

C A N A D A
PROVINCE OF QUEBEC
DISTRICT OF MONTREAL
COURT. No.: 500-11-057679-199

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 Quebec, 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 *Quebec 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 V6C 3L2 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;

Monitor

**SECOND REPORT TO THE COURT
SUBMITTED BY DELOITTE RESTRUCTURING INC.
IN ITS CAPACITY AS MONITOR ("THE 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 under the *Companies' Creditors Arrangement Act* ("**CCAA**") dated December 13, 2019 (the "**Application**").
2. On December 13, 2019, the Monitor (as defined below) issued its First report to the Court submitted by Deloitte Restructuring Inc. in its capacity as Proposed Monitor (the "**First Report**"). The purpose of the First Report was to provide information to the Court with respect to (I) Deloitte's qualification to act as Monitor; (II) the business, financial affairs and financial results of Fortress; (III) Fortress' main creditors; (IV) Fortress' SISF; (V) the proposed restructuring; (VI) the Key Employee Retention Program ("**KERP**"); (VII) the

appointment of a receiver; (VIII) the charges sought in the First Day Order and in the proposed Amended and Restated Initial Order; (IX) the D&O Trust; (X) the Claims Procedure Order; (XI) payments to Essential Suppliers (as defined in the First Report); (XII) overview of the 22-week cash flow projections as of the date of the First Report, in accordance with section 23(1)(b) CCAA; and (XIII) the Monitor's conclusions and recommendations in connection with the foregoing.

3. On December 13, 2019, Investissement Québec and Fiera Private Debt Inc. (collectively, the "**Applicants**"), in their respective capacity as secured creditors of Fortress Global Enterprises Inc. ("**Fortress Global**"), Fortress Specialty Cellulose Inc. ("**Fortress Specialty**"), Fortress Bioenergy Ltd ("**Fortress Bioenergy**"), Fortress Xylitol Inc. ("**Fortress Xylitol**") and 9217-6536 Québec Inc. ("**9217**") (collectively "**Fortress**"), filed the Application seeking, inter alia, the issuance of a First Day Initial Order, an Amended and Restated Initial Order, a Receivership Order and a Claims Procedure Order pursuant to Sections 9, 11, 11.51, 11.52 of the CCAA, as well as a Receivership Order pursuant to Section 243 of the Bankruptcy and Insolvency Act.

On December 16, 2019, the Superior Court of Quebec, Commercial Division (the "**Court**"), partially granted the Application and rendered a First Day Initial Order (the "**First Day Order**") which provided for, *inter alia*, (i) a stay of proceedings against Fortress until December 26, 2019 (the "**Stay Period**"); (ii) a stay of proceedings against the Directors and Officers; (iii) the appointment of Deloitte Restructuring Inc. as the Monitor under the CCAA ("**Deloitte**" or the "**Monitor**"); (iv) the approval of the Interim Facility; and (v) the granting of an Interim Lenders' Charge.

4. These proceedings commenced under the CCAA by Fortress will be referred to herein as the "**CCAA Proceedings**".
5. On the same day, the Court also rendered a Receivership Order appointing Deloitte as receiver to a bank account opened in the name of Fortress Global for the sole purpose of allowing its employees to recover certain amounts which may be owing to them pursuant to the *Wage Earners Protection Program Act*.
6. On December 19, 2019, the Applicants filed an Application for the Issuance of an Amended First Day Order, which was granted by the Court on December 26, 2019, who rendered an Amended First Day Order (the "**Amended First Day Order**") providing for, *inter alia*, (i) an extension of the Stay Period until January 10, 2020; (ii) an increase of the maximum principal amount of the Interim Facility to \$1.5M; (iii) an increase of the Interim Lender Charge to up to \$1.8M; and (iv) the authorization by Fortress, or the Monitor on behalf of Fortress, to pay certain pre-filing claims of Essential Suppliers (as defined in the First Report), up to a maximum of \$250,000.
7. The purpose of the present Second Report of the Monitor (the "**Second Report**") is to provide information to the Court with respect to:
 - I. An update regarding Fortress' operations (page 4);
 - II. The Monitor's activities since the First Report; (page 5);
 - III. A comparison between Fortress' original cash flow statement and the actual receipts and disbursements for the five-week period ended January 4, 2020 (page 6);
 - IV. Fortress' updated cash flow projections for the period from January 5, 2020 to May 2, 2020 (page 7);
 - V. The Charges sought in the proposed Amended and Restated Initial Order (page 8);

