

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

**SIXTH 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**") 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 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 both 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 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 Applicants 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 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 \$250,000. On such date, the Court advised the parties that it would hear the Applicants' 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 Applicants' 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 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 \$610,000; v) a D&O Charge in an amount up to \$500,000; vi) an Administration charge in an amount up to \$600,000; 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. On March 10, 2020, pursuant to the terms of the Amended and Restated Initial Order, the Monitor issued its Third Report. The purpose of the Third Report was to provide information to the Court on the activities of Fortress and of the Monitor since the Second Report.
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 and suspending the proceedings commenced before the Court of Québec, criminal and penal division, district of Gatineau, in connection with the statements of offense bearing number 100400-1116574361, 1004400-1116574353, 100400-1116574346, 100400-1116574338 and 100400-1116574312 until May 2, 2020 (the "**Stay Order Regarding Regulatory Bodies**").
13. On April 24, 2020, the Applicants filed an Application for the Issuance of an Order Extending the Stay Period.
14. On April 28, 2020, pursuant to the terms of the Amended and Restated Initial Order, the Monitor issued its Fourth Report. The purpose of the Fourth Report was to provide information to the Court on the activities of Fortress and of the Monitor since the Third Report and to support the Application.
15. On May 1, 2020, the Court granted the above-mentioned application and rendered an order (which was rectified on the same day) extending the Stay Period, including the Stay Order Regarding Regulatory Bodies, until August 11, 2020.
16. On July 2, 2020, pursuant to the terms of the Amended and Restated Initial Order, the Monitor issued its Fifth Report. The purpose of the Fifth Report was to provide information to the Court on the activities of Fortress and of the Monitor since the Fourth Report.
17. 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.
18. 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.
19. On August 6, 2020, the Applicants filed an Application for the Issuance of an Order Extending the Stay Period & Increasing the Interim Lender Charge (the "**Application**").
20. In accordance with the Amended and Restated Initial Order, the Monitor hereby issues this sixth report to the Court (the "**Sixth Report**"). The purpose of the Sixth Report is to provide the Court with an update with respect to the following:
 - I. Update on Fortress' operations (page 6);
 - II. The Monitor's activities since the Fifth Report (page 9);
 - III. Fortress' cash flow up to July 25, 2020 (page 11);

- IV. Fortress' updated cash flow projections for the period from July 26, 2020 to October 24, 2020 (page 12);
 - V. The proposed increase of the DIP Lender Charge sought as part of the Application (page 13);
 - VI. The request for an extension of the Stay Period (page 14); and
 - VII. The Monitor's conclusions and recommendations (page 14).
21. In preparing the Sixth 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 of Fortress (collectively, the "**Information**"). Except as described in this Sixth 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 Sixth 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.
22. Future oriented financial information referred to in this Sixth 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.
23. The Information that was analysed does not include the extent of the impact of the Coronavirus pandemic ("**COVID-19**") on Fortress' operations. As of the date of this Report, the situation is continuing to evolve, and many uncertainties remain as to the effect that the COVID-19 crisis will have on Fortress, and more broadly on domestic and global economies.
24. The Monitor relied, in part, on publicly available information, Management forecasts and other information provided by Management in relation to the effect COVID-19 will have on Fortress.
25. Accordingly, it is not possible for the Monitor to identify and quantify the impact of all COVID-19 related uncertainties and implications in this Report. Changes to market conditions could substantially affect Fortress and the information contained in this Report.
26. Where not specified, the Monitor does not include any consideration of the likely impact of COVID-19 on sales, production, supply chain or other aspect of Fortress' business and operations, which may have an adverse impact on the performance of Fortress. The Court should consider the broad effects and uncertainty on the financial condition of Fortress as a result of the negative impact from COVID-19 on the domestic and global economies and major financial markets.
27. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Sixth Report concerning Fortress and their business is based on the Information, and not

independent factual determinations made by the Monitor.

28. A copy of this Sixth Report and further reports of the Monitor, as the case may be, will be made available on the Monitor's Website.

