

## FINANCIAL AND OPERATING SUMMARY

	2008		2007	
	(\$000's)	\$/boe	(\$000's)	\$/boe
Petroleum and natural gas sales	24,834	48.68	14,725	40.73
Royalties	(4,364)	(8.55)	(2,688)	(7.43)
Operating costs	(7,388)	(14.48)	(4,030)	(11.15)
Transportation	(1,187)	(2.32)	(437)	(1.21)
Operating netback (1)	11,895	23.33	7,570	20.94
General and administrative expenses	(2,479)	(4.86)	(2,597)	(7.18)
Professional fees	(712)	(1.40)	(663)	(1.84)
Bad debts	(2)	-	(526)	(1.45)
Net interest expense	(1,585)	(3.11)	(856)	(2.37)
Current income tax recovery (expense)	(160)	(0.31)	838	2.32
Funds from operations (1)	6,957	13.65	3,766	10.42
Unrealized gain on commodity contracts	2,395	4.70	92	0.25
Depletion, depreciation and accretion	(14,354)	(28.14)	(11,192)	(30.95)
Stock-based compensation expense	(167)	(0.33)	(2,513)	(6.95)
Loss on sale of pipeline asset	(428)	(0.84)	-	-
Loss before future income taxes	(5,597)	(10.96)	(9,847)	(27.23)
Future income tax recovery	1,844	3.62	1,877	5.19
Net loss	(3,753)	(7.34)	(7,970)	(22.04)
Sales volume (boe/d)	1,393		990	

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

March 31, 2009

Management's discussion and analysis ("MD&A") should be read in conjunction with the consolidated financial statements of Fortress Energy Inc. ("Fortress" or the "Company") for the years ended December 31, 2008 and 2007. The consolidated 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](http://www.fortressenergy.ca) or under the Company's profile at [www.sedar.com](http://www.sedar.com).

### Non-GAAP Measurements

The terms "funds from operations" and "operating netback" used in the 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.

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 consolidated statements of cash flows included in the consolidated financial statements present the reconciliation between net income (loss) and funds from operations. A summary of this reconciliation is as follows:

(\$000's)	2008	2007
Cash flow from operating activities	9,461	3,570
Change in non-cash operating working capital	(2,615)	116
Abandonment expenditures	111	80
Funds from operations	6,957	3,766

Operating netback is calculated on a per boe basis taking the sale price and deducting royalties, operating costs and transportation costs, as follows:

	2008		2007	
	(\$000's)	(\$/boe)	(\$000's)	(\$/boe)
Petroleum and natural gas sales	24,834	48.68	14,725	40.73
Royalties	(4,364)	(8.55)	(2,688)	(7.43)
Operating expenses	(7,388)	(14.48)	(4,030)	(11.15)
Transportation	(1,187)	(2.32)	(437)	(1.21)
Operating netback	11,895	23.33	7,570	20.94

### 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. Without limiting the generality of the foregoing, the Company has made materially forward looking statements:

- (i) under the heading "Corporate Highlights" and "Share Capital" regarding the use of proceeds of the equity financing for the 2009 capital program and working capital requirements;
- (ii) Under the heading "Corporate Highlights" regarding the Pine Creek exploration well and anticipated timing of production; and
- (iii) Under the heading "Production" regarding the anticipated resolution of plant capacity issues.

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, including 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 (applicable to the forward looking statements (i) through (iii) above), delays or changes in plans (applicable to the forward looking statements identified in (i) through (iii) above); 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:

- (i) 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);
- (ii) Delays or changes in plans with respect to exploration or development projects or capital expenditures;
- (iii) Uncertainty of estimates and projections relating to recoverable reserves, costs and expenses;
- (iv) Health, safety and environmental risks; and
- (v) Commodity price and exchange rate fluctuations.

In making its forward looking statements, the Company used among other things, the following material factors or assumptions: the 2009 capital program will proceed as anticipated, drilling will result in a commercial discovery and that parties can reach agreement as to expansion of plant capacity.

Forward looking statements contained herein are made as of the date hereof subject to the requirements of applicable securities legislation and except as otherwise required by law, the Company assumes no obligation to update any forward looking statements, whether as a result of new information, future events and results, or otherwise. There can be no assurance that forward-looking statements will prove to be

accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, the reader is cautioned not to place undue reliance on forward looking statements.

## DESCRIPTION OF THE BUSINESS

Fortress' primary focus is the exploration and development of natural gas reserves in Western Canada. The Company has approximately 94,000 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 is the operator of most of its production enabling it to have control over cost management of its operating and capital programs.

## CORPORATE HIGHLIGHTS

During the year ended December 31, 2008, Fortress accomplished the following activity considered important by management:

- Increased average production 41% to 1,393 boe/d in 2008 from 990 boe/d in 2007.
- Drilled 5 gross (3.0 net) wells in the Square Creek area at an 80% success rate.
- Constructed a 10 mmcf/d gathering and production facility which included a water disposal well in order to service producing 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.
- Completed a \$16.5 million equity financing consisting of 11,033,400 units ("Units"), each Unit consisting of one common share and one-half of one common share purchase warrant.
- Achieved an 85% increase in funds from operations for 2008 of \$6.9 million compared to \$3.8 million for 2007.
- The Company announced the appointment of Brent D. Defosse and Joel Dryer to the Board of Directors in July. Mr. Defosse comes to Fortress Energy as a Professional Engineer with over 28 years experience in the oil and gas industry and is a former Chief Operating Officer of an oil and gas energy trust. Mr. Dryer brings to Fortress over 30 years experience in the finance, technology, and manufacturing industries.

