

August 7, 2009 – Fairborne Energy Ltd. Announces 2009 Second Quarter Financial and Operating Results

HIGHLIGHTS

Financial (\$thousands, except per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Petroleum and natural gas revenue	58,430	85,670	126,975	156,288
Funds generated from operations ⁽¹⁾	35,742	51,458	68,712	93,559
Per share – basic	\$0.41	\$0.60	\$0.79	\$1.10
Per share – diluted	\$0.41	\$0.60	\$0.79	\$1.10
Cash flow from operations (including changes in working capital)	27,653	41,650	62,435	84,507
Per share – basic	\$0.32	\$0.49	\$0.72	\$1.00
Per share – diluted	\$0.32	\$0.48	\$0.72	\$0.99
Net income (loss)	(17,333)	3,717	(22,024)	13,862
Per share – basic	\$(0.20)	\$0.04	\$(0.25)	\$0.16
Per share – diluted	\$(0.20)	\$0.04	\$(0.25)	\$0.16
Exploration and development expenditures	15,925	31,704	68,570	89,625
Acquisitions, net of dispositions	(605)	134,482	(605)	135,671
Working capital (surplus) deficit	(7,227)	7,363	(7,227)	7,363
Bank indebtedness	232,184	180,977	232,184	180,977
Convertible debentures	95,525	93,499	95,525	93,499

Operations (Units as noted)

Average production				
Natural gas (Mcf per day)	66,744	59,529	67,130	58,171
Crude oil (bbls per day)	3,552	2,506	3,575	2,459
Natural gas liquids (bbls per day)	632	610	602	604
Sulphur (tonnes per day) ^{(2),(4)}	64	106	78	158
Total (BOE per day)	15,372	13,143	15,444	12,916
Average sales price				
Natural gas (\$ per Mcf) ⁽³⁾	5.30	9.90	5.85	9.14
Crude oil (\$ per bbl) ⁽³⁾	64.65	109.82	60.81	99.12
Natural gas liquids (\$ per bbl)	26.86	65.94	27.04	62.38
Sulphur (\$ per tonne) ⁽³⁾	128.16	351.32	161.72	260.90
Netback per BOE (\$ per BOE)				
Petroleum and natural gas sales ⁽³⁾	39.75	72.40	41.55	66.85
Royalties	(2.19)	(13.37)	(3.98)	(12.04)
Operating expenses	(10.44)	(9.70)	(11.45)	(8.95)
Transportation	(0.96)	(0.94)	(1.05)	(0.92)
Operating netback	26.16	48.39	25.07	44.94
Wells drilled (gross)	3	5	19	30
Undeveloped land (net acres)	222,213	231,676	222,213	231,676

(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 the change in fair value of the derivative asset 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.

2009 Second Quarter Interim Report and News Release

2009 SECOND QUARTER HIGHLIGHTS

- ▶ Quarterly production of 15,372 BOE per day, a 17% increase over the second quarter of 2008.
- ▶ Light oil production increased 42% from the prior year second quarter to 3,552 bbls per day.
- ▶ Funds generated from operations of \$35.7 million (\$0.41 per share) an 8% increase over first quarter 2009.
- ▶ Operating netback of \$30.42 per BOE, including sulphur block sales.
- ▶ Reduced net debt, excluding convertible debentures, to \$225.0 million at the end of the second quarter, down \$16.6 million from the first quarter level of \$241.6 million, leaving \$53 million of credit available on a \$285 million bank facility.
- ▶ Limited by spring break-up, second quarter activity included three (2.7 net) successful wells drilled and \$15.3 million in capital spending, including \$1.3 million on land and seismic and \$8.8 million on facilities and infrastructure.
- ▶ The first horizontal well at Sinclair to utilize 12 stage fracturing was drilled and successfully completed.
- ▶ Successfully drilled the second Wilrich horizontal well at Marlboro (working interest – 38%) which was rig released in July.
- ▶ Expanded the Company's natural gas hedge position to December 31, 2010 at average prices of \$7.79 per Mcf and \$6.68 per Mcf for the remainder of 2009 and 2010, respectively.
- ▶ Subsequent to the end of the quarter, Fairborne entered into four separate transactions (two dispositions and two acquisitions) which will result in the addition of approximately 100 BOE per day of incremental production with net proceeds to Fairborne of \$3.7 million, which will be applied against outstanding bank debt.
- ▶ Capital expenditures of approximately \$50 million are planned for the remaining six months of the year.
- ▶ Three drilling rigs are currently active; one is finishing up a six well program in Sinclair and two rigs are drilling in the Clive area.

PRODUCTION OUTLOOK

Second quarter production averaged 15,372 BOE per day, an increase of 17% over second quarter 2008 and a decrease of one percent from first quarter 2009 volumes. Second quarter production consisted of 66.7 MMcf per day of natural gas, 4,184 bbls per day of oil and natural gas liquids and 64 tonnes per day of sulphur. Fairborne's strategic decision in early 2008 to actively pursue light oil opportunities resulted in second quarter oil production of 3,552 bbls per day, an increase of 42% from the second quarter 2008. New production from the Company's first quarter drilling program contributed to the consistent quarter over quarter production profile despite a significant turnaround at the K3 gas plant, which affected several of the Company's core properties, and low drilling activity as a result of spring break-up.

Subsequent to the end of the quarter, the Company made the decision to temporarily shut in approximately 7 to 8 MMcf per day of sour gas production due to low gas prices, sulphur disposal costs and third party transportation and processing costs. This is expected to have a minimal effect on cash flow for the third quarter; however third quarter production will be reduced by the decision to voluntarily shut in production.

OPERATIONS

Harlech – Nordegg

Fairborne's Nordegg producing wells have continued to produce at consistent levels. The 10-7 well (recently re-designated by the ERCB from 8-7) has produced a total of 1.6 Bcfe to date and the 11-12 well (recently re-designated by the ERCB from 13-12) has produced 0.4 Bcfe. The next Nordegg well is scheduled to spud in late August with a planned location that will extend the play six miles to the west of the existing wells.

2009 Second Quarter Interim Report and News Release

Marlboro

The Marlboro property represents an emerging resource play for Fairborne wherein a thick (15 metre) extensive sandstone reservoir with porosity in the 6% to 11% range extends over several townships. Fairborne recently completed the drilling of its second horizontal well (38% working interest) at 13-25 for the Wilrich zone, the basal most zone of stacked sands on the Company's Marlboro property. The well has a horizontal length of 1,500 meters and a total measured depth of 4,360 meters. This well will be completed using multistage fracturing over eight intervals, with completion operations currently scheduled prior to the end of the third quarter. This well will qualify for an estimated \$0.9 million in drilling royalty incentives and an additional \$3.6 million in a Deep Gas Royalty Holiday from the Alberta government, equivalent to approximately 132% of the expected drill and case cost of \$3.4 million (estimated completion cost is an incremental \$2.6 million).

