

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

**SEVENTH 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 \$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 reports with the Court and served same to the Service List from time to time. The Monitor filed four (4) such Monitor's reports prior to this seventh report of the Monitor (the "**Seventh Report**"). 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 statements of offense bearing number 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 1st, 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 increased the Interim Facility and Interim Lender's Charge.
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. In accordance with the Amended and Restated Initial Order, the Monitor hereby issues its Seventh Report. The purpose of the Seventh 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 Sixth Report (page 8);
 - III. Fortress' cash flow up to October 10, 2020 (page 9);
 - IV. Fortress' updated cash flow projections for the period from October 11, 2020 to October 2, 2021 (page 10);
 - V. The proposed increase of the DIP Lender Charge sought as part of the Application (page 11);
 - VI. Request to allow distribution of funds held in trust (page 13);
 - VII. The request for an extension of the Stay Period (page 13); and

- VIII. The Monitor's conclusions and recommendations (page 14).
19. In preparing the Seventh 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 Seventh 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 Seventh 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.
20. Future oriented financial information referred to in this Seventh 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.
21. 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.
22. 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.
23. 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.
24. 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.
25. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Seventh Report concerning Fortress and their business is based on the Information, and not independent factual determinations made by the Monitor.

I. UPDATE ON FORTRESS' OPERATIONS

26. Since the issuance of the Sixth Report of the Monitor on August 6, 2020:

- (i) Fortress has maintained the Pulp Mill and although the Cogen Facility is currently in shutdown mode, has initiated the restarting sequence procedures;
- (ii) The market price of the dissolving pulp slightly increased, and nothing further indicates a significant 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 12 employees in its Thurso location. In view of restarting the Cogen Facility, Fortress is planning to recall approximately 13 additional employees by the end of October. Also, during the 4-week period between October 26, 2020 and November 20, 2020, approximately 7 temporary employees will be recalled in order to prepare the Cogen Facility for the restart.

Update On Ongoing Issues With Creditors And Co-contractors

Hydro-Québec

- 27. On September 22, 2020, Hydro-Québec, Fortress and the Monitor had a meeting regarding the reopening of the Cogen Facility. Discussions mainly focused on the technical aspects of the production and consumption of the Cogen Facility.
- 28. On October 10, 2020, Fortress received a letter from Hydro-Québec listing the various items to be completed to ensure the reopening of the Cogen Facility. In this letter, Hydro-Québec required, pursuant the terms of the supply agreements for the Cogen Facility, a guarantee from Fortress. 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.
- 29. Given the current situation, the Monitor is of the opinion that 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 discussions with Hydro-Québec to determine what could be an alternative solution.
- 30. Should the Monitor and Hydro-Québec be unable to reach an amicable solution, the Monitor could seek a critical supplier charge in favor 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 requirements of the supply agreements. The Monitor will continue its discussions with Hydro-Québec regarding the foregoing; and will consult with the Applicants on that front in the coming days.

Nanotech

- 31. As mentioned in its previous reports, the Monitor was made aware of disputes between Fortress and Nanotech regarding costs related to a lease and the provision of services by Fortress to Nanotech, some of which had been settled, namely the consumption of electricity and the issues with Hydro-Québec for the invoicing of this electricity.
- 32. In the first week of September, Fortress and the Monitor were contacted by Nanotech regarding servitudes requested by Hydro-Québec for the delivery of electricity to Nanotech, such that, discussions between the parties resumed in order to settle the outstanding issues.

33. On October 1st, 2020, an agreement was reached, according to which Fortress waived and released its claim asserting against Nanotech as of August 31, 2020 in consideration of Nanotech waiving and releasing its claim against Fortress as of August 31, 2020. In addition, Nanotech agreed to pay Fortress for electricity, based on actual Hydro-Québec meter readings, starting September 1st, 2020 and until such date as Nanotech's independent connection to the Hydro-Québec grid is in place.

Les Pompes Goulds

34. As mentioned in the previous reports, 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.

35. Fortress' claim against Pompes Goulds represents a significant asset, as the amount claimed from Fortress totals approximately \$17M.

36. The Monitor and the DIP lender are currently examining financing alternatives in order to resume these proceedings. If and once such funding is secured, an application will likely be filed to bring into the ambit of the current CCAA process the Pompes Goulds' proceedings for the benefit of all of Fortress' stakeholders.

Olin Canada ULC

37. On August 21, 2020, the Monitor was contacted by McMillan S.E.N.C.R.L., s.r.l./LLP ("**McMillan**") in its capacity as counsel for Olin Canada ULC ("**Olin**"), an unsecured creditor of Fortress who claimed that it had not received any documentation about the claim process, thus that it had not been able to file a proof of claim.