- VI. The proposed Claims Procedure Order (page 11);
 - VII. The request for an extension of the Stay Period (page 11); and
 - VIII. The Monitor's conclusions and recommendations (page 12).
8. In preparing the Second Report and making the comments herein, the 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 Second Report in respect of Fortress' Cash Flow Statement (as defined below):
- (i) The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the 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 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 Second 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.
9. Future oriented financial information referred to in this Second 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.
10. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Second Report concerning Fortress and their business is based on the Information, and not independent factual determinations made by the Monitor.
11. A copy of this Second Report and further reports of the Monitor, as the case may be, will be made available on the Monitor's Website (as defined below).

I. AN UPDATE REGARDING FORTRESS' OPERATIONS

12. Since the First Day Order:
- (i) Fortress maintained the Pulp Mill's shutdown mode, continued its operation of the Cogeneration Facility, and continued to pay their current employees and their suppliers in the normal course of business;
 - (ii) The price of the dissolving pulp has remained unchanged and nothing further indicates an increase in the pricing trend;
 - (iii) 13 additional employees were laid off; and
 - (iv) 4 notices of termination were sent for rental contracts.

13. On December 16, 2019, the Investment Industry Regulatory Organization of Canada ("**IIROC**") issued a trading halt for all issues relating to Fortress.
14. On December 18, 2019, Management and the Monitor met with all of Fortress' unionized employees and their union representatives to explain Fortress' restructuring process, the CCAA Proceedings and the impact on their employment.
15. On December 20, 2019, the TSX informed Fortress that, pending an appeal from Fortress Global, it would proceed, on January 17, 2020, with the delisting of all issues regarding Fortress Global. The Monitor has been informed that Fortress Global does not intend to appeal this decision from the TSX.
16. Following the issuance of the Amended First Day Order, a total amount of \$186,000 was paid to Essential Suppliers for services rendered prior to December 16, 2019. A large portion of this amount was paid to biomass suppliers.
17. The Monitor has been made aware of a number of issues that will need to be resolved in the short term regarding certain demands and requests from Hydro-Québec as well as Fortress' future requests for adjustments to be made to allow it to reduce minimum power purchases. The Monitor has been informed that it is the intention of Fortress to secure a comprehensive agreement with Hydro-Québec in the coming weeks. A call is scheduled this week with the representatives of Hydro-Québec, Fortress and the Monitor.
18. The Monitor has also been made aware of a dispute with one of Fortress' important supplier, Lauzon-Planchers de bois exclusifs Inc. ("**Lauzon**").
19. There is currently approximately \$800K of birch biomass/chips stored on Lauzon's premises, which are the property of Fortress. According to Management, all amounts due to Lauzon regarding the birch biomass/chips were paid prior to the CCAA Proceedings, such that the birch biomass/chips are Fortress' property.
20. However, Lauzon claims that there is a pre-filing amount of approximately \$1.6M that is owed by Fortress regarding other fiber supply, and is of the view that this amount needs to be paid by Fortress before it allows Fortress to have physical access to the birch biomass/chips stored on its premises.
21. The Monitor has been informed that Fortress had planned to have access to the birch biomass/chips starting in the coming weeks in order to use it in the Cogeneration Facility. The Monitor will be discussing further with Lauzon in the coming days in view of allowing Fortress to be granted such access. Should the Monitor and Fortress be unable to promptly reach an agreement with Lauzon, the parties will seek instructions from the Court.

II. THE MONITOR'S ACTIVITIES SINCE THE FIRST REPORT

22. On December 17, 2019, the Monitor posted a copy of the CCAA Proceedings' application materials, the First Report and the Initial Order on the Monitor's website at www.insolvencies.deloitte.ca/Fortress (the "**Monitor's Website**").
23. The Monitor has also provided a dedicated email address and phone number (the "**Monitor's Phone Number**"), which can be found on the Monitor's Website, to allow interested parties to contact the Monitor directly if they have questions with respect to the Fortress' restructuring or the CCAA Proceedings.
24. On December 18, 2019, the Monitor met with Fortress' management to discuss matters that required immediate attention. The Monitor also had discussions with the employees responsible for all environmental matters, in view of establishing if the proper safeguards

and procedures were in place and to identify if any actions were required regarding the environment, including the leachate situation of 9217 as described in the First Report.

