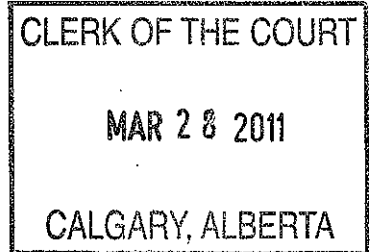


COURT FILE NUMBER 1101-02781
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT IN THE MATTER OF THE *COMPANIES' CREDITORS
ARRANGEMENT ACT*, R.S.C. 1985, c. C-36
AND IN THE MATTER OF FORTRESS ENERGY INC.
DOCUMENT **AFFIDAVIT OF J. CAMERON BAILEY**

ADDRESS FOR SERVICE
AND CONTACT
INFORMATION OF PARTY
FILING THIS DOCUMENT

Josef G. Krüger, Q.C.
Borden Ladner Gervais LLP
1900, 520 3rd Ave. S.W.
Calgary, AB T2P 0R3
Telephone: (403) 232-9563
Facsimile: (403) 266-1395
Email: jkruger@blg.com
File No.: 556409-000002

BLG
Borden Ladner Gervais



AFFIDAVIT OF J. CAMERON BAILEY
(Extension of Stay to May 27, 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 affidavit sworn by me in these proceedings on March 1, 2011.

Communications with Canada Revenue Agency (the "CRA")

3. I am informed by Fortress' counsel, Mr. Josef G.A. Krüger, Q.C. that immediately after the Initial Order was granted, he left a voicemail message for counsel for CRA, Ms. Jill Medhurst-Tivadar, advising that the Initial Order had been granted. A copy of the Initial Order was served on CRA on the same day, and copies of all of the other pleadings were served on CRA on March 3, 2011.

4. Service of the pleadings and the Initial Order was also effected on other interested parties known to Fortress as directed by the Initial Order no later than March 3, 2011.

5. Beginning on March 2, 2011, Fortress' counsel and CRA's counsel were in communication regarding this matter, and on March 11, 2011, they met. I also attended that meeting. During the meeting, Fortress' representatives explained the background and nature of the Reassessment to CRA's counsel, and explained the difficult circumstances faced by Fortress as a result of the Reassessment. Various possible ways in which the matter could be addressed were discussed and at the end of the meeting it was agreed that CRA's counsel would look into the matter and would revert to Fortress. On March 18 CRA's counsel had a long discussion with Fortress' tax counsel and advised that, unfortunately, no compromise of the Reassessment is possible at this point. CRA indicated it believed that the most appropriate route for Fortress was for it to file a Notice of Objection to the Reassessment so that CRA's Appeals Section could begin its review of the Reassessment.

6. Based upon the recommendation of CRA's counsel, Fortress filed a Notice of Objection to the Reassessment on March 28, 2011.

Restructuring Efforts

7. As is clear from my previous affidavit, Fortress is comfortably solvent if the Reassessment is dismissed, and is seriously insolvent if it is upheld. Faced with this difficult situation, Fortress is proposing, with the approval of this Honourable Court, to pursue a "dual track" effort to deal with its current difficulties.

8. I am informed by Fortress' insolvency counsel that in a normal CCAA restructuring one of the next steps following the initial filing would be for Fortress to conduct a claims process to identify and quantify all claims against it in an expeditious way. Our insolvency counsel have also advised, however, that there is a significant legal question as to whether this Honourable Court has jurisdiction to deal with the validity of the Reassessment through a CCAA claims process, and that in any event CRA's counsel has made it clear that CRA will strenuously oppose any effort to have the dispute over the Reassessment dealt with by this Honourable Court without CRA's consent. As a result, with the concurrence of the Monitor, Fortress is proposing to defer the commencement of a claims process for the time being until we have a better understanding of the process and timing involved in dealing with the Reassessment.

9. Because the CRA claim resulting from the Reassessment is so enormous in relation to the other assets and liabilities of Fortress, obtaining a speedy and final determination of the merits of that claim is our first priority, and so Fortress' tax counsel are working with CRA to try to expedite obtaining that determination.