38. The Monitor informed McMillan that, in accordance with the terms of the Claims Procedure Order, it could not accept the filing of a late proof of claim by Olin without prior authorization of the Court.

39. On October 20, 2020, Olin filed an application to be authorized to file a late proof of claim (the "**Olin Application**").

40. In these circumstances, the Monitor has informed McMillan that it will not contest the Olin Application, but reserves all of its rights as it pertains to Olin's claim following a review of same in the future.

Other

41. Since the Sixth Report, Fortress, with the assistance of the Monitor, updated its budget for the next 12 months which includes restarting operations at the Cogen Facility and the payment of the municipal taxes. It is expected that Fortress would be provided with sufficient funds, through an additional DIP financing, to finance its operations until fall 2021 and to pay to the City of Thurso all outstanding amounts owed for municipal taxes for the years 2019-2020. The additional DIP financing will undoubtedly be providing Fortress with additional time to attract a potential investor and to execute its restructuring initiatives as described in the previous reports, which includes:

- (i) Maintaining Fortress' operations at a minimum and preserving the value of the assets;
- (ii) Modernization and upgrade of Fortress' current operation and installation; and
- (iii) Assessment of alternative production.

II. MONITOR'S ACTIVITIES SINCE THE SIXTH REPORT

General

42. On August 10, 2020, the Monitor posted a copy of the Sixth Report on the Monitor's Website as well as the Order extending the Stay Period and Increasing the Interim Lender Charge and the Order for Authorization to file a Proof of Claim after the Bar Date.
43. 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.
44. 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.
45. 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

46. As mentioned in its previous reports, the Monitor, in February 2020, registered all laid-off employees to the WEPPA regarding their unpaid vacations and salaries and, in July 2020, 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.
47. On September 15, 2020, after several calls with the Unions' legal representatives and Fortress' unions representatives, the Monitor provided the Union with the final calculations of the amounts due to the unionized employees related to the severances. A Proof of Claim Form has been sent directly to the Union in order to simplify the process for these employees.
48. On October 14, 2020 the Monitor received the signed amended proof of claim for the unionized employees allowing them to make a claim pursuant to the WEPPA for their notice of collective dismissal. In the following days, the Monitor completed the registration to the WEPPA of all laid-off unionized employees.
49. On October 20, 2020, a notice was sent to each of the laid-off unionized employees in order to inform them about the amount that they will receive.

Stay of Proceedings Involving Regulatory Bodies

50. 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.
51. As above mentioned, on August 10, 2020, although the Monitor was of the view that the stay of proceedings, as described in the Stay Order Regarding Regulatory Bodies, should have remained in force, the Stay Order Regarding Regulatory Bodies was not specifically extended and 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.
52. Since then, the Monitor has been informed that there has been no development regarding the TAT Proceedings.
53. As for the Penal Proceedings, the Monitor has been informed that, on September 21, 2020, the *pro forma* hearing to schedule trial dates was postponed by the Gatineau Court to November 6, 2020, when a conference management hearing will be held, namely regarding the delays and costs associated with mandating new experts for the defence of Fortress as well as whether the Monitor could authorize for a portion of the liquidities available to Fortress to be set aside for its defence in these proceedings.

54. As mentioned in previous reports, the Monitor is of the opinion that a trial regarding the Penal Proceedings is premature in the circumstances and that, given the stakes at hand, namely Fortress' licences, the risks associated with such a trial in the context where there are no liquidities to ensure a complete defence are too important. As such, counsel for the Monitor will be present during the November 6, 2020 conference management hearing to request that the trial regarding the Penal Proceedings be suspended.

Solicitation Process

55. Since the Sixth Report, Fortress continued to have discussion with different parties. These discussions led to an offer to purchase the Cogen Facility on September 3, 2020, which was refused by the secured creditors, as well as a draft letter of intention from another party for a purchase of the entire facility.

56. As of the date of this Seventh Report, Fortress is still engaged in discussions with two additional serious parties that are still conducting some due diligence procedures.

Environmental Matters

57. Since the Sixth Report, the Monitor frequently had discussions 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 and communications with the environmental authorities have been in normal course of business. As of the date of this Seventh Report, the Monitor has not been made aware of any major issues that would necessitate immediate actions.

58. Given the upcoming reopening of the Cogen Facility, the Monitor has inquired with employees responsible of all the environmental matters if all the required safeguards were still in place or to be implemented in the coming weeks to make sure that Fortress is compliant with all environmental legislations.