I. UPDATE ON FORTRESS' OPERATIONS

29. Since the issuance of the Fifth Report of the Monitor on July 2, 2020:

- (i) Fortress has maintained the Pulp Mill and the Cogen Facility in shutdown mode;
- (ii) The market price of the dissolving pulp has remained unchanged, and nothing further indicates an increase in the pricing trend in the near future, especially during the COVID-19 situation, the resulting shrinking demand for fabric and the global economic downturn; and
- (iii) Fortress still employs 11 employees in its Thurso location. In view of restarting the Cogen Facility in Fall 2020, Fortress is planning to recall approximately 11 additional employees.

Update On Ongoing Issues With Creditors And Co-contractors

Hydro-Québec

- 30. As described in the previous reports, relations between Fortress, the Monitor and Hydro-Québec have been somewhat challenging regarding the deposit amount retained by Hydro-Québec for Fortress' actual consumption and the weekly prepayment structure imposed to Fortress for future consumption.
- 31. Although Fortress and Hydro-Québec did not reach a definitive agreement, both parties had made mutual concessions that allowed an improved *modus operandi* around the structure of the deposit and prepaid amounts for Fortress' electricity consumption. During these discussions, Hydro-Québec agreed to reimburse the surplus between Fortress' prepayment and the actual consumption on a monthly basis, and Fortress agreed to continue to make the weekly prepayments.
- 32. Following the establishment of this *modus operandi*, Fortress honored its undertaking by making the weekly prepayments. On the other hand, the reimbursements from Hydro-Québec for the months of May 2020 (in the amount of \$126K), June 2020 (in the amount of \$106K) and July 2020 (in the amount of \$105K) were never executed by Hydro-Québec in favor of Fortress. Fortress thus had to stop making the weekly prepayments as of the week ending August 1st, 2020 since the security deposit to Hydro-Québec had reached \$426K.
- 33. In addition, Fortress invoiced Hydro-Québec for the disposal of excavation soils on June 30, 2020 for an amount of \$98K following an agreement between both parties. As of the date of this report, this invoice is still not paid notwithstanding the fact that it was due upon receipt.
- 34. As of the date of this Sixth Report, the security deposit and the amount due by Hydro-Québec to Fortress is totaling \$403K. Fortress and the Monitor are of the opinion that this amount is unreasonable and harm Fortress' short-term liquidity position. Fortress, with the support of the Monitor, continue to use their best effort to obtain payment due by Hydro-Québec. Hydro-Québec, after receiving an additional request for reimbursement from the Monitor, informed Fortress and the Monitor on August 7, 2020 that they would proceed to reimburse the July

amount of \$105K shortly.

35. In addition to the above, under the terms of the supply agreements for the Cogen Facility with Hydro-Québec, a guarantee is required from Fortress when the Cogen Facility is in operation. This guarantee was previously provided by means of letters of credit totaling approximately \$840K. In the spring of 2020, Hydro-Québec drew on these letters of credit to cover pre-filing amounts claimed to Fortress regarding the Nanotech invoicing situation.
36. Given the current situation, it will not be possible for Fortress to find a financial institution that would agree to re-issue a letter of credit in favor of Hydro-Québec when the operations of the Cogen Facility resume in the fall of 2020. The Monitor is in discussion with Hydro-Québec to determine what could be an adequate solutions. However, the Monitor notes that it may be challenging for Fortress and Hydro-Québec to conclude a mutual agreeable solution as to address Fortress' contractual obligation to provide some type of guarantee.
37. Given the above, the Monitor is currently considering the possibility of seeking a critical supplier charge in favour of Hydro-Québec in the amount of \$840K pursuant to section 11.4(3) of the CCAA which would provide sufficient collateral to allow Fortress and Hydro-Québec to meet the obligation required in the supply agreements. The Monitor will continue its discussions with Hydro-Québec regarding the foregoing, and will consult with the Applicants on that front.
38. The Monitor intends to request a hearing regarding this critical supplier charge in favour of Hydro-Québec during the hearing on the Application.