10. While the validity of the Reassessment is being addressed Fortress is essentially paralyzed, and cannot effectively pursue any of the business strategies described in paragraphs 27-30 of my previous affidavit. Since we cannot at this point predict how long it will take to deal with the Reassessment, concurrently with our efforts to expedite dealing with the Reassessment, Fortress and its advisors are investigating whether other options may be available to it, should obtaining a final determination of the validity of the Reassessment prove to be a lengthy process. Fortress and its advisors have, in the past week, begun work on trying to develop a restructuring plan, proposal or settlement with CRA, or some combination of those elements, which would allow the business of Fortress to survive and provide a more beneficial outcome to its stakeholders than an immediate bankruptcy and/or liquidation of Fortress' assets.

11. It is difficult to estimate how long Fortress will need to obtain clarity on the time needed to determine the validity of the Reassessment, but Fortress proposes that the current stay be

extended for a period of two to three months. By the end of that time, if not before, Fortress should be able to make clear to the Court what Fortress' options are.

12. If this Honourable Court sees fit to approve Fortress' pursuit of this "dual track" effort to resolve its current difficulties, Fortress will continue to take all prudent steps to preserve the value of its assets and proposes, and as discussed below, to make certain expenditures to enhance cash flow from its oil and gas properties to attempt to bring Fortress into a cash flow positive situation, from an operating perspective.

Operational Update

13. As noted above, since March 2, 2011 Fortress' management has focussed its efforts on communicating with Fortress' various stakeholders, including its main creditors and shareholders, and in particular dealing with CRA. As well, Fortress' management has investigated what options are available to it to increase cash flow and reduce expenditures.

14. As noted, the commencement of these CCAA proceedings has impacted on Fortress' efforts to transition its business into an independent power producer. As a result, the board of Fortress has terminated negotiations on any power assets pending more certainty about the future of the Corporation. This will produce significant savings in the coming months.

15. Fortress' auditors have commenced an audit of the annual financial statements of the Corporation. Audited financial statements are to be filed by March 31, 2011 as Fortress is a reporting issuer under securities legislation with approximately 3,000 shareholders throughout Canada. Such an audit may also be an essential ingredient if a corporate transaction is a component of any eventual restructuring.

16. Fortress has obtained the support of the Monitor for an expenditure of \$262,500 to complete a well workover, compressor reconfiguration and maintenance in Buick Creek. Fortress has prepared its D-11-C-94A-14 location in the Buick Creek Area to perform such operations and maintenance to allow it to restore production levels from approximately 28.6 boe/d to 100 boe/d. The intended result of the operation is to increase operating cash flow from approximately \$10,000 per month to approximately \$50,000 per month. Following the

planned well operation, the operational cash flow deficiency is expected to approach cash flow neutral.

Stay Extension

17. Attached hereto and marked as **Exhibit "A"** is a statement showing the actual financial performance of Fortress from the date of the initial filing through to March 25, 2011. The statement shows that there was a negative net cash flow of approximately \$48,000 over the period which compares to a forecasted cash flow deficit of approximately \$33,000 over the equivalent period, as set out in the cash flow projection attached as Exhibit "H" to the Affidavit sworn by myself on March 1, 2011.

18. Attached hereto and marked as **Exhibit "B"** are updated cash flow projections for the period commencing the week of March 28, 2011 and ending the week of May 23, 2011. The cash flow projections have been discussed and reviewed with the Monitor.

