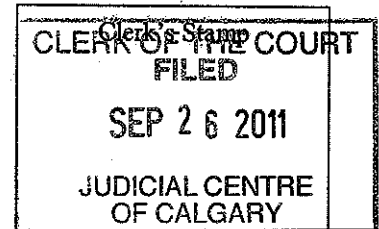


COURT FILE NUMBER 1101-02781
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE Calgary
PLANTIFF(S) IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36
AND IN THE MATTER OF FORTRESS ENERGY INC.
DOCUMENT **AFFIDAVIT OF J. CAMERON BAILEY**



ADDRESS FOR SERVICE
AND CONTACT
INFORMATION OF PARTY
FILING THIS DOCUMENT

Josef G.A. 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



AFFIDAVIT OF J. CAMERON BAILEY
(Extension of Stay to October 31, 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") 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.
3. The Initial Order was obtained by Fortress because Canada Revenue Agency ("CRA") issued Notices of Reassessment claiming that Fortress owed taxes in an amount of approximately \$18 million. As a result of the Notices of Reassessment, an amount of approximately \$9 million was immediately due and payable to CRA. In the absence of immediate payment by Fortress of the aforesaid amount of approximately \$9 million, the CRA would have been entitled to take collection steps under the *Income Tax Act* R.S.C. 1985, c.1(5th Suppl.) which may have included the garnishment of Fortress' bank account and issuing third party demands to its other debtors. Such steps would effectively have meant the end of Fortress as an operating business.
4. Because Fortress believed that the claim of CRA would ultimately not be sustainable, Fortress made application for an urgent stay of proceedings and other relief under the *Companies' Creditors Arrangement Act* (the "CCAA"), and on March 2, 2011 the Initial Order was granted.
5. Fortress immediately filed a Notice of Objection and vigorously challenged the Notices of Reassessment. The history of the subsequent events and communications between Fortress, its counsel, and CRA appear fully from the prior Affidavits which I have sworn in this matter.
6. During the week of September 19, 2011, Fortress' counsel was informed by CRA's counsel that Fortress' appeal against the Notices of Reassessment had been successful, and that the Notices of Reassessment would be vacated. CRA's counsel has advised Fortress' counsel that CRA is in the process of preparing a letter to confirm that the appeal has been successful, and describing the amounts that will be set out in the resulting Notices of Reassessment (the "New Reassessments"). CRA's counsel has informed Fortress' counsel that the CRA has not yet issued such letter because Signal and the CRA are engaged in a dispute regarding certain matters related to Signal's 1997 - 1999 taxation years and the CRA requires further time to complete its review before the New Reassessment can be issued.

7. 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 the taxation years ending December 31, 2004, 2005 and 2006 (collectively, the "Alberta 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 are also not sustainable. Fortress is disputing the Alberta Reassessments. Fortress has instructed its counsel to immediately bring to the attention of the Provincial Minister the anticipated contents of the letter from CRA's Appeals Officer referred to above, once such letter is received. Fortress has reason to believe that the Provincial Minister is likely to also vacate the Alberta Reassessments.

8. If one disregards CRA's claims contained in the Notices of Reassessment and the claim by the Provincial Minister against Fortress, Fortress is a solvent corporation. As soon as Fortress receives from CRA the new Notices of Reassessment, there will no longer be any need for Fortress to receive protection pursuant to the Initial Order. Fortress will not have to await receipt of fresh Notices of Reassessment from the Provincial Minister because, except in exceptional circumstances, the Provincial Minister cannot collect any amount from Fortress while the Alberta Reassessments remain in dispute. In the circumstances, Fortress seeks an extension of the CCAA stay until October 31, 2011 to enable it to obtain from the CRA the necessary Notices of Reassessment vacating the prior Notices of Reassessment. Should such Notices of Reassessment be received earlier than October 31, 2011, it is Fortress' intention to apply prior to October 31, 2011 for its discharge from these proceedings.