Lauzon

39. In the Fifth Report, the Monitor indicated that a Court hearing was scheduled on July 6 and 7, 2020 regarding the biomass/chips stored on Lauzon's premises and the Lauzon Purchase Agreement.
40. Following this hearing, the Court rendered the Lauzon Order, in which it concluded that:
 - (i) the biomass is the property of Fortress and must be removed from Lauzon's premises by Fortress, and at Fortress' expense, no later than August 7, 2020;
 - (ii) the Purchase Agreement is inapplicable for harvest season No 2 (2020-2021);
and
 - (iii) the Purchase Agreement shall not be terminated at this time for harvest season No 3 (2021-2022).
41. Since the Lauzon Order, Fortress and Lauzon had various communications in order to properly remove the biomass and clean up the accumulation site of Lauzon. Lauzon has provided access to the biomass and the removal of same is currently underway.
42. Although the Monitor does not expect any issue regarding the removal of the biomass and cleaning of the site, the Monitor will inform the Court in the event of any delays.

Nanotech

43. As mentioned in the previous reports, the Monitor was made aware of a dispute between Fortress and Nanotech regarding costs related to a lease and the provision of services by Fortress to Nanotech. Some disputed points were already settled, namely the consumption of

electricity and the issues with Hydro-Québec for the invoicing of this electricity.

44. Since the Fifth Report, there has been no development and Fortress has continued to provide services to Nanotech. Discussions are expected in the following weeks to settle the remaining points related to post filing expenses.

Ville de Thurso

45. Since the Fifth Report, information has been shared between the Monitor, the Government and the City of Thurso in order to find a solution concerning the City of Thurso, namely the unpaid municipal taxes and the water treatment plant.

Les Pompes Goulds

46. As mentioned in the Fifth Report, the Monitor has been made aware of proceedings which were instituted by Fortress against Les Pompes Goulds Inc. ("**Pompes Goulds**"), in respect of which a settlement conference was scheduled to take place in January 2020. Even though Fortress wanted to proceed with this settlement conference, Pompes Goulds' representatives invoked the CCAA Proceedings to postpone the settlement conference. These litigation proceedings have remained suspended since then.
47. Fortress' claim against Pompes Goulds represents a significant asset, as the amount claimed from Fortress totals approximately \$17 million.
48. Over the past few weeks, there have been some discussions between the parties regarding the aforementioned litigation proceedings as well as the possibility to settle this matter amicably, on a without prejudice basis.
49. A virtual meeting was held on July 29, 2020 between Pompes Gould, Fortress, IQ, the Monitor and their respective attorneys, during which all parties collaborated in trying to reach an amicable settlement.
50. As of the date of this report, the discussions between the parties are still on-going.
51. The Monitor remains hopeful that the Pompes Gould Litigation will be settled for the benefit of Fortress and that of its creditors and other stakeholders, but in the event that such litigation cannot be settled, these litigation proceedings may need to be reactivated. Under such scenario, the Monitor would consider appearing before this Court to seek an order that the Pompes Gould litigation be heard before this Court on an expedited basis.

Alithya

52. On May 26, 2020, the Monitor was contacted by Groupe Alithya Inc. ("**Alithya**"), a creditor of Fortress, since they did not received any documentation about the claim process. After verification, it appears that the address in Fortress' file was not Alithya's head office, such that the notice to creditors was never received by Alithya.
53. The Monitor informed Alithya that, in accordance with the terms of the Claims Procedure Order, it could not accept the filing of a late proof of claim by Alithya without the authorization of the Court.

54. On August 4, 2020, Alithya filed an application to be authorized to file a late proof of claim (the "**Alithya Application**").

55. In these circumstances, the Monitor has informed Alithya that it will not contest the Alithya Application, but reserves all of its rights as it pertains to Alithya's claim.

