

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF QUEBEC
COURT. No.:
OFFICE No.:

S U P E R I O R C O U R T
Commercial Division

**IN THE MATTER OF A PLAN OF
ARRANGEMENT OR COMPROMISE OF:**

INVESTISSEMENT QUÉBEC, a corporation duly constituted under the *Act respecting Investissement Québec* (CQLR c I-16.0.1), having its head office at 1195, avenue Lavigerie, suite 060, in the city of Québec, Province of Quebec, G1V 4N3;

Co-Applicant / Principal Secured Creditor

- and -

FIERA PRIVATE DEBT INC., a legal person initially incorporated under Part IA of the *Québec Companies Act*, CQLR c C-38 and subsequently continued under the *Québec Business Corporations Act*, CQLR c S-31.1, having its head office located 400-1699 Le Corbusier blvd., in the city of Laval, Province of Quebec, H7S1Z3, acting in its capacity, respectively, as manager and agent under the IAM Loan Agreement and under the Bridge Financing Agreement (as such terms are defined in the Application);

Co-Applicant / Secured Creditor

FORTRESS GLOBAL ENTERPRISES INC., a legal person duly incorporated under the *British Columbia Business Corporations Act*, SBC 2002, c 57 having its head office at 157 Chadwick Court, 2nd floor, in the city of North Vancouver, Province of British Columbia, V7M 3K2;

- and -

FORTRESS SPECIALTY CELLULOSE INC., a legal person initially incorporated under the *British Columbia Business Corporations Act*, SBC 2002, c 57 and subsequently continued under the *Canada Business Corporations Act*, RSC 1985, c C-44, having its head office located at 2500-1100 René-Lévesque Boulevard, in the city of Montreal, Province of Quebec, H3B 5C9;

- and -

FORTRESS BIOENERGY LTD., a legal person initially incorporated under the British Columbia *Business Corporations Act*, SBC 2002, c 57 and subsequently continued under the *Canada Business Corporations Act*, RSC 1985, c C-44, having its head office located at 2500-1100 René-Lévesque Boulevard, in the city of Montreal, Province of Quebec, H3B 5C9;

-and-

FORTRESS XYLITOL INC. a legal person initially incorporated under the British Columbia *Business Corporations Act*, SBC 2002, c 57, having its registered office located at 1000 Cathedral Place 925 West Georgia Street, Vancouver British Columbia V6C3L2 Canada;

-and-

9217-6536 QUÉBEC INC. a legal person incorporated under the Quebec *Business Corporations Act*, RLRQ, C. S-31.1 having its head office located at 2500-1100 René-Lévesque Boulevard, in the city of Montreal, Province of Quebec, H3B 5C9

Debtors

- and -

DELOITTE RESTRUCTURING INC., a company incorporated under the laws of Canada, having a place of business at 500-1190 av. Des Canadiens-de-Montreal, in the city of Montreal, Province of Quebec, H3B 0M7;

Proposed Monitor

**FIRST REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED MONITOR ("PROPOSED MONITOR")
(Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36, as amended)**

INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the Application for the Issuance of a First Day Order, an Amended and Restated Initial Order, a Receivership Order and a Claims Procedure Order (the "**Application**") under the *Companies' Creditors Arrangement Act* ("**CCAA**").
2. Unless otherwise stated, the Debtors are also collectively referred to as "**Fortress**".
3. This report (the "**First Report**") has been prepared by the Proposed Monitor prior to its appointment as Monitor in these CCAA proceedings to provide information to this Court for

its consideration in respect of Applicants' Application.

4. The purpose of the First Report of the Proposed Monitor is to provide information to the Court with respect to:
 - I. Deloitte's qualification to act as Monitor (the "**Proposed Monitor**") (page 4);
 - II. The business, financial affairs and financial results of Fortress (page 4);
 - III. Fortress' main creditors (page 9);
 - IV. The sale and investment solicitation process ("**SISP**") (page 11);
 - V. The proposed restructuring (page 12);
 - VI. Key Employee Retention Program ("**KERP**") (page 12);
 - VII. Appointment of Receiver ("**Receivership Order**") (page 13);
 - VIII. Charges sought in the proposed First Day Order and in the proposed Amended and Restated Initial Order ("**Initial Order**") (page 13);
 - IX. D&O Trust (page 16);
 - X. Claims Procedure Order (page 17);
 - XI. Payments to Essential Suppliers (as defined below) (page 17);
 - XII. Overview of the 22-week Cash Flow Projections (defined below) (page 18); and
 - XIII. The Proposed Monitor's conclusions and recommendations (page 19).
5. In preparing the First Report and making the comments herein, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, Fortress' books and records and financial information prepared by Fortress and discussions with management ("**Management**") of Fortress (collectively, the "**Information**"). Except as described in this First Report in respect of Fortress' Cash Flow Statement (as defined below):
 - (i) The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and
 - (ii) Some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in Chartered Professional Accountants Canada Handbook, has not been performed.
6. Future oriented financial information referred to in this First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the

variations could be significant.

7. Unless otherwise indicated, the Proposed Monitor’s understanding of factual matters expressed in this First Report concerning Fortress and their business is based on the Information, and not independent factual determinations made by the Proposed Monitor.