The first horizontal well drilled into the play at 1-19 continues to perform as expected with cumulative production of 0.4 Bcf in the first four months of production and is currently producing at a rate of 3.0 MMcf per day. Since December 31, 2008 the Company has increased its land position in the Marlboro area from 26 (13.0 net) sections to 29 (16.0 net) sections. Based on results to date, it is anticipated that three wells per section will be needed to effectively drain this reservoir.

Sinclair, Manitoba

During the second quarter, Fairborne drilled two wells (2.0 net) at Sinclair, as well as completed the construction of a central oil battery which included an extensive oil gathering pipeline system. Fairborne also converted 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%. With the current royalty holiday environment, Sinclair oil wells to date yield in excess of 90% rates of return. Drilling and completion costs have been reduced by improved efficiencies and overall industry cost reductions. Fairborne has benefited from recent reductions in industry service costs and expects these reductions to continue through the balance of 2009. The total costs to drill and complete a Sinclair well with 1,400 meters of horizontal length and twelve fracs is approximately \$1.25 million, a reduction of 20% from last year while increasing the number of fracs from eight to twelve.

Drilling plans for the third quarter include four wells (4.0 net) that will further expand the play to the northwest and south. Fairborne currently holds 42 sections (41.5 net sections) of undeveloped land at Sinclair and plans to drill four wells per section to develop this resource. The Company currently has 30 producing wells (30.0 net) at Sinclair and estimates primary recovery between 5% and 7%. Waterflood applications are currently being prepared and will be submitted in the fourth quarter with anticipated additional recoveries of approximately 10%.

Clive

The Company continues to work with its partner, Enhance Energy, to advance the CO₂ project at Clive. Two significant funding announcements have materially benefited the economics of the project. In March, 2009, the Federal government announced funding that will be utilized in the design, engineering and modeling phases of the project. The Alberta government also confirmed in July, 2009, that the Clive project is one of three projects that will receive funding as part of the \$2 billion Carbon Capture and Storage program. Clive is a mature field that has produced approximately 70 million barrels since it began producing in 1955.



2009 Second Quarter Interim Report and News Release

Fairborne commenced its coal bed methane (“CBM”) drilling program at Clive in mid-July and plans to drill 23 (19.4 net) CBM wells during the second half of 2009. CBM wells benefit materially from the Alberta Drilling Royalty Credit which provides for \$200 per meter drilled. CBM wells typically average 750 meters drill depth and the average cost to drill and case is \$150,000.

Operating Costs

With the continued focus on maximizing netbacks in the current low commodity price environment, Fairborne has achieved a 16% reduction in operating costs from \$12.47 per BOE in the first quarter to \$10.44 per BOE in the second quarter. This is expected to be reduced further as a result of the new Sinclair oil battery and an ongoing focus to reduce operating costs in our core areas.

Acquisition and Development Activity

Subsequent to the end of the second quarter, Fairborne has entered into minor property transactions in four of our operating areas, all of which are scheduled to close prior to the end of the third quarter. The Company divested of approximately 220 BOE per day including properties in the Lambert/Hinton area of the Deep Basin and a minor interest in Kakwa. The Company acquired approximately 130 BOE per day in the Marlboro area and acquired the balance of the working interest in its Wild River land block (approximately 190 BOE per day prior to the shut in of Wild River) for total net proceeds of \$3.7 million.

OUTLOOK

Fairborne's efforts continue to be focused on the prudent management of our portfolio of assets and our financial resources during this low natural gas price environment. Our strategies include an active hedging program and the active management of our capital expenditure program to ensure financial stability. In addition, proceeds from the sale of inventory from our sulphur block, which currently provides monthly cash inflows of US\$2.25 million, will be substantially applied to pay down bank debt through the balance of the year.

During the first half of 2009, a number of 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 42% of our natural gas production hedged for the remainder of 2009 at an average price of \$7.79 per Mcf and 27% of our oil production hedged at an average floor price of CDN\$53.33 per bbl. In addition, 33% of natural gas production for 2010 is hedged at an average of \$6.68 per Mcf and 35% of 2010 crude oil production is hedged at an average floor price of CDN\$60.00 per bbl. We will continue to pursue a carefully designed capital expenditure program, including acquisitions and dispositions, which will allow us to add production, reserves and cash flow in a cost effective manner while maintaining a level of flexibility in our balance sheet.



Steven R. VanSickle

President and CEO

August 6, 2009

2009 Second Quarter Interim Report and News Release

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, August 6, 2009. This document is provided by the management of Fairborne Energy Ltd. ("Fairborne" or the "Company") to review second 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 and six months ended June 30, 2009 and the audited consolidated financial statements including notes for the year ended December 31, 2008 and 2007. The 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.

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, expected reductions in operating costs, expected royalty rates, funding for CO₂ projects, the impact of shut-in production, capital expenditures, methods of financing capital expenditures, expected average production, drilling plans and the effects thereof on various plays, timing of commencement of production from certain wells, the effect of royalty incentives on drilling costs, the number of wells needed to drain spacing units and certain wells in the Marlboro area, the effect of the construction of an oil battery at Sinclair including on operating costs, rates of return of Sinclair wells, drilling and completion costs at Sinclair, expected primary recovery at Sinclair and expected incremental recoveries as a result of the waterflood project, expected incremental recovery at Clive as a result of CO₂ flood and the timing of commencement of injection, the effect on operating costs of certain operational changes, timing of closing of minor property transactions, the use of proceeds from the sale of the Pembina sulphur block, 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) or at the Company's website (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 (loss) 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.



2009 Second Quarter Interim Report and News Release

SECOND QUARTER 2009 FINANCIAL RESULTS

Production

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	change	2009	2008	change
Natural gas (<i>Mcf per day</i>)	66,744	59,529	12%	67,130	58,171	15%
Crude oil (<i>bbls per day</i>)	3,552	2,506	42%	3,575	2,459	45%
Natural gas liquids (<i>bbls per day</i>)	632	610	4%	602	604	–
Sulphur (<i>tonnes per day</i>) ^{(1), (2)}	64	106	(40%)	78	158	(51%)
Total (<i>BOE per day</i>)	15,372	13,143	17%	15,444	12,916	20%
Natural gas % of production	72%	75%	–	72%	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 15,372 BOE per day for the second quarter of 2009, consistent with the preceding first quarter of 2009 (15,517 BOE per day), and 17% higher than the comparative second quarter of 2008 (13,143 BOE per day). Due to spring break-up and in light of continued declines in natural gas prices, Fairborne's second quarter drilling program was limited to three wells, two of which were light oil wells drilled on Fairborne's Sinclair property.