## DETAILED FINANCIAL ANALYSIS

### Production

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Sales volume:				
Natural gas (mcf/d)	8,118	7,455	8,234	5,845
Oil and NGL's (bbl/d)	14	13	21	16
Total (boe/d)	1,367	1,256	1,393	990

Sales volumes for the three months ended December 31, 2008 were 1,367 boe/d compared to 1,256 boe/d for the three months ended December 31, 2007 – an increase of 111 boe/d. This increase is due to the start up of 4 wells (2.0 net) at Square Creek in late March 2008 which added production of 496 boe/d in the fourth quarter of 2008. Capacity constraints at the Clear Prairie facility that processes gas from the Square Creek area have resulted in the Company producing the Square Creek area at much lower production rates than anticipated. Two of the Company's Square Creek wells remain shut-in and others are flowing at reduced rates while the Company works with the plant operator to resolve the capacity issues. Decreased

production from the Company's Velma property has offset some of the increases at Square Creek. The Company is in competitive drainage with a major producer that operates in the Velma area. The Company is currently reviewing alternatives to improve production at Velma.

Sales volumes for 2008 were 1,393 boe/d compared to 990 boe/d for 2007. This increase is attributed to the Square Creek area, which recorded sales volumes of 444 boe/d from its startup in March 2008 and resulting in an overall average for 2008 of 340 boe/d. The Velma area was tied into production facilities in August 2007 and contributed sales volumes of 391 boe/d from its start up to the end of 2007. Sales volumes for the Velma property averaged 278 boe/d in 2008 compared to 131 boe/d for all of 2007.

## Revenue

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Petroleum and natural gas sales (\$000's)	5,962	4,599	24,834	14,725
Average realized prices:				
Natural gas (\$/mcf)	6.99	6.31	8.55	6.63
Realized gain (loss) on commodity contracts (\$/mcf)	0.89	0.05	(0.52)	0.18
Realized natural gas price (\$/mcf)	7.88	6.36	8.03	6.81
Oil and NGLs (\$/bbl)	60.42	86.95	82.16	68.15
Total (\$/boe)	47.41	39.52	48.68	40.73
Benchmark prices:				
AECO average price (\$/mcf)	6.69	6.00	8.15	6.60
Edmonton par (\$/boe)	64.18	80.75	103.27	75.49

Petroleum and natural gas sales, which includes realized gains and losses on commodity contracts, for the three months ended December 31, 2008, were \$5,962,000 compared to \$4,599,000 for three months ended December 31, 2007. This increase is attributable to a 9% increase in sales volumes and a 20% increase in the price of natural gas.

Petroleum and natural gas sales for 2008 were \$24,834,000 compared to \$14,725,000 for 2007. This increase is due to a 41% increase in sales volumes and 20% increase in sales prices realized in 2008 compared to 2007.

The average natural gas price realized by the Company for the fourth quarter of 2008 was \$6.99/mcf compared to the AECO average price of \$6.69/mcf. This compares to the average natural gas price realized in the fourth quarter of 2007 of \$6.31/mcf and an AECO average price of \$6.00/mcf. For 2008, the Company realized an average price for natural gas of \$8.55/mcf compared to an average AECO price of \$8.15/mcf. For 2007, the Company realized an average natural gas price of \$6.63/mcf compared to an AECO average price of \$6.60/mcf. The Company receives a slight premium to the AECO price of approximately 4% to 5% due to the higher heating content of its natural gas.

The Company uses commodity contracts to manage its exposure to fluctuations in the price of natural gas. In the fourth quarter of 2008, the Company realized a gain on commodity contracts of \$668,000, or \$0.89/mcf compared to a realized gain on commodity contracts of \$35,000, or \$0.05/mcf, in the fourth quarter of 2007, which is included in petroleum and natural gas sales. For 2008, the Company realized a loss on commodity contracts of \$1,564,000, or \$0.52/mcf. In 2008 approximately 56% of the Company's production was under contract.

The Company recorded an unrealized gain on commodity contracts in the fourth quarter of 2008 of \$1,062,000 compared to an unrealized gain on commodity contracts for the fourth quarter of 2007 of \$19,000. For 2008, the Company recorded an unrealized gain on commodity contracts of \$2,395,000 compared to \$92,000 for 2007.

At December 31, 2008 the Company had the following commodity contracts in place:

Type	Period	Volume (GJ/d)	Fixed Price (\$/GJ)
Swap	November 1, 2008 to March 31, 2009	1,250	9.58
Swap	November 1, 2008 to March 31, 2009	3,750	8.25
Swap	April 1, 2009 to December 31, 2009	5,100	7.20
Swap	January 1, 2010 to March 31, 2010	2,600	8.38

On February 12, 2009, the Company entered into an additional commodity price contract to sell 2,500 GJ/d of natural gas at \$6.80/GJ for the period of January 1, 2010 to March 31, 2010.

### Royalties

	Three months ended		Year ended December	
	December 31,		31,	
	2008	2007	2008	2007
Royalties (\$000's)	943	1,317	4,364	2,688
\$/boe	7.50	11.41	8.55	7.43
Percentage of petroleum and natural gas sales (1)	17.8%	28.9%	16.5%	18.8%

(1) Before realized gains and losses on commodity contracts.

