

INTERIM RESULTS FOR THE PERIOD ENDED MARCH 31, 2008

FINANCIAL AND OPERATING SUMMARY

	Three months ended March 31, 2008		Three months ended March 31, 2007	
	(\$000's)	\$/boe	(\$000's)	\$/boe
Petroleum and natural gas sales	5,538	48.10	3,296	45.48
Realized loss on commodity contracts	(113)	(0.98)	-	-
	5,425	47.12	3,296	45.48
Royalties	(970)	(8.42)	(507)	(6.99)
Operating costs	(1,374)	(11.94)	(639)	(8.82)
Operating netback ⁽¹⁾	3,081	26.76	2,150	29.67
General and administrative expenses	(676)	(5.87)	(790)	(10.91)
Net interest income (expense)	(380)	(3.30)	198	2.73
Funds from operations ⁽¹⁾	2,025	17.59	1,558	21.49
Unrealized loss on commodity contracts	(3,141)	(27.28)	-	-
Depletion, depreciation and accretion	(3,111)	(27.02)	(1,840)	(25.38)
Stock-based compensation	(18)	(0.16)	(110)	(1.52)
Loss on write down of assets held for sale	(552)	(4.79)	-	-
Loss before income taxes	(4,797)	(41.66)	(392)	(5.41)
Future income tax recovery	1,342	11.66	84	1.16
Net loss	(3,455)	(30.00)	(308)	(4.25)

(1) Non-GAAP measures. See discussion in the following MD&A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 15, 2008

Management's discussion and analysis ("MD&A") should be read in conjunction with the unaudited interim financial statements of Fortress Energy Inc. ("Fortress" or the "Company") as at and for the three months ended March 31, 2008 and the audited consolidated financial statements of Fortress Energy Inc. for the year ended December 31, 2007. The interim financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). All tabular amounts in the following discussion are in thousands of Canadian dollars unless otherwise noted. Additional information is available on the Company's web site at www.fortressenergy.ca or under the Company's profile at www.sedar.com.

This MD&A provides management's analysis of Fortress' historical financial and operating performance based on information currently available. Actual results will vary from estimates and variances may be significant. Historical results are not indicative of future performance.

Non-GAAP Measurements

The terms "funds from operations" and "operating netback" used in this MD&A are not recognized measures under GAAP. Management believes that in addition to net income, funds from operations and operating netback are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities before the consideration of how those activities are financed. Investors are cautioned, however, that these measures should not be construed as alternatives to net income determined in accordance with GAAP, as an indication of the Company's performance.

Reconciliation of "Funds from Operations" to Cash Flow from Operating Activities per GAAP

The Company's method of calculating funds from operations may differ from that of other companies, and, accordingly it may not be comparable to measures used by other companies. The Company calculates funds from operations by taking cash flow from operating activities as determined under GAAP before changes in non-cash operating working capital and abandonment expenditures. The statements of cash flows included in the financial statements present the reconciliation between net income (loss) and funds from operations. A summary of this reconciliation is as follows:

(\$000's)	Three months ended March 31, 2008	Three months ended March 31, 2007
Cash flow from operating activities	1,696	2,115
Change in non-cash operating working capital	248	(557)
Abandonment expenditures	81	-
Funds from operations	2,025	1,558

BOE Presentation

Natural gas reserves and volumes recorded in thousand cubic feet are converted to barrels of oil equivalent ("boe") on the basis of six thousand cubic feet ("mcf") of gas to one barrel ("bbl") of oil. The term "barrels of oil equivalent" may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf to 1 bbl is based on an energy equivalent conversion method primarily applicable at the burner tip and does not represent a value equivalent at the wellhead.

Forward Looking Statements

Statements in this MD&A may contain forward looking information including expectations of future production, components of cash flow and earnings, expected future events and/or financial results that are forward looking in nature and subject to substantial risks and uncertainties. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. The Company cautions the readers that actual performance will be affected by a number of factors, as many may respond to changes in economic and political circumstances throughout the world. Events or circumstances may cause actual results to differ materially from those predicted, a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. These risks include, but are not limited to: the risks associated with the oil and gas industry, commodity prices and exchange

rate changes; industry related risks could include, but are not limited to, operational risks in exploration, development and production, delays or changes in plans; risks associated with the uncertainty of reserve estimates, health and safety risks and the uncertainty of estimates and projections of production, costs and expenses. These external factors beyond the Company's control may affect the marketability of oil and natural gas produced, industry conditions including changes in laws and regulations, changes in income tax regulations, increased competition, fluctuations in commodity prices, interest rates, and variations in the Canadian/United States dollar exchange rate. The reader is cautioned not to place undue reliance on this forward looking information.

Statements throughout this MD&A that are not historical facts may be considered "forward looking statements." These forward looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals or future plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to any number of risks including, but not limited to:

- a. Risks associated with the oil and gas industry and regulatory bodies (e.g. operational risks in exploration, development and production, or changes in royalty rates);
- b. Delays or changes in plans with respect to exploration or development projects or capital expenditures;
- c. Uncertainty of estimates and projections relating to recoverable reserves, costs and expenses;
- d. Health, safety and environmental risks; and
- e. Commodity price and exchange rate fluctuations.

DESCRIPTION OF THE BUSINESS

Fortress' primary focus is the exploration and development of natural gas reserves in Western Canada. The Company has approximately 99,400 net acres of undeveloped land in the Ladyfern, Velma and Buick Creek areas in NE British Columbia and the Chigwell, Bashaw, Square Creek, Halverson, Mearon and Dahl areas of Alberta.

The Company's strategy is to 'acquire and exploit' properties that are early in their development cycle that offer exploration, appraisal and development drilling opportunities, while maintaining low finding and development costs. Fortress operates most of its production enabling it to have complete control over cost management of its capital programs.

CORPORATE HIGHLIGHTS

The results for the three months ended March 31, 2008 are as follows:

- Increased average production to 1,265 boe/d from 805 boe/d for the first quarter of 2007.
- Funds from operations of \$2,025,000 or \$17.59/boe.
- Operating expenses of \$11.94/boe.
- Drilled six gross (3.5 net) wells in the Square Creek area at an 83% success rate.
- Constructed a 10 mmcf/d gathering and production facility to service eight wells in the Square Creek area.
- Constructed a 41 km pipeline to deliver gas from the Square Creek area to the Clear Prairie gas plant. The pipeline was sold in April to a mid-stream service provider for \$8.15 million.