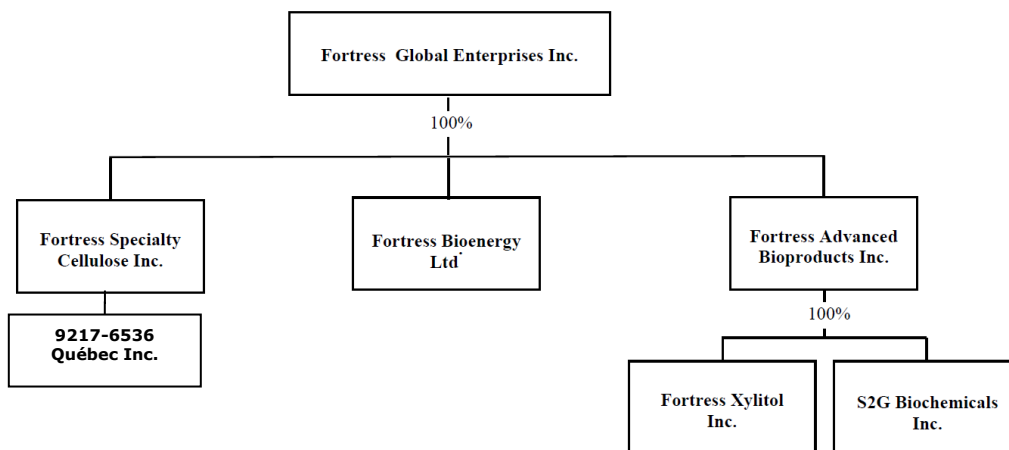
I. DELOITTE’S QUALIFICATION TO ACT AS MONITOR

8. Deloitte Restructuring Inc. (the “**Proposed Monitor**”) is a licensed insolvency trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”) and is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.
9. On September 2, 2019, the Proposed Monitor was retained by the legal counsel of Investissement Québec (“**IQ**”) to act as consultant, to review and monitor the operations and financial position of Fortress.
10. In the context of the foregoing, the Proposed Monitor’s professional personnel associated with this matter have acquired material knowledge of Fortress and its business. The Proposed Monitor has spent time with Management understanding the operations and financial structure as more fully described in this First Report, in order to provide assistance of the Court. The Proposed Monitor is, therefore, in a position to act as court-appointed monitor of Fortress in an efficient and diligent manner in the CCAA proceedings for the benefit of all of its stakeholders.
11. The Proposed Monitor has retained McCarthy Tétrault (“**McCarthy**”) to act as its independent counsel in these CCAA proceedings.

II. THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF FORTRESS

Corporate Structure

12. Fortress, which is operated on a consolidated basis, has the following corporate structure:



13. As at September 30, 2019, when in full operation, Fortress employed a total of 312 employees, of which 304 were employed at both of its main facilities in Thurso. Since October 2019, Fortress has proceeded with temporary lay offs given the fact that it was decided to shutdown production, and now employs approximately 61 employees.

Overviewi) Fortress Global Enterprises Inc.

14. Fortress Global Enterprises Inc. ("**Fortress Global**") is a public company with its shares trading on the Toronto Stock Exchange (the "**TSX**"). Fortress Global was founded in 2006.
15. Fortress Global has no significant operations of its own since business is being conducted through its subsidiaries.
16. Though its head office is located in British Columbia, the main places of business of the significant operating entities are in Quebec.
17. On October 22, 2019, Fortress Global received a notice that it was being reviewed under the TSX'S remedial review process and has been granted 120 days to comply with all requirements for continued listing.
18. Taking into consideration the costs associated with any continue disclosure requirement, the Proposed Monitor supports the request by the Applicants that Fortress Global be relieved from any and all continuous disclosure, reporting and filing obligations as being a public entity.

ii) Fortress Specialty Cellulose

19. Fortress Specialty Cellulose Inc. ("**Fortress Specialty**") was incorporated in 2009, is a wholly owned subsidiary of Fortress Global operating in the dissolving pulp business and has its registered office in Montreal.
20. Fortress Specialty produces dissolving pulp from its facility located in Thurso, Québec, which is operated on approximately 800 acres of land (the "**Pulp Mill**"). The Pulp Mill is located approximately 150 kilometers west of Montreal and 50 kilometers east of Ottawa. It was build several decades ago and is the main employer of the region.

iii) Fortress Bioenergy Ltd.

21. Fortress Bioenergy Ltd. ("**Fortress Bioenergy**") was incorporated in 2010, is a wholly owned subsidiary of Fortress Global, operates in the renewable energy generation sector and has its registered office in Montreal.
22. Fortress Bioenergy, since October 2013, produces renewable energy from its cogeneration plant also located in Thurso, Québec (the "**Cogeneration Facility**"). The Cogeneration Facility is adjacent to the Pulp Mill and has access to on-site generation of biomass and a local network of chip and other biomass suppliers.
23. Fortress Bioenergy is a party to two different energy supply agreements with Hydro Québec whereby it sells to it the energy produced at the Cogeneration Facility.

iv) Fortress Xylitol Inc.

24. Fortress Xylitol Inc. ("**Fortress Xylitol**") is a private corporation which is incorporated under the British Columbia *Business Corporations Act*.
25. Fortress Xylitol is a special purpose company which was established to construct a demonstration plant to produce xylitol and other complementary bioproducts at the Pulp

Mill, utilizing proprietary process technologies, know-how and expertise developed by its affiliate, S2G Biochemicals Inc.

26. Xylitol is a naturally occurring sugar polyol that has a sweetening property matching that of cane sugar, but with 40% fewer calories. Xylitol is used extensively in a variety of confectionary products such as gums and candies.
 27. Up until recently, the construction, commissioning and optimization of the demonstration plant was undergoing technical evaluation, including the integration of certain required upgrades to the Pulp Mill, and such plant was expected to commence operations in 2020.
 28. The intention was to use C5 sugars extracted from hemicellulose, which is a by-product from the Pulp Mill, to produce xylitol and other complementary bioproducts.
 29. The Proposed Monitor was informed that due to Fortress' insolvency, the construction of the demonstration plant was put to a halt. As will be further described below, Fortress Xylitol is a guarantor under the Bridge Financing Agreement, and has granted in favour of the agent thereunder a general security interest and hypothec over the universality of its assets.
- v) 9217-6536 Québec Inc.
30. 9217-6536 Québec Inc. ("**9217**") is 9217 is subsidiary of Fortress Specialty.
 31. 9217 owns a property located in Notre-Dame-de-la-Salette, Québec which is known as the Poupore Bark Pile Site. The site was used to store wood log bark residue from 1956 to 1993.
 32. Since the closing of the site in 1993, the site was covered and revegetated. It is estimated that the site contains 300 000 tonnes of wood bark residue.
 33. Since the closure of the site, the leachate, which is constituted of water that in the course of passing thru the wood bark residue extracts soluble or suspended solids or other components, has been transported from the site to the Pulp Mill for treatment along with other waste water emanating from the Pulp Mill.
 34. The Proposed Monitor has been told that numerous analysis of the leachate confirms that it is not a pollutant as per the definition of the Quebec *Environment Quality Act*.
 35. In 2012, the Quebec Environmental Ministry refused 9217's request to cease collecting and treating the leachate and other remediation methods proposed the company. The cost to Fortress Speciality for the annual transportation and treatment of the leachate is approximately \$150,000.
 36. The inclusion of 9217 in the CCAA filing would facilitate the required negotiations with the Quebec Environmental Ministry in view of finding a permanent solution for the site as part of the Fortress reorganization.

