



# 2009 annual review

Financial Strength  
Disciplined  
New play development  
Horizontal  
Multi-stage  
New technology





*Fairborne Energy Ltd. (“Fairborne” or the “Company”) is a growth-oriented oil and gas company engaged in the business of exploring for, developing, acquiring and producing crude oil and natural gas in Western Canada. Fairborne utilizes extensive drilling in core areas, and, where appropriate, focused acquisitions to meet its objective of generating value for its shareholders.*

*In 2009, Fairborne had a disciplined focus on financial resource management as a result of weak global economic conditions and lower natural gas prices. Fairborne’s capital expenditure program included drilling 53 wells as well as building on land positions in key areas. The Company also completed a number of key property acquisitions and dispositions throughout 2009. Moving into an economically volatile and challenging market in 2010, the Company will manage its capital spending to maintain financial flexibility while focusing on projects that build per share value for shareholders at current commodity prices.*

## 2009 IN SUMMARY

Fairborne is pleased to provide this summary of its financial and operating results for the 2009 year. A complete copy of the Company's historical public documents, corporate information, latest press releases including the 2009 Financial Statements, MD&A and Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at <http://www.fairborne-energy.com>.

## 2009 HIGHLIGHTS

|   | 2009     | 2008    | CHANGE |
|---|----------|---------|--------|
| <b>Financial</b> ( <i>\$thousands, except per share amounts</i> ) |          |         |        |
| Petroleum and natural gas revenue                                 | 240,557  | 338,942 | (29%)  |
| Funds generated from operations <sup>(1)</sup>                    | 143,811  | 189,175 | (24%)  |
| Per share – basic   | \$1.59   | \$2.20  | (28%)  |
| Per share – diluted   | \$1.59   | \$2.19  | (27%)  |
| Net income (loss)   | (25,645) | 44,701  | (157%) |
| Per share – basic   | \$(0.28) | \$0.52  | (154%) |
| Per share – diluted   | \$(0.28) | \$0.52  | (154%) |
| Exploration and development expenditures                          | 110,389  | 238,128 | (54%)  |
| Acquisitions, net of dispositions                                 | (24,844) | 135,544 | (118%) |
| Working capital deficit   | 6,370    | 27,917  | (77%)  |
| Bank indebtedness   | 103,738  | 196,282 | (47%)  |
| Convertible debentures  | 96,510   | 94,522  | 2%     |
| <b>Operations</b> ( <i>Units as noted</i> )                       |          |         |        |
| Average production  |          |         |        |
| Natural gas ( <i>Mcf per day</i> )                                | 62,509   | 62,122  | 1%     |
| Crude oil ( <i>bbls per day</i> )                                 | 3,368    | 3,083   | 9%     |
| Natural gas liquids ( <i>bbls per day</i> )                       | 596      | 611     | (2%)   |
| Sulphur ( <i>tonnes per day</i> ) <sup>(2), (4)</sup>             | 72       | 146     | (51%)  |
| Total ( <i>BOE per day</i> )                                      | 14,454   | 14,193  | 2%     |
| Proved and probable reserves                                      |          |         |        |
| Natural gas ( <i>Bcf</i> )  | 262.2    | 266.3   | (2%)   |
| Crude oil ( <i>Mbbl</i> )   | 10,466   | 10,404  | 1%     |
| Natural gas liquids ( <i>Mbbl</i> )                               | 9,069    | 9,579   | (5%)   |
| BOE ( <i>MBOE</i> )   | 63,234   | 64,364  | (2%)   |
| Netback per BOE ( <i>\$ per BOE</i> )                             |          |         |        |
| Petroleum and natural gas sales <sup>(3)</sup>                    | 41.91    | 61.89   | (32%)  |
| Sulphur block revenue   | 5.28     | 1.81    | 192%   |
| Royalties   | (3.28)   | (11.07) | (70%)  |
| Operating expenses  | (10.25)  | (10.07) | 2%     |
| Transportation  | (1.07)   | (1.01)  | 6%     |
| Operating netback   | 32.59    | 41.55   | (22%)  |
| Wells drilled ( <i>gross</i> )                                    | 53       | 114     | (54%)  |
| Undeveloped land ( <i>net acres</i> )                             | 209,855  | 235,324 | (11%)  |

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

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

(3) Excludes the change in fair value of derivatives.