Other

56. Since the Fifth Report, Fortress, with the assistance of the Monitor, worked on a revised budget for the next 12 months which includes restarting operations at the Cogen Facility. It is expected that Fortress would be provided with sufficient funds, through an additional DIP financing, to finance its operations until the end of the summer of 2021. This would be provided to Fortress with the objective of allowing additional time to attract a potential investor and to execute its restructuring initiatives as described in the First Report, which includes:

- (i) Maintaining Fortress' operations at a minimum;
- (ii) The modernization and upgrade of Fortress' current operation and installation; and
- (iii) The alternative production.

II. MONITOR'S ACTIVITIES SINCE THE FIFTH REPORT

General

57. On July 2, 2020, the Monitor posted a copy of the Fifth Report on the Monitor's Website.

58. On July 15, 2020, the Monitor posted a copy of the Lauzon Order on the Monitor's Website.

59. Fortress and the Monitor held calls with the Applicants on a regular basis in order to update them on cash-flow, operations and the ongoing solicitation process.

60. 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.

61. 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.

WEPPA & Employees

62. On or about July 17, 2020, Fortress sent the notices of collective dismissal to the *Commission des normes, de l'équité, de la santé et de la sécurité du travail* and the *Ministère du Travail, de l'Emploi et de la Solidarité sociale* for all layoffs of more than 6 months.

63. Since its Fifth Report, the Monitor sent to each laid-off non-unionized employee a notice as well as a Proof of Claim Form allowing them to make a claim pursuant to the WEPPA for their notice of collective dismissal.

64. On June 30, 2020, the Monitor sent draft letters of understanding to the legal representative of the Unions which would allow Fortress to pay the notice of collective dismissal before the periods provided for in the collective agreements. As of the date of this Sixth Report, the

Monitor and the Unions' legal representatives are in the process of finalizing these letters.

D&O Trust

65. As mentioned in the First Report, Fortress entered into a trust indenture prior to the commencement of these proceedings to set aside an amount equal to the difference between obligations of Fortress to its employees and what the WEPPA will cover (the "**Trust Indenture**"), namely the amount of \$1,300,000 (the "**Trust Funds**"), and to be used, if necessary, for :

- (i) payment of the employees' outstanding claims; and
- (ii) payment of claims against Fortress and for which its directors' and officers' may be held personally liable in such capacity and that would not be repaid by the D&O Insurance.

66. For all employees with claims exceeding the maximum amount covered by the WEPPA, they will be required to file a proof of claim against the D&Os. The Monitor will apply for a termination order (as defined in the Trust Indenture) ("**Termination Order**") in order to seek a transfer of the Trust Funds into its in trust account and will then, concurrently:

- (i) proceed to a distribution of the Trust Funds to the unpaid outstanding claims of employees; and
- (ii) make a claim against the D&O Insurance for the same amounts.

67. In the event that a balance of the Trust Funds is available after the distribution to these employees, this balance will be used for payment of claims against Fortress and for which its directors' and officers' may be held personally liable in such capacity, if these claims are valid, or to defend these claims if they are not.

68. In the following weeks, the Monitor intends to take the necessary steps so as to have the trust funds or a portion thereof be released in order to distribute same in accordance with the above. These steps may include the application of a Termination Order in respect of the Trust Indenture.

Stay of Proceedings Involving Regulatory Bodies

69. As above mentioned, the Stay Order Regarding Regulatory Bodies was rendered on March 23, 2020, and, On May 1st, 2020, extended to August 11, 2020.

70. The Monitor is of the view that the stay of proceedings, as described in the Stay Order Regarding Regulatory Bodies should remain in force during the next Stay Period.

Solicitation Process

71. Since the Fifth Report, Fortress continued to have discussions with two (2) parties and three (3) additional parties have shown interest. They all have access to a virtual data room and are currently in discussions with Fortress.

72. As of the date of this Sixth Report, the Monitor is of the view that a solution could not likely be implemented on a short-term basis and that this will require at least an additional 6 to 12

months, which view is shared by the Québec Government in light of their financial commitment as per the Government's Announcement.

Environmental Matters

73. Since the Fifth Report, the Monitor had discussions frequently with the employees responsible of all the 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. There have not been any environmental exceedances or incidents during the reporting period. Communications with the environmental authorities have been in normal course of business. As of the date of this Sixth Report, the Monitor has not been made aware of any major issues that necessitates immediate actions.