Royalties decreased to \$943,000 for the fourth quarter of 2008 from \$1,317,000 for the fourth quarter of 2007. Royalties have decreased in the fourth quarter of 2008 due to one-time charges in the fourth quarter of 2007, as noted below. As a percentage of petroleum and natural gas sales royalties were 17.8% in the fourth quarter of 2008 compared to 28.9% for the fourth quarter of 2007. Royalties for the fourth quarter of 2007 were relatively high because these included a reassessment by Alberta Taxation of Alberta Royalty Tax Credits ("ARTC") claimed for prior taxation years resulting in an additional charge of \$294,000. In addition, the fourth quarter of 2007 included a charge of \$235,000 related to prior 2007 quarters that had been under estimated although based on best estimates at the time. These two charges increased the effective royalty rate for the fourth quarter of 2007 by 11.6%.

Royalties for 2008 were \$4,364,000 compared to \$2,688,000 for the prior year. The effective royalty rates for 2008 and 2007 were 16.5% and 18.8%, respectively. The additional charges, note above, increased the 2007 effective royalty rate by 3.6%.

The Company expects that its effective royalty rate will increase in 2009 due to Alberta's New Royalty Framework which came into effect on January 1, 2009. Under the framework, crown royalties will be determined by both productivity and natural gas prices. Approximately 43% of the Company's 2008 production was from its Alberta properties.

### Operating Expenses

	Three months ended		Year ended December 31,	
	December 31,		2008	
	2008	2007	2008	2007
Operating costs (\$000's)	1,823	1,762	7,388	4,030
\$/boe	14.50	15.26	14.48	11.15

For the fourth quarter of 2008, operating expenses were \$1,823,000, or \$14.50/boe, compared to \$1,762,000 for the fourth quarter of 2007, or \$15.26/boe. Operating expenses increased in the fourth quarter of 2008 due to an increase in production volumes and a change in the production mix that resulted from the startup of the Company's Square Creek property in March 2008.

Operating expenses in 2008 increased to \$7,388,000 from \$4,030,000 in 2007 due to an increase in production and a change in production mix. Operating expenses increased to \$14.48/boe in 2008 from \$11.15/boe in 2007. The Company's Square Creek property, which came onto production in March 2008, recorded operating expenses in 2008 of \$17.53/boe. This property is a remote winter access property, which contributes to its relatively high operating costs. The Company has taken several steps to reduce operating costs at Square Creek including the purchase of a rented compressor, camp, rig mats and other rented equipment. The Company is in discussions with the contract operator of Square Creek, another

producer in the area, and the gas plant operator to reduce the overall operating expenses of all three parties. This property contrasts to the Company's Buick Creek property, which recorded operating expenses in 2008 of \$5.01/boe compared to \$8.30/boe in 2007. In the fourth quarter of 2007, the Company completed workovers on three wells at Buick Creek, which increased average production rates at Buick Creek by 20%.

### Transportation Expenses

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Transportation costs (\$000's)	279	168	1,187	437
\$/boe	2.22	1.45	2.32	1.21

Transportation costs for the fourth quarter of 2008 were \$279,000 compared to \$168,000 for the fourth quarter of 2007. Transportation costs include the transportation and fuel costs associated with the usage of natural gas pipelines. The rate that the Company was charged for interruptible transportation services increased by 14% in 2008 and the Company also secured an additional firm transportation services contract at Owl Lake where all of its gas from the general Ladyfern area is sold.

Transportation costs for 2008 were \$1,187,000 for 2008 compared to \$437,000 for 2007. This increase is for reasons previously noted.

### General and Administrative Expenses

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
General and administrative expenses, net of recoveries (\$000's)	715	639	2,479	2,597
Professional fees (\$000's)	311	38	712	663
Bad debts (\$000's)	84	526	2	526
Total (\$000's)	1,110	1,203	3,193	3,786
General and administrative expenses, net of recoveries (\$/boe)	5.69	5.53	4.86	7.18
Professional fees (\$/boe)	2.47	0.33	1.40	1.84
Bad debts (\$/boe)	0.67	4.55	-	1.45
Total (\$/boe)	8.83	10.41	6.26	10.47

General and administrative expenses, net of recoveries, increased to \$715,000 in the fourth quarter of 2008 from \$639,000 in the fourth quarter of 2007. This increase is due to additional costs incurred for outsourced computer network services. Salaries and staffing levels have remained consistent over these periods. General and administrative expenses, net of recoveries, for 2008 decreased to \$2,479,000 from \$2,597,000 in 2007 due to less reliance on consultants.

Professional fees include fees for lawyers, auditors, income tax professionals, independent reserves evaluators, and other advisors. Professional fees for the fourth quarter of 2008 increased to \$311,000 from \$38,000 in the fourth quarter of 2007. This increase is due to increased legal fees related to the final resolution of various matters. In addition, the Company incurred additional advisory fees related to property divestitures that were not consummated. Professional fees for 2008 were \$712,000 compared to \$663,000 for 2007.

Bad debts for the fourth quarter of 2008 were \$84,000 compared to \$526,000 for the fourth quarter of 2007. Bad debts for 2008 were \$2,000, net of recoveries made in the year, compared to \$526,000 for 2007 which reflects accounts of former joint venture partners that are considered uncollectible; many such accounts are related to acquired businesses.