25. On December 19, 2019, the Monitor sent, by prepaid ordinary mail, a notice to all the 389 known creditors of Fortress based on the contact information of such known creditors provided by Management, which included information about the CCAA Proceedings, the Monitor's phone number, its email address and the Monitor's Website (the "**Notice to Creditors**"). A copy of the Notice to Creditors was also posted on the Monitor's Website.
26. On December 19, 2019, the Monitor also sent, by prepaid ordinary mail, a notice to all the 311 known current and past employees based on the contact information of such known employees provided by Management, which included information about the CCAA Proceedings, the Monitor's phone number, its email address and the Monitor's Website (the "**Notice to Employees**"). A copy of the Notice to Employees was also posted on the Monitor's Website. Management is currently preparing all information that will be required to expedite the claims process for employees to allow them to have access to the WEPPA as soon as possible.
27. On December 20, 2019, and December 27, 2019, the Monitor published a notice with respect to the First Day Order in *La Presse Plus* and The Globe and Mail (National Edition).
28. On December 23, 2019, the Monitor posted a French translation of the First Report on the Monitor's Website.
29. On December 26, 2019, the Monitor posted the Amended First Day Order on its website.
30. More generally, the Monitor, with the assistance of Fortress, has been responding to questions of various stakeholders as to the status of the CCAA Proceedings.
31. The Monitor has also analyzed the receipts and disbursements transacted through Fortress' bank accounts on a weekly basis with full co-operation of Management and was presented with all requests for payment of services provided to Fortress since the First Day Order.
32. The Monitor filed the first and second form (Form 1 and 2) with respect to the granting of the First Day Order and certain information as required by the Office of the superintendent of bankruptcy (the "**OSB**").

III. ACTUAL RECEIPTS AND DISBURSEMENTS

33. The highlights of Fortress' financial performance for the period commencing on December 1, 2019, and ending on January 4, 2020, are presented in the Actual Cash Flow annexed hereto as **Appendix A**. The Monitor's comments on the financial performance of Fortress during such period are the following:
 - (i) compared with the initial statement of projected cash flow presented by Fortress to the Court (the "**Initial Cash Flow Statement**"), Fortress experienced:
 - i. Fortress only requested \$1M of DIP funding given that it had access to \$951K of funds segregated in a separate bank account. This excess was transferred during the period to Fortress' operational bank account; and
 - ii. an unfavorable total variance of less than 2% in respect of all others cash inflows.

- (ii) compared with the Initial Cash Flow Statement, the Debtors experienced a favorable variance of approximately \$525K in respect to the cash outflows. The variance is primarily attributable to the timing as some disbursements that were initially budgeted in the previous weeks should be made in the upcoming weeks:
 - i. a cumulative and positive variance of \$114K in trade payables mainly due to timing as several invoices were not received during the holidays;
 - ii. a cumulative and positive variance of \$165K in biomass mainly due to timing as several invoices and shipments were not received during the holidays;
 - iii. a permanent favorable variance of \$137K in foreign selling agent fees that are no longer assumed by Fortress;
 - iv. an unfavorable variance of \$110K in payroll due to more vacation payment requests than initially budgeted during the two weeks preceding the CCAA. Also, some employees stayed longer than initially expected to ensure a proper continuity in the operations.
 - v. a cumulative and positive variance of \$182K in professional fees mainly due to timing, as payments that were budgeted in the previous week should be made in the upcoming weeks.
 - vi. a cumulative and positive variance of \$212K in QST/GST reimbursement due to timing. It will be offset in the upcoming weeks.

34. As of the date of this Second Report, all post-filing expenses incurred by Fortress have been or will be paid in the normal course of business out of the existing working capital of Fortress or through a draw of additional funds from the initial amount of \$1M made available as part of the Interim Financing, as described in the First Report.