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



## MESSAGE TO SHAREHOLDERS

## FINANCIAL DISCIPLINE IN 2009 IMPROVES FINANCIAL OUTLOOK

In 2009, we saw the continuation of weak global markets and a volatile natural gas price environment. Despite the challenges presented by a depressed economic climate, Fairborne exercised strict financial discipline and made significant progress in 2009 which included:

- Funds generated from operations of \$143.8 million (\$1.59 per share) with an operating netback of \$32.59 per BOE;
- Increased average production by 2% to 14,454 BOE per day which included a 9% increase in high quality light oil production from the continued development of our Sinclair property;
- Current production of 14,500 BOE per day and behind pipe volumes of 1,000 BOE per day, an increase of 14% over fourth quarter production of 13,542 BOE per day;
- Proved plus probable recycle ratio of 1.57 (proved – 2.00);
- Replaced 100% of production;
- Financed capital expenditures of \$117 million (\$110.4 million after drilling credits) entirely from funds generated from operations;
- Reduced net debt by 51% to \$110.1 million at December 31, 2009;
- Completed an equity financing of \$69.5 million which included \$20 million of flow-through financing, proceeds of which were initially applied against outstanding bank debt;
- Disposed of non-core properties in the Deep Basin and a portion of the Company's interest in the West Pembina gas plant for aggregate proceeds of \$30 million which was used to fund property acquisitions and reduce outstanding debt;
- Protected operating cash flow by temporarily shutting in high operating cost properties in the second and third quarters during low gas prices;
- Maintained a strong natural gas hedge position, which increased natural gas revenue by approximately \$35.5 million;
- Continued focus on costs resulted in fourth quarter operating costs of \$8.75 per BOE.

The benefit of the disciplined focus in 2009 provides a strong starting position in 2010:

- Proved plus probable drilling reserve additions of 5.4 MMBOE in 2009 brings total proved plus probable reserves to 63.2 MMBOE at January 1, 2010;
- Proved developed producing reserves were stable at 24 MMBOE year over year;
- Moving into 2010, 37% of natural gas production is hedged at an average price of \$6.63 per Mcf, providing stability to 2010 operating cash flows and ensuring an active capital expenditure program;
- Exploration and development activities have identified and delineated a diverse range of opportunities within Fairborne's existing inventory of prospects;
- Capital expenditure program for 2010 is \$150 million;
- Fairborne has \$175 million of available credit on its bank lines to take advantage of growth opportunities;
- Net asset value of \$8.63 per share based on proved plus probable reserves, discounted at 10% and \$5.53 per share based on proved reserves, discounted at 10% at December 31, 2009.

MESSAGE TO SHAREHOLDERS

**RESERVES**

Fairborne’s total proved plus probable reserves at the end of 2009 were 63.2 MMBOE, which, net of dispositions and revisions is essentially flat from year end 2008.

With 2009 drilling focused on the expansion of the Marlboro and Sinclair properties, Fairborne had significant reserve additions in these areas along with positive revisions in most other major properties. The 2009 exploration and development program replaced 100% of production with proved plus probable reserve additions of 5.4 MMBOE. Finding, development and acquisition costs (“FD&A”) (excluding change in future development costs) were \$20.69 per proved plus probable BOE for the year, generating a recycle ratio of 1.57 times. All-in finding, development and acquisition costs on a total investment of \$109.2 million, including changes in future development costs for 2009, were \$26.51 per proven plus probable BOE. Prior to dispositions and negative Nordegg reserve revisions, the \$110 million capital program (after drilling credits) added 8.5 MMBOE of proved plus probable reserves at \$12.97 per BOE and replaced production 1.6 times, generating a recycle ratio of 2.5 times.

