	-	-	404	-
Distributions declared	(14,723)	(18,438)	(31,508)	(36,649)
Deficit, end of period	\$ (43,340)	\$ (8,330)	\$ (43,340)	\$ (8,330)
<i>Net income per unit (Note 9)</i>				
Basic	\$ 0.13	\$ 0.30	\$ 0.28	\$ 0.53
Diluted	\$ 0.11	\$ 0.28	\$ 0.26	\$ 0.51

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

<i>(\$thousands)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2007	2006	2007	2006
<i>Cash provided by (used in):</i>				
<i>Operating activities</i>				
Net income	\$ 6,739	\$ 13,881	\$ 13,899	\$ 24,740
Items not involving cash:				
Depletion, depreciation and accretion	22,825	17,519	42,195	35,024
Non-controlling interest	304	1,398	967	2,651
Unit based compensation expense	1,869	1,390	3,658	2,358
Future tax (reduction)	(7,026)	(3,848)	(10,805)	(5,809)
Accretion on convertible debentures	570	-	1,087	-
Unrealized loss on derivatives	266	-	579	-
Asset retirement expenditures	(8)	(115)	(198)	(265)
	25,539	30,225	51,382	58,699
Change in non-cash working capital	2,185	7,812	4,092	8,917
	27,724	38,037	55,474	67,616
<i>Financing activities</i>				
Distributions to unitholders	(13,188)	(18,402)	(31,804)	(36,515)
Bank indebtedness	59,475	(6,731)	77,964	10,900
Issuance of trust units	111	-	111	-
Change in non-cash working capital	(32,732)	-	(32,732)	-
	13,666	(25,133)	13,539	(25,615)
<i>Investing activities</i>				
Capital expenditures	(6,095)	(8,290)	(33,963)	(37,522)
Property acquisition	(6,324)	-	(6,324)	-
Corporate acquisition costs <i>(Note 2)</i>	(2,500)	-	(2,500)	-
Change in non-cash working capital	(27,015)	(4,614)	(26,759)	(4,477)
	(41,934)	(12,904)	(69,546)	(41,999)
Change in cash and cash equivalents	(544)	-	(533)	2
Cash and cash equivalents, beginning of period	775	219	764	217
<i>Cash and cash equivalents, end of period</i>	\$ 231	\$ 219	\$ 231	\$ 219
Interest paid	\$ 6,459	\$ 1,872	\$ 7,722	\$ 3,353
Capital taxes paid	\$ -	\$ -	\$ -	\$ 213

See accompanying notes to the interim consolidated financial statements

SELECTED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 2007 (unaudited)

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

The interim consolidated financial statements of Fairborne Energy Trust (the “Trust” 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 financial statements for the year ended December 31, 2006, 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 financial statements and notes thereto for the year ended December 31, 2006.

1. CHANGES IN ACCOUNTING POLICIES AND PRACTICES

On January 1, 2007, the Trust adopted the new Canadian accounting standards pertaining to financial instruments – recognition and measurement, financial instruments – presentation and disclosures, hedging and comprehensive income. As prescribed by the new standards, prior periods have not been restated.

The financial instruments standard establishes the recognition and measurement criteria for financial assets, financial liabilities and derivatives. Under the new standard, the Trust must recognize all financial instruments and non-financial derivatives, including embedded derivatives, on the balance sheet initially at fair value. Measurement in subsequent periods depends on whether the financial instrument has been classified as “held-for-trading”, “available-for-sale” or “held-to-maturity” as defined by the standard.

Fairborne manages its exposure to commodity price fluctuations by using physical delivery contracts with fixed prices, collars, puts or participating swaps. Under the new accounting standards, the majority of these contracts have been designated as “normal sale” contracts; therefore, these commodity contracts are not recorded on the balance sheet at fair value. Amounts received on the settlement of the commodity contracts are included in petroleum and natural gas revenue as the contracts settle. Certain of these contracts do not qualify as “normal sale” contracts and, as such, are accounted for as derivative contracts and recorded on the balance sheet at fair value. Changes in the fair value of derivative contracts are included in earnings for the corresponding period.

The effect of initially adopting the new financial instruments accounting standard resulted in recognition of a derivative asset of \$0.6 million (\$0.4 million net of tax) with a corresponding amount recorded as an adjustment to opening retained earnings. This adjustment represented the fair market value of the derivative contracts outstanding at January 1, 2007. At June 30, 2007, the estimated fair value of outstanding derivatives was a liability of \$10,000, resulting in an unrealized loss of \$0.6 million being charged to earnings for the six months ended June 30, 2007.

Management did not identify any material embedded derivatives which required separate recognition and measurement under the new accounting standards.

The new accounting standard on hedges had no impact on the Trust’s financial statements as Fairborne does not apply hedge accounting.