Financial Analysis

37. The following table sets out selected financial information for the periods indicated. The selected financial information below has been derived from the corresponding financial statements of Fortress:

Fortress Global Enterprises Inc. - Consolidated Income Statement (\$'000 CAD) (Unaudited) For the 12-month period ended on	31-Dec-17	31-Dec-18	30-Sep-19 (9 months)
Revenue	156,414	185,945	91,815
Costs and expenses	(182,917)	(196,077)	(212,335)
Gross Profit	(26,503)	(10,132)	(120,520)
Other Expense	(6,488)	(22,048)	(9,364)
Net Loss From Continuing Operations Before Taxes	(32,991)	(32,180)	(129,884)
Income Tax Recovery	3	-	-
Net Loss From Continuing Operations	(32,988)	(32,180)	(129,884)
Net Loss From Discontinued Operations	(60,394)	-	-
Net Loss	(93,382)	(32,180)	(129,884)

38. The Proposed Monitor's review of the latest audited financial statements, for the period ending on December 31, 2018, shows that:

- (i) Fortress, on a consolidated basis, was unprofitable;
- (ii) The operating losses for the 2018 fiscal year totaled \$10 million and the net losses for the same period totaled \$32 million;

39. The Proposed Monitor's review of the latest internal financial statements, for the 9 months period ending on September 30, 2019, shows that :

- (i) Fortress, on a consolidated basis, is currently unprofitable; and
- (ii) The operating losses for the 9 months period totaled \$121 million and the net losses for the same period totaled \$130 million.

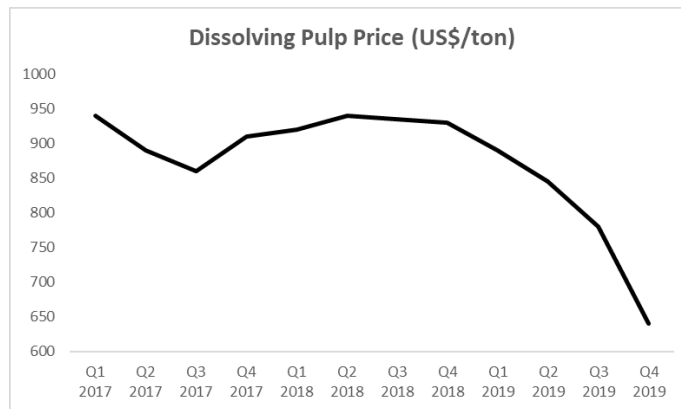
40. Fortress' ability to maintain operations on a going concern basis and fund its planned activities during the shutdown period (as will be more fully described in paragraphs 29-31 below) is dependent on its ability to enter into the proposed Interim Facility more fully described at para 90 and after.

41. As of the date of this First Report, and as explained in further detail below, Management estimates that absent the Interim Facility, Fortress' working capital is not sufficient to allow it to meet its financial obligations, commitments and budgeted expenditures for the foreseeable future, in the current environment.

Global Sales Prices of Dissolving Pulp

42. During the last year, dissolving pulp prices have gone from a price of \$935 USD per ton in Q3 2018 to a price of \$640 USD per ton in October of 2019. At this current price, it is not possible for Fortress to operate on a profitable basis.

43. The following table shows prices of dissolving pulp through the last years :



44. In the last months, Fortress has been able to efficiently ramp up its daily production capacity from an average of 437 tons per day in 2018 to an average of 457 tons per day in the third quarter of 2019. According to Management, at this level of production, Fortress can only be profitable when the sales price is at least over \$750 USD per ton.

Overall Situation

45. Over the past several months, Fortress has accumulated significant losses which ultimately led to its insolvency.

46. Such losses have been incurred, *inter alia*, for the following reasons:

- a) Difficult market conditions globally, stemming from lower prices for dissolving pulp in China;
- b) Lower than expected revenues due to a significant decrease of the average selling price per ton of dissolving pulp;
- c) The Sino-American economic conflict which is disrupting markets and has a significant impact on the garment sector, particularly the global production of viscose, for which the dissolving pulp produced by Fortress is intended;
- d) A slight slowdown in the Chinese economy;
- e) Lower electricity sales than anticipated; and
- f) Increase in pulp costs.

47. For these reasons, on or around October 8, 2019, Fortress decided to suspend all of its production activities at the Pulp Mill for an undetermined period.

III. FORTRESS' MAIN CREDITORS

48. According to Fortress' books and records, the following table summarizes amounts due to secured and unsecured creditors of Fortress' main operating entities, Fortress Specialty and Fortress Bioenergy, as of October 31, 2019:

Fortress Specialty Cellulose Inc. (\$'000)	Secured	Unsecured	Construction liens
Investissement Québec	69,986		
International Forest Products LLC	19,364		
Bridge Loan (Investissement Québec and Fiera)	9,000		
Trade payables		22,078	
Accrued salaries and vacations		2,378	
Other Payables		2,195	
Constructions liens			6,425
	<u>98,350</u>	<u>26,651</u>	<u>6,425</u>

Fortress Bioenergy Ltd. (\$'000)	Secured	Unsecured	Construction liens
Investissement Québec	50,431		
Fiera	31,811		
Other payables		87	
	<u>82,242</u>	<u>87</u>	<u>-</u>

Fortress Global Enterprises Inc. (\$'000)	Secured	Unsecured	Construction liens
Unsecured convertible debentures		62,100	
Trade payables		109	
Accrued salaries and vacations		125	
Other payables		4,595	
	<u>-</u>	<u>66,929</u>	<u>-</u>

49. The amounts outlined above exclude intercompany amounts.

Secured Creditors

50. Fortress has advised the Proposed Monitor that the principal secured creditors of Fortress Specialty and Fortress Bioenergy are as follows:

- (i) IQ;
- (ii) Fiera Private Debt Inc. ("**Fiera**"); and
- (iii) International Forest Products LLC ("**IFP**").