DETAILED FINANCIAL ANALYSIS

Production

	Three months ended March 31,	
	2008	2007
Sales volume:		
Natural gas (mcf/d)	7,391	4,699
Oil and NGL's (bbl/d)	33	22
Total(boe/d)	1,265	805

Sales volumes for the three months ended March 31, 2008 were 1,265 boe/d compared to 805 boe/d for the three months ended March 31, 2007 – an increase of 460 boe/d or 57%. Sales volumes for the fourth quarter of 2007 were 1,256 boe/d.

The increase in sales volumes for the first quarter of 2008 is due to wells drilled in the first quarter of 2007 and brought onto production in the second quarter which added additional volumes in that quarter. In addition, the Company acquired a partners working interest in the Ladyfern North, Mearon North and Velma properties in July 2007. The acquired working interest accounted for production of 378 boe/d in the first quarter of 2008.

The Company completed the installation of a compressor at Ladyfern in late April of 2008 which will significantly increase production volumes from Ladyfern, Mearon and Velma which is expected to stabilize over the next few weeks. In addition, the Company drilled six gross wells (3.5 net wells) at Square Creek and completed the construction of a 41 km pipeline to tie these wells to a third party processing facility at Clear Prairie. The Square Creek wells began producing in late March.

Revenue

	Three months ended March 31,	
	2008	2007
Petroleum and natural gas sales (\$000's)	5,538	3,296
Average realized prices:		
Natural gas (\$/mcf)	7.87	7.47
Realized loss on commodity contracts (\$/mcf)	(0.16)	-
Realized natural gas price (\$/mcf)	7.71	7.47
Oil and NGLs (\$/bbl)	79.61	60.56
Total (\$/boe)	48.10	45.48
Benchmark prices:		
AECO average price (\$/mcf)	7.90	7.37
Edmonton par (\$/boe)	98.45	67.86

Petroleum and natural gas sales for the three months ended March 31, 2008 were \$5,538,000 compared to \$3,296,000 for three months ended March 31, 2007. This increase is attributable to a 57% increase in sales volumes and 3% increase in the natural gas price realized by the Company.

The average natural gas price realized by the Company for the first quarter of 2008 was \$7.87/mcf (net of transportation costs and before realized gains on commodity contracts) compared to the AECO average price of \$7.90/mcf.

The Company's current production is approximately 98% natural gas and revenues are reliant on North American natural gas prices. In the first quarter of 2008, natural gas prices increased reflecting colder temperatures, escalating oil prices and lower than expected LNG (liquefied natural gas) imports to the United States. These factors resulted in a decline in natural gas storage levels below the 5 year historical average. Imbalances between supply and demand can result in significant price fluctuations in a period making it difficult to predict prices for future periods.

The Company uses commodity contracts to manage its exposure to fluctuations in the price of natural gas. In the first quarter of 2008, the Company recorded realized losses on commodity contracts of \$113,000, or

\$0.16/mcf (three months ended March 31, 2007 - \$nil) and an unrealized loss of \$3,141,000, or \$4.55/mcf (three months ended March 31, 2007 - \$nil). In the first quarter of 2008, approximately 69% of the Company's production was under contract. This decreased in April 2008 to approximately 50% with incremental production from the Square Creek area. The Company's contracts in place as of March 31, 2008 and May 15, 2008 are as follows:

Type	Period	Volume (GJ/d)	Fixed Price (\$/GJ)
Swap	January 1, 2008 to October 31, 2008	2,000	6.51
Swap	January 1, 2008 to October 31, 2008	3,000	6.505

Royalties

	Three months ended March 31,	
	2008	2007
Royalties(\$000's)	970	507
\$/boe	8.42	6.99
Percentage of petroleum and natural gas sales	17.5	15.3

Royalties were \$970,000 for the first quarter of 2008 compared to \$507,000 for the first quarter of 2007. This increase reflects increased sales volumes in 2008. As a percentage of petroleum and natural gas sales (net of transportation costs and before realized losses on commodity contracts), royalties increased to 17.5% in the first quarter of 2008 compared to 15.3% from the first quarter of the prior year. This increase is attributed to increased production volumes from the start-up of the Company's Velma property in August 2007 which records an average royalty rate of approximately 20%. The Company's wells at Ladyfern North qualify for the Ultra-Marginal Royalty Program which assesses a reduced royalty rate for low producing wells in the province of British Columbia, resulting in an effective royalty rate of approximately 8% for these wells. We expect royalties as a percentage of petroleum and natural gas sales to increase to approximately 19% in for the balance of 2008 with added production from the Square Creek area.

Operating Expenses

	Three months ended March 31,	
	2008	2007
Operating expenses (\$000's)	1,374	639
\$/boe	11.94	8.82

Operating expenses increased in the three months ended March 31, 2008 to \$1,374,000 from \$639,000 in the first quarter of 2007. On a per boe basis, operating expenses of \$11.94/boe were 35% higher than the first quarter of 2007. In the first quarter of 2008, the Company incurred additional gas processing charges related to the Chigwell property resulting from adjustments to 2007 and prior periods at a third party gas processing plant. The Company's operating expenses are typically higher in the winter months due to the "winter only access" nature of the properties.

General and Administrative Expenses

	Three months ended March 31,	
	2008	2007
Gross (\$000's)	1,107	1,198
Partner recoveries (\$000's)	(238)	-
Capitalized (\$000's)	(193)	(408)
Net (\$000's)	676	790
\$/boe	5.87	10.91

General and administrative expenses decreased to \$676,000 in the first quarter of 2008 from \$790,000 in the first quarter of 2007. Gross general and administrative expenses for the first quarter of 2008 are consistent with the first quarter of 2007, reflecting a slight decrease of 8%.

Partner recoveries of \$238,000 reflect the portion of the Company's general and administrative expenses that is recoverable from partners for the Company's first quarter capital program.