## Stock-based Compensation Expense

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Stock-based compensation expense (\$000's):				
Stock options	20	2,084	145	2,513
Restricted stock units	(2)	-	22	-
Total (\$000's)	18	2,084	167	2,513
\$/boe	0.14	18.05	0.33	6.95

Stock-based compensation expense for the fourth quarter of 2008 was \$18,000 compared to \$2,084,000 for the fourth quarter of 2007. In the fourth quarter of 2007, the Company recovered amounts previously expensed under its restricted stock unit plan due to a reduction in the Company's stock price. In addition, the fourth quarter of 2007 reflects a one-time charge of \$2,063,000 related to the cancellation of 1,193,000 stock options in November 2007.

Stock-based compensation expense for 2008 was \$167,000 compared to \$2,513,000 in 2007. This decrease is due to the cancellation of stock options recorded in the fourth quarter of 2007, as previously noted.

## Interest Income and Expense

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Interest income (\$000's)	-	(3)	-	(219)
Interest expense (\$000's):	536	434	1,585	1,075
Total, net (\$000's)	536	431	1,585	856
\$/boe	4.26	3.78	3.11	3.58

The Company recorded interest expense of \$536,000 for the fourth quarter of 2008 compared to \$431,000 for the fourth quarter of 2007. Interest expense for the fourth quarter of 2008 reflects interest on the Company's bank indebtedness and accrued interest on flow-through commitments. Interest expense for the fourth quarter of 2007 consists of interest on bank indebtedness of \$329,000 and interest related to ARTC reassessments of \$105,000.

The Company recorded interest expense of \$1,585,000 for 2008 compared to net interest expense of \$856,000 for 2007. Interest expense for 2008 reflects interest on the Company's bank indebtedness of \$1,166,000 and interest on flow-through obligations of \$419,000. Interest expense in 2007 reflects interest charged on bank indebtedness and interest related to ARTC reassessments. Interest income in 2007 reflects interest earned on commercial paper investments prior to the reorganization of SignalEnergy Inc.

## Depletion, Depreciation and Accretion Expense

	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Depletion and depreciation expense (\$000's)	3,725	4,536	14,233	11,039
Accretion of asset retirement obligations (\$000's)	2	71	121	153
Total (\$000's)	3,727	4,607	14,354	11,192
Depletion and depreciation expense (\$/boe)	29.62	39.90	27.90	30.53
Accretion of asset retirement obligations (\$/boe)	0.02	0.61	0.24	0.42
Total (\$/boe)	29.64	40.51	28.14	30.95

Depletion and depreciation expense is calculated based on capital expenditures, production rates, and proven reserves. Depletion and depreciation expense was \$3,725,000 for the fourth quarter of 2008 compared to \$4,536,000 for the fourth quarter of 2007. This decrease is due to a ceiling test impairment charge which was recorded in the fourth quarter of 2007 of \$1,404,000. The depletion and depreciation expense rate for the fourth quarter of 2008 was \$29.62/boe compared to \$39.90/boe for the fourth quarter of 2007.

For 2008, the Company recorded depletion and depreciation expense of \$14,233,000 compared to \$11,039,000 for 2007. The 2007 ceiling test impairment increased the depletion and depreciation rate for 2007 by \$3.88/boe.

Estimated future development costs for proved undeveloped properties included in the calculation of depletion expense at December 31, 2008 decreased to \$13,235,000 from \$16,435,000 at December 31, 2007 due to the Company's development activities at Square Creek. Undeveloped land costs at December 31, 2008 increased to \$8,622,000 from \$7,371,000 at December 31, 2007 and were excluded from assets subject to depletion. Undeveloped land costs increased in 2008 due to crown land sale purchases and undeveloped land received as settlement of a former joint venture partner account.

Accretion expense for the fourth quarter of 2008 was \$2,000 compared to \$71,000 for the fourth quarter of 2007. The fourth quarter of 2008 reflects changes to the assumptions used to calculate the Company's asset retirement obligations and an adjustment in the fourth quarter for accretion expense of prior periods. Accretion expense for 2008 was \$121,000 compared to \$153,000 for 2007. This decrease also reflects changes to the assumptions used to determine asset retirement obligations.

### Income Tax

	Three months ended		Year ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Income tax recovery (\$000's)	160	(838)	160	(838)
Future income tax recovery (\$000's):	(946)	(674)	(1,844)	(1,877)
Total, net (\$000's)	(786)	(1,512)	(1,684)	(2,715)
\$/boe	(6.25)	(13.09)	(3.31)	(7.51)

The Company recorded an income tax recovery for the fourth quarter of 2008 of \$786,000 which compares to \$1,512,000 for the fourth quarter of 2007. In the fourth quarter of 2008, the Company recorded current income tax expense of \$160,000 which consists mainly of arrears interest, compared to a current income tax recovery of \$838,000 in the fourth quarter of 2007, which reflects a carry back of non-capital losses to recover income taxes from 2006. For 2008, the Company recorded an income tax recovery of \$1,684,000 compared to \$2,715,000 for 2007. Future income tax recoveries reflect the differences between the underlying tax values and carrying values of the Company's assets and liabilities. The current tax recovery of \$838,000 in 2007 reflects the carry back of non-capital losses, as noted previously.

The income tax effect of a \$5 million flow-through share offering completed in December 2007 was recorded in the first quarter of 2008. As of December 31, 2008, the Company had met the expenditure commitment under the flow-through share agreement.

