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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 *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, H7S 1Z3, 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, Province of 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**

**SIXTEENTH 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 "**Initial Application**"). These proceedings commenced under the CCAA by Fortress will be referred to herein as the "**CCAA Proceedings**".
2. On December 13, 2019, Investissement Québec ("**IQ**" or the "**Interim Lender**") and Fiera Private Debt Inc. ("**Fiera**" and collectively with IQ, the "**Secured Creditors**"), 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 Initial Application seeking, *inter alia*, the issuance of a First Day Initial Order, an Amended and Restated Initial Order in respect of Fortress pursuant to Sections 9, 11, 11.51, 11.52 of the CCAA, as well as a Claims Procedure Order and a Receivership Order pursuant to Section 243 of the *Bankruptcy and Insolvency Act*.

3. On December 13, 2019, the Monitor (as defined below) issued its First Report, which purpose 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' solicitation process; (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; (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 the circumstances of the hearing and the motion presented by the Secured Creditors as co-applicants.
4. On December 16, 2019, the Superior Court of Quebec, Commercial Division (the "**Court**") partially granted the Initial 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 (the "**Monitor**"); (iv) the approval of Interim Financing Facility; and (v) the granting of an Interim Lenders' Charge.
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 ("**WEPPA**").
6. On December 19, 2019, the Secured Creditors filed an Application for the Issuance of an Amended First Day Order, which was presentable by conference call on December 26, 2019.
7. On December 26, 2019, the above-mentioned application was granted, and the Court rendered an Amended First Day Order which provided 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 Financing Facility to \$1.5M; (iii) an increase of the Interim Lender Charge to up to \$1.8M; and (iv) the payment of Essential Suppliers (as defined in the First Report) up to a maximum of \$250K. On such date, the Court advised the parties that it would hear the Secured Creditors' Application for an Amended and Restated First Day Order.
8. On January 8, 2020, the Monitor issued its Second Report. The purpose of the Second Report was to provide information to the Court on the activities of Fortress and of the Monitor since the commencement of the CCAA Proceedings and to support the Secured Creditors' demand for the issuance of an Amended & Restated Initial Order.
9. On January 10, 2020, an Amended & Restated Initial Order was rendered by the Court (the "**Amended & Restated Initial Order**") which provided for, *inter alia*, (i) an extension of the Stay Period until May 2, 2020; (ii) an increase of the maximum principal amount of the Interim Financing Facility to \$6M; (iii) an increase of the Interim Lender Charge to up to \$7.2M; (iv) a KERP and KERP Charge in an amount up to \$610K; (v) a D&O Charge in an amount up to \$500K; (vi) an Administration charge in an amount up to \$600K; (vii) an Intercompany Advance Charge in an amount up to \$3M; and (viii) the undertaking of the Monitor to file a report to the Court on further material development every two months, and to post these reports on the Monitor's website.

10. On January 10, 2020, the Court also rendered a Claims Procedure Order (the "**Claims Procedure Order**") allowing the Monitor to conduct a process for the determination and, if applicable, adjudication of claims against Fortress. Pursuant to the Claims Procedure Order, a "Claims Bar Date" was set on March 16, 2020, at 5:00 p.m. (Montreal time).
11. Since January 10, 2020, the Monitor has filed thirteen (13) reports with the Court, shared same with the Secured Creditors and served same to the Service List from time to time. Copies of all of the Monitor's reports are available on the Monitor's website.
12. On March 23, 2020, at the request of the Monitor, the Court rendered an order, essentially clarifying that the Stay Period applied to the proceedings involving regulatory bodies and commenced before the *Tribunal Administratif du Québec* bearing the court file number STE-Q-211461-1509 (the "**TAT Proceedings**") and suspending the proceedings commenced before the Court of Québec, criminal and penal division, district of Gatineau, in connection with the notices of infraction bearing numbers 100400-1116574361, 1004400-1116574353, 100400-1116574346, 100400-1116574338 and 100400-1116574312 (the "**Penal Proceedings**") until May 2, 2020 (the "**Stay Order Regarding Regulatory Bodies**").
13. On May 1, 2020, the Court extended the Stay Period, including the Stay Order Regarding Regulatory Bodies, up until August 11, 2020.
14. On June 8, 2020, Lauzon – Plancher de Bois Exclusif Inc. ("**Lauzon**") filed an application (the "**Lauzon Application**") seeking, *inter alia*, the amendment of the Initial Order, together with various declaratory orders, which was opposed by the Monitor, with the support of IQ.
15. On July 15, 2020, after a contested hearing which lasted 2 days, the Lauzon Application was rejected, in part, by the Court. As part of its order (the "**Lauzon Order**"), the Court essentially confirmed that the biomass stored on Lauzon's premises was the property of Fortress and ordered that the purchase agreement entered into between Lauzon and Fortress could not be terminated as will be discussed further below.
16. On August 10, 2020, the Court extended the Stay Period up to and including October 23, 2020, and, at the request of the Secured Creditors, increased the Interim Financing Facility to \$8M and the Interim Lender's Charge to \$9.6M.
17. On that same day, instead of specifically extending the Stay Order Regarding Regulatory Bodies, the Court reserved the parties' rights to make representations on the applicability or not of the Stay Period to the TAT Proceedings and Penal Proceedings.
18. On October 23, 2020, the Court extended the Stay Period up to and including September 30, 2021, and increased, at the request of the Secured Creditors, the Interim Financing Facility to \$17M and Interim Lender's Charge to \$20.4M.
19. On December 18, 2020, following a motion from the Company supported by the Monitor, the Court rendered:
  - (i) the Order Approving a Charge in Favour of Hydro-Québec (the "**Hydro-Québec Order**").
  - (ii) the Order Allowing the Distribution of Funds Held in Trust and Assigning Claims to the Monitor, essentially allowing the Monitor to distribute funds that were held in trust to Fortress employees for their unpaid claims (the "**Trust Order**").
20. On June 16, 2021, the Monitor filed an Application for the Issuance of an Order Approving:
  - (i) a Litigation Funding Agreement; (ii) a Litigation Financing Charge; (iii) the Transfer of Certain Litigation Proceedings Before the Superior Court (Commercial Division); and (iv) an