The new accounting standards require a new statement of other comprehensive income (loss); however, there are no amounts that Fairborne would include in other comprehensive income except net income (loss).

Two new Canadian accounting standards have been issued which will require additional disclosure in the Company’s financial statements commencing January 1, 2008 related to the Company’s financial instruments as well as its capital program and how well it is managed.

2. ACQUISITIONS

On June 4, 2007 Fairborne and its subsidiary Fairborne Energy Ltd. acquired all of the outstanding shares of Fairquest Energy Limited (“Fairquest”) pursuant to a plan of arrangement under the Business Corporations Act (Alberta) and an Arrangement Agreement dated March 11, 2007 among the Trust, Fairborne Energy Ltd. and Fairquest. Fairquest was a publicly traded oil and

gas company with properties located in western Canada. As consideration for the transaction, Fairquest shareholders received 0.39 of a Trust unit for each Fairquest common share held. The Trust issued 15.8 million units to acquire Fairquest at a deemed value of \$145 million, based on the trading price of Trust units on or about the date the acquisition was announced. The Trust also issued 4.6 million warrants to acquire an additional 1.8 million Trust units in exchange for outstanding Fairquest warrants. The acquisition has been accounted for using the purchase method. The results of operations for Fairquest have been included in the Trust's financial statements beginning June 4, 2007. Details of the acquisition are as follows:

Cost of Acquisition:	
Shares	\$ 144,801
Transaction costs	2,500
Warrants	2,879
	\$ 150,180
Allocated:	
Current assets	\$ 9,585
Petroleum and natural gas properties and equipment	220,004
Current liabilities	(60,301)
Asset retirement obligations	(1,471)
Future income taxes	(17,637)
	\$ 150,180

Included in current assets is \$0.9 million receivable from Fairborne and included in current liabilities is \$49.0 million payable to Fairborne. The total amount payable to Fairborne includes a \$32.7 million advance received from Fairborne to repay amounts outstanding under Fairquest's credit facilities which were due immediately prior to the date of acquisition (May 30, 2007).

3. CAPITAL ASSETS

	June 30, 2007	December 31, 2006
Petroleum and natural gas properties and equipment	\$ 919,335	\$ 645,350
Accumulated depletion and depreciation	(239,429)	(199,111)
Corporate assets	3,672	3,672
Accumulated depreciation	(2,743)	(1,348)
	\$ 680,835	\$ 448,563

As at June 30, 2007, future development costs of \$111 million (December 31, 2006 - \$90 million) were included in the depletion calculation and costs of acquiring unproved properties in the amount of \$50.1 million (December 31, 2006 - \$20.7 million) were excluded from the depletion calculation. Included in the Trust's petroleum and natural gas properties and equipment balance is \$5.5 million (December 31, 2006 - \$5.9 million) relating to asset retirement obligation, net of accumulated depletion.

4. BANK INDEBTEDNESS

At June 30, 2007 the Trust had a \$205 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 the Trust's petroleum and natural gas properties. The extendible revolving term facility is available on a revolving basis until May 28, 2008 (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, 2009. Interest payable on amounts drawn under the facilities is at the prevailing bankers' acceptance rates plus margins and applicable stamping fees, lenders' prime rate or LIBOR rates plus applicable margins, depending on the form of borrowing by

the Trust. The margins and stamping fees vary from 0% to 1.5% 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 Trust and by a guarantee and subordination provided by Fairborne Energy Ltd. and all related partnerships and subsidiaries in respect of the Trust's obligations.

5. CONVERTIBLE DEBENTURES

The following table sets forth a reconciliation of the convertible debentures for the six months ended June 30, 2007:

	Number of Debentures	Debt Component	Equity Component
Balance, beginning of period	100,000	\$ 90,302	\$ 5,581
Accretion	-	1,087	-
Balance, end of period	100,000	\$ 91,389	\$ 5,581

6. NON-CONTROLLING INTEREST

The following table sets forth a reconciliation of the non-controlling interest for the six months ended June 30, 2007:

	Number of Exchangeable Shares	Amount
Balance, beginning of period	4,622	\$ 27,132
Non-controlling interest net income	-	967
Converted to Trust Units	(1,444)	(7,493)
Balance, end of period	3,178	\$ 20,606

At June 30, 2007, the exchange ratio for the retraction of exchangeable shares into Trust Units was 1:1.25856.

