

March 8, 2011

**To the Creditors of Fortress Energy Inc.**

Dear Sirs:

**Re: Proceedings under the *Companies' Creditors Arrangement Act***

On March 2, 2011, Fortress Energy Inc. ("Fortress" or the "Company") applied to the Court of Queen's Bench of Alberta for an Order under the *Companies' Creditors Arrangement Act* (Canada) staying all claims and actions against the Company and its assets and allowing the Company to prepare a plan of arrangement for its creditors if necessary. The Order was granted and is in effect until March 31, 2011, at which time the matter will be reviewed by the Court. While the Order is in effect the Company will work with a court-appointed monitor.

Fortress has taken this step to enable it to challenge a reassessment issued by the Canada Revenue Agency (the "CRA"), which reassessment is in the amount of approximately \$18 million. As a result of the reassessment, if the Company took no action, it would be compelled to immediately remit \$9 million to the CRA and the Company does not have the necessary funds to remit. Fortress believes that the CRA's position is not sustainable and is vigorously disputing the CRA's claim.

The reassessment denies the deduction of certain tax pools in SignalEnergy Inc.'s ("SignalEnergy") 2004, 2005 and 2006 taxation years on the basis that (i) those pools arose from expenses incurred prior to November of 2003 and (ii) that there was an acquisition of control of SignalEnergy (previously named SignalGene Inc.) in November of 2003. SignalEnergy was subsequently wound-up into Fortress and all references herein to Fortress should be read as references to Fortress, SignalEnergy or SignalGene.

Following the transactions that occurred in November of 2003, SignalEnergy was developed into a successful oil and gas company with over \$140 million of oil and gas assets, and such development benefitted all shareholders of Fortress, both those who invested in November of 2003 and those who had invested prior to November of 2003. On February 1, 2006, SignalEnergy, received an unsolicited offer to acquire a substantial portion of its oil and gas assets for \$100 million which transaction subsequently closed on March 10, 2006. Fortress used its available tax pools to reduce its taxable income from the proceeds of the disposition.

Management of Fortress always has been aware of the rules in the *Income Tax Act* (Canada) which limit the use of tax pools after an acquisition of control and believes that no acquisition of control has

occurred. Through a series of communications, including detailed written correspondence with the CRA, Fortress attempted to correct certain apparent factual misunderstandings that had led the CRA to determine that an acquisition of control had occurred. Unfortunately, notwithstanding the explanations by Fortress, the CRA issued the reassessments.

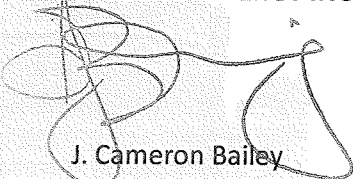
In addition to potential remedies that may be available under the CCAA, the Income Tax Act provides for at least two more levels at which this dispute can be considered. The first is at the appeals level with the CRA and, as a resolution at this level would resolve this matter most expeditiously; this is the avenue Fortress is pursuing at this time. If that process does not result in a successful resolution of this matter, Fortress can, and if necessary will, file an appeal to the Tax Court of Canada. While there is no certainty in the case of a CRA challenge, Fortress strongly believes that pursuit of this matter to a higher level should result in this matter being resolved in its favour.

Unfortunately, as Fortress was a large corporation for purposes of the *Income Tax Act* in the taxation years that have been reassessed, under the relevant legislation the CRA is empowered to take action to collect 50% of the tax owing at any time during this dispute process (notwithstanding the ability of Fortress to challenge the reassessment and that no final legal determination of the matter has occurred). Due to the vast powers afforded to the CRA to collect this amount, and the severe adverse impact it would have on Fortress and its creditors if the CRA took any collection action without providing Fortress with reasonable notice, Fortress has taken action to protect stakeholders by voluntarily applying to the court for protection under CCAA. Other than the claim by CRA, Fortress has approximately \$18mm of assets in excess of its liabilities with sufficient liquid assets to pay all other liabilities and trade payables.

At his time we appreciate your patience as we work through the issues with the CRA and ask you to review the attached letter from the court appointed monitor, Hardie & Kelly.

Kind Regards,

**FORTRESS ENERGY INC.**



J. Cameron Bailey  
President & CEO