51. By way of a high-level summary, those secured indebtedness may be described as follows:

- (i) The indebtedness owing to IQ is secured by hypothecs on the universality of the assets, tangible and intangible, movable and immovable, present and future, of Fortress Specialty and Fortress Bioenergy;
- (ii) The indebtedness owing to Fiera is secured by an hypothec on the universality of the assets, tangible and intangible, movable and immovable, present and future, of Fortress Bioenergy; and
- (iii) The indebtedness owing to IFP, up to \$ 10 M, is secured by Fortress Specialty's wood fiber inventory located at the Pulp Mill, consisting of all of Fortress Specialty's round (i) round wood, (ii) wood chips and (iii) dissolving pulp, as well as supplies, shipping materials, packaging materials and other consumables relating thereto, together with the proceeds thereof.

52. These indebtedness and related security are more fully described in the Application and have not yet been independently reviewed by the Proposed Monitor.

Construction Liens

53. A total of 12 contractors and subcontractors have registered or could, according to Management, register construction liens on one or more of Fortress-owned properties. The total amount due to these contractors and sub-contractors is estimated at \$6,4M. According to Management, these are related to regular maintenance and repairs that were executed during the last shutdown in May 2019.

54. The Proposed Monitor has not reviewed any of those claims or potential claims.

Bridge Financing

55. Between September 1, 2019 and December 7, 2019, Fortress obtained additional funding of \$9M from certain of its secured creditors (hereinafter the "**Bridge Financing**") to allow the continuity of its operations and initiate and pursue a sale process which is more fully described below.

56. The following table shows the timing of receipt of the Bridge Financing as per the Bridge Financing Agreement:

Bridge financing (\$'000)	
Week ending	Amount
September 7, 2019	2,500
September 14, 2019	1,500
September 28, 2019	1,000
October 5, 2019	2,000
November 9, 2019	1,000
November 30, 2019	500
December 7, 2019	500
	9,000

57. The Bridge Financing, more fully described in the Application, was provided by the Bridge Lenders as a first ranking secured revolving credit facility. The Bridge Financing is bearing interest at a rate of 10% per annum.

Employees

58. Management has informed the Proposed Monitor that there is no unpaid normal pay obligations to Fortress' employees. Payments are made on a weekly or bi-weekly basis. Payroll management is outsourced to a third party. As per Management, all deductions at source are current.

59. Potential claims of the employees can be categorized as follow:

- (i) Accrued, unused vacation time and salaries, totaling approximately \$2,5 M according to Management; and
- (ii) Severance payments which have not been paid to employees temporarily laid off in October 2019. The obligation in connection with same as yet to be calculated by Fortress.

60. Fortress does not have any pension or retirement plans aside from a defined employer matching program which is administrated externally by Manulife Canada, which is current, and will be maintained for the benefit of the remaining employees.

61. The Proposed Monitor has been informed by Management that it is the intent of Fortress that the collective insurance benefiting all employees be maintained throughout the CCAA Proceedings.
62. Fortress has currently an amount of cash on hand of approximately \$2.3 M in a segregated bank account that has been maintained since, and earmarked to cover some of the salary and vacation obligations to employees. From this amount, \$1.3M will be transferred as per the Trust Indenture.

Unsecured Creditors

63. Fortress has advised the Proposed Monitor that its principal unsecured creditors are as follows:
 - (i) Unsecured convertible debentures, issued by Fortress Global;
 - (ii) Trade payables; and
 - (iii) Other payables.

IV. THE SALE AND INVESTMENT SOLICITATION PROCESS

64. Following an extensive review of its business and affairs, and in consultation with its senior secured creditors, it was determined at the end of the summer of 2019 that without a comprehensive restructuring of its operations, debt and equity structure, Fortress would not be able to successfully continue to operate the Pulp Mill and the Cogeneration Facility.
65. In August 2019, Fortress initiated a SISP focused on targeted potential strategic and financial parties that could have been interested in pursuing an opportunity with respect to Fortress.
66. The SISP was conducted by Fortress itself with the assistance of the investment bankers retained by Fortress for these purposes, Houlihan Lokey Inc. ("**SISP Manager**") and in consultation with the Applicants and the Proposed Monitor.
67. The SISP was launched on August 20, 2019, in conjunction with the closing of the Bridge Financing.
68. The SISP Manager was selected given its experience in implementing and conducting solicitation processes in the paper products industry and its extensive knowledge of the industry. In accordance with the terms of its engagement:
 - (i) the management of all SISP related documents (including the elaboration of the target list, teasers, NDAs, etc.) and all information to be provided to the potential bidders, reporting to Fortress on progress and advising it in respect of any indications of interest that may be received have been handled by the SISP Manager; and
 - (ii) the SISP Manager and the Proposed Monitor were entitled to communicate and share information in connection with the SISP, in order to facilitate any reporting, if necessary, by the Proposed Monitor.
69. The Proposed Monitor has been kept fully informed in connection with the SISP by the SISP Manager and Fortress and received all presentations, documentation and information relating to the SISP.
70. Based and relying upon the information provided by the SISP Manager and Fortress, the Proposed Monitor has been advised of the following:

- (i) A teaser letter was sent to one hundred eighteen (118) identified parties, composed of fifty-nine (59) potential strategic buyers and fifty-nine (59) potential financial buyers;
- (ii) Thirty-two (32) of those parties declined the opportunity; and
- (iii) Thirteen (13) of those parties entered into a confidentiality agreement and were provided access to the virtual data room to conduct their due diligence process.

71. None of the parties involved in the SISP submitted an offer or a letter of intent do to so.

72. Based and relying upon the information provided by Fortress and the SISP Manager, the Proposed Monitor is of the view that the SISP was diligently conducted by Fortress and the SISP Manager.

V. PROPOSED RESTRUCTURING

73. The CCAA proceedings are intended to allow Fortress to initiate and implement a process whereby Fortress' operations would initially be significantly reduced while awaiting a future recovery of the market for dissolving pulp as to allow Fortress to operate profitability.

74. Accordingly, the Applicants, after having discussed with Management, believe that the proposed restructuring process (the "**Restructuring Process**") described below, with the assistance and under the supervision of the Proposed Monitor, could constitute the most viable option under the circumstances and potentially allow, in due course and if circumstances permit, a plan of arrangement and compromise to be submitted to the Fortress' creditors, pursuant to the CCAA.