III. ACTUAL RECEIPTS AND DISBURSEMENTS

59. Fortress' financial performance highlights for the period from July 26, 2020, to October 10, 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 1st, 2020 (the "**Initial Cash Flow Statement**"), Fortress experienced a favorable variance of \$104K in cash inflows:
 - i. Fortress collected \$284K less of QST & GST than budgeted. This unfavorable variance is mainly caused by an audit from Revenue Quebec on the pre-filing disbursements. An amount of \$147K may not be collected.
 - ii. Fortress collected \$100K more of other deposits than budgeted. Other deposits include receipts from the Canadian Emergency Wage Subsidy, sale of spare parts and other revenues collected by Fortress. The favorable variance of \$288K is mainly due to the reimbursement of a

deposit from Hydro-Québec (\$105K), sale of black liquor (\$61K) and management fees (\$50K).

(ii) compared with the Initial Cash Flow Statement, Fortress experienced an unfavorable variance of \$284K in cash outflows. The variance is primarily attributable to:

- i. The unfavorable variance of \$176K in other disbursements mainly due to the transport of the biomass that was on Lauzon premises. Also, a portion of the restarting fees for the Cogen Facility (\$36K) that was planned in the week ending October 17, 2020 was disbursed during the first two weeks of October;
- ii. The temporary favorable variance of \$128K in payroll mainly due to timing. A disbursement of \$120K related to the 2020 vacations was budgeted but was not paid yet;
- iii. An unfavorable variance of \$229K in Hydro-Québec mainly due to timing as the September's disbursement of \$108K was planned in the week ending October 24, 2020 but occurred earlier. Also, as of October 10, 2020, two weekly pre-payments totaling \$53K were made related to the month of October;
- iv. The favorable variance of \$52K in professional fees due to timing as invoices have not all been received by the Company as of the date of this Report.

(iii) compared with the Initial Cash Flow Statement, Fortress experienced a net unfavorable variance of approximately \$180K mainly caused by timing differences.

60. Since the Sixth Report, the KERP, as described in the Initial Application and granted in the Amended and Restated Initial order, has been partially paid pursuant the terms and conditions thereof.

61. As of the date of this Seventh 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 October 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 12-MONTH CASH FLOW PROJECTIONS

62. Fortress, with the assistance of the Monitor, has prepared the statement of projected cash flow (the "**Cash Flow Statement**") for the 12-month period from October 11, 2020 to October 2, 2021 (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 Seventh Report.

63. As mentioned in the previous reports of the Monitor, Fortress entered into a minimum maintenance scenario in March 2020 with the objective to reopen the Cogen Facility during the Fall 2020 for the winter period. The cash flow has been prepared to reflect this reopening in the coming weeks. The receipts and disbursements included in this cash flow reflect these scenarios.

64. 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**").

65. 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.

66. 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 of the date of this Seventh 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.

67. 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.

68. 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.

69. Based on the projections for the period ending October 2, 2021, Fortress will need approximately \$9M of Additional DIP during this period.

70. The Monitor was made aware that the insurance contract for the reopening of the Cogen facility has not yet been finalized. The amount considered in the Cash-Flow Statement is based on last year's insurance costs, but this could vary causing variances with the budget.

71. Management has advised the Monitor that it believes that the forecast reflected in the Cash Flow Statement is reasonable.

72. This Cash-Flow Statement, including the additional DIP, allow Fortress to ensure the payment of certain costs (among other things plant heating, insurance and municipal taxes) 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

73. 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.

74. 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 \$9M 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 \$17M.
75. The Interim Facility has been and will continue to be used to provide interim financing to Fortress during the pendency of these CCAA Proceedings.
76. 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 \$20.4M on all of Fortress' assets, in priority to all other existing encumbrances and Court charges, except for the Administration Charge.
77. 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.
78. 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.
79. A Decree should be submitted to the provincial cabinet for final approval, which IQ expects to be completed in the next few weeks (within the month of November 2020), following which IQ will have the authority to advance to Fortress additional funding totaling the amount of \$9M, including the \$2M that will be urgently advanced by IQ, again over and above the interim financing which Fortress has already received.
80. 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 TO ALLOW THE DISTRIBUTION OF FUNDS HELD IN TRUST