Natural gas production of 66.7 MMcf per day during the second quarter of 2009 was 1% lower than the preceding first quarter of 2009 (67.5 MMcf per day) reflecting natural declines. Compared to 2008, second quarter natural gas production increased 12% reflecting the Company's successful drilling program on its Harlech, Clive and Deep Basin properties throughout 2008.

Crude oil and NGL production of 4,184 bbls per day for the second quarter of 2009 was consistent with the preceding first quarter of 2009 (4,171 BOE per day) with new production offsetting natural declines. The 34% increase from the comparative second quarter of 2008 (3,116 BOE per day) was primarily attributed to the June 2008 acquisition of Grand Banks Energy Corporation ("Grand Banks") and the successful development of the Sinclair property subsequent to the acquisition.

Commodity Prices & Risk Management Activities

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	change	2009	2008	change
Average Prices						
Natural gas (<i>\$ per Mcf</i>) ⁽¹⁾	5.30	9.90	(46%)	5.85	9.14	(36%)
Crude oil (<i>\$ per bbl</i>) ⁽¹⁾	64.65	109.82	(41%)	60.81	99.12	(39%)
Natural gas liquids (<i>\$ per bbl</i>)	26.86	65.94	(59%)	27.04	62.38	(57%)
Sulphur (<i>\$ per tonne</i>) ⁽²⁾	128.16	351.32	(64%)	161.72	260.90	(38%)
BOE (<i>\$ per BOE</i>) ^{(1), (2)}	39.59	71.65	(45%)	41.36	66.15	(37%)
Benchmark Prices						
AECO Daily Index (<i>Cdn\$ per Mcf</i>)	3.45	10.20	(66%)	4.18	9.09	(54%)
AECO Monthly Index (<i>Cdn\$ per Mcf</i>)	3.66	9.35	(61%)	4.65	8.24	(44%)
Edmonton par (<i>Cdn\$ per bbl</i>)	66.16	126.25	(48%)	57.19	112.69	(49%)
Nymex Calendar Average (<i>US\$ per bbl</i>)	59.62	123.98	(52%)	51.35	110.94	(54%)

(1) Excludes the change in fair value of the derivative asset.

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

2009 Second Quarter Interim Report and News Release

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

During the second quarter of 2009, Fairborne's realized natural gas prices were 46% 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 second quarter realized prices were 54% 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 24,537 Mcf per day was sold under fixed price physical sales contracts during the second quarter of 2009 representing 37% of the Company's natural gas production. Risk management activities during the second quarter of 2009 increased the Company's natural gas revenue by \$9.6 million which increased Fairborne's realized natural gas price by \$1.58 per Mcf to \$5.30 per Mcf.

The following table summarizes the outstanding fixed price physical sales and derivative contracts for natural gas, including contracts outstanding at June 30, 2009 as well as contracts entered into after June 30, 2009:

	Q3/2009	Q4/2009	2010
Swaps			
Volume (Mcf per day)	26,726	26,726	20,936
Average price (\$ per Mcf)	7.79	7.79	6.68

Conversion factor: 1 Mcf = 1.122 GJ

Fairborne has also locked in the AECO basis on 5,000 mmbtu per day at NYMEX less US\$0.765 per mmbtu which has a remaining term of July 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 derivative contracts and the mark-to-market value of the contracts has been recorded as an asset of \$8.0 million at June 30, 2009.

CRUDE OIL

During the second quarter of 2009, Fairborne had an average of 500 bbls per day of crude oil under fixed price physical sales contracts representing 14% of crude oil production. Risk management activities, including option costs for puts purchased during the second quarter of 2009, had no impact on the Company's crude oil revenue. The Company's realized crude oil price of \$64.65 per bbl for the second quarter of 2009 represented a decrease of 41% from the same period in 2008, reflecting the overall decrease in average market prices.



2009 Second Quarter Interim Report and News Release

The following table summarizes the outstanding fixed price physical sales and derivative contracts on crude oil, including contracts outstanding at June 30, 2009 as well as contracts entered into after June 30, 2009:

	Q3/2009	Q4/2009	2010
Collars			
Volume (<i>bbls per day</i>)	1,500	1,500	1,500
Average floor price (<i>CDN\$ per bbl</i>)	\$53.33	\$53.33	\$60.00
Average ceiling price (<i>CDN\$ per bbl</i>)	\$92.35	\$92.35	\$103.72

At June 30, 2009, Fairborne had four crude oil collars that were accounted for as derivative contracts and the combined mark-to-market value of these contracts was recorded as a liability of \$1.1 million at June 30, 2009 which is offset in the derivative asset.

SULPHUR

The Company's average realized sulphur price for the second quarter of 2009 was \$128.16 per tonne, a decrease of 64% from the average realized price for 2008 of \$351.32 per tonne. The second quarter 2009 sulphur price was significantly increased by revenue adjustments recorded during the quarter which related to sulphur sales from prior periods when prices were at a much higher level. Sulphur prices are expected to decrease significantly during the third quarter of 2009 with Vancouver FOB prices ranging from \$20 to \$30 per tonne and Tampa FOB prices around \$5 per tonne.

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 resumed in February 2009. As a result, deferred revenue of \$6.7 million has been recorded at June 30, 2009, representing payments received in excess of deliveries to date. During the six months ended June 30, 2009, Fairborne received US\$13.5 million under the terms of the contract and is scheduled to receive US\$13.5 million during the balance of 2009.

FOREIGN EXCHANGE

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 June 30, 2009 was an asset of \$0.6 million and is included in the derivative asset.

2009 Second Quarter Interim Report and News Release

Petroleum and Natural Gas Revenue

(\$thousands except as noted)	Three months ended			Six months ended		
	2009	June 30, 2008	change	2009	June 30, 2008	change
Petroleum and natural gas sales:						
Natural gas	32,197	53,608	(40%)	71,034	96,784	(27%)
Crude oil	20,897	25,044	(17%)	39,350	44,363	(11%)
Natural gas liquids	1,545	3,660	(58%)	2,948	6,853	(57%)
Sulphur	747	3,380	(78%)	2,292	7,494	(69%)
Total	55,386	85,692	(35%)	115,624	155,494	(26%)
Per BOE	\$39.59	\$71.65	(45%)	\$41.36	\$66.15	(37%)
Other revenue items:						
Sulphur block	5,964	–	–	11,317	–	–
Change in fair value of derivative asset	(3,140)	(924)	(240%)	(497)	(846)	41%
Other income	220	902	(76%)	531	1,640	(68%)
Total	3,044	(22)	–	11,351	794	–
Total petroleum and natural gas revenue	58,430	85,670	(32%)	126,975	156,288	(19%)
Per BOE	\$41.77	\$71.63	(42%)	\$45.42	\$66.49	(32%)

Fairborne reported petroleum and natural gas revenue of \$58.4 million for the second quarter of 2009, a decrease of 15% when compared to the preceding first quarter of 2009 (\$68.5 million) and a 32% decrease when compared to the second quarter of 2008 (\$85.7 million). When compared to the prior year and the preceding first quarter, weakened commodity prices significantly decreased Fairborne's reported revenue. This decrease was partially offset by revenue from the sale of inventory at the West Pembina sulphur block received in 2009.