IV. OVERVIEW OF THE 17 WEEK CASH FLOW PROJECTIONS

35. Fortress, with the assistance of the Monitor, have prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 17-week period from January 5, 2020 to May 2, 2020 (the "**Cash Flow Period**") for the purpose of projecting Fortress' estimated need for liquidities during the Cash Flow Period. A copy of the Cash Flow Statement is attached as **Appendix B** to this Second Report.
36. The Cash Flow Statement has been prepared by Fortress using probable and hypothetical assumptions set out in the notes to the Cash Flow Statement (the "**Notes to the Cash Flow Statement**").
37. The 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 do not need to be supported, the 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 Monitor also reviewed the support for the probable assumptions provided by Management, as well as the preparation and presentation of the Cash Flow Statement.
38. Based on the 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 Second Report, the probable assumptions developed by Management are not suitably supported and consistent with Fortress' plans or that 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.

39. 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 Monitor expresses no opinion as to whether the projections in the Cash Flow Statement will be achieved. The 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 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.
40. As compared to the Initial Cash-Flow Statement presented in the First Report, changes were made to reflect most of the different timing variances as described previously in this Second Report.
41. 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.
42. Based on the projections for the period ending May 2, 2020, Fortress will need approximately \$5M of additional DIP. The total DIP amount, \$6M, remains equal compared to what was presented in the First Report.
43. Management has advised the Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

V. CHARGES SOUGHT IN THE PROPOSED AMENDED AND RESTATED INITIAL ORDER

Administration Charge

44. As mentioned in the First Report, the proposed Amended and Restated Initial Order provides for a priority charge in the amount of up to \$600,000 in favour of: (a) the Applicants' counsel, the Monitor and its counsel 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.
45. The proposed Restated Initial Order provides that Fortress' counsel's professional fees and disbursements related to services provided after the proposed Restated 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 Monitor, in consultation with IQ, are also covered by the Administration Charge.
46. The Monitor believes that the Administration Charge is required and is reasonable under the circumstances.

Interim Facility and Interim Lender Charge

47. Fortress does not generate sufficient revenue to continue to operate and implement the proposed Restructuring Process' measures, as defined in the First Report, and must therefore obtain financing during the CCAA Proceedings.

48. 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.
49. 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.
50. The Interim Lender being an existing secured creditor of Fortress, it was the only practical option for sourcing interim financing.
51. The Interim Facility has been and will continue to be used to provide interim financing to Fortress during the pendency of these CCAA Proceedings.
52. As appears from the Interim Facility, all amounts advanced thereunder are to be secured by a Court-ordered super-priority charge in the total amount of \$7.2M on all of Fortress' assets, in priority to all other existing encumbrances and Court charges, except for the Administration Charge (the "**Interim Lender Charge**").
53. 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.
54. Pursuant to the First Day Order, the Interim Financing Term Sheet was approved by the Court, and Fortress was authorized to borrow thereunder an amount of up to a maximum principal amount of \$1M, secured by the Interim Lender Charge in the amount of \$1.2M.
55. Pursuant to the Amended First Day Order, Fortress was authorized to borrow under the Interim Financing Term Sheet an additional amount of \$500,000 (for up to a total amount of \$1.5M), secured by an increased Interim Lender Charge of \$1.8M.
56. As of January 8, 2020, in accordance with the Interim Financing Term Sheet as well as the First Day Order and Amended First Day Order, the Interim Lender had already advanced \$1M as set forth in the Cash Flow Statement.
57. Based on the current cash-flow forecasts, an additional amount of \$4.5M will need to be advanced to by Fortress under the Interim Financing Term Sheet, in order to cover the budgeted amounts set forth in said cash-flow forecasts.
58. The Monitor supports the Applicants' request to increase the amounts which Fortress will be entitled to borrow under the Interim Financing Term Sheet for the following reasons:
- (i) In the Monitor's view, no creditor will be materially prejudiced as a result of the Interim Financing Facility and related 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 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);

- (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;
- (iv) The terms and conditions of the Interim Financing Term Sheet has already been approved by this Court as part of the First Day Order

Intercompany Charge

- 59. As explained in the First Report, 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 \$3M and thus justify justifying a charge of \$3M as of the date of this Second Report (the "**Intercompany Charge**").
- 60. 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.
- 61. Management has informed the 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.
- 62. The 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.
- 63. The 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

- 64. In order to secure payment of the amounts payable under the KERP, as described in the First Report, the Applicants are seeking a KERP Charge in the amount of \$610,000 on Fortress' current and future assets.
- 65. Given that the alternative would have been to segregate funds and impact Fortress' liquidity, the Monitor is supportive of the granting of such a charge.
- 66. As of January 8, 2020, all employees covered by the KERP had executed their individual agreements.