19. The updated cash flow projection indicates that Fortress anticipates a cash flow deficit of approximately \$653,000 over the forecast period. There are several unique expenses to be paid over the forecast period in order for Fortress to be able to continue to operate as a going concern entity during and subsequent to this restructuring period. I comment as follows on some items in the cash flow projection:

- (a) Capital items are reflected in an amount of \$262,500. As discussed above, the bulk of this expense relates to maintenance and improvement of Fortress' oil and gas assets;
- (b) Professional fees of approximately \$148,000 are composed primarily of the fees of KPMG Inc., who are the Corporations' auditors and are auditing the annual financial statements and those of Pandell for assistance with the International Financial Reporting Standards ("IFRS"). Both these steps are required to meet Fortress' obligations as a reporting issuer under securities legislation;

- (c) The use of power initiative consultants working for Fortress has been terminated, and the remaining cost over the period of projection has been reduced to approximately \$39,000;
- (d) Fortress seeks leave of the Court to pay certain pre-filing amounts totalling approximately \$54,000. Fortress regards it critical to its ongoing business that such debts be paid. The reasons why payments of such debts are critical are:
 - (i) Navigator Resource Consulting – Fortress owns and operates the Buick Creek natural gas facilities which is a sour gas processing facility located within the village of Buick Creek servicing five natural gas wells. As operator of record Fortress is required to comply with British Columbia Oil and Gas Commission Regulation which requires demonstration of competent personnel including an APPEGA Permit to Practice. Pursuant to a Technical Services Agreement, Navigator provides the services of the Contract Responsible Member for the Fortress's APEGGA Permit to Practice and other technical, operations, and engineering support. Fortress's ability to maintain its property, conduct routine maintenance, ensure regulatory compliance, and monitor safe operations, is solely through its Technical Services Arrangement with Navigator. Fortress relies on the specialized services of five individuals within Navigator. It would not be practical or cost efficient to have to engage an alternative supplier. Under the Technical Services Arrangement, Navigator also provides office premises to Fortress at a cost of \$4,000 per month.

Amount Due and payable on March 2, 2011, for
Work Performed from February 1, 2011 to March 1, 2011 \$27,362
Ongoing Monthly Billing \$27,000

Note: Amounts include office premises of \$4,000 per month.

- (ii) Bergen Oil Field Supply – Mr. Joe Bergen owns and operates Bergen Oil Field Supply which provides the field operations in Buick Creek. Joe Bergen has lived in the Buick Creek Village for most of his working career and operates almost all the wells and facilities in the immediate area. The experience and specific knowledge of the Buick Creek property cannot be replaced by any other well operator in the area and is a critical to the ongoing day to day operations of the Buick Creek property being Fortress's only source of cash flow.

Amount Due and payable on March 2, 2011, for
Work Performed from February 1, 2011 to March 1, 2011 \$5,992
Ongoing Monthly Billing \$5,992

- (iii) Clint Gilles – Mr. Clint Gilles provides production accounting services to Fortress and has done so for the past two years. Mr. Gilles’ task requires approximately two days per month of time at an estimated cost of approximately \$1,500 per month. Delays in submission of production reports to the crown results in fines and penalties, and delayed royalty credits, negatively affecting operations of Fortress.

Amount Due and payable on March 2, 2011, for
Work Performed from February 1, 2011 to March 1, 2011 \$2,812
Ongoing Monthly Billing \$1,500

- (iv) Robert Half – In January 2011, Fortress used the personnel service of Robert Half to assist in indentifying a Controller for Fortress. As a reporting issuer, Fortress is required to file audited annual financial statements by March 31, 2011, and become IFRS compliant by June 30, 2011. Considering the significance of the transaction in 2010 and the increased complexity of reporting in the inaugural year of IFRS, the scope and knowledge of accounting is significant. Mr. Wayne Singular was chosen among a number of candidates because of his unique knowledge of IFRS and his breadth of oil and gas experience. At this time Fortress cannot afford to replace Mr. Singular due to the need to meet the strict reporting deadlines. Fortress is attempting to “buy out” the consulting arrangement with Robert Half but cannot do so until the Robert Half invoice is paid in full.