III. ACTUAL RECEIPTS AND DISBURSEMENTS

74. Fortress' financial performance highlights for the period from April 19, 2020, to July 25, 2020, are presented in the Actual Cash Flow annexed hereto as **Appendix A**. 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 on May 1, 2020 (the "**Initial Cash Flow Statement**"), Fortress experienced an unfavorable variance of \$122K in cash inflows:
 - i. Fortress collected \$228K less of QST & GST than budgeted. This unfavorable variance is temporary and due to timing. This amount represents the pre-filing amount of GST & QST to be received. This amount is under verification by Revenue Québec and is planned to be received in the following weeks.
 - ii. Fortress collected \$100K more of other deposits than budgeted. This favorable variance is permanent and is mainly due to the unbudgeted sale of black liquor and spare parts. These sales are in accordance with the Amended and Restated Initial Order since they did not exceed \$500K, nor \$5M in the aggregate.
 - iii. Fortress experienced a favorable total variance of less than 1% in respect of all other cash inflows.
- (ii) compared with the Initial Cash Flow Statement, Fortress experienced an unfavorable variance of \$53K in cash outflows. The variance is primarily attributable to:
 - i. An unfavorable and permanent variance of \$32K in biomass caused by an invoice paid for the last week of operations of the Cogen Facility. This invoice was not budgeted since it was sent to an employee that had been laid-off, such that it was not received by Fortress at that time, and also discovered after the budget was published.
 - ii. The unfavorable variance of \$71K in payroll is mainly due to the fact that some layoffs and some wages' reduction measures were implemented two weeks later than initially budgeted.
 - iii. An unfavorable variance of \$270K for Hydro-Quebec. From the unfavorable variance of \$270K in Hydro-Quebec disbursements, \$150K was caused by a higher than budgeted consumption in the first months of the Cogen shutdown. The other \$120K is due to timing and is caused by the weekly pre-payments not received yet by Hydro-Québec as indicated previously in this Sixth Report.
 - iv. The favorable variance of \$81K in professional fees is due to timing since not all invoices have been paid yet. There is approximately \$300K of professional fees that have not paid yet, and Fortress did not have the liquidity required to proceed with all payments. This favorable variance is

temporary and is reflected in the amended Cash-Flow Statement presented below.

- v. Fortress' insurance policy ended on May 30, 2020. The renewal of the policy was less expensive than expected which caused a favorable variance of \$311K.

(iii) compared with the Initial Cash Flow Statement, Fortress experienced a net unfavorable variance of approximately \$175K mainly caused by timing differences.

- 75. As of the date of this Sixth Report, all post-filing expenses incurred by Fortress, except for municipal taxes owed to the city of Thurso for the period of January 2020 to July 2020 and professional fees, have been or will be paid in the normal course of business out of the Interim Financing described in the First Report or through a draw of additional funds from the new financing made available as part of the additional interim financing ("**Additional DIP**"), as described below.

IV. OVERVIEW OF THE 13-WEEK CASH FLOW PROJECTIONS

- 76. Fortress, with the assistance of the Monitor, has prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 13-week period from July 26, 2020 to October 24, 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 Sixth Report.

- 77. As mentioned in the previous reports of the Monitor, Fortress entered into a minimum maintenance scenario in March 2020. The cash flow has been prepared to reflect this scenario until the reopening of the Cogen Facility during the fall of 2020. The receipts and disbursements included in this cash flow reflect these scenarios.

- 78. 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**").

- 79. 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.

- 80. 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 Sixth 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.

81. 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.
82. 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.
83. Based on the projections for the period ending October 24, 2020, Fortress will need approximately \$2M of Additional DIP during this period.
84. Management has advised the Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.
85. Fortress, the Monitor and the DIP Lender are still engaged and will continue, in the coming weeks, the process of securing additional funding to ensure the payment of certain costs (including plant heating and insurance) in order to continue the operations of the Cogen Facility, ensure the security of the site, allow additional time for Fortress to attract a potential investor and to ensure the continued operation of the water treatment plant for the benefit of the City of Thurso.