75. The Restructuring Process could also involve the following:

- a) Reduction to a minimum of Fortress' operations: Reduction of Fortress' operations and activity to a bare minimum so as to minimize its operating costs for a determined period of time until the demand for dissolving pulp related products increases in the global market;
- b) Modernization and upgrade: a modernization and upgrade of Fortress' current operation and installation in view of reducing costs and improving its profitability. This would however require a business plan validation and, potentially, a significant investment from an investor;
- c) Alternative production: Transitioning from a Pulp Mill to dissolving pulp to a paper production. This would however also require a business plan validation and, potentially, a significant investment from an investor; and
- d) Implementation of a simplified and efficient claims procedure: Implementing a simplified and expeditious procedure for assessing priority claims from certain creditors (legal construction hypothecs, wages, directors and officers, etc.). This process would determine a collocation order for a possible disposition of Fortress' assets in the event of a sale or liquidation or a distribution in the context of a plan of arrangement.

VI. KEY EMPLOYEE RETENTION PROGRAM

76. Management prepared a Key Employee Retention Program ("**KERP**") to encourage the key employees to remain in the employment of Fortress. This program aims at keeping the bear minimum operations ongoing to maximize the enterprise value of Fortress.

77. Management and the Proposed Monitor believe that the continued employment of certain key employees is critical to the successful restructuring of Fortress and that, absence of establishment of an incentive plan in favor of some identified key employees, these are likely to seek other employment opportunities, especially in the current context of the employment market and of Fortress' financial situation.
78. Management and the Proposed Monitor believe that the seven key employees identified in the KERP would be hard to replace considering Fortress' specific location, as well as the knowledge of the Pulp Mill and of its operations that each of those key employee has. Most key employees identified are either a key executive or operator of Fortress. Management and the Proposed Monitor believe that without these key employees, a successful restructuring will be impeded.
79. The global cost of the KERP proposed by Management is \$610,000.
80. The Proposed Monitor reviewed the proposed KERP on an employee-by-employee basis, and agreed with the seven employees included in the proposed KERP.
81. The Proposed Monitor has reviewed the KERP and believes that it is necessary in the above mentioned circumstances, and that the milestones in the KERP are aligned with those of the proposed Restructuring Process, namely the successful implementation of a plan of arrangement and compromise or the closing of a transaction or transactions providing for the sale of all or substantially all of Fortress' assets.

VII. APPOINTMENT OF RECEIVER

82. As above mentioned, a significant number of Fortress' employees have been the subject of a temporary lay-off, and these employees, together with several others employees, are expected to be terminated in the context of the proposed Restructuring Process.
83. The Applicants are seeking an order appointing the Proposed Monitor as a receiver ("**Receiver**") pursuant to section 243 BIA, in order to allow the above mentioned employees to recover certain amounts which may be owing to them from the Wager Earner Protection Program ("**WEPPA**").
84. The Proposed Monitor believes that, given the current financial situation of Fortress as described above, these amounts which may be owing to Fortress' terminated employees would most likely not timely be paid in absence these employees' recovery under the WEPPA.
85. The Proposed Monitor has been informed that the appointment of the Receiver would be limited to one (1) bank account, enabling Fortress' terminated employees to benefit from the WEPPA.
86. As such, the Proposed Monitor believes that the appointment of the Receiver would not affect the Restructuring Process, nor would it cause any prejudice to any party or any of Fortress' stakeholders, as it would only serve to benefit Fortress' employees who have been terminated.

VIII. CHARGES SOUGHT IN THE PROPOSED FIRST DAY ORDER AND THE PROPOSED INITIAL ORDER

Administration Charge

87. The proposed Initial Order provides for a priority charge in the amount of up to \$600,000 in favor of the Applicants' counsel, the Proposed Monitor and McCarthy as security for their

professional fees and disbursements incurred both before and after the making of the Initial Order in respect of these CCAA proceedings (the "**Administration Charge**"). The Administration Charge has been established based on the respective professionals' previous experience with restructurings of similar magnitude and complexity.

88. The proposed Initial Order provides that Fortress' counsel's professional fees and disbursements related to services provided after the proposed Initial Order in direct relation to these proceedings, a plan of arrangement and the proposed Restructuring Process, provided that such services are rendered on the instructions of the Proposed Monitor, in consultation with IQ, are also covered by the Administration Charge.

89. The Proposed Monitor believes that the Administration Charge is required and is reasonable under the circumstances.

Interim Facility and Interim Lender's Charge

90. Fortress does not generate sufficient revenue to continue to operate and implement the proposed Restructuring Process' measures, and must therefore obtain financing during these CCAA proceedings.

91. As appears from the Application, Fortress has negotiated the Working Cap Facility Agreement (the "**Interim Facility**") with IQ (the "**Interim Lender**"), which would allow Fortress to borrow, repay and reborrow up to a principal amount of \$6M outstanding at any time, on the terms and conditions as set forth in the Interim Financing Term Sheet.

92. There was no competitive process initiated by Fortress to find an alternative interim lender and no such process would likely have lead to a better proposal since:

(i) the assets of Fortress are highly specialized; and

(ii) the urgent nature of the financing being sought would have impeded any due diligence from a third party.

93. The Interim Lender being an existing secured creditor of Fortress, it was the only practical option for sourcing interim financing.

94. The Interim Facility will be used to provide interim financing to Fortress during the pendency of these CCAA proceedings.

95. As appears from the Interim Facility, all amounts advanced thereunder are to be secured by a Court-ordered super-priority charge in the amount of \$6 M on all of Fortress' assets, in priority to all other existing encumbrances and Court charges, except for the Administration Charge (the "**Interim Lender's Charge**").

96. As appears from the Application, the Applicants request that a first \$1 M drawdown be authorized by the proposed First Day Order, with the balance to be approved at the subsequent hearing on the proposed Initial Order.

97. The Interim Facility is to bear interest ordered at a rate of 10% per annum. Additional details in connection with the Interim Facility are provided for in the Application.

98. The Proposed Monitor supports Fortress' request for interim financing for the following reasons:

(i) In the Proposed Monitor's view, no creditor will be materially prejudiced as a result of the Interim Lender's Charge, as the funding is expected to allow Fortress to continue its restructuring efforts and proposed restructuring, which

will enhance the recoveries of Fortress' secured creditors, suppliers and employees, as opposed to a piecemeal liquidation, which would occur in the absence of funding;

- (ii) The Proposed Monitor considered the terms of the Interim Facility and its costs to Fortress highly competitive given that the Interim Facility contemplates an interest rate of 10% per annum, with no other fees or charges required (other than the reimbursement of legal fees); and
- (iii) Given the unique nature of the collateral, it is unlikely that alternative financing could have been arranged with a third party at this cost.