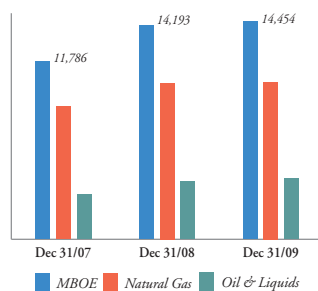
In addition, the Company continued de-risking the Harlech area Nordegg play with the drilling of one additional horizontal well. The well extended the play six miles to the west from the original discovery. Although the year end reserve report has confirmed that these horizontal wells remain economic; based on current estimated well costs and stabilized flow tests and given the current gas price environment, the play is less attractive than the Company’s other investment opportunities. With the Company’s focus of maximizing rate of return it is unlikely that we will allocate any capital to Nordegg horizontal opportunities in 2010. In the December 31, 2009 reserve report, 1.9 MMBOE of proved and 3.1 MMBOE of proved plus probable reserves were removed which were included in the prior year’s reserve report.

The Company, however, will continue to drill the Nordegg play through its very successful vertical well program, where wells targeting stacked horizons including the Cardium, Viking, Notikewin, Glauconite, Gething and Rock Creek will now be deepened approximately 75 meters to include the Nordegg. Our current inventory includes over 300 vertical locations.

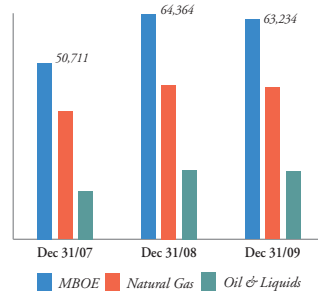
Performance without the Nordegg revision is more reflective of Fairborne’s expected future efficiencies as capital is directed to investment opportunities in the Wilrich at Marlboro and the Torquay/Three Forks at Sinclair, Manitoba.

*With 2009 drilling focused on the expansion of the Marlboro and Sinclair properties, Fairborne had significant reserve additions in these areas along with positive revisions in most other major properties.*

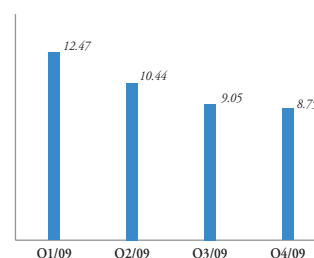
**Annual Production**  
(BOE per day)



**P + P Reserves**  
(MBOE)



**2009 Quarterly Operating costs**  
(\$ per BOE)



## MESSAGE TO SHAREHOLDERS

## DIVERSE ASSETS AND EMERGING RESOURCE PLAYS

**Marlboro, Alberta** – The Marlboro property represents an emerging resource play for Fairborne. A total of five wells (3.3 net) have been drilled to date with stabilized production tests ranging from five to seven MMcf per day. The sixth well (90% working interest) is currently drilling and expected to be on production prior to spring breakup.

Fairborne's current land base on the Wilrich trend includes 58 gross (43 net) sections of land and current development plans include up to three wells per section. Fairborne has increased the number of Wilrich wells to be drilled in 2010 from an initial budget of seven gross (4.6 net) wells to 12 gross (8.5 net) wells. The 2009 year end reserve report includes a total of nine gross undeveloped locations.

Fairborne's most recent well (4,040 metres measured depth including a 1,170 metre horizontal leg) had a cost of \$5.1 million to drill and complete and is eligible for government drilling and royalty incentives of approximately \$4.7 million.

**Harlech, Alberta** – The Harlech area offers multizone Cretaceous opportunities as well as the Nordegg Formation. During 2009, Fairborne successfully drilled and completed its fourth Nordegg horizontal well (0.3 net) which was a step out well designed to test the westward extension of the play. The results of this well have confirmed the existence of gas in the Nordegg to the west of our existing production. The well tested at rates as high as four MMcf per day with extended production test flow rates between one and two MMcf per day with production logs indicating the majority of flow from two of the eight fracture stimulated intervals.