Amount Due and payable on March 2, 2011, for
Work Performed from February 1, 2011 to March 1, 2011 \$10,500
Ongoing Monthly Billing \$ 7,053

- (v) Gerry O’Reilly – Mr O’Reilly is a professional geologist. Since November 2008 he has been providing geological evaluation of new investment projects in the oil and gas industry to Fortress. Mr. O’Reilly was responsible for the discovery of the Square Creek Blue Sky pool for Fortress, which was the largest Blue Sky discovery made in Canada in 10 years, providing 10mmcf/d of production to Fortress until its sale to Terra Energy Inc. on September 1, 2010. The future of Fortress is dependent on access to an individual like Mr. O’Reilly to identify and evaluate investment projects in the oil and gas industry and to maximize the value of the existing oil and gas assets. Without new projects supplementing the existing assets, the value of Fortress’ assets as a going concern is limited.

Amount Due and payable on March 2, 2011, for
Work Performed from February 1, 2011 to March 1, 2011 \$ 8,000
Ongoing Monthly Billing \$15,000

- (e) Closing cash at May 27, 2011 is forecast to be approximately \$255,000;

- (f) The expenditures set out in the updated cash flow projections are necessary to enable Fortress to continue as a going concern pending resolution of the disputed claim by the CRA.

20. The updated cash flow projections indicate that the Applicant will have sufficient cash to operate until May 27, 2011, which is the date to which the Applicant seeks an extension of the stay, without requiring any form of interim financing.

21. The Applicant has acted and is continuing to act in good faith and with due diligence in these proceedings.

22. In light of the foregoing, the Applicant requests an extension of the Stay Period to May 27, 2011.

Sale of Terra Energy Shares

23. As explained in my prior affidavit sworn March 1, 2011, Fortress owns 3,665,000 common shares of Terra Energy Corp. (the "Terra Shares"). The current estimated value of the Terra Shares is approximately \$4,215,000. The Terra Shares are publicly traded shares, and their closing trading price on March 24, 2011 was \$1.15 per share.

24. Since Fortress filed for protection under the CCAA, I have received expressions of interest from third parties to acquire the Terra Shares at market value. Having regard to Fortress' present situation, I believe that it is in Fortress' best interest to sell the Terra Shares, provided that sale takes place at market value.

25. Fortress requests the consent of the Court to sell the Terra Shares should Fortress receive a good offer. Fortress will not enter into any such a sale without the prior written consent of the Monitor. The proceeds of any such a sale will be held in trust by Fortress' counsel pending further Order of the Court.

Relief Requested

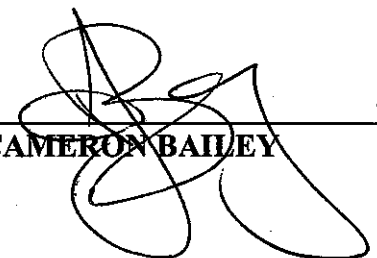
26. I swear this Affidavit in support of an order extending the stay of proceedings granted in the Initial Order, from March 31, 2011 to May 27, 2011.

SWORN BEFORE ME at the City of Calgary,
in the Province of Alberta, this 28 day of
March, 2011



A Commissioner for Oaths in and for the
Province of Alberta

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J. CAMERON BAILEY

RHONDA MARIE LASTOCKIN
A Commissioner for Oaths in and for
the Province of Alberta
My Commission Expires on June 22, 2011

Fortress Energy Inc.
Actual Cash Flow
February 28 - March 25, 2011
(unaudited)

RECEIPTS

Petroleum and natural gas revenues
 Processing revenues
 Plus: Crown royalty adjustment

Miscellaneous

Subtotal

DISBURSEMENTS

Oil and Gas Operations

Operating Costs
 Capital items
 Payroll
 Employees & benefits
 Consultants

Lease payments
 Premises
 Land lease rentals

General & administrative
 Professional fees

Power Initiative

 Premises
 Consultants
 General & administrative
 Restructuring costs

Subtotal

NET CASH FLOW (DEFICIT)

OPENING CASH

CLOSING CASH

ACTUAL	
	15,781
	10,992
	1,361
	28,134
	6,472
Subtotal	34,606
	-
	-
	-
	(12,347)
	(21,000)
	-
	-
	(1,120)
	(4,621)
	-
	-
	(3,223)
	(40,314)
	-
	-
Subtotal	(82,625)
	(48,019)
	955,697
	907,678

