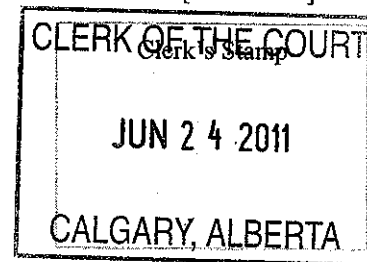


COURT FILE NUMBER 1101-02781
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE Calgary
PLANTIFF(S) IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36
AND IN THE MATTER OF FORTRESS ENERGY INC.
DOCUMENT **AFFIDAVIT OF J. CAMERON BAILEY**



ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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AFFIDAVIT OF J. CAMERON BAILEY
(Extension of Stay to September 30, 2011)

I, J. Cameron Bailey, of the City of Calgary in the Province of Alberta, MAKE OATH AND SAY AS FOLLOWS:

1. I am the President and Chief Executive Officer of Fortress Energy Inc. ("Fortress" or the "Corporation") and as such have knowledge of the matters hereinafter deposed to, except where stated to be based upon information and belief, in which case I believe the same to be true.

2. All capitalized terms not defined herein shall take the meaning given to them in the orders granted in these proceedings on March 2, 2011 (the "Initial Order") or in the prior affidavits sworn by me in these proceedings.

Communications with Canada Revenue Agency (the "CRA")

3. As stated in my prior affidavits, Fortress filed the Notices of Objection to the Reassessment on March 28, 2011. Since filing the Notices of Objection, Fortress and its counsel have used their best endeavours to ensure that the Notices of Objection are dealt with by Canada Revenue Agency ("CRA") Appeals Division in an expedited manner. The history of those endeavours appears from my prior affidavits.

4. Since the affidavit which I swore on May 20, 2011, I am advised that the following developments have taken place as far as CRA's involvement is concerned:

(a) in response to the additional documents received by Felesky Flynn LLP from the CRA on May 10, 2011 (as described in my previous affidavit), Felesky Flynn LLP prepared a supplemental submission ("Supplemental Submission");

(b) the Supplemental Submission was provided to the CRA Appeals Division on May 31, 2011;

(c) a copy of the Supplemental Submission also was provided to Ms. Medhurst-Tivadar of Alberta Justice on May 31, 2011;

(d) Mr. Brent Perry, Q.C., of Felesky Flynn LLP spoke to Ms. Nixon (the CRA Appeals Division Officer based in Calgary assigned to this matter), on June 7, 2011, and Ms. Nixon advised Mr. Perry that she had not heard from the representative of CRA Head Office, Ottawa who is reviewing this matter;

(e) during that telephone conversation Ms. Nixon also advised Mr. Perry that once the person in Ottawa was finished reviewing the file and had provided the advice or recommendation from CRA Head Office, Ms. Nixon would have to complete her own review and analysis of this matter and that CRA Appeals Division in Calgary would

make the final determination regarding whether to confirm or vacate the Reassessments of Fortress;

(f) Ms. Nixon also confirmed that the CRA was very aware of the time pressures facing Fortress, including the date of this application to the Court but indicated that, notwithstanding those deadlines, the timing for the CRA to complete its review was difficult to predict;

(g) on June 21, 2011, Mr. Perry again contacted Ms. Nixon to find out if any progress had been made on this file and she indicated that she had no further information to communicate other than that the matter was still under review by CRA Head Office and that she had reiterated the request that a response be provided as soon as possible;

(h) on June 23, 2011, Ms. Nixon left a voicemail message with Mr. Brett Anderson of Felesky Flynn LLP advising that a response from CRA Head Office regarding the Notice of Objection was not expected before late July or early August at the earliest; and

(i) the most recent indications from Ms. Medhurst-Tivadar are that it is unlikely that a decision about the Notices of Objection will be made before the end of summer.

Alberta Reassessments

5. On May 25, 2011, the Alberta Minister of Finance and Enterprise (“Provincial Minister”) mailed reassessments on behalf of the Province of Alberta to Fortress for Signal’s taxation years ending December 31, 2004, 2005 and 2006 (collectively, the “Provincial Reassessments”). The Alberta Reassessments are based on the same reasoning as the Reassessments issued by the CRA and, based on Fortress’ understanding of its legal position, I verily believe that the Alberta Reassessments will not be sustainable.