Stay Extension

9. Attached hereto and marked as Exhibit "A" is a statement showing the actual financial performance of Fortress from June 20, 2011 to September 16, 2011. The statement shows that there was a negative net cash flow of approximately \$346,000 over the period which compares to a forecasted cash flow deficit of approximately \$262,000 over the equivalent period, as set out in the cash flow projection attached as Exhibit "B" to the Affidavit which I swore on June 24, 2011. While the overall negative variance of approximately \$85,000 is not significant there are certain individual variances that should be noted:

- a. Given the factors discussed below, to date, it has not yet been necessary for Fortress to liquidate any of its holdings of the shares of Terra Energy Corp. (the "Terra Shares") creating a negative cash flow variance over the period of \$500,000;
- b. With a view to preserving funds, Management has deferred certain capital expenditures and managed the timing of others thereby creating a positive cash flow variance of approximately \$135,000; and
- c. Given the lack of developments in respect of the CCAA proceedings over the course of the summer, Fortress did not incur any additional professional or restructuring expenses over and above those that had previously been provided for by way of retainers creating a positive variance of approximately \$136,000.

14. Attached hereto and marked as Exhibit "B" are updated cash flow projections for the period commencing the week of September 19, 2011 through to the week of October 31, 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 \$23,000 over the forecast period. Closing cash is forecast to be approximately \$61,000 as at November 4, 2011. As the balance of available cash on hand continues to decrease, it is anticipated that approximately \$250,000 worth of the Terra Shares will need to be liquidated in order to fund the disbursements contemplated in the cash flow projection over the forecast period.

16. The updated cash flow projections indicate that Fortress will have sufficient access to cash to operate until October 31, 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.

18. In light of the foregoing, Fortress requests an extension of the Stay Period to October 31, 2011.

Fortress Energy Inc.
Actual Cash Flow
June 20 - September 16, 2011
(unaudited)

		ACTUAL
<u>RECEIPTS</u>		
Petroleum and natural gas revenues		172,084
Processing revenues		35,421
Crown royalties		(7,000)
Accounts receivable		200,505
		73,237
	Subtotal	273,742
<u>DISBURSEMENTS</u>		
<u>Oil and Gas Operations</u>		
Operating Costs		(52,026)
Capital items		(230,038)
Payroll		
Employees & benefits		(107,913)
Consultants		(119,589)
Lease payments		
Premises		(12,600)
Land lease rentals		(11,356)
General & administrative		(86,434)
	Subtotal	(619,956)
		(346,214)
NET CASH FLOW (DEFICIT)		
OPENING CASH		430,298
CLOSING CASH		84,084

THIS IS EXHIBIT A
referred to in the Affidavit of
J. Cameron Bailey
Sworn before me this 26
day of Sept 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, 2014

Fortress Energy Inc.
Forecast Cash Flow
(unaudited)

	WEEK-BEGINNING						PERIOD TOTAL
	19-Sep-11	26-Sep-11	3-Oct-11	10-Oct-11	17-Oct-11	24-Oct-11	
RECEIPTS							
1 Petroleum and natural gas revenues		109,000				106,000	215,000
1 Processing revenues		19,000					19,000
1 Less: Crown royalties		(12,000)					(27,000)
2 Sale of Terra shares		116,000			250,000	106,000	207,000
Accounts Receivable					250,000	106,000	250,000
Subtotal:		116,000			250,000	106,000	457,000
DISBURSEMENTS							
Oil and Gas Operations							
3 Operating Costs		(21,000)					(42,000)
4 Capital items		(50,000)			(150,000)		(200,000)
5 Payroll		(15,500)		(15,500)		(29,500)	(60,500)
5 Employees & ben- Consultants		(94,650)					(71,400)
6 Lease payments		(4,200)					(8,400)
6 Premises		(7,500)					(7,500)
6 Land lease rentals		(1,575)					(19,425)
7 General & administrative		(8,925)					(10,500)
8 Professional fees		(10,500)					(21,000)
9 Restructuring costs							(50,000)
Subtotal		(9,075)	(144,775)		(15,500)	(29,500)	(480,225)
NET CASH FLOW (DEFICIT)		(9,075)	(28,775)		(15,500)	76,500	(23,225)
OPENING CASH	84,084	75,069	46,234	46,234	30,734	130,734	84,084
CLOSING CASH	75,009	46,234	46,234	30,734	130,734	207,234	60,859

Notes

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Notes:

- 1 Revenues (net of transportation charges) and royalties have been estimated based on recent historical results and estimated.
- 2 Disposition of a portion of the Term 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 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 retainers previously issued.
- 10 Balance forward as at September 19, 2011

THIS IS EXHIBIT **B**
referred to in the Affidavit of
J. Cameron Bailey
Sworn before me this 26
day of Sept A.D. 2011
[Signature]
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, 2014