The change in fair value of the derivative asset represents the change in the mark-to-market value during the three and six months ended June 30, 2009. The \$3.1 million reduction recorded during the second quarter of 2009 reflects both the changes in the unrealized value of existing contracts as well as a reduction for amounts realized on contracts that settled during the period. Fairborne's risk management program, including derivative contracts and physical sales contracts, increased the Company's realized revenue by \$9.6 million during the second quarter of 2009.

Royalties

(\$thousands except as noted)	Three months ended			Six months ended		
	2009	June 30, 2008	change	2009	June 30, 2008	change
Crown	874	12,059	(93%)	7,231	22,961	(69%)
Freehold and overriding	2,184	3,930	(44%)	3,900	5,337	(27%)
Total	3,058	15,989	(81%)	11,131	28,298	(61%)
Crown (% of P&NG sales)	1.6%	14.1%	(89%)	6.2%	14.7%	(58%)
Freehold and overriding (% of P&NG sales)	3.9%	4.6%	(15%)	3.4%	3.4%	–
Total (% of P&NG sales)	5.5%	18.7%	(71%)	9.6%	18.1%	(47%)
Per BOE	\$2.19	\$13.37	(84%)	\$3.98	\$12.04	(67%)

2009 Second Quarter Interim Report and News Release

Fairborne reported royalties of \$3.1 million for the second quarter of 2009 representing a royalty rate of 5.5%, a 59% decrease from the 13.4% royalty rate reported in the first quarter of 2009. Several factors impacted Fairborne's effective royalty rate during the second quarter of 2009. Consistent with the first quarter, Fairborne's risk management program increased natural gas revenues resulting in higher realized prices than the prices utilized in calculating royalties. Fairborne also recorded a prior period royalty adjustment of \$1.0 million related to 2008 (\$0.9 million of credits recorded in the second quarter of 2008). Actual crown royalty rates throughout the first six months of 2009 have also been substantially lower than prior years due to significantly depressed natural gas prices and the resulting impact on crown royalty calculations under the new royalty regime which was effective January 1, 2009. On a normalized basis, excluding hedging gains and royalty credits, Fairborne expects royalties to return to a level which is more consistent with the first quarter of 2009 (12% to 18%).

Operating Costs

(\$thousands except as noted)	Three months ended			Six months ended		
	2009	June 30, 2008	change	2009	June 30, 2008	change
Operating costs						
Natural gas	10,494	8,707	21%	22,966	15,719	46%
Oil and NGLs	4,116	2,899	42%	9,048	5,318	70%
Total	14,610	11,606	26%	32,014	21,037	52%
Per BOE	\$10.44	\$9.70	8%	\$11.45	\$8.95	28%

Fairborne recorded operating costs of \$14.6 million (\$10.44 per BOE) during the second quarter of 2009, a decrease of 16% when compared to the preceding first quarter of 2009 (\$12.47 per BOE). Cost reduction initiatives implemented in the first quarter of 2009, which included a central oil battery at Sinclair and a water disposal pipeline at Wild River, have resulted in reduced operating costs during the second quarter of 2009.

Transportation Expenses

(\$thousands)	Three months ended			Six months ended		
	2009	June 30, 2008	change	2009	June 30, 2008	change
Transportation	1,345	1,126	19%	2,939	2,163	36%
Per BOE	\$0.96	\$0.94	2%	\$1.05	\$0.92	14%

Transportation costs of \$1.3 million (\$0.96 per BOE) for the second 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 first quarter of 2009 (\$1.14 per BOE), transportation costs decreased primarily due to lower fuel costs in the second quarter. On a year to date basis, transportation costs have increased slightly due to clean oil and NGL trucking costs associated with the Company's Harlech properties as well as costs associated with properties acquired from Grand Banks.

2009 Second Quarter Interim Report and News Release

Operating Netbacks

(\$ per BOE)	Three months ended			Six months ended		
	2009	June 30, 2008	change	2009	June 30, 2008	change
Petroleum and natural gas sales ⁽¹⁾	39.59	71.65	(45%)	41.36	66.15	(37%)
Other income	0.16	0.75	(79%)	0.19	0.70	(73%)
Royalties	(2.19)	(13.37)	(84%)	(3.98)	(12.04)	(67%)
Operating costs	(10.44)	(9.70)	8%	(11.45)	(8.95)	28%
Transportation	(0.96)	(0.94)	2%	(1.05)	(0.92)	14%
Operating netback	26.16	48.39	(46%)	25.07	44.94	(44%)

(1) Excludes the change in fair value of the derivative asset and sulphur block revenue.

Fairborne's operating netback of \$26.16 per BOE increased 9% when compared to the first quarter of 2009 (\$23.96 per BOE). The increase in the second quarter of 2009 is attributable to lower royalties as well as lower operating costs. The decrease year over year in the operating netback largely reflects weaker commodity prices and increased operating costs partially offset by the decrease in royalties.

General and Administrative ("G&A") Expenses

(\$thousands except as noted)	Three months ended			Six months ended		
	2009	June 30, 2008	change	2009	June 30, 2008	change
G&A expenses, net of recoveries	3,166	3,353	(5%)	5,317	6,206	(14%)
Compensation costs	13,019	17,251	(24%)	15,689	19,257	(19%)
Total G&A expenses	16,185	20,604	(21%)	21,006	25,463	(18%)
G&A expenses, net of recoveries, per BOE	\$2.26	\$2.80	(19%)	\$1.90	\$2.64	(28%)
Compensation costs, per BOE	\$9.31	\$14.42	(35%)	\$5.61	\$8.19	(32%)

Fairborne recorded \$3.2 million of cash G&A expenses, net of recoveries, in the second quarter of 2009, representing \$2.26 per BOE (Q2 2008 – \$2.80 per BOE). Cash G&A expenses were consistent with the first quarter of 2009, excluding the impact of accrual adjustments for the employee bonus program recorded during the first quarter of 2009. The 5% decrease from the comparable quarter in 2008 (Q2 2008 – \$3.4 million) was also due to the elimination of an accrual for the employee bonus program in 2009. Fairborne does not capitalize G&A expenses, other than recoveries permitted under joint operating agreements.