Agreement in Principle to Settle Certain Penal Proceedings (the "**Initial LFA Application**").

21. On June 22, 2021, the Court rendered an order approving the settlement of the penal proceedings (the "**Penal Proceedings Order**") and postponed to August 12, 2021, the debate on the approval of the litigation funding agreement between Omni Bridgeway (Fund 5) Canada Investments Limited ("**Omni**"), the Monitor, in its capacity as Monitor of Fortress Specialty and Cain Lamarre LLP (the "**Lawyers**") (the "**Initial LFA**"), the litigation financing charge in favour of Omni and thereafter of the Lawyers in the amount of \$6M over only the litigation proceeds (the "**Litigation Financing Charge**") and the transfer of the litigation between Fortress Specialty and Goulds Pumps before the Superior Court (Commercial Division) (the "**Litigation Proceedings**").
22. On August 12, 2021, and August 13, 2021, the debate regarding the Initial LFA, the Litigation Financing Charge and the transfer of the Litigation Proceedings was heard by the Court.
23. On September 24, 2021, IQ filed an Application for the Issuance of an Order Extending the Stay Period & Increasing the Interim Lender Charge.
24. On September 29, 2021, the Court extended the Stay Period up to and including October 8, 2021.
25. On October 8, 2021, the Court extended the Stay Period up to and including March 31, 2022, and increased, at the request of IQ, the Interim Financing Facility to \$24M and the Interim Lender Charge to \$28.8M.
26. On November 1, 2021, the Court rendered its judgment on the Initial LFA Application which refused to approve the LFA in its proposed form and expressed the Court's view with respect to the required changes as described further in this report (the "**Initial LFA Judgment**").
27. On November 19, 2021, the Monitor filed an *Application for the Issuance of an Order Approving a Litigation Funding Agreement and a Litigation Financing Charge* (the "**Amended LFA Application**").
28. On December 30, 2021, the Court rendered its judgment on the Amended LFA Application which refused to approve the Amended LFA in its proposed form and expressed the Court's view with respect to the required changes as described further in this report (the "**Amended LFA Judgment**").
29. On February 11, 2022, the Monitor filed an Application for the Issuance of an Order Approving an Amended Litigation Funding Agreement and the creation of a Litigation Funding Charge (the "**Re-amended LFA Application**"). On the same day, the Court rendered an *Order Approving a Litigation Funding Agreement and a Litigation Financing Charge*.
30. On February 23, 2022, IQ filed an *Application for the Issuance of an Order Extending the Stay Period and Approving a Fourth Amending Agreement to the Interim Financing Agreement*.
31. On March 3, 2022, the Court extended the Stay Period up to and including May 31, 2022, and increased, at the request of IQ, the Interim Financing Facility to \$27M and the Interim Lender Charge to \$32.4M.
32. On May 24, 2022, IQ filed an *Application for the Issuance of an Order Extending the Stay Period and Approving a Fifth Amending Agreement to the Interim Financing Agreement* (the "**Application**").