The Company's policy is to capitalize salaries, consulting fees and software costs that are directly attributable to exploration and development activities.

Stock-based Compensation Expense

	Three months ended March 31,	
	2008	2007
Stock-based compensation expense (\$000's)	18	110
\$/boe	0.16	1.52

Stock-based compensation expense for the three months ended was \$18,000 reflecting a decrease from the three months ended March 31, 2007. Options that were granted in the first quarter of 2007 were cancelled later in 2007 which resulted in an acceleration of stock-based compensation expense in the fourth quarter of 2007.

Interest Income and Expense

The Company recorded interest expense of \$380,000 for the three months ended March 31, 2008 compared to net interest income of \$198,000 in the three months ended March 31, 2007. Net interest income in the first quarter of 2007 reflects interest earned on commercial paper investments prior to the reorganization of SignalEnergy Inc. ("Signal"), whereby Signal redeemed approximately 23 million common shares at \$1.30 per share for a total cost of \$30,000,000. Interest expense in the first quarter of 2008 reflects interest on the Company's revolving credit facility and interest on unspent flow-through obligations.

Depletion, Depreciation and Accretion Expense

	Three months ended March 31,	
	2008	2007
Depletion and depreciation expense (\$000's)	3,080	1,816
Accretion of asset retirement obligations (\$000's)	31	24
Total (\$000's)	3,111	1,840
Depletion and depreciation expense (\$/boe)	26.75	25.05
Accretion of asset retirement obligations (\$/boe)	0.27	0.33
Total (\$/boe)	27.02	25.38

Depletion and depreciation expense was \$3,080,000 for three months ended March 31, 2008 compared to \$1,816,000 for the three months ended March 31, 2007. This increase is mainly attributable to increased production volumes which have increased 57% from the first quarter of 2007. The depletion and depreciation expense rate for the first quarter of 2008 was \$26.75/boe compared to \$25.05/boe for the first quarter of 2007. This increase is due to significant facilities costs incurred for refrigeration at Ladyfern, sweetening facilities at Velma, and compression and dehydration at Square Creek.

Estimated future development costs for proved undeveloped properties included in the calculation of depletion expense at March 31, 2008 decreased to \$15,842,000 from \$22,400,000 at March 31, 2007. Undeveloped land costs at March 31, 2008 increased to \$7,371,000 from \$3,900,000 at March 31, 2007 and were excluded from assets subject to depletion.

Accretion expense for the three months ended March 31, 2008 was \$31,000 compared to \$24,000 for the three months ended March 31, 2007. The Company completed the construction of a refrigeration plant and sweetening facilities in the second and third quarters of 2007 and acquired a partners working interest in the Ladyfern North, Mearon North and Velma areas in July 2007, significantly increasing the Company's asset retirement obligation.

Income Tax

The Company recorded a recovery of future income taxes for the three months ended March 31, 2008 of \$1,342,000 compared to \$84,000 for the three months ended March 31, 2007. Future income tax reflects the difference between the underlying tax value and carrying value of the Company's assets and liabilities. The change in future income taxes reflects capital costs incurred since the first quarter of 2007. Based on current commodity prices and planned capital expenditures, the Company does not expect to be cash taxable in 2008.

The income tax effect of a \$5 million flow-through share offering completed in December 2007 was recorded in the first quarter of 2008 with the filing of the renouncement documents to the taxation authorities. The effective date of the renouncement was December 31, 2007 with all expenditures to be incurred by December 31, 2008. As of March 31, 2008, the Company has incurred approximately \$975,000 of eligible expenditures.

The estimated tax pools of the Company at March 31, 2008 are as follows:

	(\$000's)
Canadian Oil and Gas Property Expenses	15,133
Canadian Development Expenses	31,352
Canadian Exploration Expenses	11,282
Undepreciated Capital Cost	40,835
Share issuance costs	795
Investment Tax Credits	2,367
	101,764

Net Loss

(\$000's except per share and per boe amounts)	Three months ended March 31,	
	2008	2007
Net loss	3,455	308
Net loss per share - basic and diluted	0.22	0.02
Net loss per boe	30.00	4.25

The Company recorded a net loss of \$3,455,000 for the three months ended March 31, 2008 compared to \$308,000 for the three months ended March 31, 2007. This translates into a basic and diluted net loss per share of \$0.22 for the three months ended March 31, 2008 and \$0.02 for the three months ended March 31, 2007. The first quarter net loss is attributable to an unrealized loss on commodity contracts of \$3,141,000, or \$27.28/boe, and a write down on the pipeline asset held for sale of \$552,000, or \$4.80/boe.

Funds from Operations

(\$000's except share and per boe amounts)	Three months ended March 31,	
	2008	2007
Funds from operations	2,025	1,558
Funds from operations (\$/boe)	17.59	21.50
Funds from operations per share – basic and diluted	0.13	0.12

Funds from operations for first quarter of 2008 were \$2,025,000 compared to \$1,558,000 for the first quarter of 2007. This increase is attributed to a 57% increase in production in the first quarter of 2008 compared to the first quarter of 2007. This increase was partially offset by a lower operating netback realized which decreased from \$29.67 in the first quarter of 2007 to \$26.76 as a result an increase in royalties and operating costs. In addition, the first quarter of 2007 recorded interest income of \$216,000, increasing funds from operations by \$2.98/boe for that quarter.

Capital Expenditures

(\$000's)	Three months ended March 31,	
	2008	2007
Land and seismic	433	32
Drilling and completions	4,757	9,168
Equipment and facilities	13,576	2,165
Capitalized overhead costs	193	408
Abandonment expenditures	81	-
Other	6	77
	19,046	11,850

The total capital expenditures for the three months ended March 31, 2008 were \$19,046,000 compared to \$11,850,000 for the three months ended March 31, 2007. The Company's first quarter of 2008 capital program was directed at the development and tie-in of the Square Creek area.

The 2008 winter capital program was focused on the follow-up to the discovery of the Bluesky and Notikewin gas pools from the 2007 winter drilling program. Fortress drilled two additional wells in the Bluesky formation and three wells in the Notikewin to better delineate the two structures. The Company constructed a 10 mmcf/d gathering and production facility to service eight wells it has in the area. From the drilling activity completed to date, two additional Bluesky locations and five additional Notikewin locations have been identified and will be pursued in the 2009 winter drilling program.