During the second quarter of 2009, the Board of Directors approved a voluntary stock option surrender program, under which various employees, officers and directors surrendered previously issued stock options for cancellation. As such, non-cash compensation expense of \$13.0 million in the second quarter of 2009 included \$12.6 million of accelerated compensation expense for the remaining life of 6.6 million stock options that were surrendered on June 1, 2009. Non-cash compensation expense recorded during the comparative second quarter of 2008 included \$16.8 million representing the intrinsic value of the retention award program on June 30, 2008, and \$0.4 million of amortization related to the Restricted Units and Performance Units. As at June 30, 2009, the intrinsic value of the retention award program was zero.



2009 Second Quarter Interim Report and News Release

Interest

(\$thousands except as noted)	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	change	2009	2008	change
Interest expense	3,649	3,062	19%	7,208	5,871	23%
Accretion of convertible debentures	501	522	(4%)	1,003	1,044	(4%)
Total interest	4,150	3,584	16%	8,211	6,915	19%
Per BOE	\$2.97	\$3.00	(1%)	\$2.94	\$2.94	–

Fairborne recorded \$3.6 million in interest expense in the second quarter of 2009 which was comparable to interest expense recorded during the preceding first quarter of 2009 (Q1 2009 – \$3.6 million) and was 19% higher than the \$3.1 million recorded in the second quarter of 2008. Compared to the prior year, the increase in interest expense primarily reflects an overall increase in the Company's debt levels from \$181.0 million at the end of the second quarter of 2008 to \$232.2 million at June 30, 2009. 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)

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	change	2009	2008	change
Depletion, depreciation and accretion (\$thousands)	37,736	27,984	35%	75,277	52,940	42%
Per BOE	\$26.98	\$23.40	15%	\$26.93	\$22.52	20%

Fairborne recorded \$37.7 million in depletion and depreciation of capital assets and accretion of asset retirement obligations during the second quarter of 2009. On a BOE basis, the 2009 second quarter DD&A rate of \$26.98 per BOE was comparable to the first quarter of 2009 (\$26.88 per BOE) and 15% higher than the average DD&A rate for the second quarter of 2008 (\$23.40 per BOE). Capital expenditures during the first half of 2009 increased reserves at a higher cost than the average cost of reserve additions during the second quarter of 2008, resulting in an increased DD&A rate in 2009.

Taxes

	Three months ended			Six months ended		
	June 30,			June 30,		
	2009	2008	change	2009	2008	change
Future tax expense (reduction) (\$thousands)	(1,321)	1,060	(225%)	(1,579)	5,610	(128%)
Per BOE	\$(0.95)	\$0.89	(207%)	\$(0.56)	\$2.39	(123%)

Fairborne recorded a future tax recovery of \$1.3 million in the second quarter of 2009 compared to a future tax expense of \$1.1 million recorded during the second 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.

2009 Second Quarter Interim Report and News Release

Net Income (Loss) and Funds Generated from Operations

(\$thousands except as noted)	Three months ended			Six months ended		
	2009	June 30, 2008	change	2009	June 30, 2008	change
Funds generated from operations	35,742	51,458	(31%)	68,712	93,559	(27%)
Per share – basic	\$0.41	\$0.60	(32%)	\$0.79	\$1.10	(28%)
Per share – diluted	\$0.41	\$0.60	(32%)	\$0.79	\$1.10	(28%)
Cash flow from operations (including changes in working capital)	27,653	41,650	(34%)	62,435	84,507	(26%)
Per share – basic	\$0.32	\$0.49	(35%)	\$0.72	\$1.00	(28%)
Per share – diluted	\$0.32	\$0.48	(33%)	\$0.72	\$0.99	(27%)
Net income (loss)	(17,333)	3,717	–	(22,024)	13,862	(259%)
Per share – basic	\$(0.20)	\$0.04	–	\$(0.25)	\$0.16	(256%)
Per share – diluted	\$(0.20)	\$0.04	–	\$(0.25)	\$0.16	(256%)

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

(\$thousands)	Three months ended		Six months ended	
	2009	June 30, 2008	2009	June 30, 2008
Cash flow from operations	27,653	41,650	62,435	84,507
Change in non-cash working capital	7,504	9,749	5,193	8,755
Asset retirement expenditures	585	59	1,084	297
Funds generated from operations	35,742	51,458	68,712	93,559

BOE Analysis

	Three months ended June 30,			
	2009		2008	
	(\$thousands)	(\$ per BOE)	(\$thousands)	(\$ per BOE)
Petroleum and natural gas revenue ⁽¹⁾	58,430	41.77	85,670	71.63
Royalties	(3,058)	(2.19)	(15,989)	(13.37)
Operating expenses	(14,610)	(10.44)	(11,606)	(9.70)
Transportation	(1,345)	(0.96)	(1,126)	(0.94)
Change in fair value of derivative asset	3,140	2.24	924	0.77
General & administrative ⁽²⁾	(3,166)	(2.26)	(3,353)	(2.80)
Interest expense ⁽³⁾	(3,649)	(2.61)	(3,062)	(2.56)
Funds generated from operations	35,742	25.55	51,458	43.03
Change in fair value of derivative asset	(3,140)	(2.24)	(924)	(0.77)
Compensation expense – non-cash	(13,019)	(9.31)	(17,251)	(14.42)
Accretion of convertible debentures	(501)	(0.36)	(522)	(0.44)
Depletion, depreciation and accretion	(37,736)	(26.98)	(27,984)	(23.40)
Future tax reduction (expense)	1,321	0.95	(1,060)	(0.89)
Net income (loss)	(17,333)	(12.39)	3,717	3.11

(1) Including the change in fair value of the derivative asset (non-cash) and revenue from the sale of inventory at the West Pembina sulphur block.

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

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



2009 Second Quarter Interim Report and News Release

	Six months ended June 30,			
	2009		2008	
	(\$thousands)	(\$ per BOE)	(\$thousands)	(\$ per BOE)
Petroleum and natural gas revenue ⁽¹⁾	126,975	45.42	156,288	66.49
Royalties	(11,131)	(3.98)	(28,298)	(12.04)
Operating expenses	(32,014)	(11.45)	(21,037)	(8.95)
Transportation	(2,939)	(1.05)	(2,163)	(0.92)
Change in fair value of derivative asset	497	0.17	846	0.36
General & administrative ⁽²⁾	(5,317)	(1.90)	(6,206)	(2.64)
Compensation expense ⁽³⁾	(151)	(0.05)	–	–
Interest expense ⁽⁴⁾	(7,208)	(2.58)	(5,871)	(2.50)
Funds generated from operations	68,712	24.58	93,559	39.80
Change in fair value of derivative asset	(497)	(0.17)	(846)	(0.36)
Compensation expense – non-cash	(15,538)	(5.56)	(19,257)	(8.19)
Accretion of convertible debentures	(1,003)	(0.36)	(1,044)	(0.44)
Depletion, depreciation and accretion	(75,277)	(26.93)	(52,940)	(22.52)
Future tax reduction (expense)	1,579	0.56	(5,610)	(2.39)
Net income (loss)	(22,024)	(7.88)	13,862	5.90

(1) Including the change in fair value of the derivative asset (non-cash) and revenue from the sale of inventory at the West Pembina sulphur block.