33. In accordance with the Amended and Restated Initial Order, the Monitor hereby issues its sixteenth report (the "**Sixteenth Report**"), which will discuss the following:

- I. Update on Fortress' operations (page 6);
- II. The Monitor's activities since the Fifteenth report (page 7);
- III. Fortress' cash flow up to May 14, 2022 (12 weeks) (page 9);
- IV. Fortress' updated cash flow projections for the period from May 15, 2022, to October 15, 2022 (page 10);
- V. The Applicant's request to have the Fifth Amending Agreement (the "**Fifth Amending Agreement**") to the Interim Financing Agreement (as defined below) be approved by this court, together with a corresponding increase of the Interim Lender's Charge (page 11);
- VI. The Applicant's request for an extension of the Stay Period (page 12); and
- VII. The Monitor's conclusions (page 13).

**I. UPDATE ON FORTRESS' OPERATIONS**

34. Since the Fifteenth Report:

- (i) Fortress has maintained the Pulp Mill in a shutdown mode;
- (ii) Fortress operated the Cogen Facility until March 22, 2022, in order to preserve the assets, including the Cogen Facility, during the winter and operate the water treatment plant for the benefit of Fortress and the city of Thurso; and
- (iii) Fortress currently employs 14 employees in its Thurso location, which is less than the 29 employees indicated in the Fifteenth Report. This reduction is due to the Cogen Facility not used at this time of the year.

***Update on Ongoing Issues with Creditors and Co-contractors***

Hydro-Québec

35. As mentioned in the previous reports, Fortress and Hydro-Québec agreed to the terms and conditions pursuant to which Hydro-Québec would consent to the restart of the Cogen Facility (i.e., maintenance of the Hydro-Québec Charge and monthly holdback of \$105K to be remitted to Fortress in April 2022).

36. In accordance with the terms of this agreement, Fortress allowed Hydro-Québec to withhold an amount of \$105K per month, up to a maximum of \$420K (the "**HQ Holdback Amount**"), from the amounts which would become owing to Fortress during the operation period of the Cogen Facility.

37. In accordance with the terms of this agreement, Hydro-Québec released and remitted the entirety of the HQ Holdback Amount to Fortress during the week ending April 9, 2022.

***Update on Fortress Xylitol Inc.***

38. As mentioned in the previous reports, 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.

39. Fortress Xylitol came to the end of its financial resources in October 2021 and it was expected that Fortress would cover for its expenses from the funds available through the Interim Financing Facility until the end of the solicitation process.
40. However, as the technology being developed by Fortress Xylitol may not be an integral part of the projects discussed with the players interested in Fortress' assets and/or business, it was agreed with the Interim Lender to prepare for the termination of the operations of Fortress Xylitol.
41. Fortress, supported by the Monitor, entered into discussion with 15 parties in order to find a group interested in pursuing the development of this product with a view to allowing the two (2) employees currently working for Fortress Xylitol to continue to work on the project and retain their jobs. These employees have been notified that in the case that the process does not prove successful, their employment would be terminated on August 31, 2022.

### **Other**

42. Fortress, with the assistance of the Monitor, updated its budget for the next five (5) months in order to secure additional financing to allow Fortress to transition, if needed, from the minimum maintenance scenario to the Cold Idle Scenario (as defined hereinafter) and maintain such scenario throughout the requested extension of the Stay Period. Discussions have taken place with the Interim Lender and an increase in the Interim Financing Facility has been made available to Fortress.
43. In light of the updated budget, it was essential that Fortress obtain this increase in the Interim Financing Facility in order to cover certain one-time expenses that are required to start implementing the Cold Idle Scenario.
44. The updated budget allows Fortress, with the help of the Monitor, to maintain the minimum maintenance scenario until the end of June 2022 and to start implementing the Cold Idle Scenario in the coming months, while it continues discussions with potential purchasers in the context of the solicitation process described hereinafter.

## **II. MONITOR'S ACTIVITIES SINCE THE LAST REPORT**

### General

45. Fortress and the Monitor held calls with the Interim Lender on a regular basis in order to update it on cash-flow, operations and the ongoing solicitation process.
46. The Monitor also held several calls with Fiera in order to update it on the developments in the CCAA Proceedings.
47. More generally, the Monitor, with the assistance of Fortress, has been responding to questions from various stakeholders as to the status of the CCAA Proceedings.
48. The Monitor has also analyzed the receipts and disbursements transacted through Fortress' bank accounts with the full co-operation of Management.

### Solicitation Process

49. As mentioned in the Fifteenth Report, following numerous discussions between Fortress, IQ, the Government and the Monitor, it was agreed to focus the discussions with one of the parties having submitted an offer (the "**Potential Purchaser**") and a budget was made available in

order to conduct feasibility studies with the objective of validating the technical and financial feasibility as well as the viability of the Potential Purchaser's proposed project (the "**Proposed Project**"), the whole with a view to ultimately concluding a transaction with the Potential Purchaser.