V. THE PROPOSED INCREASE OF THE DIP LENDER CHARGE SOUGHT AS PART OF THE APPLICATION

86. As described in the previous reports of the Monitor, Fortress does not generate sufficient revenue to continue to operate and implement the proposed Restructuring Process' measures and must therefore obtain additional financing during the Stay Period.
87. As appears from the Application, Fortress has negotiated additional funding from the Interim Lender, which would allow Fortress to borrow, repay and reborrow up to an additional principal amount of \$2M outstanding at any time, on the terms and conditions as set forth in the Interim Financing Term Sheet. The total amount of the DIP would be increased to \$8M.
88. The Interim Facility has been and will continue to be used to provide interim financing to Fortress during the pendency of these CCAA Proceedings.
89. 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 \$9.6M on all of Fortress' assets, in priority to all other existing encumbrances and Court charges, except for the Administration Charge.
90. 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.
91. Based on the current cash-flow forecasts, an additional amount of \$2M will need to be urgently advanced to Fortress under the Interim Financing Term Sheet, in order to cover the budgeted amounts set forth in said cash-flow forecasts.

92. 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; and
 - (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.

VI. REQUEST FOR EXTENSION OF THE STAY OF PROCEEDINGS

93. The Applicants are seeking an extension of the Stay Period until October 23, 2020, in order to preserve the value of Fortress' assets, to attract a potential investor and to implement the proposed Restructuring Process.
94. 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. The Monitor has been advised that, in parallel, Fortress intends to maintain the Pulp Mill in shutdown mode and to reopen the Cogen Facility in the fall of 2020.
95. As described in the Sixth Report, the Cash Flow Statement indicates that Fortress should have sufficient liquidity to continue to meet its obligations in the ordinary course of business except for the municipal taxes, without asking for additional Interim Financing during the extended period.

VII. THE MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

96. 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 Stay Extension and DIP Increase Order, including the granting of the charges provided for therein, since same would provide Fortress with the opportunity to attempt a successful restructuring of its operations.
97. As noted above, the current Stay Period expires on August 11, 2020. The Monitor understands that the extension of the Stay Period sought by the Applicants is required to complete the Restructuring Process.
98. 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.
99. The Monitor confirms that there is no further material development to report in this matter, other than what is provided for in this Sixth Report of the Monitor.
100. 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.

101. The Monitor respectfully submits to the Court this, its Sixth Report.

DATED AT MONTREAL, this 6th day of August, 2020

DELOITTE RESTRUCTURING INC.

In its capacity as Court-Appointed Monitor of Fortress



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



Benoît Clouâtre, CPA, CA, CIRP, LIT

APPENDIX A

Fortress Global Enterprises Budget-to-Actual Analysis for the 14-week period ended July 25, 2020 (in \$000 CAD)

Fortress Specialty Cellulose Inc.

Receipts

| | | | | | |
|--------------------|-----|-------|-------|------|---|
| GST & QST refunds | 875 | 1,103 | (228) | -21% | 1 |
| Reception from FBL | - | - | - | 0% | |
| Grant MMFP | 499 | 500 | (1) | 0% | |
| DIP | - | - | - | 0% | |
| Other deposits | 100 | - | 100 | 0% | 2 |

Total - Receipts

| | | | |
|--------------|--------------|--------------|------------|
| 1,474 | 1,603 | (129) | (0) |
|--------------|--------------|--------------|------------|

Disbursements

| | | | | | |
|---------------------------|-------|-------|-------|------|---|
| Trade payables - Regular | (81) | (70) | (11) | 16% | |
| Payables - Biomass | (32) | - | (32) | 0% | 3 |
| Payroll | (722) | (651) | (71) | 11% | 4 |
| Payroll related | (101) | (82) | (19) | 23% | |
| Hydro-Quebec | (546) | (276) | (270) | 98% | 5 |
| Professional fees | (179) | (260) | 81 | -31% | 6 |
| Insurance | (244) | (555) | 311 | -56% | 7 |
| Transfer to FBL | (144) | (137) | (7) | 5% | |
| Feasibility study - Cogen | (35) | - | (35) | 0% | |