6. Felesky Flynn LLP is preparing notices of objection to be filed in response to the Provincial Reassessments.

Restructuring Efforts

7. In my Affidavit sworn on March 28, 2011, I advised the Court that Fortress was investigating the possibility of pursuing its restructuring along a “dual track”. Should the Reassessments be dismissed, Fortress will be comfortably solvent, and therefore Fortress’ principle focus in its attempt to restructure its affairs is to expedite and have the Reassessments satisfactorily dealt with by CRA’s Appeals Division. It was hoped that finality about the outcome of the Notices of Objection could be obtained prior to the end of June, 2011. Nevertheless, and despite ongoing requests for the CRA to complete an expeditious review of this matter, Fortress is still awaiting news from CRA regarding the Reassessments and its Notices of Objection. Should the Notices of Objection to the Reassessments be successful, Fortress will be able to emerge from the present restructuring proceedings without having to incur the usual expense associated with running a claims process, and the preparing and presenting a plan of compromise and arrangement to its creditors. Should the Notice of Objections against the Reassessments be unsuccessful, Fortress will pursue an appeal to the Tax Court and preliminary indications are that such process, if conducted on an expedited basis, may possibly be completed by sometime in late 2011 or early 2012. The Notices of Objection and the potential appeal against the Reassessments represent the first “track” which Fortress is attempting to pursue.

8. Fortress and its legal advisors have also investigated and considered a second “track” of restructuring Fortress’ affairs. As a result of such investigations, I verily believe that in the event that the Notices of Objection are dismissed, there may be viable restructuring options available to Fortress. Such alternative options will, however, require a claims process to be conducted, and a fairly complex plan of arrangement and compromise would have to be prepared and presented to creditors at meetings of creditors. Having regard to Fortress’ present cash flow situation (dealt with in more detail below), Fortress continues to be reluctant to incur the expense and efforts associated with such potential restructuring alternatives prior to the outcome of the Notices of Objection being known. Should the Notices of Objection succeed, there will be no need to incur such efforts and expense. In the

circumstances, Fortress, on the advice of its counsel and with full disclosure to the Monitor, has decided to delay the pursuit of a "second track" until the outcome of the Notices of Objection is known. Fortress and its counsel are, however, continuing with their efforts to pursue discussions with CRA's counsel about possible alternative resolutions to Fortress' dilemma.

Operational Update

9. Since the Order granted by this Honourable Court on May 26, 2011, Fortress' management has continued to manage its operations.

10. Fortress will have incurred approximately \$190,000 of the anticipated \$262,500 of the planned expenditures to complete well work-overs, compressor reconfiguration, and maintenance in Buick Creek by June 30, 2011 (the "Capital Program"). The result of this work to date has resulted in production levels in the Buick Creek area increasing from approximately 28.6 boe/d in April to 120 boe/d in June.

11. On June 8, 2011 Fortress was required to restrict its production to 67% of its production for scheduled maintenance on at the McMahon Gas Plant (through which Fortress natural gas volumes are processed) and were shut in on June 15, 2011. Service at McMahon will resume on July 8, 2011 at which time we expect production volume to return to 120 boe/d.

12. Fortress is taking the opportunity to complete the last of the planned work at Buick Creek while the McMahon Gas Plant is down. It is expected that production volume above 120 boe/d will be achieved.

Stay Extension

13. Attached hereto and marked as **Exhibit "A"** is a statement showing the actual financial performance of Fortress from May 16, 2011 to June 17, 2011. The statement shows that there was a negative net cash flow of approximately \$31,000 over the period which compares to a forecasted cash flow deficit of approximately \$65,000 over the equivalent period, as set out in the cash flow projection attached as Exhibit "B" to the Affidavit which I swore on May 20,

2011. While the favourable variance of approximately \$34,000 is nominal there are certain individual significant variances that should be noted:

(a) As a result of the two timing differences discussed below, Fortress has to date been able to delay the anticipated liquidation of a portion of the Terra Shares resulting in a negative cash flow variance of \$187,500.