The Company completed the construction of a 41 km pipeline to deliver the gas to the Clear Prairie gas plant to service the Square Creek area, the corridor along which it owns 41,800 net acres of land opening up a significant exploration area for the Company. The pipeline was completed and commissioned in March for a total cost of \$8,702,000 and was sold to a mid-stream service provider in April for proceeds of \$8,150,000 accounting for the \$552,000 write down on the pipeline asset held for sale at March 31, 2008.

At the Clear Prairie facility, Fortress has arrangements for 5.0 mmcf/d (2.5 mmcf/d net) of firm processing capacity and has processing service available on a best efforts basis for larger volumes. Fortress' ability to produce natural gas at optimum rate from the Square Creek area is restricted by processing capacity at the Clear Prairie facility owned by a third party. Fortress is working with the third party to increase production capacity.

Share Capital

	Three months ended March 31,	
	2008	2007
Weighted average common shares outstanding – basic and diluted	15,980,415	13,262,135

Options to purchase 397,000 common shares at March 31, 2008 (March 31, 2007 – 970,000) were not included in the calculation of weighted average – diluted common shares outstanding because they were anti-dilutive.

Outstanding securities

Common shares	15,986,888
Stock options	397,000
Total outstanding securities at March 31, 2008 and May 15, 2008	16,383,888

The estimated fair value of stock options of \$0.50 per share is amortized to expense over the three-year vesting period on a straight-line basis. In the first quarter of 2008, the Company recorded compensation expense of \$18,000.

On December 21, 2007, the Company closed a public offering of 2,703,000 flow-through common shares at \$1.85 per share for total gross proceeds of \$5,000,550 (\$4,395,000 net of share issuance costs). The full

expenditure commitment was renounced to subscribers effective December 31, 2007 with all expenditures to be incurred by December 31, 2008. As of March 31, 2008, the Company has incurred eligible expenditures of approximately \$975,000.

Liquidity and Capital Resources

The Company has a \$25,000,000 revolving, demand credit facility with its bank (the "Bank"), bearing interest at the Bank's prime lending rate plus 0.25% (effective interest rate for the three months ended March 31, 2008 of 5.25%) and collateralized by an interest over all present and after acquired property of the Company. The authorized limit is subject to annual review and re-determination of the Company's borrowing base by the Bank. The Company has a \$1,000,000 letter of credit which reduces its borrowing capacity on the revolving operating loan.

The credit facility has a covenant that requires the Company to maintain its working capital ratio at 1:1 or greater while the credit facility is outstanding. The working capital ratio is defined as current assets plus the unutilized portion of the credit facility divided by current liabilities less the balance drawn against the credit facility. The Company is not in compliance with the working capital covenant at March 31, 2008. The Bank has issued a waiver regarding this breach.

Due to the winter access nature of the Company's properties much of its capital program is conducted in the first quarter of the year causing a working capital deficiency. In the first quarter of 2008, the Company completed a \$19.0 million capital program directed at the Square Creek area and as at March 31, 2008 has a working capital deficiency of \$36.0 million. The increase in production volumes and resulting cash flow will be used to repay indebtedness for the balance of 2008. In addition, the Company has been reviewing and considering equity financing alternatives to achieve better cash flow and debt service coverage ratios providing greater financial flexibility. The Bank's annual review will be completed by May 31, 2008. The outcome of these matters cannot be predicted at this time.

Cash provided by operating activities was \$1,696,000 for the first quarter of 2008 compared to \$2,115,000 for the first quarter of 2007. This decrease is due to a decrease in non-cash working capital balances.

Cash used in financing activities for the three months ended March 31, 2008 was \$259,000 compared to \$26,907,000 for the three months ended March 31, 2007. In the first quarter of 2007, the Company redeemed 23,076,923 common shares as part of its reorganization of Signal for \$30,471,000. The Company also purchased 50,000 common shares in the first quarter of 2007 for \$186,000.

Cash used in investing activities for the first quarter of 2008 was \$1,443,000 compared to \$10,547,000 for the first quarter of 2007. The Company's capital expenditures were \$19,046,000 in the first quarter of 2008. In the first quarter of 2007, the cost of the capital program was \$11,850,000 which included drilling 14 gross (7.8 net) wells and 7 recompletion operations.

Related Party Transactions

In the three months ended March 31, 2008, the Company was charged \$72,000 in legal fees by a law firm where a director of the Company is a partner, of which \$45,000 is included in accounts payable and accrued liabilities at March 31, 2008.

All related party transactions are in the normal course of business and have been measured at the agreed to exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which are similar to those negotiated with third parties.

Subsequent Event

On April 16, 2008, the Company sold its pipeline asset held for sale for proceeds of \$8,150,000 (refer to note 4 to the unaudited interim financial statements).

Commitments and Contingencies

Office space and equipment

The Company is committed to minimum annual lease payments under operating leases for office premises and equipment to March, 2013, as follows:

	Equipment Rental \$	Office Lease \$	Total \$
Balance of 2008	426	317	743
2009	148	423	571
2010	-	435	435
2011	-	439	439
2012	-	439	439
Thereafter	-	110	110
	574	2,163	2,737

Transportation and Processing

The Company has an agreement for the transportation and processing of natural gas from the Company's Square Creek, Alberta area. The Company is committed to pay the greater of a fee calculated as monthly volumes at an established rate per mcf, or an established minimum monthly processing fee based on estimated gas throughput of 2 mmcf per day until the costs of the pipeline have been recovered, at which time the Company will pay a reduced monthly processing fee until the earlier of April 1, 2015 or the delivery of a total of 15 bcf.

Committed payments are as follows:

	\$
2008	949
2009	1,260
2010	1,052
2011	767
2012	767
Thereafter	1,605
	6,400

The Company's joint interest partner in the Square Creek area has agreed to be responsible for all terms and conditions of the agreement related to their 50% working interest in this area. Committed payments, as noted above, represents only the Company's 50% working interest.

Claims and Litigation

The Company is involved in various claims and litigation arising in the normal course of business. The outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favor. If the outcome is unfavorable, it could have a materially adverse impact on the Company's financial position or results of operations.