(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 \$35.7 million for the second quarter of 2009 (Q2 2008 – \$51.5 million) and \$68.7 million for the six months ended June 30, 2009 (for the six months ended June 30, 2008 – \$93.6 million). The significant decrease in funds generated from operations from the prior year reflects the decrease in commodity prices, offset by reduced royalty rates in the first half of 2009. The net loss of \$17.3 million for the second quarter of 2009 (Q2 2008 – net income of \$3.7 million) and the net loss of \$22.0 million for the six months ended June 30, 2009 (net income for the six months ended June 30, 2008 – \$13.9 million) reflects the reduction in cash flows as well as the \$12.6 million charge to compensation expense for the stock options that were surrendered in June 2009.

2009 Second Quarter Interim Report and News Release

LIQUIDITY AND CAPITAL RESOURCES

Capital Expenditures

(\$thousands)	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Exploration and development				
Land and lease acquisitions	1,272	1,298	5,082	1,614
Geological and geophysical	–	–	84	–
Drilling, completions and workovers	5,841	21,254	45,211	66,513
Well equipment and facilities	8,792	8,982	18,084	21,328
Corporate assets	20	170	109	170
	15,925	31,704	68,570	89,625
Property acquisitions, net of dispositions	(605)	621	(605)	1,810
Corporate acquisitions	–	133,861	–	133,861
Total	15,320	166,186	67,965	225,296

Fairborne continues to aggressively manage its 2009 capital expenditure program in light of on-going volatility in commodity and capital markets. During the second quarter of 2009, Fairborne's exploration and development expenditures were \$15.9 million with capital expenditures financed through funds generated from operations. Land and lease acquisitions of \$1.3 million during the second quarter of 2009 were primarily focused in the province of Manitoba where \$0.7 million was utilized to acquire additional acreage at Manitoba provincial land sales. In addition, Fairborne increased the Company's land positions in the Clive and Harlech areas, spending a combined \$0.3 million in these areas during the second quarter of 2009. Fairborne also sold \$0.6 million of seismic data during the second quarter of 2009.

Fairborne spent \$5.8 million on drilling and completion activities in the second quarter of 2009 with a total of 3 wells (2.7 net) drilled resulting in two oil wells (2.0 net) on Fairborne's Sinclair property and one natural gas well (0.7 net) on the Harlech property. Tangible capital expenditures during the three months ended June 30, 2009 included the construction of an oil treating facility at Sinclair, the tie-in of various wells at Harlech and Sinclair, and the installation of electronic flow measurement systems at several wells on the Company's Marlboro property.

Working Capital and Bank Indebtedness

At June 30, 2009, Fairborne had drawn \$232.2 million against its credit facilities and had a working capital surplus of \$7.2 million for a net debt position of \$225.0 million (December 31, 2008 – \$224.2 million). With continued volatility in commodity and capital markets, Fairborne has limited its 2009 capital expenditure program to a level which it has substantially funded from its year-to-date 2009 funds generated from operations. On an annualized basis, Fairborne anticipates capital expenditures to be financed entirely from funds generated from operations.

Fairborne's credit facilities at June 30, 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. The extendible revolving term facility is 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.



2009 Second Quarter Interim Report and News Release

Shareholders' Equity

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

During the second quarter of 2009, the Board of Directors approved a voluntary stock option surrender program and on June 1, 2009, employees, management and directors voluntarily surrendered approximately 6.6 million stock options with exercise prices ranging from \$10.00 to \$13.16. As a result, the Company recognized the remaining unamortized stock based compensation costs associated with the cancelled options of \$12.6 million.

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>	July 31, 2009	June 30, 2009	December 31, 2008
Common shares	87,033	87,033	86,933
Warrants ⁽¹⁾	4,406	4,406	4,406
Convertible debentures ⁽²⁾	\$100,000	\$100,000	\$100,000
Incentive plans			
Restricted Units	30 ⁽³⁾	30 ⁽³⁾	78
Performance Units	92 ⁽⁴⁾	92 ⁽⁴⁾	204
Stock options	2,032	1,997	6,904
Weighted average common shares ⁽⁵⁾			
Basic	n/a	86,988	85,854
Diluted	n/a	86,988	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.

(5) Weighted average common shares are for the twelve months ended December 31, 2008 and for the six months ended June 30, 2009.

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 Second 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, interim 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 June 30, 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 Second Quarter Interim Report and News Release

QUARTERLY FINANCIAL INFORMATION

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

	Q2 2009	Q1 2009	Q4 2008	Q3 2008
<i>Financial (\$thousands, except per share amounts)</i>				
Petroleum and natural gas revenue	58,430	68,545	85,165	97,489
Funds generated from operations	35,742	32,970	40,309	55,307
Per share – basic	\$0.41	\$0.38	\$0.46	\$0.64
Per share – diluted	\$0.41	\$0.38	\$0.46	\$0.63
Cash flow from operations (including changes in working capital)	27,653	34,782	37,693	65,598
Per share – basic	\$0.32	\$0.40	\$0.43	\$0.76
Per share – diluted	\$0.32	\$0.40	\$0.43	\$0.76
Net income (loss)	(17,333)	(4,691)	11,657	19,182
Per share – basic	\$(0.20)	\$(0.05)	\$0.14	\$0.22
Per share – diluted	\$(0.20)	\$(0.05)	\$0.14	\$0.22
Total assets	1,001,840	1,023,526	1,013,177	999,065
Working capital (surplus) deficit	(7,227)	31,641	27,917	64,814
Bank indebtedness	232,184	209,925	196,282	161,302
Convertible debentures	95,525	95,024	94,522	94,020
<i>Operations</i>				
Average production				
Natural gas (Mcf per day)	66,744	67,520	69,460	62,601
Crude oil (bbls per day)	3,552	3,599	4,086	3,312
Natural gas liquids (bbls per day)	632	572	657	580
Sulphur (tonnes per day) ⁽¹⁾	64	93	138	129
Total (BOE per day)	15,372	15,517	16,458	14,454