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

	(\$000's)
Canadian Oil and Gas Property Expenses	13,404
Canadian Development Expenses	27,457
Canadian Exploration Expenses	12,508
Undepreciated Capital Cost	26,313
	79,682

### Net Loss

	Three months ended		Year ended December	
	December 31,		31,	
(\$000's except per share and per boe amounts)	2008	2007	2008	2007
Net loss	(624)	(5,442)	(3,753)	(7,970)
Net loss per share - basic and diluted	(0.02)	(0.40)	(0.17)	(0.59)
Net loss per boe	(4.96)	(47.13)	(7.34)	(22.04)

The Company recorded a net loss of \$624,000 for the fourth quarter of 2008 compared to a net loss of \$5,442,000 for the fourth quarter of 2007. This translates into a basic and diluted net income per share of \$0.02 for the fourth quarter of 2008 compared to a basic and diluted net loss per share of \$0.40 for the

fourth quarter of 2007. The net loss decreased due to an increase in the operating netbacks realized in 2008 and reductions in the general and administrative, stock-based compensation, and depletion expenses on a per boe basis.

The net loss for 2008 was \$3,753,000 compared to \$7,970,000 for 2007. The net loss in 2008 decreased from the prior year due to higher production volumes, higher operating netbacks, and lower general and administrative, stock-based compensation charges, and depletion and depreciation expenses on a per boe basis in 2008.

### Funds from Operations

(\$000's except share and per boe amounts)	Three months ended December 31,		Year ended December 31,	
	2008	2007	2008	2007
Funds from (used in) operations	1,113	556	6,957	3,766
Funds from operations (\$/boe)	8.85	4.82	13.65	10.42
Funds from operations per share – basic and diluted	0.04	0.04	0.32	0.22

Funds from operations for the fourth quarter of 2008 were \$1,113,000 compared to \$556,000 in the fourth quarter of 2007. This increase is attributed to higher production volumes and operating netbacks and a reduction in general and administrative expenses. The operating netback realized in the fourth quarter of 2008 improved to \$23.19/boe from \$11.71/boe in the fourth quarter of 2007 due to increased production levels, higher commodity prices realized, and lower operating costs on a per boe basis.

Funds from operations for 2008 increased to \$6,957,000 from \$3,766,000 for 2007. This increase is attributed to higher production volumes and operating netbacks and a reduction in general and administrative expenses, as previously noted.

### Capital Expenditures

(\$000's)	Year ended December 31,	
	2008	2007
Land and seismic	2,785	232
Drilling and completions	9,689	11,696
Equipment and facilities	14,937	10,873
Acquisitions	-	12,963
Dispositions	(8,150)	-
Capitalized overhead costs	1,006	1,309
Other	-	1,377
	20,267	38,450

Total capital expenditures for 2008 were \$20,267,000. The 2008 winter capital program 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 also constructed a 10 mmcf/d gathering and production facility to service wells it has in the area.

The Company completed the construction of a 41 km pipeline to deliver gas to the Clear Prairie gas plant servicing 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 \$8,578,000 and was sold to a mid-stream service provider in April for proceeds of \$8,150,000.

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 an 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.

Total capital expenditures for 2007 were \$38,450,000. The Company's initial capital program focused exclusively on the Company's lands in the Ladyfern, Mearon, Square Creek, and Drake areas. The Company drilled a total of 14 gross (8 net) wells of which 11 gross (6.5 net) were considered to be development wells and 3 gross (1.5 net) were exploratory wells. In addition, the Company completed 7 recompletion operations of existing wells. A total of 8 gross (4.5 net) wells were tied into production facilities in the first quarter of 2007. The capital program was expanded in the third quarter of 2007 to include the acquisition of a partner's working interests in the Ladyfern, Mearon and Velma areas for cash of \$12,535,000. The acquisition included approximately 280 boe/d of natural gas production with additional production behind pipe, estimated reserves of 1,040 mboe on a proven basis and 1,546 mboe on a proven plus probable basis, and 54,232 net acres of undeveloped land. The Company also completed the installation of its refrigeration plant at Ladyfern to improve the recovery of natural gas liquids and to lower the dew point of the gas entering the third-party processing facility. The plant came on line in late August 2007. The Company also completed the surface facilities and the tie-in of two wells at Velma which also came on production in late August.

### Outstanding Securities

Outstanding securities	
Common shares	26,921,788
Warrants	5,516,700
Stock options	1,805,873
<b>Total outstanding securities at December 31, 2008 and March 31, 2009</b>	<b>34,244,361</b>

The Company closed a public offering of 11,033,400 units ("Units") on June 20, 2008, June 27, 2008 and July 4, 2008, for gross proceeds of \$16,550,100 (\$14,737,000 net of issuance costs). Each Unit consists of one common share of the Company and one-half of one common share purchase warrant. The warrants are exercisable on or before September 20, 2011 subject to the right of the Company to accelerate the expiry time on not less than 30 days notice to the warrant holders, if the aggregate sales price of the common shares during a period of 20 consecutive days divided by the aggregate number of common shares sold is at least \$3.00. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$2.00. The proceeds of the financing will be used to fund the Company's 2009 capital program and working capital requirements.

### Liquidity and Capital Resources

The Company has a \$24,000,000 demand operating loan facility with its bank (the "Bank"), bearing interest at the Bank's prime lending rate plus 1.0% (effective interest rate for 2008 of 5.05% and for 2007 of 6.5%). At December 31, 2008, the Company had drawn \$20,533,000 against this facility. The Company also has a \$1,000,000 letter of guarantee facility. These facilities are collateralized by a security interest over all present and after acquired property of the Company. The authorized limits are subject to annual review and re-determination of the Company's borrowing base by the Bank. The next annual review date has been set for June 30, 2009.