Nordegg play development strategy will now shift to deepening our planned vertical multizone wells to the Nordegg and pursuing downspacing to four wells per section. This strategy is in part facilitated by the recent receipt of commingling approval for the Nordegg with all shallower target zones that are being pursued through vertical development as well as downspacing approval.

With 11 vertical wells in the Nordegg already, testing between 0.8 and 1.8 MMcf per day and the presence of gas in all horizontal wells drilled to date, Fairborne is confident that the early phase de-risking of the play is well underway and we will continue to develop the significant Nordegg resource present over our entire 125 net section Harlech land block.

**Sinclair, Manitoba** – The Manitoba asset at Sinclair is a high quality, light oil property that continues to deliver exceptional economics resulting from low operating costs and royalty free production on crown lands. During 2009, Fairborne constructed a central battery, water disposal system and gathering pipelines which reduced overall operating costs to approximately \$6.00 per barrel and further increased the operating netbacks. In late 2009 Fairborne received approval from the Manitoba government for a two section waterflood pilot project, and water injection commenced in mid-December. The 2010 capital expenditure program includes drilling ten (10.0 net) wells and continuation/expansion of the waterflood project.

*Moving into 2010, 37% of natural gas production is hedged at an average price of \$6.63 per Mcf thereby providing stability to 2010 operating cash flows and ensuring an active capital expenditure program.*

## MESSAGE TO SHAREHOLDERS

**Clive (CO2), Alberta** – Fairborne’s Clive CO2 flood project continues to advance with the announcement of government funding in 2009 of \$558 million for the Alberta Carbon Trunk Line project. Fairborne expects to begin to incur minor capital costs for the project during 2010 that will include engineering and design costs as well as reprocessing of our existing extensive 3D seismic over the Clive area. Our expected timeline for the project is to have the CO2 pipeline construction commence in 2011 with first injection planned for 2012.

**OUTLOOK**

We are pleased with the financial and operating results that Fairborne achieved in 2009. The Company made a number of business decisions including hedging, sulphur block sales and shutting in production that allowed us to maintain high operating netbacks and achieve cash flow levels similar to competitor companies that are twice our size.

It is with confidence and cautious optimism that we move forward with the financial flexibility and asset base to achieve growth and add value for our shareholders in 2010. Cash flow from operations will continue to benefit from the stability and predictability that comes from our active risk management program with 37% of 2010 natural gas production hedged at an average price of \$6.63 per Mcf. Our capital expenditure program of \$150 million will be focused on a variety of prospects that provide economic returns at levels well below current commodity prices. Our strengthened financial position will provide us with the flexibility to pursue strategic acquisitions and other growth opportunities as these arise.

I want to thank our employees and directors for their support and commitment over the past 12 months.



**Steven R. VanSickle**

President and Chief Executive Officer

March 3, 2010

Calgary, Alberta

*Our strengthened financial position will provide us with the flexibility to pursue strategic acquisitions and other growth opportunities as they arise.*



## REVIEW OF OPERATIONS

## LAND HOLDINGS

At December 31, 2009, Fairborne's total land holdings were 522,454 acres (333,943 net acres), which included 314,519 acres (209,855 net acres) of undeveloped land.

Throughout 2009, Fairborne spent \$10.1 million and actively built its land position in core areas through crown land sales, acquisitions and farm-ins, with a significant portion of the year's additions on the Company's Harlech and Marlboro areas.

## SUMMARY OF RESERVES

The Company's independent engineering evaluation, effective December 31, 2009, was prepared by the independent engineering firm of GLJ Petroleum Consultants Ltd. ("GLJ") in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("NI 51-101").