50. Since the Fifteenth Report, many discussions took place between the Potential Purchaser, its advisors, Fortress, IQ, the Government and the Monitor with a view to reaching an agreement as to the terms and conditions of a potential transaction regarding the Proposed Project.
51. Despite the foregoing and the efforts expended by all parties involved to reach an agreement, it became clear that the essential conditions for a Government participation in the Proposed Project would not be met and consequently, at the end of March 2022, the Government notified the Potential Purchaser that they would not pursue a transaction with the Potential Purchaser in connection with the Proposed Project.
52. Although a transaction was not concluded with the Potential Purchaser, the Government is still considering other projects and engaged, in this regard, in discussions with a limited number of parties. The Monitor expects to receive additional information regarding the discussions between the Government and these parties in the coming weeks.
53. In agreement with the Interim Lender, should no transaction be deemed viable in the coming months, the Monitor plans to limit Fortress' activities to a minimum for the following year and consequently implementing the Cold Idle Scenario described hereinafter, which would entail reducing expenses to the bare minimum for the coming year.

#### Cold Idle Scenario

54. As previously mentioned in this Sixteenth Report, a strategy and a budget to implement a cold idle scenario has been established (the "**Cold Idle Scenario**"). This scenario essentially consists of five steps:
  - (i) Modifying the wastewater treatment plant in order to be able to operate it in winter without having to restart the Cogen Facility;
  - (ii) Modifying the fire network control system so that it can be used by Nanotech Security Corp. and Lauzon without the support of Fortress;
  - (iii) Securing Fortress' site;
  - (iv) Managing chemicals and environmental issues; and
  - (v) Reducing the number of employees to the bare minimum.
55. Fortress will be in the financial position to begin the implementation of the Cold Idle Scenario, if required, in the coming months, subject to this Court's approval of the increase in the Interim Financing Facility that has been made available to Fortress.
56. The implementation of the Cold Idle Scenario will allow Fortress to preserve some value while the Government develops and implements potential revalorization initiatives for the site and alternative water treatment solutions for the city of Thurso.
57. The Monitor is of the opinion that it would be more effective, less costly, provide Fortress with more flexibility and generally more beneficial for Fortress' stakeholders to implement the Cold Idle Scenario under the supervision of the Court in the context of the CCAA Proceedings.



Claims Against the D&O Insurer

58. Since the issuance of the Trust Order, the Monitor has been in communication with the D&O insurer and provided same with additional documents with a view to allowing the D&O insurer to further analyze the claim.
59. The Monitor and the D&O insurer have agreed on a procedure to facilitate the analysis of the claim. The respective legal advisors are finalizing the documentation required to resolve the claim and obtain payment of an indemnity from the D&O insurer.

Environmental Matters

60. Since the Fifteenth Report, the Monitor had frequent discussions with the employees responsible for all of the environmental matters in view of establishing whether the proper safeguards and procedures were in place and to identify if any actions were required regarding the environment. There have not been any major environmental exceedances or incidents during the reporting period that have not been addressed by Fortress and communications with the environmental authorities have occurred in the normal course of business. As of the date of this Sixteenth Report, the Monitor has not been made aware of any major issues that would necessitate immediate actions.

OSB Complaint

61. On February 4, 2022, a disgruntled bidder filed a complaint against the Monitor with the Office of the Superintendent of Bankruptcy (the "**OSB**") and seeking a financial compensation for an alleged lost opportunity. A copy of the complaint is attached hereto, under seal, as **Appendix A**.
62. The Monitor and its legal advisors prepared and submitted a response to the complaint at the request of the OSB. A copy of the response is attached hereto, under seal, as **Appendix B**. Further to a request for additional information from the OSB, the Monitor prepared and submitted a complement to the response. A copy of the complement to the response is attached hereto, under seal, as **Appendix C**.
63. The Monitor will keep the Court informed of any developments in this regard.

**III. FORTRESS' CASH FLOW UP TO MAY 14, 2022 (12 WEEKS)**

64. Fortress' financial performance highlights for the period from February 20, 2021, to May 14, 2022, are presented in the Actual Cash Flow annexed hereto as **Appendix D**. The Monitor's comments on Fortress' financial performance during this period are the following:
  - (i) compared with the initial statement of projected cash flow presented to the Court in the Fifteenth Report on February 25, 2022 (the "**Initial Cash Flow Statement**"), Fortress experienced an unfavorable variance of \$1.0M in cash inflows mainly explained by:
    - i. An unfavorable variance of \$290K in Cogen Facility sales. This variance is explained by the fact that the Cogen was shut down earlier than budgeted due to mild weather.
    - ii. A favorable variance of \$207K in GST/QST refunds due to timing.
    - iii. An unfavorable variance of \$1M in interim financing. Fortress' draws from the Interim Financing Facility were \$1M less than budgeted for this period.