Directors' and Officers' Charge

- 67. As stated in the First Report, the 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.
- 68. The 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.

69. As expected, all except for one of the directors of Fortress resigned following the issuance of the First Day Order. The committed and continued involvement of the remaining director and officers (the "**Remaining D&Os**") is key to complete the Restructuration Process. The remaining director and officers require indemnification against obligations and liabilities that they may incur in such capacity.
70. The proposed Amended and Restated Initial Order provides for a charge in an amount not to exceed \$500,000 to secure the indemnity provided to the remaining director and officers in respect of liabilities incurred in such capacity after the Effective Time, except to the extent that such obligation or liability would have been incurred as a result of the Remaining D&Os gross negligence or willful misconduct (the "**D&O Charge**").
71. As per the Application, the D&O Charge becomes effective only if the existing D&O Insurance is not responsive or sufficient.
72. The amount of the D&O Charge has been calculated by the 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.
73. In these circumstances, the Monitor is of the view that the D&O Charge is required in the circumstances, and that the amount is reasonable and justified.

VI. CLAIMS PROCEDURE ORDER

74. 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.
75. As appears from the Application and the proposed draft Claims Procedure Order, the Applicants propose to set a claims bar date of March 15, 2020.
76. As described in the First Report, the Monitor believes that, in the circumstances, the proposed Claims Procedure, including the proposed claims bar date, 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.
77. Provided that the Claims Procedure Order is rendered as requested by the Applicants, the Monitor expects to be able to issue claims packages to all known creditors of Fortress by January 17, 2020.

VII. REQUEST FOR EXTENSION OF THE STAY OF PROCEEDINGS

78. The Applicants are seeking an extension of the Stay Period until May 2, 2020, in order to preserve the value of Fortress' assets and implement the proposed Restructuring Process, as described in the First Report, which may involve, *inter alia*:
 - (i) The reduction to a minimum of Fortress' operations;
 - (ii) The modernization and upgrade of Fortress' current operation and installation;
 - (iii) The alternative production; and
 - (iv) The implementation of a simplified and efficient claims procedure.

79. Fortress intends to continue to pay its trade creditors for services rendered and goods provided in the normal course of business during the CCAA Proceedings. The Monitor has been advised that, in parallel, Fortress intends to maintain the Mill shutdown mode and continue its operation of the Cogeneration Facility in the ordinary course of business.
80. As above described in the Second Report, the Cash Flow Statement indicates that Fortress should have sufficient liquidity to continue to meet its obligations with access to the Interim Facility in the ordinary course of business.

VIII. THE MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

81. The Monitor believes that Fortress should be granted the continued benefit from the protection available pursuant to the CCAA in the form of the proposed Amended and Restated Initial Order, including the granting of the charges provided for therein, and proposed Claims Procedure Order, since same would provide Fortress with the opportunity to attempt a successful restructuring of its operations.
82. As noted above, the current Stay Period expires on January 10, 2020. The Monitor understands that the extension of the Stay Period sought by the Applicants is required to complete the Restructuring Process.
83. Based on the information presently available, the Monitor believes that Fortress' creditors will not be materially prejudiced by the proposed extension of the Stay Period.
84. The Monitor also believes that Fortress has, and is acting, in good faith and with due diligence and that the sought extension of the Stay Period is appropriate.
85. The Monitor respectfully submits to the Court this, its Second Report.

DATED AT MONTREAL, this 8th day of January, 2020

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 - Budget to Actual

Fortress Specialty Cellulose Inc.