Summary of Oil and Gas Reserves – Gross <sup>(1)</sup> and Net <sup>(2)</sup> Reserves (Forecast Prices)

|                            | Light/Medium<br>Crude Oil |                | Heavy<br>Oil     |                | Natural<br>Gas Liquids |                | Conventional<br>Natural Gas |              | Coal Bed<br>Methane |              | 2009<br>BOE     |               |
|----------------------------|---------------------------|----------------|------------------|----------------|------------------------|----------------|-----------------------------|--------------|---------------------|--------------|-----------------|---------------|
|                            | Gross<br>(Mbbbl)          | Net<br>(Mbbbl) | Gross<br>(Mbbbl) | Net<br>(Mbbbl) | Gross<br>(Mbbbl)       | Net<br>(Mbbbl) | Gross<br>(Bcf)              | Net<br>(Bcf) | Gross<br>(Bcf)      | Net<br>(Bcf) | Gross<br>(MBOE) | Net<br>(MBOE) |
| Proved reserves            |                           |                |                  |                |                        |                |                             |              |                     |              |                 |               |
| Developed producing        | 4,380                     | 3,636          | 35               | 32             | 2,653                  | 1,742          | 76.9                        | 65.7         | 24.9                | 22.5         | 24,032          | 20,112        |
| Developed<br>non-producing | 491                       | 375            | 121              | 107            | 356                    | 244            | 7.2                         | 6.4          | 1.9                 | 1.7          | 2,489           | 2,066         |
| Undeveloped                | 1,345                     | 1,187          | 128              | 130            | 2,425                  | 1,700          | 51.3                        | 46.4         | 7.1                 | 6.3          | 13,636          | 11,802        |
| Total Proved               | 6,216                     | 5,197          | 285              | 268            | 5,433                  | 3,686          | 135.5                       | 118.5        | 33.9                | 30.5         | 40,157          | 33,981        |
| Probable                   | 3,738                     | 3,069          | 228              | 205            | 3,636                  | 2,383          | 83.0                        | 71.6         | 9.8                 | 8.8          | 23,077          | 19,055        |
| Total Proved plus Probable | 9,954                     | 8,267          | 512              | 473            | 9,069                  | 6,069          | 218.5                       | 190.1        | 43.7                | 39.2         | 63,234          | 53,036        |

Note: May not add due to rounding.

- (1) "Gross" reserves means Fairborne's working interest (operating and non-operating) share before deduction of royalties payable to others and without including any royalty interest of Fairborne.
- (2) "Net" reserves means Fairborne's working interest (operating and non-operating) share after deduction of royalty obligations plus Fairborne's royalty interests in reserves.

Reconciliation of Gross Reserves (Forecast Prices) <sup>(1)</sup>

| (MBOE)                                    | Total<br>Proved | Probable      | Total Proved<br>plus<br>Probable |
|---|-----------------|---------------|----------------------------------|
| Opening, December 31, 2008                | 40,186          | 24,178        | 64,364                           |
| Technical revisions                       | 1,411           | (2,902)       | (1,491)                          |
| Exploration discoveries                   | 2,717           | 1,684         | 4,401                            |
| Drilling extensions and improved recovery | 1,531           | 997           | 2,528                            |
| Acquisitions                              | 285             | 87            | 372                              |
| Dispositions                              | (724)           | (967)         | (1,691)                          |
| Production                                | (5,249)         | –             | (5,249)                          |
| Closing, December 31, 2009                | <b>40,157</b>   | <b>23,077</b> | <b>63,234</b>                    |

Note: May not add due to rounding

- (1) "Gross" reserves means Fairborne's working interest (operating and non-operating) share before deduction of royalties payable to others and without including any royalty interest of Fairborne.