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

2009 Second Quarter Interim Report and News Release

	Q2 2008	Q1 2008	Q4 2007	Q3 2007 ⁽¹⁾
Financial (<i>\$thousands, except per share amounts</i>)				
Petroleum and natural gas revenue	85,670	70,618	59,976	54,648
Funds generated from operations	51,458	42,101	29,363	27,164
Per share – basic	\$0.60	\$0.50	\$0.43	\$0.41
Per share – diluted	\$0.60	\$0.50	\$0.43	\$0.38
Cash flow from operations (including changes in working capital)	41,650	42,857	36,004	24,159
Per share – basic	\$0.49	\$0.51	\$0.53	\$0.37
Per share – diluted	\$0.48	\$0.51	\$0.53	\$0.34
Net income (loss)	3,717	10,145	(1,136)	2,271
Per share – basic	\$0.04	\$0.12	(\$0.03)	\$0.03
Per share – diluted	\$0.04	\$0.12	(\$0.03)	\$0.03
Total assets	946,025	792,918	749,715	732,276
Working capital deficit	7,363	27,255	7,467	27,051
Bank indebtedness	180,977	85,634	86,866	159,834
Convertible debentures	93,499	92,977	92,455	91,933
Operations				
Average production				
Natural gas (<i>Mcf per day</i>)	59,529	56,813	59,194	58,435
Crude oil (<i>bbls per day</i>)	2,506	2,413	2,616	2,600
Natural gas liquids (<i>bbls per day</i>)	610	597	524	582
Sulphur (<i>tonnes per day</i>) ⁽²⁾	106	210	–	–
Total (<i>BOE per day</i>)	13,143	12,689	13,005	12,921

(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 Second Quarter Interim Report and News Release

INTERIM CONSOLIDATED BALANCE SHEETS

(Unaudited)

<i>(\$thousands)</i>	June 30, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	\$ 153	\$ 126
Accounts receivable	41,929	47,915
Derivative asset	7,526	8,023
Prepaid expenses and deposits	8,497	6,742
	58,105	62,806
Petroleum and natural gas properties and equipment <i>(Note 1)</i>	927,565	934,201
Goodwill	16,170	16,170
	\$ 1,001,840	\$1,013,177
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 43,830	\$ 88,877
Current portion of compensation plans <i>(Note 5)</i>	320	396
Deferred revenue	6,728	1,450
	50,878	90,723
Bank indebtedness <i>(Note 2)</i>	232,184	196,282
Convertible debentures <i>(Note 3)</i>	95,525	94,522
Compensation plans <i>(Note 5)</i>	–	111
Asset retirement obligation <i>(Note 4)</i>	11,496	11,904
Future income taxes	87,439	81,860
Shareholders' Equity		
Common shares <i>(Note 5)</i>	470,110	475,908
Warrants	2,721	2,721
Equity component of convertible debentures <i>(Note 3)</i>	5,581	5,581
Contributed surplus <i>(Note 5)</i>	22,878	8,513
Retained earnings	23,028	45,052
	524,318	537,775
	\$ 1,001,840	\$1,013,177

See accompanying notes to the interim consolidated financial statements.

2009 Second Quarter Interim Report and News Release

INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

(Unaudited)

<i>(\$thousands except per share amounts)</i>	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Revenue				
Petroleum and natural gas	\$ 58,430	\$ 85,670	\$ 126,975	\$ 156,288
Royalties	(3,058)	(15,989)	(11,131)	(28,298)
	55,372	69,681	115,844	127,990
Expenses				
Operating	14,610	11,606	32,014	21,037
Transportation	1,345	1,126	2,939	2,163
General and administrative	16,185	20,604	21,006	25,463
Interest	4,150	3,584	8,211	6,915
Depletion, depreciation and accretion	37,736	27,984	75,277	52,940
	74,026	64,904	139,447	108,518
Income (loss) before taxes	(18,654)	4,777	(23,603)	19,472
Future taxes (reduction)	(1,321)	1,060	(1,579)	5,610
Net income (loss) and comprehensive income (loss)	(17,333)	3,717	(22,024)	13,862
Retained earnings, beginning of period	40,361	10,496	45,052	351
Retained earnings, end of period	\$ 23,028	\$ 14,213	\$ 23,028	\$ 14,213
Net income (loss) per share (Note 5)				
Basic	\$ (0.20)	\$ 0.04	\$ (0.25)	\$ 0.16
Diluted	\$ (0.20)	\$ 0.04	\$ (0.25)	\$ 0.16

See accompanying notes to the interim consolidated financial statements.

2009 Second Quarter Interim Report and News Release

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(\$thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2009	2008	2009	2008
Cash provided by (used in):				
<i>Operating activities</i>				
Net income (loss)	\$ (17,333)	\$ 3,717	\$ (22,024)	\$ 13,862
Items not involving cash:				
Depletion, depreciation and accretion	37,736	27,984	75,277	52,940
Compensation expense	13,019	17,251	15,538	19,257
Future taxes (reduction)	(1,321)	1,060	(1,579)	5,610
Accretion of convertible debentures	501	522	1,003	1,044
Change in fair value of derivative asset	3,140	924	497	846
Asset retirement expenditures	(585)	(59)	(1,084)	(297)
	35,157	51,399	67,628	93,262
Change in non-cash working capital	(7,504)	(9,749)	(5,193)	(8,755)
	27,653	41,650	62,435	84,507
<i>Financing activities</i>				
Bank indebtedness	22,259	83,758	35,902	82,526
Issuance of common shares, net of costs	–	27,597	–	27,597
	22,259	111,355	35,902	110,123
<i>Investing activities</i>				
Expenditures on petroleum and natural gas properties	(15,925)	(31,704)	(68,570)	(89,625)
Acquisition of petroleum and natural gas properties	–	(621)	–	(1,810)
Disposition of petroleum and natural gas properties	605	–	605	–
Corporate acquisition costs	–	(102,054)	–	(102,054)
Change in non-cash working capital	(34,563)	(17,978)	(30,345)	(407)
	(49,883)	(152,357)	(98,310)	(193,896)
Change in cash and cash equivalents	29	648	27	734
Cash and cash equivalents, beginning of period	124	202	126	116
<i>Cash and cash equivalents, end of period</i>	\$ 153	\$ 850	\$ 153	\$ 850
Interest paid	\$ 6,400	\$ 4,796	\$ 8,837	\$ 5,584

See accompanying notes to the interim consolidated financial statements.

2009 Second Quarter Interim Report and News Release

SELECTED NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June 30, 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. 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

	June 30, 2009	December 31, 2008
Petroleum and natural gas properties and equipment	\$ 1,418,144	\$ 1,350,355
Accumulated depletion and depreciation	(492,716)	(418,156)
Corporate assets	4,382	4,037
Accumulated depreciation	(2,245)	(2,035)
	\$ 927,565	\$ 934,201

As at June 30, 2009, future development costs of \$174.5 million (December 31, 2008 – \$189.0 million) were included in the depletion calculation and costs of acquiring unproved properties in the amount of \$53.1 million (December 31, 2008 – \$59.1 million) were excluded from the depletion calculation.