Intercompany Charge

99. The Applicants also seek the approval of an intercompany charge in order to secure the repayment of intercompany advances which could be made among the Debtors during these proceedings, which vary up to \$3 M and thus justify justifying a charge of \$3 M as of the date of this First Report (the "**Intercompany Charge**").

100. As previously mentioned, Fortress is party to agreements with Hydro-Québec relating to the supply of electricity generated by the Cogeneration Facility. Given the corporate structure of Fortress, the operations of the Cogeneration Facility result in several intercompany transactions between Fortress Specialty and Fortress Bioenergy.

101. Management has informed the Proposed Monitor that this corporate structure of Fortress is critical to safeguard the proper levels of production of the Cogeneration Facility, which in turn are required in order to maintain the agreements with Hydro-Québec.

102. The Proposed Monitor has also been informed that maintaining the agreements with Hydro-Québec is necessary at this stage, as the value of both the Pulp Mill and the Cogeneration Facility would be greatly diminished should these agreements be resiliated because of an improper level of production.

103. The Proposed Monitor therefore believes that the Intercompany Charge, which would represent a significant measure of protection when monies are expected to flow between the Debtor companies, is necessary in the circumstances.

Key Employees Charge

104. In order to secure payment of the amounts payable under the KERP Agreements, Fortress is seeking a KERP Charge in the amount of \$610,000 on Fortress' current and future assets.

105. Given that the alternative would have been to segregate funds and impact Fortress' liquidity, the Proposed Monitor is supportive of the granting of such a charge.

Directors' and Officers' Charge

106. The Proposed Monitor understands that Fortress maintains directors' and officers' insurance ("**D&O Insurance**") which provides for coverage as well as for various deductibles depending on the nature of the loss. The D&O Insurance has not been reviewed by IQ nor the Proposed Monitor.
107. The Proposed Monitor understands that there might be insufficient coverage in respect of potential directors' and officers' liability, notably in respect of wages, including accrued vacation pay and other employee related obligations.
108. It is expected that some of the directors of Fortress will not be resigning once a First Day Order is granted by the Court, and the committed and continued involvement of those remaining directors and officers is key to complete the Restructuration Proceeds. Those remaining directors and officers are requiring indemnification against obligations and liabilities that they may incur in such capacity.
109. The proposed Initial Order provides for a charge in an amount not to exceed \$500,000 to secure the indemnity provided to those remaining directors and officers in respect of liabilities incurred in such capacity after the Effective Time, except to the extent that such obligation or liability would be incurred as a result of the Directors and Officers' gross negligence or willful misconduct (the "**D&O Charge**").
110. As per the Application, the D&O Charge becomes effective only if the existing D&O Insurance is not responsive or sufficient.
111. The amount of the D&O Charge has been calculated by the Proposed Monitor, taking into consideration the monthly payroll costs of existing employees, the accrued vacation pay and average sales tax payments, having considered the analysis prepared by Fortress.
112. In these circumstances, the Proposed Monitor is of the view that the D&O Charge is required in the circumstances, and that the amount is reasonable and justified.

IX. D&O TRUST

113. As more fully explained in the Application, the Proposed Monitor has been made aware that Fortress entered or will be entering into a Trust Indenture concurrently with the commencement of these proceedings to set aside an amount equal to the difference between obligations of Fortress to its employees and what WEPPA will cover, namely \$1,300,000 (the "**D&O Trust**"), and that the funds of the D&O Trust are to be used, if necessary, for the :
- (i) Payment of the employees' outstanding claims after the indemnity to be received from the WEPPA; and
 - (ii) Payment of claims against Fortress and for which its directors' and officers' may be held personally liable in such capacity.
114. The Proposed Monitor was informed that both Applicants did not object to the creation of the D&O Trust, which would not prejudice Fortress' creditors and stakeholders.
115. The Proposed Monitor understands that the existence of the D&O Trust will provide additional protection to Fortress' employees and its remaining directors' and officers', and may ultimately benefit the employees for all claims which they could have against the directors and officers for unpaid salary and vacation, which would not have been paid from WEPPA or the D&O Insurance.

116. The Proposed Monitor is of the opinion that the creation of the D&O Trust, for which Applicants did not object, is reasonable in the circumstances.

X. CLAIMS PROCEDURE ORDER

117. The Applicants request the issuance of the Claims Procedure Order in order to proceed with the review and determination of the number and quantum of all claims, actual and contingent, against Fortress.

118. As more fully described in the Application, the Claims Procedure Order provides for the following:

- (i) The issuance of Claims Package by the Proposed Monitor;
- (ii) The right of Fortress' known creditors who have received the Claims Package to file a claim against Fortress and its directors or officers by no later than March 16, 2020 (the "**Claims Bar Date**"), except for the Excluded Claims;
- (iii) The review and determination of Claims by Fortress and the Proposed Monitor; and
- (iv) The issuance of Notices of Revision or Disallowance, which provide for the opportunity for these creditors to appeal, failing which the creditor will be deemed to have accepted the Proposed Monitor's determination of its claim.

119. In addition, the mailing of the Claims Package to known creditors of Fortress would be supplemented by the placement, in widely distributed newspapers, of the Notice of the Claims Procedure, as well as the posting of the Claims Package on the Monitor's website at www.insolvencies.deloitte.ca/Fortress.

120. The Proposed Monitor believes that, in the circumstances, the proposed Claims Procedure appears to be the most efficient, whilst protecting Fortress' creditors' rights, to allow the Applicants to better assess the number of claims against Fortress and its directors or officers, as well as their quantum, and will enable them to better determine, if circumstances permit, the terms of an eventual plan of arrangement and compromise.

XI. PAYMENTS TO ESSENTIAL SUPPLIERS

121. The Proposed Monitor has been informed by Management that some suppliers who provide biomass, which is essential to operate the Cogeneration Facility, or who provide support to Fortress' current minimal operations, have not all been paid for services actually supplied to Fortress in the weeks before the initiation of the CCAA proceedings (the "**Essential Suppliers**").

