

Corporate Update  
March 15, 2011

### **What is the nature of the CRA Reassessment of Fortress Energy Inc. ("Fortress")?**

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* ("CCAA") 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.

While the Order is in effect the Company will work with a court appointed monitor, Hardie & Kelly Inc. Further information in connection with the proceedings can be found on their website at [www.relieffromdebt.ca/index.php/Current-Engagements.html](http://www.relieffromdebt.ca/index.php/Current-Engagements.html)

**What is management currently doing to ensure this is resolved in a timely manner?**

The Company is working diligently in an attempt to resolve the matter as quickly as possible. Generally, the timeline to resolve claims of creditors of companies that are subject to an Order under CCAA is set by the Court. In this respect, it is hoped that the dispute with CRA will be dealt with much faster than the normal lengthy appeals process of the CRA.

**Do my existing FEI shares have value?**

The value of the underlying assets of Fortress is not affected by the Order granted under CCAA. If the CRA matter is resolved in favour of the Company, the existing FEI shares should still have value. The following is a list of the assets and estimated liabilities of Fortress (as estimated by management) excluding the CRA claims.

**Fortress Energy Inc.**  
**Net Asset Value**  
**As at March 1, 2011**

<i>Assets</i>	\$m	
Cash Balance	\$ 1,905	(\$950 in trust, ATB \$955)
Accounts Receivable	826	AR Statement (excluding Altagas)
Terra Energy Shares	4,325	Current Share Price
CRA Receivable	3,400	Management Estimate (net proceeds)
Paloma Shares	2,188	Last Transaction Value September 2010
Altheia Shares	380	Last Transaction Value September 2010
Oil and Gas Reserves		Sproule December 31, 2010 using 10% DCF
Proven Developed Producing	3,311	
Probable Developed Producing	602	
Probable Undeveloped	3,506	
<b>Total Assets</b>	<b>20,442</b>	
<i>Liabilities</i>		
Flow Through Obligation	(1,300)	Management Estimate
Accounts Payable	(414)	AP Statement (Altagas removed)
Altagas Payable	(200)	Management Estimate
<b>Total Liabilities</b>	<b>(1,914)</b>	
<b>Net Asset Value</b>	<b>\$ 18,528</b>	
<b>Per share (55,294,617 outstanding)</b>	<b>\$ 0.335</b>	

This is Exhibit "F" referred to  
in the Affidavit of  
*J. Cameron & Co. Barclay*  
Sworn before me this 15<sup>th</sup>  
Day of March A.D. 2011  
\_\_\_\_\_  
A Commissioner for Oaths in and for  
the Province of Alberta

**Why did the stock halt trading on the TSX?**

The TSX has its own independent regulation governing the operation of the Exchange. They have a policy of suspending trading of companies that are subject to an Order under CCAA.

**Can I still trade my shares of Fortress?**

Fortress is not subject to a cease trade order but the facility to easily trade the shares has been removed.

**Will the stock trade on the TSX again?**

On February 23, 2011, Fortress announced that that it did not meet the listing requirements of the TSX by virtue of the sale of substantially all of its oil and gas assets on September 1, 2010. Fortress was notified by the TSX that its formal listing committee determined on February 25, 2011, that Fortress would be delisted from the TSX on March 30, 2011. As a result, Fortress then commenced the application process for listing on the TSX Venture and both exchanges at that time indicated a willingness to ensure a seamless transition to ensure no disruption of trading. Although application to the TSX Venture has started, Fortress is uncertain it will be accepted for listing until the CCAA Order is removed.

**Will Fortress be able to list on another exchange?**

Fortress is considering a listing on the CNSX exchange which has indicated its willingness to allow Fortress shares to be listed for trading on such exchange notwithstanding the CCAA Order.

## **Is the Fortress Power initiative still going forward?**

On February 18<sup>th</sup>, 2011 Fortress announced that after considering various strategic alternatives it had identified a full complement of management as well as experienced individuals to join the Board of Directors to allow it to transition from an oil and gas producing company into an independent power producer engaged in the development, ownership and operation of clean power generation facilities. Assuming a satisfactory resolution with CRA in a timely matter, Fortress intends to continue to pursue investment opportunities in the power sector but again this is subject to a successful and timely resolution of the matters with CRA which at this time is not certain.

## **Caution to Reader**

This corporate update contains forward-looking information including potential success in disputing or settling the CRA reassessment and the timing thereof, the listing on a stock exchange and investment opportunities in the power sector. The reader is cautioned that the Company may not be successful in its challenge. If it is unsuccessful, the financial ramifications to the Company would be severe, as the Company does not have the necessary funds to remit, and the Company would be unlikely to continue as a viable entity. In addition, if resolution is not achieved quickly, investment opportunities in the power sector or otherwise may not be available to the Company. There can be no assurance that the Company will be listed on either the TSX Venture Exchange or the CNSX Exchange. The common shares of Fortress have not and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold in the United States or to any U.S. person except in certain transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws. This corporate update shall not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

## **For further information:**

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