The credit facility has a covenant that requires the Company to maintain its working capital ratio at 1:1 or greater. 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 in compliance with this covenant at December 31, 2008.

	As at December 31, 2008
(\$000's)	
Operating loan available	24,000
Working capital deficiency	(20,993)
<b>Capital resources available</b>	<b>3,007</b>

The Company's capital budget for 2009 is approximately \$4 million and will focus on the Square Creek development area. The 2009 capital program will be funded through a combination of cash flows from operations and the available credit facility. There is no assurance that Fortress will be able to sustain its current borrowing base and may be required to reduce its outstanding operating loan facility. Fortress has options available to deal with a borrowing base reduction including the sale of non-core properties, dedication of cash flows, and liquidation of its commodity contracts.

Cash used in operating activities for the fourth quarter of 2008 was \$434,000 compared to cash provided by operating activities of \$665,000 for the fourth quarter of 2007. Funds from operations for the fourth quarter of 2008 increased to \$1,113,000 from 556,000 in the fourth quarter of 2007, as noted previously. Cash provided by operating activities for 2008 was \$9,461,000 compared to \$3,570,000 for 2007. This increase is due to an increase in funds from operations of \$3,191,000 and an increase in non-cash working capital balances of \$2,731,000.

Cash provided by financing activities for fourth quarter of 2008 was \$670,000 compared to \$2,578,000 for the fourth quarter of 2007. Cash provided by financing activities in the fourth quarter of 2008 represents an increase in amounts drawn on the operating loan from the prior quarter. Cash provided by financing activities for the fourth quarter of 2007 reflects a flow-through share issuance with net proceeds to the Company of \$4,395,000 and a repayment of \$1,817,000 on the operating loan. Cash provided by financing activities for 2008 reflects an equity financing with net proceeds of \$14,737,000 completed in July and net repayments on the operating loan of \$2,060,000. Also, in the fourth quarter, the Company initiated a normal course issuer bid process and acquired 98,500 of its common shares at \$0.40/share. In 2007 the Company redeemed 23,076,923 common shares as part of the reorganization of Signal for \$30,471,000 and secured a \$24,000,000 bank operating loan.

Cash used in investing activities for the fourth quarter of 2008 was \$93,000 compared to \$3,252,000 for the fourth quarter of 2007. The Company's capital expenditures in fourth quarter of 2008 were \$4,468,000 compared to \$3,252,000 in the fourth quarter of 2007. Cash used in investing activities for 2008 was \$21,962,000 compared to \$36,644,000 for 2007. In the second quarter of 2008, the Company recorded the sale of a 41 km pipeline connecting the Square Creek area to processing facilities for \$8,150,000.

### **Related Party Transactions**

In 2008 the Company was charged \$544,000 (2007 - \$522,000), in legal fees by a law firm where a director of the Company is a partner, of which \$7,000 is included in accounts payable and accrued liabilities at December 31, 2008.

In 2008, the Company was charged \$63,000 (2007 - \$nil) by a director for consulting services of which \$21,000 is included in accounts payable and accrued liabilities at December 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.

### **Commitments and Contingencies**

#### **Royalties**

The Company has agreed to pay to various university research centers royalties amounting to 2% to 5% on sales of licensed products related to a research contract and acquired technology rights and 15% of sublicense revenues from products related to the acquired technology rights. At December 31, 2008 and 2007, there was no royalties payable under these agreements. These agreements relate to a predecessor company which was a cancer drug discovery enterprise.

#### 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 \$
2009	170	458	628
2010	25	470	495
2011	9	475	484
2012	-	474	474
2013	-	119	119
	204	1,996	2,200

#### 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 earlier of April 1, 2015 or the delivery of a total of 15 bcf.

Committed payments are as follows:

	\$
2009	1,259
2010	1,088
2011	767
2012	767
2013	767
Thereafter	895
	5,543

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 represent only the Company's 50% working interest.

#### 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. Upon the expiry of the existing letter of credit, a replacement letter of credit of \$900,000 was issued with an expiry of February 1, 2010.

#### Drilling Commitments

As at December 31, 2008, the Company had committed to drill a well in Alberta pursuant to a joint venture agreement, at an estimated cost of \$700,000. The drilling of the well was to be completed by February 15, 2009. Based on further geological assessment the Company elected to incur a \$200,000 penalty in 2009 and forego the drilling of the well.

#### Guarantees

The Company maintains liability insurance for its directors and officers and indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law.

## Income Tax Refund

In September 2008, the Company re-filed its income tax returns for the 1997 to 1999 tax years to claim additional scientific research and experimental development ("SR&ED") credits related to the bio-technology business of its predecessor company. These additional claims could result in a refund of approximately \$3.4 million to the Company.

## Income Tax Reassessment

Based on the results of an audit concluded in March 2009 by Canada Revenue Agency ("CRA") of the 2004 flow-through expenditures of a business acquired by the Company in 2006, the Company has been notified that it will be reassessed by CRA for interest of \$277,000 on expenditures not qualifying for renunciation under the flow-through share program in the amount of \$1,916,000. The additional interest has been recorded in the statement of operations at December 31, 2008. The Company may file a Notice of Objection after consultation with its tax advisors and legal counsel. The Company has indemnified the subscribers of this flow-through share offering from income taxes related to the offering.

