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COURT FILE NUMBER	1101-02781
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
	IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED AND IN THE MATTER OF FORTRESS ENERGY INC.
DOCUMENT	**SECOND REPORT OF THE MONITOR, HARDIE & KELLY INC.** **May 24, 2011**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Macleod Dixon LLP 3700 Canterra Tower 400 Third Avenue SW Calgary, Alberta T2P 4H2 Phone: 403-267-8144 Fax: 403-264-5973 Attention: Howard A. Gorman File No. 280672

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SECOND REPORT OF THE MONITOR
HARDIE & KELLY INC.
MAY 24, 2011

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INTRODUCTION

1. On March 2, 2011, Fortress Energy Inc. ("Fortress" or the "Company") made application for and obtained protection from its creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36 as amended (the "CCAA") pursuant to an order (the "Initial Order") of the Court of Queen's Bench of Alberta (the "Court"). The Court granted an initial stay of proceedings (the "Stay") through to March 31, 2011.

2. Pursuant to the Initial Order, Hardie & Kelly Inc. was appointed as monitor (the "Monitor") of the Company.

3. On March 29, 2011, the Monitor prepared a report to the Court (the "First Report") in advance of the Company's application for an extension of the Stay.

4. On March 31, 2011, the Court granted an order extending the Stay through to May 27, 2011.

5. The purpose of this second report (the "Second Report") is to provide an update to this Honourable Court with respect to the following:
    a. The Company's operations since the date of the First Report;
    b. The Company's financial performance since the date of the First Report;
    c. The Company's revised cash flow forecast for the period May 16 – June 30, 2011;
    d. The Company's restructuring activities; and
    e. The Company's request for an extension of the Stay through to June 30, 2011 and the Monitor's recommendation with respect thereto.

TERMS OF REFERENCE

6. In preparing this Second Report, the Monitor has relied upon unaudited financial information, records of the Company and discussions with the Company's management ("Management"). The Monitor has not performed an audit, review or other verification of such information. An examination of the financial forecast as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future-oriented financial information relied upon in this report is based on Management's assumptions regarding future events and actual results achieved may vary from this information and the variations may be significant.

OPERATIONAL UPDATE

7. To date, Management, with the assistance of the Monitor, has been able to communicate with suppliers and make mutually satisfactory arrangements to ensure the uninterrupted supply of goods and services.

8. Since the date of the First Report, in light of the Company's restructuring activities, Fortress has reemployed its former Chief Financial Officer who had been acting in a part-time consulting capacity.

9. In the First Report, the Monitor advised that the Company planned to complete a $262,500 capital expenditure program with a view to increasing production and to preserve the value of its remaining oil and gas assets (the "Capital Program"). As a result of spring break up and late snow falls, Fortress has been unable to complete the entire Capital Program. Approximately $71,000 of the planned expenditures have been incurred. Completion of the balance of the Capital Program has been moved back and is scheduled to be concluded by June 30, 2011. Fortress has already experienced positive results from the Capital Program as production is now approximately 82 boe/d versus approximately 29 boe/d as of the date of the First Report. Management estimates the completion of the Capital Program will result in 130 boe/d of production and approximately $50,000 of monthly operating cash flow.

10. Since the date of the First Report, Fortress' auditors have now completed their audit of the financial year ended December 31, 2010.

FINANCIAL PERFORMANCE

11. Concurrent with the Company's March 31, 2011 application for an extension of the Stay, Fortress filed a revised cash flow forecast through to the week ending May 27, 2011 which was attached as Exhibit "B" to the March 28, 2011 Affidavit of J. Cameron Bailey (the "Revised Forecast"). A variance analysis of the Company's actual receipts and disbursements over the period March 28 – May 13, 2011 versus the corresponding period in the Revised Forecast is set out in the following table:

	March 28 – May 13, 2011		
	Actual	**Forecast**	**Variance**
RECEIPTS			
Petroleum and natural gas revenues	25,591	25,431	160
Processing revenues	2,938	15,000	(12,062)
Less: royalties	-	(2,000)	2,000
	28,529	38,431	(9,902)
Accounts receivable	43,422	16,429	26,993
	71,951	**54,860**	**17,091**
DISBURSEMENTS			
Oil and Gas Operations			
Operating costs	(29,346)	(33,375)	4,029
Capital expenditures	(70,461)	(262,500)	192,039
Payroll			
Employees & benefits	(60,064)	(51,760)	(8,304)
Consultants	(83,566)	(99,994)	16,428
Lease Payments			
Premises	(12,600)	(8,400)	(4,200)
Land and mineral lease rentals	(4,500)	(5,000)	500
General and administrative	(26,951)	(27,100)	149
Professional fees	(147,778)	(147,965)	187
Restructuring costs	-	-	-
Critical suppliers	(50,796)	(53,744)	2,948
Power Initiative			
Premises	(8,048)	(8,520)	472
Consultants	(23,806)	(25,407)	1,601
General and administrative	-	(5,250)	5,250
	(517,916)	**(729,015)**	**211,099**
NET CASH FLOW	(445,965)	(674,155)	228,190
OPENING – CASH	907,678	907,678	-
CLOSING – CASH	461,713	233,523	228,190

12. Fortress experienced a negative cash flow of approximately $446,000 over the period March 28 – May 13, 2011 versus an anticipated deficit of approximately $674,000 over the same period. The positive variance of approximately $228,000 can be attributed primarily to the deferral of approximately $192,000 of forecasted expenditures associated with the Capital Program as discussed above.

13. The Company maintained a cash balance of approximately $461,000 as at May 13, 2011. To date, the Company has not liquidated any of its holdings of Terra Energy Corp (the "Terra Shares"). The estimated current market value of these shares is approximately $3.6 Million. As of the date of the First Report, the Terra Shares were valued at approximately $4.2 Million.

CASH FLOW FORECAST

14. Management, with the assistance of the Monitor, has prepared a revised cash flow forecast for the period May 16 – June 30, 2011 (the "May 16 Forecast") which is attached as Appendix "A". A summary of the May 16 Forecast is provided in the table below:

	May 16 – June 30, 2011 Forecast	Notes
RECEIPTS		
P&NG revenues	57,375	
Processing revenues	7,500	
Less: royalties	(3,000)	
	61,875	
Sale of Terra shares	250,000	a)
Miscellaneous	70,966	
Total Receipts	**382,841**	
DISBURSEMENTS		
Oil and Gas Operations		
Operating costs	(48,873)	
Capital expenditures	(192,416)	b)
Payroll		
Employees & Benefits	(48,101)	
Consultants	(127,182)	
Lease Payments		
Premises	(8,400)	
Land/mineral leases	(10,000)	
General and administrative	(50,519)	
Professional fees	(40,187)	
Restructuring costs	(-)	c)
Total Disbursements	**(525,678)**	
Net Cash Flow	**(142,837)**	
Opening Cash	**461,714**	
Closing Cash	**318,877**	

15. The May 16 Forecast reflects a negative cash flow of approximately $143,000 over the forecast period. Noteworthy observations with respect to the May 16 Forecast are as follows

   a. *Sale of Terra shares* - Fortress anticipates liquidating approximately $250,000 of its holdings of the Terra Shares in an orderly fashion by June 30, 2011. On March 31, 2011, the Court granted the Company authorization to liquidate the Terra Shares with the Monitor's written approval;

   b. *Capital expenditures* - as discussed above, Fortress anticipates completing the Capital Program at a cost of approximately $192,000; and

   c. *Restructuring costs* - the Company has assumed that the costs of its legal counsel, the Monitor and the Monitor's legal counsel will be satisfied from funds previously issued as retainers to legal counsel over the forecast period. Consequently, there are no restructuring costs provided for over the forecast period.

16. The Monitor is satisfied that the May 16 Forecast is reasonable in the circumstances.

RESTRUCTURING EFFORTS

17. In the First Report, the Monitor advised that, on March 28, 2011, the Company had filed Notices of Objection to the Notices of Reassessment (collectively referred to as the "Reassessment") issued by Canada Revenue Agency ("CRA"). Since the date of the First Report, Management and the Company's legal counsel have had several written and verbal communications with CRA and CRA's legal counsel regarding the status of the Notices of Objection.