This variance is due to the timing differences in receipts and disbursements.

- (ii) compared with the Initial Cash Flow Statement, Fortress experienced a favorable variance of \$1.2M in cash outflows. The variance is primarily attributable to:
  - i. An unfavorable variance of \$52K in biomass. This unfavorable variance is mainly due to year end reconciliation with suppliers.
  - ii. An unfavorable variance of \$59K in chemicals. This is mainly due to the fact that Fortress recently received invoices for chemicals that were delivered several months ago.
  - iii. An unfavorable variance of \$130K in payroll. This is mainly due to the timing of pension and group insurance payments.
  - iv. A favorable variance of \$294K in municipal taxes. This variance is strictly due to timing.
  - v. A favorable variance of \$172K in professional fees mainly due to timing as some services have not yet been invoiced.
  - vi. A favorable permanent variance of \$1M in Special Projects. This variance is due to the fact that the discussions with the Potential Purchaser ended before the studies began.
  - vii. An unfavorable variance of \$20K in Fortress Xylitol expenses. This unfavorable variance of \$20K is mainly due to an unbudgeted contribution for previous years for the Employer Health Tax.
- (iii) compared with the Initial Cash Flow Statement, Fortress experienced a net favorable variance of approximately \$190K, as explained, mainly related to timing differences.

65. As of the date of this Sixteenth Report, all post-filing expenses incurred by Fortress have been or will be paid in the normal course of business out of the Interim Financing Facility described in the First Report or through an increase in the Interim Financing Facility.

#### **IV. OVERVIEW OF THE 22-WEEK CASH FLOW PROJECTIONS**

66. Fortress, with the assistance of the Monitor, prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 22-week period from May 15, 2022, to October 15, 2022 (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 E** to this Sixteenth Report.
67. Fortress is currently in a minimum maintenance scenario but intends on implementing the Cold Idle Scenario, limiting its activities to a bare minimum. The Cash Flow Statement has been prepared to reflect this scenario and includes the necessary investments in order to modify the wastewater treatment plant as well as the fire system.
68. 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**").
69. 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.

70. 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 Sixteenth Report, the probable assumptions developed by Management are not suitably supported and consistent with Fortress' plans or that they 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.
71. 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.
72. 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.
73. Based on the projections for the period ending October 15, 2022, Fortress will have sufficient funds to cover the expected disbursements during this period with the proposed increase in the Interim Financing Facility as indicated in the projections attached as **Appendix E**.
74. Management has advised the Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.
75. This Cash Flow Statement allows Fortress to implement the Cold Idle Scenario that will limit Fortress' expenses for the next year to the bare minimum while maintaining the water treatment for the benefit of the city of Thurso and the fire service for neighbouring businesses.

**V. THE PROPOSED INCREASE OF THE INTERIM LENDER'S CHARGE SOUGHT AS PART OF THE APPLICATION**

76. As described in the previous reports of the Monitor, Fortress does not generate sufficient revenues to continue to operate, implement the proposed restructuring measures and safeguard the integrity and safety of all of its assets and must therefore obtain additional financing during the Stay Period.
77. As appears from the Application, Fortress has negotiated with the Interim Lender a Fifth Amending Agreement to the Interim Financing Agreement which will provide for an increase in the Interim Financing Facility, which will allow Fortress to have access to an additional \$3.8M of interim financing, which \$1.8M will be to implement directly the Cold Idle Scenario, on the same terms and conditions as previously set forth in the Interim Financing Term Sheet that was already approved by the Court. Ultimately, the total amount of the Interim Financing Facility would be increased to \$30.8M.