## SELECTED QUARTERLY INFORMATION

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Production:								
Natural gas (mcf/d)	8,118	8,733	8,690	7,391	7,455	6,111	5,082	4,699
Oil and NGL's (bbl/d)	14	23	15	33	13	7	29	22
Barrels of oil equivalent (boe/d)	1,367	1,478	1,463	1,265	1,256	1,025	876	805
Average realized price:								
Natural gas (\$/mcf)	6.99	7.99	10.02	7.87	6.19	5.07	6.86	7.47
Oil and NGLs (\$/bbl)	60.42	82.29	108.04	79.61	86.95	71.42	52.14	60.56
Barrels of oil equivalent (\$/boe)	47.50	48.44	60.58	48.10	38.07	30.68	41.52	45.48
Benchmark prices:								
AECO average price (\$/mcf)	6.69	7.76	9.82	7.90	6.00	5.12	7.11	7.37
Edmonton Par (\$/bbl)	64.18	123.08	126.37	98.45	80.75	80.70	72.65	67.86
Financial (\$'000's unless otherwise noted):								
Petroleum and natural gas sales (1)	5,962	5,811	7,232	5,818	4,599	3,313	3,462	3,351
Net income (loss)	(624)	1,070	(744)	(3,455)	(5,442)	(1,603)	(617)	(308)
Net income (loss) per share – basic (\$)	(0.02)	0.04	(0.04)	(0.22)	(0.39)	(0.12)	(0.05)	(0.02)
Net income (loss) per share – diluted (\$)	(0.02)	0.04	(0.04)	(0.22)	(0.39)	(0.12)	(0.05)	(0.02)
Funds from (used in) operations	1,113	1,193	2,627	2,025	(282)	505	1,147	1,558
Operating costs (\$/boe)	14.50	15.72	15.40	11.94	15.26	10.31	8.23	8.82
Weighted average shares outstanding – basic ('000)	26,965	26,965	16,809	15,980	13,561	13,266	13,258	13,262
Weighted average shares outstanding – diluted ('000)	26,965	27,004	16,809	15,980	13,561	13,266	13,258	13,262

- (1) Restated to include realized gains and (losses) on commodity contracts and for the effects of transportation costs which previously were netted from petroleum and natural gas sales.

## Disclosure Controls and Procedures

The Company has established disclosure controls and procedures to ensure timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in the Company's filings. The Chief Executive Officer and the Chief Financial Officer oversee this evaluation process and have concluded that the design and operation of these disclosure controls and procedures are adequate and effective in ensuring that the information required to be disclosed by the Company in reports filed with the Canadian Securities Administrators is accurate and complete and filed within the time periods required. The Chief Executive Officer and Chief Financial Officer have individually signed certifications to this effect.

## **Internal Controls over Financial Reporting**

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management, under the direction and supervision of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the design and effectiveness of the internal controls over financial reporting as at December 31, 2008. Based on their assessment Management determined that the internal controls over financial reporting were effective as at December 31, 2008.

There is no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Management, including the Chief Executive Officer and the Chief Financial Officer, do not expect that the Company's disclosure controls or the Company's internal controls over financial reporting will prevent or detect all error or fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Given the Company's limited staff level, certain duties within the accounting and finance department cannot be properly segregated. However, none of the segregation of duty deficiencies resulted in a misstatement to the financial statements as the Company relies on certain compensating controls, including substantive periodic review of the financial statements and other information by the Chief Executive Officer and Audit Committee. This weakness is considered to be a common area of deficiency for many smaller listed companies in Canada.

## **Changes in Accounting Policies and Practices**

The CICA issued the following new accounting standards: section 1400 "General Standards of Financial Statement Presentation"; section 1535 "Capital Disclosures"; section 3031 "Inventories"; section 3862 "Financial Instruments – Disclosures", and section 3863 "Financial Instruments – Presentation". These standards became effective January 1, 2008.

CICA 1400, General Standards of Financial Statement Presentation, was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The new requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard did not have an impact on the Company's financial statements.

Section 1535 establishes standards for disclosing information regarding an entity's capital and how it is managed. The section 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.

Sections 3862 and 3863 replace section 3861 "Financial Instruments – Disclosure and Presentation" which revises and enhances financial instrument disclosure requirements and leaves unchanged its presentation requirements. The objective of section 3862 is to provide financial statement disclosure to enable users to evaluate the significance of financial instruments for the Company's financial position and performance. The section also requires increased disclosure on the nature and extent of risks arising from financial instruments that the Company is exposed to during the reporting period and the balance sheet date and how the company is managing those risks. The purpose of section 3863 is to enhance the financial statement users' understanding of the significance of financial instruments to the Company's financial position, performance and cash flows.

## **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. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company expects that it will have a conversion plan in place by the end of the second quarter of 2009. The Company currently does not have an IFRS conversion plan but expects that its plan will be in place by the end of the second quarter of 2009, and is currently assessing the impact of adopting IFRS.

CICA 3064, *Goodwill and Intangible Assets*, will replace CICA 3062, *Goodwill and Other Intangible Assets*, and results in withdrawal of CICA 3450, *Research and Development Costs*, and amendments to Accounting Guideline (AcG) 11, *Enterprises in the Development Stage* and CICA 1000, *Financial Statement Concepts*. The standard intends to reduce the differences with IFRS in the accounting for intangible assets and results in closer alignment with U.S. GAAP. Under current Canadian standards, more items are recognized as assets than under IFRS or U.S. GAAP. The objectives of CICA 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing as assets items that do not meet the definition and recognition criteria is eliminated. The standard will also provide guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. Fiscal years beginning on or after October 1, 2008, with early adoption encouraged. The Company is currently evaluating the impact of this standard.