## REVIEW OF OPERATIONS

Net Present Value of Reserves, before income taxes <sup>(4)</sup> at December 31, 2009 <sup>(1)(2)(3)</sup>

| (\$thousands)              | Undiscounted     | Discounted at:   |                  |                |                |
|----------------------------|------------------|------------------|------------------|----------------|----------------|
|                            |                  | 5%               | 10%              | 15%            | 20%            |
| Proved reserves            |                  |                  |                  |                |                |
| Developed producing        | 810,239          | 624,840          | 510,969          | 434,543        | 379,847        |
| Developed non-producing    | 83,157           | 62,278           | 49,069           | 40,094         | 33,657         |
| Undeveloped                | 391,107          | 252,705          | 171,641          | 120,508        | 86,351         |
| Total Proved               | <b>1,284,502</b> | <b>939,822</b>   | <b>731,679</b>   | <b>595,144</b> | <b>499,855</b> |
| Probable                   | 877,625          | 499,273          | 317,834          | 218,108        | 157,707        |
| Total Proved plus Probable | <b>2,162,127</b> | <b>1,439,096</b> | <b>1,049,513</b> | <b>813,252</b> | <b>657,562</b> |

Note: May not add due to rounding

(1) Utilizing GLJ January 1, 2010 price forecast

(2) As required by NI 51-101, undiscounted well abandonment costs of \$21.2 million for total proved reserves and \$26.0 million for total proved plus probable reserves are included in the Net Present Value determination

(3) Prior to provision of income taxes, interest, debt service charges and general and administrative expenses. It should not be assumed that the undiscounted and discounted future net revenues estimated by GLJ represent the fair market value of the reserves.

(4) Net present value after income taxes for total proved reserves is \$634.9 million and for total proved plus probable reserves is \$867.9 million based on a discount factor of 10%.

## NET ASSET VALUE

| December 31, 2009 (\$ thousands except as noted)  | Forecast Prices – Discounted at: |                |                |
|---|----------------------------------|----------------|----------------|
|   | 8%                               | 10%            | 12%            |
| Net present value of future net revenue,<br>(proved plus probable), before tax <sup>(1),(2),(5)</sup> | 1,180,538                        | 1,049,513      | 942,000        |
| Undeveloped land <sup>(3)</sup>   | 46,168                           | 46,168         | 46,168         |
| Convertible debentures  | (100,000)                        | (100,000)      | (100,000)      |
| Long term debt, net of working capital  | (110,108)                        | (110,108)      | (110,108)      |
| Net asset value   | <b>1,016,598</b>                 | <b>885,573</b> | <b>778,060</b> |
| Diluted common shares outstanding <sup>(4)</sup>  | 102,582                          | 102,582        | 102,582        |
| Net asset value per share   | <b>\$9.91</b>                    | <b>\$8.63</b>  | <b>\$7.58</b>  |

(1) The net present value of the future net revenue for proved plus probable reserves was determined by GLJ in their December 31, 2009 evaluation report.

(2) It should not be assumed that the discounted future net revenues estimated by GLJ represent the fair market value of the reserves.

(3) Undeveloped land at December 31, 2009 was valued at an average price of \$220 per net acre.

(4) Diluted common shares includes 102.5 million common shares outstanding at December 31, 2009 as well as 0.1 million additional shares to be issued under incentive plans. Stock options have been excluded as they are all out of the money based on prevailing market prices.

(5) Net asset value per share based on total proved reserves of \$5.53 per share is calculated using the above parameters except that the net present value of future net revenue (proved), before tax is \$731.7 million (discounted at 10%).