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78. The Interim Financing Facility has been and will continue to be used to provide interim financing to Fortress during the pendency of these CCAA Proceedings.
79. As appears from the Fifth Amending Agreement, all additional amounts advanced to be advanced to Fortress are to be secured by a Court-ordered super-priority charge (the "**Interim Lender's Charge**"). As the total amount of the Interim Financing Facility will be increased to \$30.8M, the Interim Lender requests that the total amount of Interim Lender's Charge be increased to \$36.96M (i.e., \$30.8M plus 20%), which Interim Lender's Charge will attach to all of Fortress' assets, in priority to all other existing encumbrances and Court-ordered charges, except for the Administration Charge and the Litigation Financing Charge, but as regards the latter, only with respect to the Litigation Proceeds (as this term is defined in the Litigation Funding Agreement).
80. Based on the current cash-flow forecasts, an additional amount will need to be urgently advanced to Fortress under the Interim Financing Term Sheet, in order to cover the budgeted amount set forth in said cash-flow forecasts.
81. The Monitor and Fiera supports the IQ's 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 increase 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 recovery for the benefit of Fortress' secured creditors, suppliers and employees, as opposed to a piecemeal liquidation, which would occur in the absence of funding;
  - (ii) The Monitor considers the terms of the Fifth Amending Agreement to be consistent with the Interim Financing Term Sheet, the First Amending Agreement, the Second Amending Agreement, the Third Amending Agreement and the Fourth Amending Agreement, all of which have been previously approved by this Court. The Monitor wishes to highlight the fact that the terms of all of the foregoing agreements are highly competitive given that the Interim Financing 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; and
  - (iv) The terms and conditions of the Interim Financing Term Sheet have already been approved by this Court as part of the First Day Order.

## **VI. REQUEST FOR EXTENSION OF THE STAY OF PROCEEDINGS**

82. The Interim Lender is seeking an extension of the Stay Period until October 14, 2022, in order to implement the Cold Idle Scenario to allow Fortress to preserve some value while the Government continues discussions with potential purchasers in the context of the solicitation process for the next few weeks or, if required, develops and implements potential revalorization initiatives for the site and alternative water treatment solutions for the city of Thurso.
83. The Monitor is informed that 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.

84. As described in this Sixteenth Report, the Cash Flow Statement indicates that Fortress should have sufficient liquidity to continue to meet its obligations in the ordinary course of business with the increase in the Interim Financing Facility that has been made available to Fortress, subject to the approval of this Court.

**VII. THE MONITOR'S CONCLUSIONS**

85. 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 order sought by Applicant, including the granting of the charges provided for therein, since same would provide Fortress with the opportunity to preserve some value while the Government develops and implements potential revalorization initiatives for the site and alternative water treatment solutions for the city of Thurso.

86. As noted above, the current Stay Period expires on May 31, 2022. The Monitor understands that the extension of the Stay Period sought by IQ is required to allow Fortress to preserve some value while the Government develops and implements the initiatives previously described.

87. 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.

88. The Monitor confirms that there is no further material development to report in this matter at this time, other than what is provided for in this Sixteenth Report of the Monitor.

89. The Monitor believes that Fortress has acted, and continues to act, in good faith and with due diligence.

90. The Monitor respectfully submits to the Court this, its Sixteenth Report.

DATED AT MONTREAL, this 25<sup>th</sup> day of May 2022.

**DELOITTE RESTRUCTURING INC.**

In its capacity as Court-Appointed Monitor of Fortress



Jean-François Nadon, CPA, CIRP, LIT



Benoît Clouâtre, CPA, CIRP, LIT

Appendix A  
Under Seal

Appendix B  
Under Seal

Appendix C  
Under Seal



# Appendix D

## APPENDIX D

### Fortress Global Entreprises

### Budget-to-Actual Analysis for the 12-week period ended May 14, 2022

(in \$000 CAD)

	For the 12-week period ended May 14, 2022				Note
	Actual	Budget	Var (\$)	Var (%)	
<b>Consolidated Receipts</b>					
Cogen sales	1,123	1,413	(290)	-21%	Note 1
GST & QST refunds	712	505	207	41%	Note 2
DIP	2,000	3,000	(1,000)	-33%	Note 3
Other deposits	26	-	26	0%	
<b>Total - Receipts</b>	<b>3,861</b>	<b>4,918</b>	<b>(1,057)</b>	<b>-21%</b>	
<b>Disbursements</b>					
Trade payables - operation	541	541	-	0%	
Biomass	420	368	(52)	-14%	Note 4
Chemicals	99	40	(59)	-148%	Note 5
Payroll	769	639	(130)	-20%	Note 6
Hydro-Quebec	571	606	35	6%	
Hydro-Québec Holdback on cogen sales	(210)	(210)	-	0%	
Municipal taxes	576	870	294	34%	Note 7
Insurance	5	12	7	58%	
Professional fees	238	410	172	42%	Note 8
Special projects	-	1,000	1,000	100%	Note 9
Fortress Xylitol Inc. - expenses	150	130	(20)	-15%	Note 10
<b>Total - Disbursements</b>	<b>3,159</b>	<b>4,406</b>	<b>1,247</b>	<b>28%</b>	
<b>Change in Cash-Flow</b>	<b>702</b>	<b>512</b>	<b>190</b>	<b>37%</b>	
Net cash (Shortfall) - Beginning	502	502	-	0%	
<b>Net cash (Shortfall) - Ending</b>	<b>1,204</b>	<b>1,014</b>	<b>190</b>	<b>19%</b>	