Letter of Credit

On February 1, 2008, the Company issued a letter of credit of \$1,000,000 with an expiry of February 1, 2009, related to a natural gas transportation and processing agreement.

SELECTED QUARTERLY INFORMATION

	2008		2007		2006			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Production:								
Natural gas (mcf/d)	7,391	7,455	6,111	5,082	4,699	3,010	1,777	1,833
Oil and NGL's (bbl/d)	33	13	7	29	22	20	35	69
Barrels of oil equivalent (boe/d)	1,265	1,256	1,025	876	805	522	331	375
Average realized price:								
Natural gas (\$/mcf)	7.71	6.19	5.07	6.86	7.47	7.19	5.31	6.04
Oil and NGLs (\$/bbl)	79.61	86.95	71.42	52.14	60.56	57.19	65.43	57.08
Barrels of oil equivalent (\$/boe)	48.10	38.07	30.68	41.52	45.48	44.13	35.46	40.08
Benchmark prices:								
AECO average price (\$/mcf)	7.90	6.00	5.12	7.11	7.37	6.89	5.68	6.02
Edmonton Par (\$/bbl)	98.45	80.75	80.70	72.65	67.86	65.24	80.26	80.43
Financial (\$'000's unless otherwise noted):								
Petroleum and natural gas sales	5,538	4,396	2,893	3,310	3,296	2,149	1,079	1,362
Net income (loss)	(3,455)	(5,442)	(1,603)	(617)	(308)	(5,635)	(13)	270
Net income (loss) per share – basic (\$)	(0.22)	(0.39)	(0.12)	(0.05)	(0.02)	(0.07)	(0.00)	0.00
Net income (loss) per share – diluted (\$)	(0.22)	(0.39)	(0.12)	(0.05)	(0.02)	(0.07)	(0.00)	0.00
Funds from (used in) operations	2,025	(282)	505	1,147	1,558	1,089	821	17
Operating costs (\$/boe)	11.94	15.26	10.31	8.23	8.82	5.73	8.51	13.13
Weighted average shares outstanding – basic ('000)	15,980	13,561	13,266	13,258	13,262	81,439	73,266	72,595
Weighted average shares outstanding – diluted ('000)	15,980	13,561	13,266	13,258	13,262	81,439	73,266	73,316

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period covered by the annual filings, that the Company's disclosure controls and procedures as of the end of such period are effective to provide reasonable assurance that material information related to the Company is made known to them by others within those entities. It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Internal Controls over Financial Reporting

The discussion and conclusion with respect to the Company's internal controls over financial reporting included in the December 31, 2007 MD&A remain unchanged as at March 31, 2008.

Changes in Accounting Policies and Practices

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. These new standards are effective January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

New Canadian Accounting Pronouncements

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after Jan. 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. Fortress is currently evaluating the impact of adopting IFRS.

BUSINESS RISKS and UNCERTAINTIES

Fortress’ production and exploration activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized companies ranging from smaller junior producers to the much larger integrated petroleum companies. Fortress is subject to the various types of business risks and uncertainties including:

- finding and developing oil and natural gas reserves at economic costs;
- production of oil and natural gas in commercial quantities; and
- marketability of oil and natural gas produced.

In order to reduce exploration risk, the Company strives to employ highly qualified and motivated professional employees with a demonstrated ability to generate quality proprietary geological and geophysical prospects. To help maximize drilling success, Fortress combines exploration in areas that afford multi-zone prospect potential, targeting a range of low to moderate risk prospects with some exposure to select high-risk with high-reward opportunities. The Company explores in areas where the Company has drilling experience.

The Company mitigates its risk related to producing hydrocarbons through the utilization of the most appropriate technology and information systems. In addition, the Company seeks to maintain operational control of its prospects.

Oil and gas exploration and production can involve environmental risks such as pollution of the environment and destruction of natural habitat, as well as safety risks such as personal injury. In order to mitigate such risks, Fortress conducts its operations at high standards and follows safety procedures intended to reduce the potential for personal injury to employees, contractors and the public at large. The Company maintains current insurance coverage for general and comprehensive liability as well as limited pollution liability. The amount and terms of this insurance are reviewed on an ongoing basis and adjusted as necessary to reflect changing corporate requirements, as well as industry standards and government regulations. Fortress may periodically use financial or physical delivery hedges to reduce its exposure against the potential adverse impact of commodity price volatility, as governed by formal policies approved by senior management subject to controls established by the Board of Directors.

FORTRESS ENERGY INC.

BALANCE SHEETS

As at

(in thousands)

	March 31, 2008	December 31, 2007
ASSETS (note 6)		
Current Assets		
Cash and cash equivalents	\$ 38	\$ 44
Accounts receivable and accrued revenue	10,396	7,964
Prepaid expenses and deposits	867	565
Pipeline asset held for sale (note 4)	8,150	-
Commodity contracts (note 11)	-	92
	19,451	8,665
Property, plant and equipment (note 5)	106,662	99,265
	\$ 126,113	\$ 107,930
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Revolving operating loan (note 6)	\$ 22,334	\$ 22,593
Accounts payable and accrued liabilities (note 14)	30,084	10,101
Commodity contracts (note 11)	3,049	-
	55,467	32,694
Future income taxes	2,113	2,180
Asset retirement obligations (note 8)	3,214	3,050
	60,794	37,924
Commitments and contingencies (notes 11 and 12)		
Shareholders' Equity		
Share capital (note 9)	120,024	121,274
Contributed surplus (note 9)	14,446	14,428
Deficit	(69,151)	(65,696)
	65,319	70,006
	\$ 126,113	\$ 107,930

Subsequent event (note 4)

See accompanying notes to financial statements.

FORTRESS ENERGY INC.

STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME (LOSS) AND DEFICIT

For the three months ended March 31

(in thousands, except per share amounts)

	2008	2007
REVENUES		
Petroleum and natural gas sales	\$ 5,538	\$ 3,296
Royalties	(970)	(507)
Interest income	-	216
Realized loss on commodity contracts (note 11)	(113)	-
Unrealized loss on commodity contracts (note 11)	(3,141)	-
	1,314	3,005
EXPENSES		
Operating	1,374	639
General and administrative (note 14)	676	790
Stock-based compensation (note 10)	18	110
Interest	380	18
Depletion, depreciation and accretion (note 5)	3,111	1,840
	5,559	3,397
Loss from operations	(4,245)	(392)
Write down of pipeline asset held for sale (note 4)	(552)	-
Loss before future income tax recovery	(4,797)	(392)
Future income tax recovery (note 7)	(1,342)	(84)
Net loss and comprehensive loss for the period	(3,455)	(308)
Deficit, beginning of period	(65,696)	(57,726)
Deficit, end of period	\$ (69,151)	\$ (58,034)
Net loss per share (note 9)		
Basic	(\$0.22)	\$(0.02)
Diluted	(\$0.22)	\$(0.02)

See accompanying notes to financial statements.

FORTRESS ENERGY INC.

STATEMENTS OF CASH FLOWS

For the three months ended March 31
(in thousands)

	2008	2007
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (3,455)	\$ (308)
Items not affecting cash flows:		
Unrealized loss on commodity contracts	3,141	-
Stock-based compensation	18	110
Depletion, depreciation and accretion	3,111	1,840
Write down of pipeline asset held for sale	552	-
Future income tax recovery	(1,342)	(84)
Abandonment expenditures	(81)	-
	1,944	1,558
Change in non-cash operating working capital (note 13)	(248)	557
Cash provided by operating activities	1,696	2,115
FINANCING ACTIVITIES		
Change in revolving operating loan	(259)	3,750
Redemption of common shares (note 9)	-	(30,471)
Purchase of common shares (note 9)	-	(186)
Cash used in financing activities	(259)	(26,907)
INVESTING ACTIVITIES		
Property, plant and equipment additions	(10,263)	(11,850)
Pipeline asset held for sale (note 4)	(8,702)	-
Change in non-cash investing working capital (note 13)	17,522	1,303
Cash used in investing activities	(1,443)	(10,547)
Net change in cash	(6)	(35,339)
Cash and cash equivalents - beginning of period	44	36,756
Cash and cash equivalents - end of period	\$ 38	\$ 1,417

Supplemental cash flow information (note 13)

See accompanying notes to financial statements.

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

1. NATURE OF OPERATIONS

Fortress Energy Inc. ("Fortress" or the "Company") is a Calgary-based junior oil and gas exploration and development company. All activity is conducted in Western Canada and comprises a single operating segment.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

Except as noted below, the unaudited interim financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles using the same accounting policies as set out in note 2 to the audited consolidated financial statements for the year ended December 31, 2007. Certain information or disclosures normally required to be included in notes to annual audited financial statements have been condensed or omitted. The unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007.

The timely preparation of financial statements requires that management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from estimates.

In the opinion of management, these financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

On January 1, 2008, the Company amalgamated with its subsidiary companies.

(b) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

3. CHANGES IN ACCOUNTING POLICIES

(a) On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. These new standards are effective January 1, 2008. Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks, as disclosed in note 11 to the financial statements.

(b) The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after Jan. 1, 2011. Companies

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

will be required to provide comparative IFRS information for the previous fiscal year. Fortress is currently evaluating the impact of adopting IFRS.

4. PIPELINE ASSET HELD FOR SALE

On November 27, 2007, the Company entered into an agreement with an affiliate of AltaGas Income Trust ("AltaGas") for the transportation and processing of natural gas from the Company's Square Creek, Alberta area. The agreement required the Company to construct a 41 km pipeline from a central point in the Square Creek development area to the AltaGas processing facility at Clear Prairie to enable the delivery and sale of natural gas. Upon commissioning of the pipeline, AltaGas agreed to purchase the pipeline from the Company. In exchange, the Company committed to pay a fee to AltaGas for the use of the pipeline (refer to note 12). The construction and commissioning of the pipeline was completed in March, 2008 and on April 16, 2008, the Company completed the sale of the pipeline for proceeds of \$8,150,000. The total cost incurred to construct the pipeline was \$8,702,000 resulting in a loss on the pipeline asset held for sale at March 31, 2008 of \$552,000.

5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depletion and Depreciation	Net Book Value
March 31, 2008	\$	\$	\$
Oil and gas properties	127,218	20,758	106,460
Other	324	122	202
	127,542	20,880	106,662

	Cost	Accumulated Depletion and Depreciation	Net Book Value
December 31, 2007	\$	\$	\$
Oil and gas properties	116,746	17,694	99,052
Other	319	106	213
	117,065	17,800	99,265

For the three months ended March 31, 2008, the Company capitalized general and administrative expenses of \$193,000 (March 31, 2007 - \$408,000) directly attributable to exploration and development activities. The Company has not capitalized any stock-based compensation expense related to exploration and development activities

Estimated future development costs of \$15,842,000 (March 31, 2007 - \$22,400,000) were included in the calculation of depletion expense for the three months ended March 31, 2008. As at March 31, 2008, undeveloped land costs of \$7,371,000 (March 31, 2007 - \$3,900,000) were excluded from assets subject to depletion.

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

6. REVOLVING OPERATING LOAN

The Company has a \$25,000,000 revolving, demand credit facility with its bank (the "Bank"), bearing interest at the Bank's prime lending rate plus 0.25% (effective interest rate for the three months ended March 31, 2008 of 5.25%) and collateralized by an interest over all present and after acquired property of the Company. The authorized limit is subject to annual review and re-determination of the Company's borrowing base by the Bank. The Company has a \$1,000,000 letter of credit which reduces its borrowing capacity on the revolving operating loan.

The credit facility has a covenant that requires the Company to maintain its working capital ratio at 1:1 or greater while the credit facility is outstanding. The working capital ratio is defined as current assets plus the unutilized portion of the credit facility divided by current liabilities less the balance drawn against the credit facility. The Company is not in compliance with the working capital covenant at March 31, 2008. The Bank has issued a waiver regarding this breach.