7. ASSET RETIREMENT OBLIGATION

The following table sets forth a reconciliation of the asset retirement obligation for the six months ended June 30, 2007:

Balance, beginning of period	\$ 10,994
Fairquest acquisition	1,471
Liabilities incurred	123
Liabilities settled	(198)
Accretion expense	482
Balance, end of period	\$ 12,872

8. FUTURE INCOME TAXES

On June 12, 2007, the legislation that results in distributions from flow-through entities, like Fairborne, being taxed at a rate of 31.5% was enacted for purposes of Canadian GAAP. As such, trusts which qualify under this legislation ("SIFT tax"), including Fairborne, must recognize future income tax assets and liabilities in the current period with a corresponding amount included in future tax expense on the statement of operations pertaining to temporary differences at the trust level. Previously, temporary differences at the trust level were not subject to current or future income taxes. Fairborne does not have any significant future income tax assets or liabilities at the trust level, therefore, the SIFT tax did not result in a significant future tax expense or recovery being recognized in the second quarter financial statements.

9. UNITHOLDERS' CAPITAL

The Trust Indenture provides that an unlimited number of trust units are authorized and may be issued.

A) TRUST UNITS

The following table sets forth a reconciliation of the Trust Units issued and outstanding for the six months ended June 30, 2007:

	Number	Amount
Balance, beginning of period	47,677	\$ 216,575
Fairquest Acquisition	15,833	144,801
Issued on exercise of warrants	14	133
Issued on conversion of exchangeable shares	1,781	16,449
Issued on vesting of restricted units	269	2,546
Balance, end of period	65,574	\$ 380,504

During the six months ended June 30, 2007, 1,443,584 exchangeable shares were converted into 1,780,505 Trust Units. The market value of Trust Units issued on conversion was \$16.4 million resulting in a reduction in non-controlling interest of \$7.5 million, an increase in capital assets of \$13.6 million and a future tax liability of \$4.6 million.

B) WARRANTS

The following table sets forth a reconciliation of warrants issued and outstanding for the six months ended June 30, 2007:

	Number	Amount
Balance, beginning of period	-	\$ -
Issued on acquisition of Fairquest (Note 2)	4,662	2,879
Exercised for Trust units	(35)	(22)
Balance, end of period	4,627	\$ 2,857

The warrants can be converted into 0.39 trust units and entitles the holder to acquire a trust unit at \$8.13 per unit and are exercisable at anytime prior to June 1, 2010. The fair value of the warrants of \$1.58 per warrant was calculated using the Black Scholes model with the following weighted average assumptions: risk free rate of 4 percent, expected volatility of 40 percent and an expected life of 3 years.

C) PER UNIT AMOUNTS

The following table summarizes the weighted average trust units used in calculating net income per unit:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Numerator				
Net income – basic	\$ 6,739	\$ 13,881	\$ 13,899	\$ 24,740
Non-controlling interest	304	1,398	967	2,651
Numerator for diluted net income per unit	\$ 7,043	\$ 15,279	\$ 14,866	\$ 27,391
Denominator				
Weighted average units - basic	52,622	47,246	50,178	46,887
Exchangeable Shares	4,000	5,318	4,293	5,296
Restricted Units	877	646	863	628
Performance Units	1,007	654	979	538
Denominator for diluted net income per unit	58,506	53,864	56,313	53,349
Basic net income per unit	\$ 0.13	\$ 0.30	\$ 0.28	\$ 0.53
Diluted net income per unit	\$ 0.11	\$ 0.28	\$ 0.26	\$ 0.51

Excluded from the diluted number of trust units for the three months and six months ended June 30, 2007 is the effect of convertible debentures (7.4 million units) which are anti-dilutive to net income.

D) TRUST INCENTIVE PLANS

The following table sets forth a reconciliation of the Trust Incentive Plan activity for the six months ended June 30, 2007:

	Number of Restricted Units	Number of Performance Units	Total
Balance, beginning of period	496	629	1,125
Issued	299	297	596
Exercised	(217)	(10)	(227)
Forfeited	(3)	(2)	(5)
Balance, end of period	575	914	1,489
Exercisable, end of period	-	-	-
Equivalent trust units, end of period *	738	1,098	1,836

* including additional trust units to be issued for accumulated distributions earned under the Trust Incentive Plans.

The fair value of Performance and Restricted Units were determined using the unit price at the grant date and, in the case of the Performance units, a factor of one time was used. The weighted average fair value of Restricted and Performance Units granted during the three months ended June 30, 2007 was \$8.97 and \$8.94 respectively, and during the six months ended June 30, 2007 was \$9.01 and \$8.99 per unit respectively. The estimated fair value of units granted is amortized through compensation expense over the vesting period with a corresponding increase in contributed surplus.

E) CONTRIBUTED SURPLUS

The following table sets forth a reconciliation of the contributed surplus for the six months ended June 30, 2007:

Balance, beginning of period	\$	4,694
Trust unit based compensation		3,669
Restricted Units exercised		(2,546)
Trust Incentive Plan grants forfeited		(11)
Balance, end of period	\$	5,806

10. FINANCIAL INSTRUMENTS

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

At June 30, 2007 the following natural gas contracts have been recorded as a \$10,000 liability being their estimated fair value. The corresponding amount has been recorded as an unrealized loss on financial instruments in the statement of earnings for the six months ended June 30, 2007.