## REVIEW OF OPERATIONS

## CAPITAL EFFICIENCY HIGHLIGHTS – 2009

|   | Proved       | Total Proved plus Probable |
|---|--------------|----------------------------|
| <b>Capital costs (\$thousands)</b>  |              |                            |
| Exploration and development <sup>(1),(2)</sup>  | 110,079      | 110,079                    |
| Acquisitions, net of dispositions   | (24,844)     | (24,844)                   |
| Change in future development costs <sup>(1)</sup>   |              |                            |
| Exploration and development   | 4,275        | 33,275                     |
| Acquisitions, net of dispositions   | 459          | (9,333)                    |
| <b>Reserve additions (MBOE)</b>   |              |                            |
| Exploration and development   | 5,659        | 5,438                      |
| Acquisitions, net of dispositions   | (439)        | (1,319)                    |
| <b>Finding &amp; development costs, excluding change in future capital <sup>(1),(6)</sup> (\$ per BOE)</b>                | <b>19.45</b> | <b>20.24</b>               |
| <b>Finding &amp; development costs, including change in future capital <sup>(1),(3)</sup> (\$ per BOE)</b>                | <b>20.21</b> | <b>26.36</b>               |
| <b>Finding development and acquisitions costs, excluding change in future capital <sup>(1),(5),(6)</sup> (\$ per BOE)</b> | <b>16.33</b> | <b>20.69</b>               |
| <b>Finding, development and acquisition costs, including change in future capital <sup>(1),(5),(6)</sup> (\$ per BOE)</b> | <b>17.24</b> | <b>26.51</b>               |
| Operating netback <sup>(7),(8)</sup> (\$ per BOE)   | 32.59        | 32.59                      |
| Finding development and acquisitions costs, excluding change in future capital <sup>(1),(6)</sup> (\$ per BOE)            | 16.33        | 20.69                      |
| <b>Recycle ratio</b>  | <b>2.00</b>  | <b>1.57</b>                |
| Reserve additions, including acquisitions and revisions (MBOE)  | 5,220        | 4,119                      |
| Total 2009 production (MBOE)  | 5,249        | 5,249                      |
| <b>Production replacement ratio</b>   | <b>1.0</b>   | <b>0.8</b>                 |
| Gross reserves <sup>(4)</sup> (MBOE)  | 40,157       | 63,234                     |
| Fourth quarter 2009 production (BOE per day)  | 13,509       | 13,509                     |
| Annual 2009 production (BOE per day)  | 14,382       | 14,382                     |
| <b>Reserve Life Index, using annualized Q4 production (years)</b>   | <b>8.1</b>   | <b>12.8</b>                |
| <b>Reserve Life Index, using 2009 production (years)</b>  | <b>7.6</b>   | <b>12.0</b>                |

(1) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserve additions for that year.

(2) Excludes corporate assets.

(3) Calculated in accordance with NI 51-101 as exploration and development costs incurred in the year along with the change in estimated future development costs divided by the applicable reserve additions. In 2008, F&D costs as calculated in accordance with NI 51-101 were \$25.85 per BOE for proved reserves and \$21.68 per BOE for proved plus probable reserves. F&D costs on a three year average were \$22.71 per BOE for proved reserves and \$21.33 per BOE for proved plus probable reserves.

(4) Gross reserves means Fairborne's working interest (operating and non-operating) share before deduction of royalties payable to others and without including any royalty interest.

(5) Fairborne also calculates finding, development and acquisition ("FD&A") costs which incorporate both the costs and associated reserve additions related to acquisitions net of any dispositions during the year. Since acquisitions can have a significant impact on Fairborne's annual reserve replacement costs, the Company believes that FD&A costs provide a more meaningful portrayal of Fairborne's cost structure.

(6) F&D costs, excluding future capital for proved reserves were \$21.63 per BOE in 2008 (proved plus probable – \$16.30 per BOE) and \$19.69 per BOE on a three year average (proved plus probable – \$16.73 per BOE). FD&A costs, including future capital for proved reserves were \$30.10 per BOE in 2008 (proved plus probable – \$24.53 per BOE) and \$28.08 per BOE on a three year average (proved plus probable – \$23.38 per BOE). FD&A costs, excluding future capital for proved reserves were \$25.57 per BOE in 2008 (proved plus probable – \$18.83 per BOE) and \$24.64 per BOE on a three year average (proved plus probable – \$18.78 per BOE).