Total - Disbursements

| | | | |
|----------------|----------------|-------------|-----------|
| (2,084) | (2,031) | (53) | 3% |
|----------------|----------------|-------------|-----------|

Change in Cash-Flow

| | | | |
|--------------|--------------|--------------|------------|
| (610) | (428) | (182) | 43% |
|--------------|--------------|--------------|------------|

Net cash (Shortfall) - Beginning

| | | | |
|-----|-----|---|----|
| 852 | 852 | - | 0% |
|-----|-----|---|----|

Net cash (Shortfall) - End

| | | | |
|------------|------------|--------------|-------------|
| 242 | 424 | (182) | -43% |
|------------|------------|--------------|-------------|

Fortress Bioenergy Ltd

Receipts

| | | | | | |
|-----------------------------|-----|-----|---|----|--|
| Cogeneration plant revenues | 176 | 176 | - | 0% | |
| Transfer from FSC | 144 | 137 | 7 | 5% | |

Total - Receipts

| | | | |
|------------|------------|----------|----------|
| 320 | 313 | 7 | 0 |
|------------|------------|----------|----------|

Disbursements

| | | | | | |
|-----------------|-------|-------|---|----|--|
| Transfer to FSC | - | - | - | 0% | |
| QST/GST | (320) | (320) | - | 0% | |

Total - Disbursements

| | | | |
|--------------|--------------|----------|-----------|
| (320) | (320) | - | 0% |
|--------------|--------------|----------|-----------|

Change in Cash-Flow

| | | | |
|---|-----|---|-------|
| - | (7) | 7 | -100% |
|---|-----|---|-------|

Net cash (Shortfall) - Beginning

| | | | |
|---|---|---|----|
| 7 | 7 | - | 0% |
|---|---|---|----|

Net cash (Shortfall) - End

| | | | |
|----------|----------|----------|-----------|
| 7 | - | 7 | 0% |
|----------|----------|----------|-----------|

Fortress Global Enterprises

Disbursements

Net cash (Shortfall) - Beginning

| | | | |
|----|----|---|----|
| 15 | 15 | - | 0% |
|----|----|---|----|

Net cash (Shortfall) - End

| | | | |
|-----------|-----------|----------|-----------|
| 15 | 15 | - | 0% |
|-----------|-----------|----------|-----------|

FSC, FBL & FGE - CONSOLIDATED

Net cash (Shortfall) - End

| | | | |
|------------|------------|--------------|-------------|
| 264 | 439 | (175) | -40% |
|------------|------------|--------------|-------------|

APPENDIX A (con't)

Fortress Global Enterprises - Consolidated

Notes on Budget-to-Actual Analysis

For the cumulative weeks ended July 25, 2020

Note 1: GST & QST refunds The unfavorable variance of \$228K is temporary and due to timing. This amount is under verification by Revenue Québec and is planned to be received in the following weeks.

Note 2: Other deposits This favorable variance of \$100K is permanent and is mainly due to the unbudgeted sale of black liquor and spare parts. These sales are in accordance with the Amended and Restated Initial Order since they did not exceed \$500K, nor \$5M in the aggregate.

Note 3: Payables - Biomass The unfavorable cumulative variance of \$32K is permanent and is caused by an invoice paid for the last week of operations of the Cogen. This invoice was not budgeted since it was sent to a laid-off employee and discovered after the budget was published.

Note 4: Payroll The unfavorable variance of \$71K in payroll is mainly due to the fact that some layoffs and some wages' reduction measures were implemented two weeks later than initially budgeted.

Note 5: Hydro-Quebec From the unfavorable variance of \$270K in Hydro-Quebec disbursements, \$150K was caused by a higher than budgeted consumption in the first months of the Cogen shutdown. The other \$120K is due to timing and is caused by the weekly pre-payments not received yet by Hydro-Québec as indicated in this Sixth Report.