122. Management has represented to the Proposed Monitor that it could be necessary to pay the amounts owing to the Essential Suppliers, for the following reasons:

- (i) Some of the Essential Suppliers operate small businesses, such that they could not afford not to be paid without being put in financial difficulty, which would in turn make the supply of biomass more difficult;
- (ii) Many of these Essential Suppliers do not have long-term contract with Fortress, and could stop providing the necessary goods and services to Fortress; and

- (iii) The Proposed Monitor has been informed that a number of these Essential Suppliers will not provide goods or services for the upcoming week if they have not been paid for the previous week, such that they would cease doing business with Fortress, which would significantly affect Fortress' operations.

123. The Proposed Monitor believes that it is necessary under the circumstances that it be entitled to let Management (i) identify which of these suppliers are essential to the business and ongoing operations of Fortress, and (ii) pay the Essential Suppliers, with the Proposed Monitor's prior written approval and provided that the payments of such amounts is made in accordance with the Cash-Flow Statement (defined below) and the budget attached to the Interim Financing Term Sheet, or with the prior consent of IQ, up to a maximum of \$250,000.

XII. OVERVIEW OF THE 22-WEEK CASH FLOW PROJECTIONS

124. Fortress, with the assistance of the Proposed Monitor, has prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 22-week period from December 1, 2019 to May 2, 2020 (the "**Cash Flow Period**") for the purpose of projecting Fortress' estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Statement is attached as **Appendix A** to this report.

125. The Cash Flow Statement has been prepared by Fortress using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.

126. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by Management. Since the hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to these assumptions were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the documents provided by Management in support of the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

127. Based on the Proposed Monitor's review and the foregoing qualifications and limitations, nothing has come to its attention that causes it to believe that, in all material respects:

- (i) The hypothetical assumptions are not consistent with the purpose of the Cash Flow Statement;
- (ii) As at the date of this First Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of Fortress or do not provide a reasonable basis for the Cash Flow Statement, given the hypothetical assumptions; or
- (iii) The Cash Flow Statement does not reflect the probable and hypothetical assumptions.

128. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report. Neither does the Proposed Monitor express any opinion as to the performance of Fortress' statutory obligations with regard to projected payments to be made in accordance with the Cash Flow Statement, *inter alia* the payment of wages, the government remittances and the payroll deductions to be made by Fortress.

129. The Cash Flow Statement has been prepared solely for the purpose described in the Notes to the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.
130. As above mentioned, the key assumptions used in the Cash Flow Statement are based on the revised 2019 fiscal year operating plan. Fortress' consolidated cash balance as at May 2, 2020 is estimated to be approximately \$250,000. The Cash Flow Statement demonstrates that the liquidity level will not be sufficient to fund the operations during the following 22-week without the Interim Facility, unless an amount of \$5.5 M of interim financing is provided.
131. The Management anticipates more restrictive payment terms for purchases from suppliers following the announcement of the CCAA proceedings. As such, Management has anticipated certain "cash on delivery" purchases and payment of deposits to certain supply providers.
132. As appears from the Cash Flow Statement and the Application, in order to preserve the value of its assets with the view to restart the Pulp Mill, Fortress intends to continue to pay its trade creditors for services rendered and goods supplied in the normal course of business, both prior to and during these CCAA proceedings.
133. Management has advised the Proposed Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

XIII. THE PROPOSED MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

134. The Proposed Monitor believes that Fortress should be granted the benefit from the protection available pursuant to the CCAA in the form of the proposed First Day Order, Initial Order, including the granting of the charges provided for therein, Receivership Order and Claims Procedure Order, since same would provide Fortress with the opportunity to attempt a successful restructuring of its operations.

DATED AT MONTREAL, this 13th day of December, 2019

DELOITTE RESTRUCTURING INC.