Due to the winter access nature of the Company's properties much of its capital program is conducted in the first quarter of the year causing a working capital deficiency. In the first quarter of 2008, the Company completed a \$19.0 million capital program directed at the Square Creek area and as at March 31, 2008 has a working capital deficiency of \$36.0 million. The increase in production volumes and resulting cash flow will be used to repay indebtedness for the balance of 2008. In addition, the Company has been reviewing and considering equity financing alternatives to achieve better cash flow and debt service coverage ratios providing greater financial flexibility. The Bank's annual review will be completed by May 31, 2008. The outcome of these matters cannot be predicted at this time.

7. INCOME TAXES

The provision for income tax recovery recorded in the statement of operations differs from the amount that would be obtained by applying the statutory income tax rate to the loss before tax as follows:

	March 31, 2008	March 31, 2007
	\$	\$
Loss before tax	(4,797)	(392)
Expected tax recovery at 29.5% (March 31, 2007 – 32.12%)	(1,415)	(126)
Add (deduct) income tax effect of:		
Stock-based compensation	5	35
Non-deductible expenses and other permanent differences	5	7
Rate adjustments and other	63	-
Income tax recovery	(1,342)	(84)

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

8. ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations result from net ownership interests in oil and gas assets including well sites, gathering systems and processing facilities. The Company estimates the net present value of its total asset retirement obligations at March 31, 2009 to be \$3.2 million (December 31, 2007 - \$3.1 million) based on a total future liability of \$5.1 million (December 31, 2007 - \$4.8 million) which will be primarily incurred between 2009 and 2029. An inflation rate of 2.0% (December 31, 2007 - 2.0%) and a credit-adjusted risk-free rate of 7.5% (December 31, 2007 - 7.5%) were used to calculate the fair value of the asset retirement obligations.

Asset Retirement Obligations	\$
Balance, December 31, 2007	3,050
Liabilities incurred	214
Accretion expense	31
Abandonment expenditures	(81)
Balance, March 31, 2008	3,214

9. SHARE CAPITAL

(a) Authorized:

Unlimited number of voting common shares.

Unlimited number of preferred shares.

(b) Common shares issued and outstanding:

	Number of Common Shares	\$
Balance, December 31, 2007	15,970,059	121,274
Issued in exchange for employment services (i)	16,829	25
Tax effect of flow-through share renouncement (ii)	-	(1,275)
Balance, March 31, 2008	15,986,888	120,024

(i) As part of an agreement with a new employee, the Company agreed to grant shares with a total market value of \$50,000 to the employee, to be paid on June 30, August 31, October 31, and December 31, 2007. The actual number of shares issuable on each of these dates was based on the volume weighted-average trading price of the Company's shares for the 30-day period prior to issuance. A total of 9,244 common shares have been issued to the employee as of December 31, 2007 related to the June and August payment dates and an additional 16,829 common shares were issued in February of 2008 related to the October and December payment dates.

(ii) On December 21, 2007, the Company closed a public offering of 2,703,000 flow-through common shares at \$1.85 per share for total gross proceeds of \$5,000,550 (\$4,395,000 net of share issuance costs). The full expenditure commitment was renounced to subscribers effective December 31, 2007 with all expenditures to be incurred by December 31, 2008. The tax effect of the renunciation of \$1,275,000 was recorded in the first quarter of 2008 when the renouncement

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

documents were filed. As of March 31, 2008, the Company had incurred eligible expenditures of \$975,000.

(c) Contributed surplus:

Balance, December 31, 2007	14,428
Stock-based compensation expense (note 10)	18
Balance, March 31, 2008	14,446

(d) Stock option plan:

The Company grants stock options to employees, officers, directors and consultants of the Company pursuant to an incentive plan (the "Plan"). Under the Plan, the exercise price of options granted cannot be less than the closing market price for the Company's common shares on the date of grant. Options vest over a three-year period and expire five years from the date of grant.

There were no stock option transactions in the three months ended March 31, 2008.

The Company has the following stock options outstanding:

Outstanding at March 31, 2008				Exercisable at March 31, 2008	
Exercise Price	Number	Weighted average years to expiry	Weighted Average Exercise Price	Number exercisable	Weighted Average Exercise Price
\$			\$		\$
1.18	375,000	4.7	1.18	-	-
19.50 – 50.00	22,000	1.1	20.75	22,000	20.75
Outstanding, March 31, 2008	397,000	4.5	2.26	22,000	20.75

(e) Per share amounts:

The weighted average number of common shares outstanding for the three months ended March 31, 2008 and 2007 are as follows:

	March 31, 2008	March 31, 2007
Weighted average – basic and diluted	15,980,415	13,262,135

Options to purchase 397,000 common shares at March 31, 2008 (March 31, 2007 – 970,000) were not included in the calculation of weighted average – diluted common shares outstanding because they were anti-dilutive.

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

10. STOCK-BASED COMPENSATION

The Company records compensation costs on the granting of stock options using the fair value method. Compensation expense is calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	March 31, 2008	March 31, 2007
Risk-free interest rate (%)	-	3.75
Expected life (years)	-	5.0
Expected volatility (%)	-	50.0
Expected dividend yield (%)	-	-

The Company has not incorporated an estimated forfeiture rate for stock options that will not vest but accounts for the actual forfeitures as they occur.

The estimated fair value of stock options of \$0.50 per share (March 31, 2007 - \$2.26) is amortized to expense over the vesting period on a straight-line basis. In the three months ended March 31, 2008, the Company recorded compensation expense of \$18,000 related to stock options (March 31, 2007 - \$110,000).

11. FINANCIAL INSTRUMENTS

Overview

The Company has exposure to the following risks from its financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and establishes and monitors risk management policies to: identify and analyze the risks faced by the Company; to set appropriate limits and controls; and to monitor risks and adherence to market conditions and the Company's activities.