18. Management has advised the Monitor that CRA has forwarded the Notices of Objection to CRA's head office in Ottawa for review and consideration, but that at this time there has been no definitive deadline provided by CRA as to when they will provide the Company with a formal response to the Notices of Objection.

19. The Monitor, Management and the Company's legal counsel have held several discussions in regard to potential courses of action and restructuring alternatives in the event the Company's objection to the Reassessment is dismissed by CRA.

RECOMMENDATION

20. The Monitor is satisfied that Management continues to act with due diligence and in good faith and the Monitor is of the view that a further extension of the Stay is warranted for the following reasons:

    a. To allow the appeals process in respect of the Reassessment to be concluded; and

    b. To allow Management additional time to continue to explore potential restructuring initiatives.

All of which is respectfully submitted this 24th day of May 2011.

Hardie & Kelly Inc., in its capacity as
Monitor of Fortress Energy Inc.
and not in its personal capacity

Per: ______________________________
Marc Kelly, CA•CIRP
Senior Vice President

APPENDIX “A”

Fortress Energy Inc.
Forecast Cash Flow
(unaudited)

		WEEK BEGINNING							
	Notes	16-May-11	23-May-11	30-May-11	6-Jun-11	13-Jun-11	20-Jun-11	27-Jun-11	PERIOD TOTAL
RECEIPTS									
Petroleum and natural gas revenues	1		24,375					33,000	57,375
Processing revenues	1			7,500					7,500
Less: Crown royalties	1		-					(3,000)	(3,000)
		-	24,375	7,500	-	-	-	30,000	61,875
Sale of Terra shares	2			62,500	62,500	62,500	62,500		250,000
Accounts Receivable	3	64,166		6,800					70,966
Subtotal		**64,166**	**24,375**	**76,800**	**62,500**	**62,500**	**62,500**	**30,000**	**382,841**
DISBURSEMENTS									
Oil and Gas Operations									
Operating Costs	4	(8,673)		(20,100)				(20,100)	(48,873)
Capital items	5	(25,416)		(60,000)		(50,000)		(57,000)	(192,416)
Payroll									-
Employees & benefits	6		(15,500)	(1,601)		(15,500)		(15,500)	(48,101)
Consultants	6	(31,632)		(39,900)		(15,750)		(39,900)	(127,182)
Lease payments									-
Premises	7			(4,200)				(4,200)	(8,400)
Land lease rentals	7		(5,000)			(5,000)			(10,000)
General & administrative	8	(15,519)	(7,000)	(10,500)			(7,000)	(10,500)	(50,519)
Professional fees	9	(8,687)		(15,750)				(15,750)	(40,187)
Restructuring costs	10								-
Subtotal		**(89,927)**	**(27,500)**	**(152,051)**	**-**	**(86,250)**	**(7,000)**	**(162,950)**	**(525,678)**
NET CASH FLOW (DEFICIT)		**(25,761)**	**(3,125)**	**(75,251)**	**62,500**	**(23,750)**	**55,500**	**(132,950)**	**(142,837)**
OPENING CASH	11	**461,714**	**435,953**	**432,828**	**357,577**	**420,077**	**396,327**	**451,827**	**461,714**
CLOSING CASH		**435,953**	**432,828**	**357,577**	**420,077**	**396,327**	**451,827**	**318,877**	**318,877**

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 Accounts receivable includes the refund of prior year Alberta Gas Crown royalty overpayments of $64,166.
4 Field operating costs have been estimated based on recent historical operations and anticipated projects.
5 Includes ongoing capital projects required to maintain existing operations.
6 It is assumed that wages, benefits and consulting fees will continue to be paid in the ordinary course.
7 It is assumed lease obligations will be paid in the ordinary course.
8 Estimated general and administrative costs based on recent historical values.
9 IFRS conversion & general legal fees
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.
11 Balance forward as at May 16, 2011