On January 20, 2009 the CICA EIC issued EIC-173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. Under EIC-173, an entity’s own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments. Fortress will adopt the requirements of EIC-173 effective January 1, 2009. The impact of this EIC upon the Company’s financial statements is currently being assessed.

## **CRITICAL ACCOUNTING ESTIMATES**

The reader is advised that the critical accounting estimates, policies, and practices as described in this MD&A and report continue to be critical in determining Fortress’ financial results.

The reader is further cautioned that the preparation of financial statements in accordance with GAAP requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues and expenses. Estimating reserves is also critical to several accounting estimates and requires judgments and decisions based upon available geological, geophysical, engineering and economic data. These estimates may change, having either a negative or positive effect on net earnings as further information becomes available, and as the economic environment changes. Changes in these judgments and estimates could have a material impact on the financial results and financial condition. The following discussion outlines accounting policies and practices that are critical to determining the Company’s financial results:

### **Accounting for Petroleum and Natural Gas Operations**

The Company follows the full cost method of accounting whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized in a single Canadian cost center. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical costs, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities.

The application of the full cost method of accounting requires management’s judgment to determine the proper designation of wells as either developmental or exploratory, which will ultimately determine the proper income tax treatment of the costs incurred.

Full cost accounting depends on the estimated proven reserves that are believed to be recoverable from the Company’s oil and gas properties. The process of estimating reserves is complex. It requires significant judgments and decisions based on available geological, geophysical, engineering, and economic data. These estimates may change substantially as additional data from ongoing development activities and

production performance becomes available and as economic conditions impacting oil and gas prices and costs change. Our reserve estimates are based on current production forecasts, prices and economic conditions. Fortress' reserves were evaluated by the independent engineering firm Sproule Associates Ltd.

Reserve estimates are critical to many of our accounting estimates, including:

- Calculating our unit-of-production depletion and future site restoration rates. Proven reserve estimates are used to determine rates that are applied to each unit-of-production in calculating depletion expense.
- Assessing when necessary, oil and gas assets for possible impairment. Estimated future undiscounted cash flows are determined using proven reserves. The criteria used to assess impairment, including the impact of changes in reserve estimates, are discussed below.

As circumstances change and additional data becomes available, reserve estimates also change, possibly materially impacting net income. Estimates made are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and governmental restrictions.

Although we make every reasonable effort to ensure that our reserve estimates are accurate, reserve estimation is an inferential science. As a result, the subjective decisions, new geological or production information and a changing environment may impact these estimates. Revisions to our reserve estimates can arise from changes in oil and gas prices, and reservoir performance. Such revisions can be either positive or negative.

### **Impairment of Petroleum and Natural Gas Properties**

The Company reviews its full cost pool for impairment annually. An impairment provision is recorded whenever events or circumstances indicate that the carrying value of the Company's properties may not be recoverable. The impairment provision is based on the excess of carrying value over fair value. Fair value is defined as the present value of the estimated future net revenues from production of total proved and probable petroleum and natural gas reserves, as estimated by the Company on the balance sheet date. Reserve estimates, as well as estimates for petroleum and natural gas prices and production costs may change, and there can be no assurance that impairment provisions will not be required in the future.

Management's assessment of, among other things, the results of exploration activities, commodity price outlooks, and planned future development and sales, impacts the amount and timing of impairment provisions.

### **Asset Retirement Obligations**

The asset retirement obligations provision recorded in the consolidated financial statements is based on an estimate for total costs for future site restoration and abandonment of the Company's petroleum and natural gas properties. This estimate is based on management's analysis of production structure, reservoir characteristics and depth, market demand for equipment, currently available procedures, and discussions with construction and engineering consultants. Estimating these future costs requires management to make estimates and judgments that are subject to future revisions based on numerous factors, including changing technology, political and regulatory environments.

### **Income Taxes**

The Company records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates; the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. The Company periodically assesses its ability to realize on its future tax assets. If Fortress concluded that it is more likely than not that some portion or all of the deferred tax assets will not be realized under accounting standards, the tax asset would be reduced by a valuation allowance.

## **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 outcomes of these claims are unfavorable, it could have a materially adverse impact on the Company's financial position or results of operations.

With the above risks and uncertainties, the reader is cautioned that future events and results may vary significantly from that which Fortress currently foresees.

## **BUSINESS RISKS and UNCERTAINTIES**

### **General**

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 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 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.

### **Global Financial Crisis**

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward.

Oil and natural gas prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to the current state of world economies, OPEC actions and ongoing global credit and liquidity concerns.

### **Substantial Capital Requirements**

The Company anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As the Company's revenues may decline as a result of decreased commodity pricing, it may be required to reduce capital expenditures. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes the Company to access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Company. The inability of the Company to access sufficient capital for its operations could have a material adverse effect on its business, financial condition, results of operations and prospects.

### **Third Party Credit Risk**

The Company may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on Fortress' business, financial condition, results of operations and prospects.

Additional risk factors can be found under "Risk Factors Relating to the Oil and Gas Business" in the Company's 2008 Annual Information Form which can be found on the Company's website [www.fortressenergy.ca](http://www.fortressenergy.ca) or under the Company's profile on [www.sedar.com](http://www.sedar.com). The risks should not be construed as exhaustive. There are numerous factors, both known and unknown, that could cause actual results or events to differ materially from forecast results.