For the cumulative five-week period ended
Jan 4, 2020

(\$000)	Actual	Budget	Variance	Comments
Receipts				
GST & QST refunds	801	801	-	
Reception from FBL	574	553	21	
Bridge lenders	459	500	(41)	
DIP	1,000	2,000	(1,000)	The unfavorable variance of \$1M is mainly due to the use of the surplus from the Desjardins bank account.
Other deposits	(12)	-	(12)	
Desjardins Account	951	-	951	\$951K from the Desjardins bank account was used for Fortress's operations.
Total - Receipts	3,773	3,854	(81)	
Disbursements				
Trade payables - Regular	(316)	(430)	114	The \$114k cumulative and positive variance is mainly due to timing as several invoices were not received during the holidays.
Payables - Chemicals	(9)	(9)	-	
Payables - Fiber current / Biomass	(489)	(654)	165	The \$165k cumulative and positive variance is mainly due to timing as several invoices and shipments were not received during the holidays.
Foreign selling agent	(32)	(169)	137	Foreign selling agent fees are not assumed by Fortress anymore.
Payroll	(650)	(540)	(110)	The unfavorable variance of \$110k is due to more vacation payment requests than initially budgeted during the two weeks preceding the CCAA. Also, some employees stayed longer than initially expected to ensure a proper continuity in the operations.
Payroll related	(253)	(185)	(68)	The unfavorable variance of \$68k is due to timing as payments budgeted in January occurred in December.
Hydro-Quebec	(384)	(446)	62	
Professional fees	(354)	(536)	182	The \$182k cumulative and positive variance is mainly due to timing, as payments that were budgeted in the previous week should be made in the upcoming weeks.
Insurance	(370)	(278)	(92)	The \$92k unfavorable variance is caused by the nonsuccess of the negotiation to reduce the insurance cost as initially budgeted.
IQ Interest	(42)	-	(42)	
IAM Interest	(29)	-	(29)	
D&O Insurance	(171)	(200)	29	
Transfer to corporate	(30)	(75)	45	The \$45k cumulative and positive variance is mainly due to timing, as payments that were budgeted in the previous week should be made in the upcoming weeks.
Loan Komatsu	(17)	-	(17)	
Loan Liebherr	(42)	-	(42)	
Total - Disbursements	(3,188)	(3,522)	334	
Change in Cash-Flow	585	332	253	
Net cash (Shortfall) - Beginning	325	325	-	
Net cash (Shortfall) - End (1)	910	657	253	

(1) The net cash (shortfall) balance at the end includes outstanding checks. As of Jan 4, 2020, outstanding checks totaled 105k\$.

Fortress Bioenergy Ltd.

For the cumulative five-week period ended
Jan 4, 2020

(\$000)	Actual	Budget	Variance	Comments
Receipts				
Cogeneration plant revenues	685	715	(30)	
Disbursements				
Transfert FSC	(574)	(553)	(21)	
QST/GST	-	(212)	212	The \$212k cumulative and positive variance is due to timing. It will be offset in the upcoming weeks.
Total - Disbursements	(574)	(765)	191	
Change in Cash-Flow	111	(50)	161	
Net cash (Shortfall) - Beginning	50	50	-	
Net cash (Shortfall) - End	161	-	161	

Fortress Global Enterprises

For the cumulative five-week period ended
Jan 4, 2020

(\$000)	Actual	Budget	Variance	Comments
Opening balance				
Transfer from FSC	30	75	(45)	
Disbursements	(30)	(75)	45	
Closing balance	-	-	-	
FSC, FBL & FGE				
For the cumulative five-week period ended Jan 4, 2020				
(\$000)	Actual	Budget	Variance	Comments
Net cash (Shortfall) - End	1,071	657	414	