## APPENDIX D (con't)

### Fortress Global Enterprises

#### Notes on Budget-to-Actual Analysis

For the 12-week period ended May 14, 2022

<b>Note 1</b>	<b>Cogen sales</b>	The Cogen sales receipts of \$1.1M were lower than the budgeted \$1.4M, creating an unfavorable variance of \$0.3M. This variance is explained by the fact that the Cogen was shut down earlier than budgeted due to mild weather.
<b>Note 2</b>	<b>GST &amp; QST refunds</b>	GST & QST refunds were \$207K higher than the budget. This favorable variance is due to timing.
<b>Note 3</b>	<b>DIP</b>	Fortress' draws from the Interim Financing were \$1M less than budgeted for this period. This variance is mainly due to timing differences in the receipts and disbursements.
<b>Note 4</b>	<b>Biomass</b>	Biomass disbursements of \$420K were higher than the budgeted \$368K. This unfavorable variance of \$52K is mainly due to year end reconciliation with suppliers.
<b>Note 5</b>	<b>Chemicals</b>	The chemicals disbursements of \$99K were higher than the budgeted \$40K, creating an unfavorable variance of \$59K. This is mainly due to the fact that Fortress recently received invoices for chemicals that were delivered several months ago
<b>Note 6</b>	<b>Payroll</b>	The payroll disbursements of \$769K were higher than the budgeted \$639K, creating an unfavorable variance of \$130K. This is mainly due to the timing of pension and group insurance payments (\$75K).
<b>Note 7</b>	<b>Municipal taxes</b>	The favorable variance of \$294K in Municipal taxes is temporary and strictly due to timing.
<b>Note 8</b>	<b>Professional fees</b>	The favorable variance of \$172K in professional fees is mainly due to timing as some services have not yet been invoiced.
<b>Note 9</b>	<b>Special Projects</b>	The favorable variance of \$1M is permanent and due to the fact that the discussions with the Potential Purchaser ended before the studies began.
<b>Note 10</b>	<b>Fortress Xylitol Inc. - expenses</b>	Disbursements for Fortress Xylitol Inc. of \$150K were higher than the budgeted \$130K. This unfavorable variance of \$20K is mainly due to an unbudgeted contribution for previous years for the Employer Health Tax.

# Appendix E

## APPENDIX E

### Fortress Global Enterprises

### Consolidated Cash-Flow

For the 22-week period ending October 15, 2022

Consolidated (\$000)	Period ending	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
		21-May-22	28-May-22	04-Jun-22	11-Jun-22	18-Jun-22	25-Jun-22	02-Jul-22	09-Jul-22	16-Jul-22	23-Jul-22	30-Jul-22
<b>Receipts</b>												
DIP		-	-	-	1,000	-	-	-	-	2,000	-	-
GST & QST refunds		-	-	-	-	169	-	-	-	-	36	-
Other		-	-	150	-	-	-	-	-	-	-	-
<b>Total - Receipts</b>		<b>-</b>	<b>-</b>	<b>150</b>	<b>1,000</b>	<b>169</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,000</b>	<b>36</b>	<b>-</b>
<b>Disbursements</b>												
CAPEX - Cold Idle		-	-	-	-	-	-	-	-	400	-	-
Payroll		-	73	20	73	-	73	-	89	-	73	-
Hydro-Québec		38	38	38	38	38	38	38	38	38	38	38
Key Employee Retention Plan (KERP)		-	-	-	-	-	-	-	-	-	-	-
Municipal taxes		157	-	-	-	-	-	-	-	-	-	-
GST & QST payments		-	-	-	-	-	381	-	-	-	-	-
Professional fees		15	15	15	15	15	15	15	15	15	15	15
Trade payables - Operation		8	8	8	8	8	8	8	8	8	8	8
Vacations		-	-	-	-	-	-	-	-	-	-	-
Insurance		-	-	6	-	-	-	6	-	-	-	-
Fortress Xylitol Inc. - expenses		10	10	10	-	-	-	-	-	-	-	-
<b>Total - Disbursements</b>		<b>228</b>	<b>144</b>	<b>97</b>	<b>134</b>	<b>61</b>	<b>515</b>	<b>67</b>	<b>150</b>	<b>461</b>	<b>134</b>	<b>61</b>
<b>Change in Cash-Flow</b>		<b>(228)</b>	<b>(144)</b>	<b>53</b>	<b>866</b>	<b>108</b>	<b>(515)</b>	<b>(67)</b>	<b>(150)</b>	<b>1,539</b>	<b>(98)</b>	<b>(61)</b>
<b>Net cash (Shortfall) - Beginning</b>		<b>1,204</b>	976	832	885	1,751	1,859	1,344	1,277	1,127	2,666	2,568
<b>Net cash (Shortfall) - Ending</b>		<b>976</b>	<b>832</b>	<b>885</b>	<b>1,751</b>	<b>1,859</b>	<b>1,344</b>	<b>1,277</b>	<b>1,127</b>	<b>2,666</b>	<b>2,568</b>	<b>2,507</b>