2. BANK INDEBTEDNESS

At June 30, 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 28, 2010 (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, 2011. 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 0.75% to 4.25% 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 June 30, 2009 letters of credit totaling \$0.5 million were outstanding.



2009 Second Quarter Interim Report and News Release

3. CONVERTIBLE DEBENTURES

The following table sets forth a reconciliation of the convertible debentures for the six months ended June 30, 2009:

	Number of Debentures	Debt component	Equity component
Balance, beginning of period	100,000	\$ 94,522	\$ 5,581
Accretion	–	1,003	–
Balance, end of period	100,000	\$ 95,525	\$ 5,581

4. ASSET RETIREMENT OBLIGATION

The following table sets forth a reconciliation of the asset retirement obligation for the six months ended June 30, 2009:

Balance, beginning of period	\$ 11,904
Liabilities incurred	169
Liabilities settled	(1,084)
Accretion expense	507
Balance, end of period	\$ 11,496

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 six months ended June 30, 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	87,033	\$ 470,110

2009 Second Quarter Interim Report and News Release

b) Per share amounts

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Numerator				
Net income (loss) for basic and diluted net income (loss) per share	\$ (17,333)	\$ 3,717	\$ (22,024)	\$ 13,862
Denominator				
Weighted average shares – basic	87,033	85,234	86,988	84,764
Restricted Units	–	142	–	138
Performance Units	–	291	–	309
Denominator for diluted net income (loss) per share	87,033	85,667	86,988	85,211
Basic net income (loss) per share	\$ (0.20)	\$ 0.04	\$ (0.25)	\$ 0.16
Diluted net income (loss) per share	\$ (0.20)	\$ 0.04	\$ (0.25)	\$ 0.16

Excluded from the diluted number of shares for the three and six months ended June 30, 2009 is the effect of convertible debentures (7.4 million shares), warrants (1.7 million shares) and stock options as they are anti-dilutive to the net loss for the period. Excluded from the diluted number of shares for the three and six months ended June 30, 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 six months ended June 30, 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 ⁽¹⁾	35	85	120

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



2009 Second Quarter Interim Report and News Release

Pursuant to the terms of the plans, settlements of Restricted Units (“RTU’s”) and Performance Units (“PTU’s”) 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 six months ended June 30, 2009, 60,000 RTU’s and PTU’s were settled for cash. As such, the incentive plan is accounted for as a liability based plan rather than an equity based plan resulting in the recognition of a \$0.3 million liability on reclassification of the plan to a liability settled award with a corresponding reduction in contributed surplus. The Company paid \$0.1 million of the liability during the six months ended June 30, 2009 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. Included in the current liability for compensation plans at June 30, 2009 is \$0.3 million (December 31, 2008 - \$nil).

ii) STOCK OPTION PLAN

The following table sets forth a reconciliation of the stock option plan activity for the six months ended June 30, 2009:

	Number of awards	Weighted average exercise price
Balance, beginning of period	6,904	\$ 12.74
Granted	1,821	2.57
Forfeited	(141)	12.85
Cancelled	(6,587)	12.78
Balance, end of period	1,997	\$ 3.31
Exercisable, end of period	-	-

The weighted average fair value of options granted during the six months ended June 30, 2009 was \$0.93 per option using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of one percent, expected volatility of 57 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.

During the quarter ended June 30, 2009, the Board of Directors approved a voluntary stock option surrender program. Under the program various employees, officers and directors surrendered previously issued stock options for cancellation. The options surrendered by holders were cancelled effective June 1, 2009 and had an average exercise price of \$12.78. The Company recognized the remaining unamortized stock based compensation costs associated with the cancelled options of \$12.6 million.

2009 Second Quarter Interim Report and News Release

The following table summarizes stock options outstanding at June 30, 2009:

Exercise Price	Options outstanding	Remaining term (years)
\$2.00 – \$4.99	1,818	4.7
\$5.00 – \$7.99	30	4.3
\$8.00 – \$10.99	63	4.3
\$11.00 – \$13.99	86	4.1
	1,997	4.7

III) RETENTION AWARD PLAN

The following table sets forth a reconciliation of the retention award plan activity for the six months ended June 30, 2009:

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

Included in the current and long term compensation plan liabilities at June 30, 2009 is \$nil (December 31, 2008 – \$0.5 million) related to the Retention Award Plan.

d) Contributed Surplus

The following table sets forth a reconciliation of the contributed surplus for the six months ended June 30, 2009:

Balance, beginning of period	\$ 8,513
Equity based compensation	16,108
Restricted and Performance Units exercised	(1,360)
Reclassification to compensation plan liability (Note 5 (c)(i))	(383)
Balance, end of period	\$ 22,878

2009 Second Quarter Interim Report and News Release

6. FINANCIAL INSTRUMENTS

As at June 30, 2009, the Company's accounts receivable is aged as follows:

Current (less than 90 days)	\$ 38,017
Past due (more than 90 days)	3,912
Total	\$ 41,929

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 June 30, 2009 was \$88.5 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 June 30, 2009 was \$0.6 million which is included in the derivative asset.

2009 Second 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 June 30, 2009 the following oil and natural gas contracts have been recorded on the balance sheet at their estimated fair value as a \$6.9 million asset (December 31, 2008 – an asset of \$8.0 million). The change in the fair value has been included in petroleum and natural gas sales for the six months ended June 30, 2009.

NATURAL GAS:

	Volume (per day)	Price	Settlement Index
Basis Swap			
Jul 1, 2009 – Oct 31, 2009	5,000 mmbtu	Nymex – US \$0.765	Nymex LD
AECO Swap			
Jul 1, 2009 – Dec 31, 2009	15,000 GJs	6.77	AECO C Monthly

OIL:

	Volume (bbls per day)	Price (\$ per bbl)	Settlement Index
Collars			
Jul 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
Jan 1, 2010 – Dec 31, 2010	500	70.00 – 100.15	WTI



2009 Second Quarter Interim Report and News Release

b) Commodity Contracts not Recorded at Fair Value:

The following crude oil and natural gas fixed price physical sales contracts outstanding at June 30, 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
Collars			
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
AECO Swaps			
Jul 1, 2009 – Dec 31, 2009	5,000	7.76	AECO C Monthly
Jul 1, 2009 – Dec 31, 2009	5,000	7.50	AECO C Monthly
Jul 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
Jan 1, 2010 – Dec 31, 2010	4,000	6.00	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	2,000	6.13	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	2,000	6.15	AECO C Monthly
Jan 1, 2010 – Dec 31, 2010	2,000	6.16	AECO C Monthly

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AUDITORS

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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

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. Cymbalisty
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





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