Appendix B

APPENDIX B
Fortress Global Enterprises - 17-week consolidated Cash-Flow

Fortress Specialty Cellulose Inc. - Weekly Cash-Flow		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
(\$000)	Week ending	11-Jan-20	18-Jan-20	25-Jan-20	1-Feb-20	8-Feb-20	15-Feb-20	22-Feb-20	29-Feb-20	7-Mar-20	14-Mar-20	21-Mar-20	28-Mar-20	4-Apr-20	11-Apr-20	18-Apr-20	25-Apr-20	2-May-20		
Receipts																				
	GST & QST refunds	-	359	-	-	-	-	228	-	-	-	216	-	-	-	245	-	-	-	1,048
	Reception from FBL	-	564	-	-	-	-	564	-	-	-	706	-	-	-	564	-	-	-	2,398
	DIP	-	-	2,000	-	-	-	-	-	1,000	-	-	-	1,000	-	-	-	-	1,000	5,000
Total - Receipts		-	923	2,000	-	-	-	792	-	1,000	-	922	-	1,000	-	809	-	-	1,000	8,446
Disbursements																				
	Trade payables - Regular	(116)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(60)	(60)	(60)	(60)	(60)	(60)	(1,241)
	Payables - Fiber current / Biomass	(148)	(148)	(148)	(148)	(148)	(148)	(148)	(148)	(148)	(102)	(102)	(102)	(102)	(102)	(102)	(102)	(102)	(102)	(2,148)
	Payroll	(180)	(15)	(180)	(15)	(180)	(15)	(230)	(15)	(180)	(15)	(180)	(15)	(180)	(15)	(180)	(15)	(180)	(15)	(1,790)
	Payroll related	(46)	-	-	-	(46)	-	-	-	(58)	-	-	-	-	(46)	-	-	-	-	(196)
	Hydro-Quebec	-	(425)	-	-	-	-	(394)	-	-	-	(446)	-	-	-	(425)	-	-	-	(1,690)
	Professional fees	(50)	(150)	(100)	(50)	(50)	(50)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(25)	(725)
	Insurance	-	-	-	(185)	-	-	-	-	(185)	-	-	-	(185)	-	-	-	-	(185)	(740)
	Transfer to corporate	(73)	-	(75)	(25)	-	-	-	(25)	-	-	-	-	-	-	-	-	-	-	(198)
Total - Disbursements		(613)	(813)	(578)	(498)	(499)	(288)	(872)	(288)	(671)	(217)	(828)	(217)	(552)	(248)	(792)	(202)	(552)	(628)	(8,728)
Change in Cash-Flow		(613)	110	1,422	(498)	(499)	(288)	(80)	(288)	329	(217)	94	(217)	448	(248)	17	(202)	448	(282)	(282)
Net cash (Shortfall) - Beginning		910	297	407	1,829	1,331	832	544	464	176	505	288	382	165	613	365	382	180	910	910
Net cash (Shortfall) - End		297	407	1,829	1,331	832	544	464	176	505	288	382	165	613	365	382	180	628	628	628
Fortress Bioenergy Ltd. - Weekly Cash-Flow																				
(\$000)	Week ending	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
	11-Jan-20	18-Jan-20	25-Jan-20	1-Feb-20	8-Feb-20	15-Feb-20	22-Feb-20	29-Feb-20	7-Mar-20	14-Mar-20	21-Mar-20	28-Mar-20	4-Apr-20	11-Apr-20	18-Apr-20	25-Apr-20	2-May-20			
Receipts																				
	Cogeneration plant revenues	-	648	-	-	-	-	648	-	-	-	812	-	-	-	648	-	-	-	2,757
Disbursements																				
	Transfer FSC	-	(564)	-	-	-	-	(564)	-	-	-	(706)	-	-	-	(564)	-	-	-	(2,398)
	QST/GST	(97)	(84)	-	-	-	-	(84)	-	-	-	(106)	-	-	-	(84)	-	-	-	(456)
Total - Disbursements		(97)	(648)	-	-	-	-	(648)	-	-	-	(812)	-	-	-	(648)	-	-	-	(2,854)
Change in Cash-Flow		(97)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(97)
Net cash (Shortfall) - Beginning		161	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	161
Net cash (Shortfall) - End		64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64	64
Fortress Global Enterprises - Weekly Cash-Flow																				
(\$000)	Week ending	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
	11-Jan-20	18-Jan-20	25-Jan-20	1-Feb-20	8-Feb-20	15-Feb-20	22-Feb-20	29-Feb-20	7-Mar-20	14-Mar-20	21-Mar-20	28-Mar-20	4-Apr-20	11-Apr-20	18-Apr-20	25-Apr-20	2-May-20			
Opening balance																				
	Transfer from FSC	73	-	75	25	-	-	-	25	-	-	-	-	-	-	-	-	-	-	198
Disbursements																				
	Disbursements	(73)	-	(75)	(25)	-	-	-	(25)	-	-	-	-	-	-	-	-	-	-	(198)
Closing balance																				
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSC, FBL & FGE - Weekly Cash-Flow																				
(\$000)	Week ending	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
	11-Jan-20	18-Jan-20	25-Jan-20	1-Feb-20	8-Feb-20	15-Feb-20	22-Feb-20	29-Feb-20	7-Mar-20	14-Mar-20	21-Mar-20	28-Mar-20	4-Apr-20	11-Apr-20	18-Apr-20	25-Apr-20	2-May-20			
Net cash (Shortfall) - End		361	471	1,893	1,395	896	608	528	240	569	352	446	229	677	429	446	244	692	692	692

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 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 Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. The 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 biomass already paid at Lauzon will be used		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	
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