**APPENDIX E (con't)**
**Fortress Global Enterprises  
Consolidated Cash-Flow  
For the 22-week period ending October 15, 2022**

Consolidated (\$000)	Period ending	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
		06-Aug-22	13-Aug-22	20-Aug-22	27-Aug-22	03-Sep-22	10-Sep-22	17-Sep-22	24-Sep-22	01-Oct-22	08-Oct-22	
<b>Receipts</b>												
DIP		-	-	-	-	-	-	1,800	-	-	-	4,800
GST & QST refunds		-	-	-	32	-	-	-	40	-	4	285
Other		-	-	-	-	-	-	-	-	-	-	150
<b>Total - Receipts</b>		-	-	-	<b>32</b>	-	-	<b>1,800</b>	<b>40</b>	-	<b>4</b>	<b>5,235</b>
<b>Disbursements</b>												
CAPEX - Cold Idle		-	-	600	-	-	-	500	-	-	-	1,800
Payroll		89	-	73	-	89	-	73	-	93	-	858
Hydro-Québec		38	38	38	38	38	38	38	38	38	17	794
Key Employee Retention Plan (KERP)		-	-	-	-	-	-	-	-	-	-	411
Municipal taxes		-	222	-	-	-	-	-	-	-	6	391
GST & QST payments		-	-	-	-	-	-	-	-	-	-	381
Professional fees		15	15	15	15	15	15	15	15	15	15	330
Trade payables - Operation		8	8	8	8	8	8	8	8	8	5	170
Vacations		-	-	-	-	-	-	-	-	-	-	122
Insurance		6	-	-	-	6	-	-	-	6	5	40
Fortress Xylitol Inc. - expenses		-	-	-	-	-	-	-	-	-	-	30
<b>Total - Disbursements</b>		<b>156</b>	<b>283</b>	<b>734</b>	<b>61</b>	<b>156</b>	<b>61</b>	<b>634</b>	<b>61</b>	<b>160</b>	<b>48</b>	<b>5,327</b>
<b>Change in Cash-Flow</b>		<b>(156)</b>	<b>(283)</b>	<b>(734)</b>	<b>(29)</b>	<b>(156)</b>	<b>(61)</b>	<b>1,166</b>	<b>(21)</b>	<b>(160)</b>	<b>(44)</b>	<b>(92)</b>
<b>Net cash (Shortfall) - Beginning</b>		<b>2,507</b>	<b>2,351</b>	<b>2,068</b>	<b>1,334</b>	<b>1,305</b>	<b>1,149</b>	<b>1,088</b>	<b>2,254</b>	<b>2,233</b>	<b>2,073</b>	<b>2,029</b>
<b>Net cash (Shortfall) - Ending</b>		<b>2,351</b>	<b>2,068</b>	<b>1,334</b>	<b>1,305</b>	<b>1,149</b>	<b>1,088</b>	<b>2,254</b>	<b>2,233</b>	<b>2,073</b>	<b>2,029</b>	<b>1,112</b>

## 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**

<b>Assumptions</b>	<b>Source</b>	<b>Probable Assumption</b>	<b>Hypothetical Assumption</b>
<b><u>Opening cash balance</u></b>	Based on current bank balances	X	
<b><u>Forecast cash receipts:</u></b>			
QST & GST refunds	Based on the level of receipts and disbursements budgeted	X	
<b><u>Forecast cash disbursements:</u></b>			
CAPEX – Cold Idle	Estimate of disbursements required based on Fortress’ knowledge and estimated from external advisors.		X
Payroll	Based on the Company's historical payroll reports and on the budgeted number of employees	X	
Hydro-Québec	Monthly estimate of disbursements required based on historical costs	X	
KERP	Estimate of disbursements required based on the KERP		X
Municipal Taxes	Estimated disbursements based on historical costs	X	
QST & GST payments	Based on the level of receipts and disbursements budgeted	X	
Professional fees	Management estimate of professional fees to be incurred in the following months for monitor and legal services.		X
Trade payables – Operation	Weekly estimate of disbursements required based on historical costs	X	
Vacations	Based on the Company's historical payroll reports and on the budgeted number of employees	X	
Insurance	Based on historical costs	X	
Fortress Xylitol Inc. – expenses	Based on historical costs	X	