Note 6: Professional fees The favorable variance of \$81K in professional fees is due to timing since not all invoices have been paid yet. There is approximately \$300K of professional fees that have not been paid yet, and Fortress did not have the liquidity required to proceed with all payments. This favorable variance is temporary and is reflected in the amended Cash-Flow Statement.

Note 7: Insurance Fortress' insurance policy ended on May 30, 2020. The renewal of the policy was less expensive than expected which caused a favorable variance of \$311K.

APPENDIX B
**Fortress Global Enterprises
Weekly Consolidated Cash-Flow**

For the 13-week period ending October 24, 2020

| Consolidated (\$000) | Week ending | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Forecast | Total | |
|---|-------------|-------------|--------------|--------------|-------------|-------------|-------------|-------------|--------------|--------------|-------------|--------------|--------------|--------------|----------------|
| | | 1-Aug-20 | 8-Aug-20 | 15-Aug-20 | 22-Aug-20 | 29-Aug-20 | 5-Sep-20 | 12-Sep-20 | 19-Sep-20 | 26-Sep-20 | 3-Oct-20 | 10-Oct-20 | 17-Oct-20 | | 24-Oct-20 |
| Receipts | | | | | | | | | | | | | | | |
| GST & QST refunds | | - | - | 147 | 21 | - | - | - | 29 | - | - | - | - | 79 | 276 |
| DIP | | - | 1,000 | - | - | - | - | - | - | - | - | 1,000 | - | - | 2,000 |
| Other deposits | | - | 254 | - | - | - | - | - | - | - | - | - | - | - | 254 |
| Total - Receipts | | - | 1,254 | 147 | 21 | - | - | - | 29 | - | - | 1,000 | - | 79 | 2,530 |
| Disbursements | | | | | | | | | | | | | | | |
| Trade payables - Regular | | (9) | (85) | (5) | (5) | (5) | (5) | (5) | (5) | (5) | (5) | (5) | (155) | (5) | (299) |
| Payroll | | - | (70) | (120) | (70) | - | (70) | - | (70) | - | (70) | - | (70) | - | (540) |
| Payroll related | | - | - | (27) | - | - | - | (21) | - | - | - | - | (26) | - | (74) |
| Hydro-Quebec | | - | - | - | 12 | - | - | - | (108) | - | - | - | - | (108) | (204) |
| Professional fees | | (39) | (301) | (15) | (15) | (15) | (15) | (15) | (15) | (15) | (15) | (15) | (15) | (15) | (505) |
| Insurance | | (6) | - | - | - | - | (6) | - | - | - | (6) | - | - | - | (18) |
| KERP | | - | - | - | - | - | - | - | - | (228) | - | - | - | - | (228) |
| Total - Disbursements | | (54) | (456) | (167) | (78) | (20) | (96) | (41) | (198) | (248) | (96) | (20) | (266) | (128) | (1,868) |
| Change in Cash-Flow | | (54) | 798 | (20) | (57) | (20) | (96) | (41) | (169) | (248) | (96) | 980 | (266) | (49) | 662 |
| Net cash (Shortfall) - Beginning | | 264 | 210 | 1,008 | 988 | 931 | 911 | 815 | 774 | 605 | 357 | 261 | 1,241 | 975 | 264 |
| Net cash (Shortfall) - End | | 210 | 1,008 | 988 | 931 | 911 | 815 | 774 | 605 | 357 | 261 | 1,241 | 975 | 926 | 926 |

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>Forecast cash receipts:</u> | | | |
| QST & GST refunds | Based on the level of expenses budgeted | X | |
| Other Deposits | Based on the amount expected to be received from the Canada Emergency Wage Subsidy and from Hydro-Québec for the disposal of excavation soils | X | |
| <u>Forecast cash disbursements:</u> | | | |
| Trade payables - regular | Weekly estimate of disbursements required based on historical costs | 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 the actual insurance contract | X | |
| KERP | Based on the amount to be paid as per the KERP presented in the first Monitor's Report | X | |