Remaining Term	Volume (mmbtu/day)	Price (US\$ per mmbtu)	Settlement Index
Swaps			
Apr 1, 2008 – Jun 30, 2008	5,000	NYMEX-US\$0.845	NYMEX LD
Jul 1, 2008 – Sep 30, 2008	5,000	NYMEX-US\$0.865	NYMEX LD

The following crude oil fixed price physical sales contracts outstanding at June 30, 2007 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.

Remaining Term	Volume (bbls/day)	Price (US\$ per bbl)	Settlement Index
Swaps			
Jul 1, 2007 - Sep 30, 2007	500	\$70.68	WTI
Oct 1, 2007 - Dec 31, 2007	500	\$70.98	WTI
Jan 1, 2008 - Mar 31, 2008	500	\$70.70	WTI
Oct 1, 2007 - Dec 31, 2007	500	\$70.50	WTI

The following natural gas fixed price physical sales contracts outstanding at June 30, 2007 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.

Remaining Term	Volume (GJ per day)	Price (CDN\$ per GJ)	Settlement Index
AECO Collars			
Oct 1, 2007 - Dec 31, 2007	3,000	8.00 - 9.25	AECO C Monthly
Oct 1, 2007 - Dec 31, 2007	1,000	8.00 - 9.25	AECO C Monthly
Nov 1, 2007 - Mar 31, 2008	3,000	8.00 - 10.00	AECO C Monthly
Nov 1, 2007 - Mar 31, 2008	1,000	8.00 - 10.00	AECO C Monthly
Nov 1, 2007 - Mar 31, 2008	2,000	8.00 - 10.45	AECO C Monthly
AECO Participating Swaps			
Jul 1, 2007 - Sep 30, 2007	5,000	7.33 + 25%	AECO C Monthly
Jul 1, 2007 - Sep 30, 2007	2,000	7.33 + 25%	AECO C Monthly
Jul 1, 2007 - Oct 31, 2007	1,500	7.62 + 25%	AECO C Monthly
Jul 1, 2007 - Oct 31, 2007	1,500	7.62 + 25%	AECO C Monthly
Jul 1, 2007 - Oct 31, 2007	1,500	7.53 + 25%	AECO C Monthly
AECO Swaps			
Apr 1, 2007 - Oct 31, 2007	2,500	8.10	AECO C Monthly
Apr 1, 2007 - Oct 31, 2007	2,500	8.11	AECO C Monthly
Oct 1, 2007 - Dec 31, 2007	2,500	8.16	AECO C Monthly
Nov 1, 2007 - Mar 31, 2008	1,500	8.25	AECO C Monthly
Nov 1, 2007 - Mar 31, 2008	2,500	8.71	AECO C Monthly
Jan 1, 2008 - Mar 31, 2008	1,500	9.00	AECO C Monthly
Jan 1, 2008 - Mar 31, 2008	1,500	9.27	AECO C Monthly

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BANK

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NATIONAL BANK OF CANADA
BANK OF NOVA SCOTIA
ALBERTA TREASURY BRANCH

LEGAL COUNSEL

BURNET, DUCKWORTH & PALMER LLP
MCCARTHY TETRAULT LLP

STOCK EXCHANGE LISTING

THE TORONTO STOCK EXCHANGE
Trading Symbol: **FELUN**
Exchangeable Shares: **FXL**
Convertible Debentures: **FELDB**

CORPORATE GOVERNANCE

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

DIRECTORS

ROBERT B. HODGINS
Investor and Corporate Director

JOHANNES J. NIEUWENBURG
Corporate Director
and Private Businessman

MICHAEL E.J. PHELPS
Chairman
Dornoch Capital Inc.

STEVEN R. VANSICKLE
President and CEO
Fairborne Energy Trust

RICHARD A. WALLS
Chairman
Fairborne Energy Trust

RODNEY D. WIMER
President
Mazama Capital Partners

GENERAL INFORMATION

Unitholders and interested investors are encouraged to visit our web site: <http://www.fairbornetrust.com>
Historical public documents, corporate information, latest presentation material and press releases are all available.
Filings also available at: www.sedar.com

OFFICERS

STEVEN R. VANSICKLE
President
and Chief Executive Officer

DAVID L. SUMMERS
Chief Operating Officer

AARON G. GRANDBERG
Chief Financial Officer

SHAUN E. ALSPACH
Vice President
Business Development

JACKIE M. CUGNET
Vice President
Finance

DAVID S. CYMBALISTY
Vice President
Engineering

F. TOM PARK
Vice President
Marketing

GARY M. POIRIER
Vice President
Production

DAVID E.T. PYKE
Vice President
Land and Contracts

JAMES E. YOUNG
Vice President
Exploration