(7) Operating netback is calculated by subtracting royalties and operating costs, including transportation, from petroleum and natural gas sales and sulphur block sales.

(8) Excludes the change in fair value of derivatives.

## CAUTIONARY INFORMATION

## ADVISORIES

**Forward Looking Statements:** *This document contains forward-looking statements. Management's assessment of future plans and operations, drilling plans, capital expenditures and the nature and timing of these expenditures, and the commencement of expenditures and timeline for the CO2 project at Clive may constitute forward-looking statements under applicable securities laws and necessarily involve risks including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, the inability to fully realize the benefits of the acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, the Company's actual results may differ materially from those expressed in, or implied by, the forward looking statements. Forward looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Fairborne believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document and other documents filed by the Company, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Fairborne operates; the ability of the Company to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which the Company has an interest in to operate the field in a safe, efficient and effective manner; Fairborne's ability to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development or exploration; the timing and costs of pipeline, storage and facility construction and expansion; the ability of the Company to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and Fairborne's ability to successfully market its oil and natural gas products. Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the Company's operations and financial results are included in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) or at the Company's website ([www.fairborne-energy.com](http://www.fairborne-energy.com)). Furthermore, the forward looking statements contained in this document are made as at the date of this document and the Company does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

**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 one tonne of sulphur to one barrel and six thousand cubic feet of natural gas to one barrel. This conversion ratio of six thousand cubic feet of natural gas to one barrel is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.*

**Effects of Aggregation on Reserve Estimates:** *The estimate of reserves for individual properties may not reflect the same confidence level as estimates of reserves for all properties, due to the effects of aggregation.*

**Cost of Adding Reserves:** *The cost of adding reserves prior to dispositions and negative Nordegg reserve revisions is provided as the Company believes it is more reflective of Fairborne's future capital efficiencies, and is calculated using total capital expenditures, excluding acquisitions, dispositions and changes in future development costs divided by proved plus probable reserve additions excluding acquisitions, dispositions and negative Nordegg reserve revisions. Costs on the foregoing basis but including changes in future capital is \$16.89 per BOE. No prior year comparative or three year average can be calculated as there were no negative Nordegg reserve revisions in either of the two prior years.*



## CORPORATE INFORMATION

**FAIRBORNE ENERGY LTD.**

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 Calgary, Alberta T2P 5H1  
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 Fax [403] 290-7724  
 Email: [info@fairborne-energy.com](mailto:info@fairborne-energy.com)  
 Website: [www.fairborne-energy.com](http://www.fairborne-energy.com)

**AUDITORS**

**KPMG LLP**

**RESERVE EVALUATORS**

**GLJ Petroleum Consultants Ltd.**

**BANKERS**

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

**LEGAL COUNSEL**

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

**STOCK EXCHANGE LISTING**

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

**CORPORATE GOVERNANCE**

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

**DIRECTORS**

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

**Robert B. Hodgins**  
 Investor and Corporate Director

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

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

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

**Richard A. Walls**  
 Chairman  
 Fairborne Energy Ltd.

**Rodney D. Wimer**  
 President  
 Mazama Capital Partners

**GENERAL INFORMATION**

Shareholders and interested investors are encouraged to visit our web site:

<http://www.fairborne-energy.com>

Historical public documents, corporate information, latest presentation material and press releases are all available. Filings also available at: [www.sedar.com](http://www.sedar.com)

**OFFICERS**

**Steven R. VanSickle**  
 President  
 and Chief Executive Officer

**David L. Summers**  
 Chief Operating Officer

**Aaron G. Grandberg**  
 Chief Financial Officer

**Jackie M. Cugnet**  
 Vice President  
 Finance

**David S. 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

**ANNUAL MEETING**

The Annual Meeting of the Shareholders of Fairborne Energy Ltd. will be held at 3:00 pm, on May 26th, 2010 in the Grand Lecture Room at the Metropolitan Conference Centre, 333 – 4th Avenue S.W. Calgary, Alberta.