THIS IS EXHIBIT "A"
 referred to in the Affidavit of
J. Cameron Bailey
 Sworn before me this 28
 day of March A.D. 2011
R. Lastockin
 A Commissioner for Oaths in and for
 the Province of Alberta

RHONDA MARIE LASTOCKIN
 A Commissioner for Oaths in and for
 the Province of Alberta
 My Commission Expires on June 22, 2011

Fortress Energy Inc.
Cash Flow
(unaudited)

	Notes	WEEK BEGINNING										TOTAL		
		28-Mar-11	04-Apr-11	11-Apr-11	18-Apr-11	25-Apr-11	02-May-11	09-May-11	16-May-11	23-May-11				
RECEIPTS														
Petroleum and natural gas revenues	1	431				25,000							38,000	63,431
Processing revenues	1	7,500					7,500						(2,000)	15,000
Less: Crown royalties	1	7,931				(2,000)							36,000	(4,000)
Accounts Receivable		9,629				23,000								74,431
		17,560				6,800								16,429
Subtotal						29,800							36,000	90,860
DISBURSEMENTS														
Oil and Gas Operations														
Operating Costs	2	(13,275)				(20,100)								(33,375)
Capital items	3		(157,500)			(105,000)								(262,500)
Payroll														
Employees & benefits	4	(12,940)		(12,940)		(12,940)								(51,760)
Consultants	4	(24,184)	(5,880)	(5,880)	(5,250)	(49,350)				(12,940)	(4,200)			(108,394)
Lease payments														
Premises	5	(4,200)				(4,200)								(8,400)
Land lease rentals	5					(5,000)								(5,000)
General & administrative	6	(10,500)			(6,100)	(10,500)							(6,100)	(33,200)
Professional fees	7	(132,215)				(15,750)								(147,965)
Power Initiative														
Premises	8	(8,020)				(500)								(8,520)
Consultants	8	(25,407)												(25,407)
General & administrative	8	(5,250)												(5,250)
Critical suppliers	9	(53,744)												(53,744)
Restructuring costs	10													
Subtotal						(289,735)	(163,380)	(18,820)	(11,350)	(223,340)	(5,250)	(17,140)	(4,200)	(743,515)
NET CASH FLOW (DEFICIT)						(272,175)	(163,380)	(18,820)	(11,350)	(193,540)	2,250	(17,140)	(4,200)	(652,655)
OPENING CASH		907,678	635,503	472,123	453,303	441,953	248,413	250,663	233,523	229,323	255,023	255,023	255,023	907,678
CLOSING CASH		635,503	472,123	453,303	441,953	248,413	250,663	233,523	229,323	255,023	255,023	255,023	255,023	255,023

Notes:

- 1 Revenues (net of transportation charges) and royalties have been estimated based on recent historical results and estimated pricing.
- 2 Field operating costs have been estimated based on recent historical operations and anticipated projects.
- 3 Includes planned well workover and compressor reconfiguration and maintenance.
- 4 It is assumed that wages, benefits and consulting fees will continue to be paid in the ordinary course.
- 5 It is assumed lease obligations will be paid in the ordinary course.
- 6 Estimated general and administrative costs based on recent historical values.
- 7 Audit fees, International Financial Reporting Standards consulting fees and legal fees re: Investment Tax Credit judicial review application.
- 8 Balance of Power Initiative costs to March 15.
- 9 Suppliers who perform critical essential services for Fortress Energy Inc.
- 10 It is assumed costs associated with restructuring including those of the company's legal counsel, the Monitor and counsel for the Monitor will be paid from retainers previously issued.

THIS IS EXHIBIT **B**
referred to in the Affidavit of
J Cameron Bailey
Sworn before me this 28
day of March A.D. 20 11
R Lastockin
A Commissioner for Oaths in and for
the Province of Alberta

RHONDA MARIE LASTOCKIN
A Commissioner for Oaths in and for
the Province of Alberta
My Commission Expires on June 22, 2011