(b) As set out in my previous Affidavits, Fortress anticipated spending a total of approximately \$262,500 on the Capital Program with a view to preserving asset value and increasing production. The Capital Program has been essentially completed, however, a timing difference exists in that to date not all of the expenditures incurred have been paid resulting in a favourable variance of approximately \$108,000 over the period. Payment of these expenses has been included in the revised cash flow forecast as discussed below.

(c) A timing difference in respect of the payment of certain consultants' fees and expenses resulted in a positive variance of approximately \$45,000

14. Attached hereto and marked as **Exhibit "B"** are updated cash flow projections for the period commencing the week of June 20, 2011 and ending on September 30, 2011. These cash flow projections have been discussed and reviewed with the Monitor.

15. The updated cash flow projection indicates that Fortress anticipates a cash flow deficit of approximately \$328,000 over the three month forecast period. Closing cash is forecast to be approximately \$102,000 as at September 30, 2011. I can comment as follows on some items in the cash flow projection:

(a) Petroleum and Natural Gas Revenues are anticipated to be lower in the month of July as a result of the scheduled maintenance shutdown of the McMahon Gas Plant in June;

(b) Fortress anticipates liquidating approximately \$500,000 of Terra Shares by the end of September to fund cash flow requirements over the forecast period;

(c) Capital items are reflected in the amount of \$365,000. This is comprised of approximately \$108,000 in respect of the payment of the balance of the expenses incurred

as part of the Capital Program and a further \$260,000 associated with the addition of booster compression and the recompletion of a well in the Buick Creek area. It is anticipated the additional work in Buick Creek will improved efficiencies and ultimately result in increased production of 40-50 BOE/d.

16. The updated cash flow projections indicate that Fortress will have sufficient access to cash to operate until September 30, 2011, which is the date to which Fortress seeks an extension of the stay, without requiring any form of interim financing.

17. Fortress has acted and is continuing to act in good faith and with due diligence in these proceedings. Fortress' desire is to emerge from these proceedings as quickly as possible, but the cooperation of CRA is crucial to the progress Fortress is able to make. Fortress will continue its efforts to convince the CRA Appeals Section to deal with the matter in an expedited manner

18. In light of the foregoing, Fortress requests an extension of the Stay Period to September 30, 2011.

Relief Requested

19. I swear this Affidavit in support of an order extending the stay of proceedings granted in the Initial Order from June 30, 2011 to September 30, 2011.

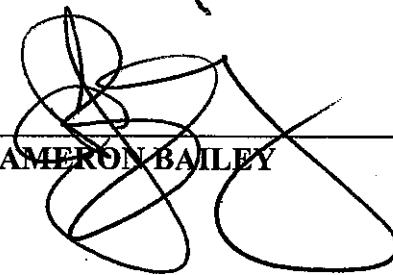
SWORN BEFORE ME at the City of Calgary,
in the Province of Alberta, this 24 day of June,
2011

A Commissioner for Oaths in and for the
Province of Alberta

Josef G.A. Kruger, Q.C.
Barrister & Solicitor

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J. CAMERON BAILEY



THIS IS EXHIBIT "A" TO THE
AFFIDAVIT OF J. CAMERON BAILEY

A Notary Public in and for the
Province of Alberta

JOSEF G.A. KRUGER, Q.C.
Notary Public
in and for the Province
of Alberta

Fortress Energy Inc.
 Actual Cash Flow
 May 16 - June 17, 2011
 (unaudited)

		ACTUAL
<u>RECEIPTS</u>		
Petroleum and natural gas revenues		54,610
Processing revenues		7,442
		62,052
Accounts receivable		80,542
	Subtotal	142,594
<u>DISBURSEMENTS</u>		
<u>Oil and Gas Operations</u>		
Operating Costs		(17,464)
Capital items		(26,660)
Payroll		
Employees & benefits		(36,249)
Consultants		(42,771)
Lease payments		
Premises		(4,200)
Land lease rentals		(1,066)
General & administrative		(36,913)
Professional fees		(8,687)
	Subtotal	(174,010)
		(31,416)
NET CASH FLOW (DEFICIT)		
OPENING CASH		461,714
CLOSING CASH		430,298