In its capacity as Proposed Court-Appointed Monitor of
Fortress



Jean-François Nadon, CPA, CA, CIRP, LIT
President



Benoît Clouâtre, CPA, CA, CIRP, LIT
Senior Vice President

Appendix A

APPENDIX A
Fortress Global Enterprises - 22-week consolidated Cash-Flow

Fortress Specialty Cellulose Inc. - Weekly Cash-Flow (\$000)	Forecast 7-Dec-19	Forecast 14-Dec-19	Forecast 21-Dec-19	Forecast 28-Dec-19	Forecast 4-Jan-20	Forecast 11-Jan-20	Forecast 18-Jan-20	Forecast 25-Jan-20	Forecast 1-Feb-20	Forecast 8-Feb-20	Forecast 15-Feb-20	Forecast 22-Feb-20	Forecast 29-Feb-20	Forecast 7-Mar-20	Forecast 14-Mar-20	Forecast 21-Mar-20	Forecast 28-Mar-20	Forecast 4-Apr-20	Forecast 11-Apr-20	Forecast 18-Apr-20	Forecast 25-Apr-20	Forecast 2-May-20	Total	
Receipts																								
GST & GST refunds	-	-	502	299	-	-	359	-	-	-	-	274	-	-	-	-	192	-	-	-	210	-	-	1,836
Reception from FBL	-	-	553	-	-	-	564	-	-	-	-	564	-	-	-	-	706	-	-	-	564	-	-	2,951
Bridge lenders	500	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	500	
DIP	-	2,000	-	-	-	-	-	-	2,000	-	-	-	-	-	-	-	1,000	-	-	-	-	700	-	5,700
Total - Receipts	500	2,000	1,055	299	-	-	923	-	2,000	-	-	838	-	-	-	898	1,000	-	-	774	700	-	10,987	
Disbursements																								
Trade payables - Regular	(105)	(100)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(60)	(60)	(60)	(60)	(60)	(60)	(1,630)
Payables - Chemicals	(9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(9)
Payables - Fiber current / Biomass	(62)	(148)	(148)	(148)	(148)	(148)	(102)	(102)	(102)	(102)	(102)	(102)	(102)	(102)	(102)	(148)	(148)	(148)	(148)	(148)	(148)	(148)	(148)	(2,710)
Foreign selling agent	(31)	(35)	(35)	(35)	(33)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(169)
Payroll	(47)	(218)	(16)	(224)	(35)	(180)	(15)	(180)	(15)	(180)	(15)	(230)	(15)	(180)	(15)	(180)	(15)	(180)	(15)	(180)	(15)	(180)	(180)	(2,330)
Payroll related	(55)	(130)	-	-	-	(46)	-	-	-	(46)	-	-	-	(58)	-	-	-	-	(46)	-	-	-	-	(381)
Hydro-Quebec	-	-	(446)	-	-	(425)	-	-	-	-	-	(394)	-	-	-	(446)	-	-	-	(425)	-	-	-	(2,136)
Professional fees	(261)	(200)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(961)
Insurance	(185)	-	-	-	(93)	-	-	-	(93)	-	-	-	-	(93)	-	-	-	-	(93)	-	-	-	-	(650)
D&O Insurance	-	-	(200)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(200)
Transfer to corporate	(30)	-	-	-	(45)	-	-	-	(25)	-	-	-	(25)	-	-	-	-	-	-	-	-	-	-	(125)
Total - Disbursements	(785)	(831)	(945)	(507)	(454)	(428)	(642)	(382)	(335)	(428)	(217)	(826)	(242)	(533)	(217)	(874)	(263)	(506)	(294)	(838)	(248)	(506)	(11,301)	
Change in Cash-Flow	(285)	1,169	110	(208)	(454)	(428)	281	(382)	1,665	(428)	(217)	12	(242)	(533)	(217)	24	737	(506)	(294)	(64)	452	(506)	(314)	
Net cash (Shortfall) - Beginning (1)	325	40	1,209	1,319	1,111	657	229	510	128	1,793	1,365	1,148	1,160	918	385	168	192	929	423	129	65	517	325	
Net cash (Shortfall) - End	40	1,209	1,319	1,111	657	229	510	128	1,793	1,365	1,148	1,160	918	385	168	192	929	423	129	65	517	11	11	
Fortress Bioenergy Ltd. - Weekly Cash-Flow (\$000)																								
Receipts																								
Cogeneration plant revenues	-	-	715	-	-	-	648	-	-	-	-	648	-	-	-	-	812	-	-	-	648	-	-	3,472
Disbursements																								
Transfer FSC	-	-	(553)	-	-	-	(564)	-	-	-	-	(564)	-	-	-	-	(706)	-	-	-	(564)	-	-	(2,951)
GST/GST	-	-	(212)	-	-	-	(84)	-	-	-	-	(84)	-	-	-	-	(106)	-	-	-	(84)	-	-	(571)
Total - Disbursements	-	-	(765)	-	-	-	(648)	-	-	-	-	(648)	-	-	-	(812)	-	-	-	(648)	-	-	(3,522)	
Change in Cash-Flow	-	-	(50)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(50)	
Net cash (Shortfall) - Beginning	50	50	50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	50	
Net cash (Shortfall) - End	50	50	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Fortress Global Enterprises - Weekly Cash-Flow (\$000)																								
Opening balance																								
Transfer from FSC	30	-	-	-	45	-	-	-	25	-	-	-	25	-	-	-	-	-	-	-	-	-	-	125
Disbursements	(30)	-	-	-	(45)	-	-	-	(25)	-	-	-	(25)	-	-	-	-	-	-	-	-	-	-	(125)
Closing balance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
FSC, FBL & FGE - Weekly Cash-Flow (\$000)																								
Net cash (Shortfall) - End	90	1,259	1,319	1,111	657	229	510	128	1,793	1,365	1,148	1,160	918	385	168	192	929	423	129	65	517	11	11	

Note 1: Fortress additionally has an amount of cash on hand of approximately \$2.3 M in a segregated bank account that is maintained to cover some of the salary and vacation obligations to employees.

NOTES TO THE CASH-FLOW STATEMENT

NOTE A – PURPOSE

The purpose of these cash-flow projections is to determine the liquidity requirements of the Company during the CCAA proceedings.

NOTE B

The Cash Flow Statement has been prepared by the Company using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement.

The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to Information supplied to it by Management. Since the hypothetical assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The Proposed Monitor also reviewed the support provided by Management for the probable assumptions, and the preparation and presentation of the Cash Flow Statement.

NOTE C - DEFINITIONS

(1) CASH-FLOW STATEMENT:

In respect of a Company, means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash-flow of the Company as defined in section 2(1) of the Act based on Probable and Hypothetical Assumptions that reflect the Company's planned course of action for the period covered.

(2) HYPOTHETICAL ASSUMPTIONS:

Means assumptions with respect to a set of economic conditions or courses of action that are not necessarily the most probable in the Company's judgment, but are consistent with the purpose of the Cash-Flow Statement.

(3) PROBABLE ASSUMPTIONS:

Means assumptions that:

- (i) The Company believes reflect the most probable set of economic conditions and planned courses of action, **Suitably Supported** that are consistent with the plans of the Company; and
- (ii) Provide a reasonable basis for the Cash-Flow Statement.

(4) SUITABLY SUPPORTED:

Means that the Assumptions are based on either one or more of the following factors:

- (i) The past performance of the Company;
- (ii) The performance of other industry/market participants engaged in similar activities as the Company;
- (iii) Feasibility studies;
- (iv) Marketing studies; or
- (v) Any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions.

The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.

NOTE C - ASSUMPTIONS

Assumptions	Source	Probable Assumption	Hypothetical Assumption
<u>Opening cash balance</u>	Based on current bank balances	X	
<u>Exchange rate</u>	Exchange rates used by management are the following: • US \$ / Cnd \$ = 1.3333 / 1.00		X
<u>Forecast cash receipts:</u>			
Cogeneration plant revenues	Based on the Company's calculation for a production of 7 MW per hour		X
QST & GST refunds	Based on the level of expenses budgeted	X	
Reception from FBL	Based on the level of the cogeneration revenues budgeted in FBL and then transferred to FSC		X
<u>Forecast cash disbursements:</u>			
Trade payables - regular	Weekly estimate of disbursements required based on historical costs	X	
Payables - Fiber current / biomass	Based on the Company's calculation for a production of 7 MW per hour and historical costs. Also, it assumes the fact that from January to March, biomass already paid at Lauzon will be used		X
Foreign selling agent	Not required after CCAA	X	
Payroll	Based on the Company's historical payroll reports and on the budgeted number of employees	X	
Payroll related	Pension plans, group insurance and other benefits based on the level of employees expected	X	
Hydro-Quebec	Monthly estimate of disbursements required based on historical costs	X	
Professional fees	Management estimate of professional fees to be incurred in the following weeks for monitor and legal services.		X
Insurance	Based on insurance contract	X	

Transfer to corporate	Weekly estimate of disbursements required to cover Fortress Global Enterprises head office expenses based on the level of activity expected	X	
QST/GST	Based on the level of the cogeneration revenues budgeted in FBL	X	
D&O Insurance	Based on discussion with insurer	X	