Credit Risk

Credit risk is primarily related to the Company's receivables from joint venture partner and petroleum and natural gas marketers and the risk of financial loss if a customer, partner or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with customers in the energy industry and are subject to normal industry credit risk. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company sells the majority of its production to two petroleum and natural gas marketers therefore is subject to concentration risk which is mitigated by management's policies and practices related to credit risk, as discussed above. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers. Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. However, the receivables are from participants in the petroleum and natural gas sector, and collection of the outstanding balances is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling and occasional disagreements between parties. The Company attempts to mitigate the risk from joint venture receivables by obtaining partner approval of significant capital

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

expenditures prior to expenditure. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint venture partners; however in certain circumstances, it may cash call a partner in advance of the work. As well, the Company does have the ability to withhold production from joint venture partners in the event of non-payment.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection therefore the carrying amount of accounts receivable generally represents the maximum credit exposure. There were no receivables written off during the three months ended March 31, 2008.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares capital expenditures budgets which are regularly monitored and updated as considered necessary. As well, the Company utilizes authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To facilitate the capital expenditure program, the Company has a revolving credit facility (note 6) that is reviewed annually by the lender.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to mitigate exposures within acceptable limits, while maximizing returns.

The Company utilizes commodity price contracts to manage market risks relevant to commodity prices. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Foreign Currency Exchange Risk

Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the three months ended March 31, 2008.

Commodity Price Risk

Commodity price risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand. The Company has attempted to mitigate commodity price risk through the use of financial derivative sales contracts. The Company's contracts in place as of March 31, 2008 are as follows:

Type	Period	Volume (GJ/d)	Fixed Price (\$/GJ)
Swap	January 1, 2008 to October 31, 2008	2,000	6.51
Swap	January 1, 2008 to October 31, 2008	3,000	6.505

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

For the three months ended March 31, 2008, the Company realized a loss related to these commodity contracts of \$113,000 (March 31, 2007 - \$nil) and recorded an unrealized loss of \$3,141,000. A \$1.00 change in the AECO price would increase or decrease this loss by \$455,000.

Interest Rate Risk

The Company is exposed to interest rate risk to the extent that changes in market interest rates impact its borrowings under the revolving credit facility. The Company has no interest rate swaps or hedges at March 31, 2008. For the three months ended March 31, 2008, a difference in interest rate of 1.0% would change net earnings by an estimated \$56,000.

Capital Management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility, creditor and market confidence and to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity and working capital. In order maintain or adjust the capital structure, the Company may from time to time issue shares and adjust its capital spending to manage current and projected debt levels. To assess capital and operating efficiency and financial strength, the Company continually monitors its net debt and working capital which is a non-GAAP measure and calculated as follows:

	March 31, 2008	December 31, 2007
Current assets	19,451	8,665
Current liabilities	(55,467)	(32,694)
Net debt and working capital deficiency	(36,016)	(24,029)

The net debt and working capital deficiency is a result of normal operating conditions in periods when the Company incurs significant capital expenditures relative to revenue.

The Company's share capital is not subject to external restrictions; however the credit facility is based on petroleum and natural gas reserves. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.

Fair Value of Financial Instruments

The Company's financial instruments as at March 31, 2008 include accounts receivable and accrued revenue, commodity contracts, pipeline assets held for sale, accounts payable and accrued liabilities and the revolving operating loan. The fair value of accounts receivable and accrued revenue and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. The fair value of the pipeline asset held for sale equals the sale proceeds. The fair value of commodity contracts is determined by calculating the difference between the contracted price and published forward price curves as at the balance sheet date, using the remaining contracted natural gas volumes. The Company's revolving operating loan bears interest at a floating market rate and accordingly the fair market value approximates the carrying value.

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

The carrying and fair values of the Company's financial instruments are as follows:

Classification	Carrying Value \$	Fair Value \$
Held-for trading (cash and commodity contracts)	(3,011)	(3,011)
Loans and receivables (accounts receivable and accrued revenue)	10,396	10,396
Held-to-maturity	-	-
Available-for-sale (pipeline asset held for sale)	8,150	8,150
Other liabilities (accounts payable and revolving operating loan)	(52,418)	(52,612)
Total	(36,883)	(37,077)

12.

COMMITMENTS AND CONTINGENCIES

Office space and equipment

The Company is committed to minimum annual lease payments under operating leases for office premises and equipment to March, 2013, as follows:

	Equipment Rental \$	Office Lease \$	Total \$
Balance of 2008	426	317	743
2009	148	423	571
2010	-	435	435
2011	-	439	439
2012	-	439	439
Thereafter	-	110	110
	574	2,163	2,737

Transportation and Processing

The Company has an agreement for the transportation and processing of natural gas from the Company's Square Creek, Alberta area. The Company is committed to pay the greater of a fee calculated as monthly volumes at an established rate per mcf, or an established minimum monthly processing fee based on estimated gas throughput of 2 mmcf per day until the costs of the pipeline have been recovered, at which time the Company will pay a reduced monthly processing fee until the earlier of April 1, 2015 or the delivery of a total of 15 bcf.

Committed payments are as follows:

	\$
Balance of 2008	949
2009	1,260
2010	1,052
2011	767
2012	767
Thereafter	1,605
	6,400

The Company's joint interest partner in the Square Creek area has agreed to be responsible for all terms and conditions of the agreement related to their 50% working interest in this area. Committed payments, noted above, represent only the Company's 50% working interest.

FORTRESS ENERGY INC.

Notes to Financial Statements

March 31, 2008

(Tabular figures are in thousands of Canadian dollars unless otherwise indicated)

Letter of Credit

On February 1, 2008, the Company issued a letter of credit of \$1,000,000 with an expiry of February 1, 2009, related to a gas transportation and processing agreement.

13. CHANGE IN NON-CASH WORKING CAPITAL

Changes in non-cash working capital balances are comprised of the following:

	March 31, 2008	March 31, 2007
	\$	\$
Accounts receivable and accrued revenue	(2,432)	(2,263)
Prepaid expenses and deposits	(302)	(45)
Accounts payable and accrued liabilities	19,983	4,451
	17,249	1,860
Accounts payable settled through issuance of shares	25	-
	17,274	1,860
Attributable to investing activities	17,522	1,303
Attributable to operating activities	(248)	557
Interest paid	340	18

14. RELATED PARTY TRANSACTIONS

In the three months ended March 31, 2008, the Company was charged \$72,000 in legal fees by a law firm where a director of the Company is a partner, of which \$45,000 is included in accounts payable and accrued liabilities at March 31, 2008.

All related party transactions are in the normal course of business and have been measured at the agreed to exchange amounts, which are the amounts of consideration established and agreed to by the related parties and which are similar to those negotiated with third parties.