THIS IS EXHIBIT "B" TO THE
AFFIDAVIT OF J. CAMERON BAILEY

A Notary Public in and for the
Province of Alberta

JOSEF G.A. KRUGER, Q.C.
Notary Public
in and for the Province
of Alberta

Fortress Energy Inc.
 Freeport Cash Flow
 (in millions)

Notes	WEEK BEGINNING													PERIOD TOTAL		
	26-Jun-11	27-Jun-11	4-Jul-11	11-Jul-11	18-Jul-11	25-Jul-11	1-Aug-11	8-Aug-11	15-Aug-11	22-Aug-11	29-Aug-11	5-Sep-11	12-Sep-11		19-Sep-11	26-Sep-11
RECEIPTS:																
1 Petroleum and natural gas revenues		65,000	7,500	7,500	21,000	14,000	7,500	7,500	56,000	56,000	7,500	7,500	7,500	19,000	19,000	231,600
1 Processing revenues		(3,000)			(3,000)				44,000	44,000				44,000	44,000	(13,000)
1 Less: Crown royalties			7,500	7,500	14,000	14,000	7,500	7,500	52,000	52,000	7,500	7,500	7,500	44,000	44,000	293,600
2 Sale of Terra shares		61,000			250,000	250,000								250,000	250,000	500,000
Subtotal		118,000	7,500	7,500	18,000	18,000	2,500	2,500	152,000	152,000	2,500	2,500	2,500	85,000	85,000	732,600
DISBURSEMENTS:																
3 Oil and Gas Operations		(9,829)	(10,100)	(15,666)	(10,000)	(60,000)		(190,000)	(22,000)	(22,000)			(10,000)	(24,000)	(24,000)	(91,595)
4 Operating Costs		(148,550)	(148,550)		(148,550)	(148,550)										(563,600)
5 Capital items		(14,585)	(16,000)	(16,000)	(16,000)	(36,750)	(18,900)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(16,000)	(112,000)
5 Payroll		(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(48,000)	(214,200)
6 Lease payments		(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(4,200)	(16,400)
6 Previews		(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(7,000)	(15,000)
7 General & administrative		(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(10,500)	(56,000)
8 Professional fees		(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(15,750)	(43,250)
9 Restructuring costs									(50,000)	(50,000)				(50,000)	(50,000)	(150,000)
Subtotal		(257,229)	(269,250)	(316,266)	(262,000)	(317,450)	(18,900)	(211,200)	(292,450)	(292,450)	(18,900)	(18,900)	(31,000)	(31,000)	(31,000)	(1,087,095)
NET CASH FLOW (DEFICIT)		(139,229)	(161,750)	(208,766)	(144,000)	(199,450)	1,600	(193,700)	(140,450)	(140,450)	1,600	1,600	(28,500)	(28,500)	(28,500)	(354,995)
OPENING CASH		430,200	268,450	237,853	211,453	211,453	269,603	269,603	308,603	308,603	269,603	269,603	269,603	269,603	269,603	330,503
CLOSING CASH		290,971	106,700	29,087	67,453	12,003	76,403	75,903	168,153	168,153	171,203	172,703	141,103	141,103	141,103	175,508

Notes:

- 1 Revenues net of transportation charges and royalties have been estimated based on recent historical results and estimated pricing.
- 2 Disposition of a portion of the Terra shares held as a result of the property disposition in 2010.
- 3 Field operating costs have been estimated based on recent historical operations and anticipated projects.
- 4 Includes ongoing capital projects required to maintain existing operations.
- 5 It is assumed that wages, benefits and consulting fees will continue to be paid in the ordinary course.
- 6 It is assumed lease obligations will be paid in the ordinary course.
- 7 Estimated general and administrative costs based on recent historical values.
- 8 IFRS conversion & general legal fees
- 9 Costs associated with restructuring, including those of the company's legal counsel, the Monitor and counsel for the Monitor. Certain costs will continue to be paid from insurers previously issued.
- 10 Balance forward as at June 20, 2011.