81. On or about December 13, 2019, the Monitor was made aware that Fortress entered into a Trust Indenture concurrently with the commencement of the CCAA Proceedings to set aside an amount equal to the difference between obligations of Fortress to its employees and what WEPPA will cover, namely \$1.3M (the "**D&O Trust**"), and that the funds of the D&O Trust were to be used, if necessary, for the:
 - (i) Payment of the employees' outstanding claims after the indemnity to be received from the WEPPA; and
 - (ii) Payment of claims against Fortress and for which its Directors and Officers may be held personally liable in such capacity.
82. The Monitor was informed that both Applicants of the CCAA Proceedings did not object to the creation of the D&O Trust, which would not prejudice Fortress' creditors and stakeholders.
83. The Monitor understood that the existence of the D&O Trust provided additional protection to Fortress' employees and its remaining Directors and Officers, and would ultimately benefit the employees for all claims which they could have against the Directors and Officers for unpaid salary and vacations, which would not have been paid from WEPPA or the D&O Insurance.
84. The Monitor was and is still of the opinion that the D&O Trust, for which Applicants did not object, is reasonable in the circumstances.
85. As previously mentioned, following the CCAA Proceedings, employees benefited from WEPPA to cover unpaid salary and vacations. Since the eligibility period of the WEPPA is six months prior to the receivership, not all amount due to employees were covered.
86. The Monitor expects to file an application in the coming weeks requesting that the Court authorize a transfer of funds from the D&O Trust to the Monitor, to be distributed to Fortress' employees for payment of their claims against Fortress and for which Fortress' Directors and Officers would ultimately be held personally liable in such capacity.

VII. REQUEST FOR EXTENSION OF THE STAY OF PROCEEDINGS

87. The Applicants are seeking an extension of the Stay Period until September 30, 2021, in order to preserve the value of Fortress' assets, to attract a potential investor and to implement the proposed Restructuring Process.
88. Should the Applicants be unable to secure the budgeted additional DIP increase, the Monitor will, without delay, report back to the Court and inform all parties.
89. 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 2021.
90. As described in the Seventh Report, the Cash Flow Statement indicates that Fortress should have sufficient liquidity to continue to meet its obligations in the ordinary course of business, without asking for additional Interim Financing during the extended period.

VIII. THE MONITOR'S CONCLUSIONS AND RECOMMENDATIONS

91. 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.
92. As noted above, the current Stay Period expires on October 23, 2020. The Monitor understands that the extension of the Stay Period sought by the Applicants is required to complete the Restructuring Process.
93. 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.
94. The Monitor confirms that there is no further material development to report in this matter, other than what is provided for in this Seventh Report of the Monitor.
95. 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.
96. The Monitor respectfully submits to the Court this, its Seventh Report.

DATED AT MONTREAL, this 21st day of October, 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

APPENDIX A

Fortress Global Enterprises

Budget-to-Actual Analysis for the 11-week period ended October 10, 2020

(in \$000 CAD)

	<u>For the cumulative weeks ended October 10, 2020</u>				<u>Note</u>
	<u>Actual</u>	<u>Budget</u>	<u>Var (\$)</u>	<u>Var (%)</u>	
Consolidated Receipts					
GST & QST refunds	13	197	(184)	-93%	1
DIP	2,000	2,000	-	0%	
Other deposits	542	254	288	113%	2
Total - Receipts	2,555	2,451	104	0	
Disbursements					
Trade payables - Regular	(322)	(139)	(183)	132%	3
Payroll	(342)	(470)	128	-27%	4
Payroll related	(64)	(48)	(16)	33%	
Hydro-Quebec	(325)	(96)	(229)	239%	5
Professional fees	(423)	(475)	52	-11%	6
Insurance	(18)	(18)	-	0%	
KERP	(264)	(228)	(36)	16%	7
Total - Disbursements	(1,758)	(1,474)	(284)	19%	
Change in Cash-Flow	797	977	(180)	-18%	
Net cash (Shortfall) - Beginning	264	264	-	0%	
Net cash (Shortfall) - End	1,061	1,241	(180)	-15%	

APPENDIX A (con't)

Fortress Global Entreprises - Consolidated

Notes on Budget-to-Actual Analysis

For the cumulative weeks ended October 10, 2020

Note 1: GST & QST refunds The unfavorable variance of \$184K is mainly caused by an audit from Revenu Québec on the pre-filing disbursements. An amount of \$147K may not be collected.

Note 2: Other Deposits Other deposits include receipts from the Canadian Emergency Wage Subsidy, sale of spare parts and other revenues collected by Fortress. The favorable variance of \$288K is mainly due to the reimbursement of a deposit from Hydro-Québec (\$105K), sale of black liquor (\$61K) and management fees (\$50K).

Note 3: Trade payable The unfavorable variance of \$176K in other disbursements is mainly due to the transport of the biomass that was on Lauzon premises. Also, a portion of the restarting fees for the Cogen Facility (\$36K) that was planned in the week ending October 17, 2020 was disbursed during the first two weeks of October.

Note 4: Payroll This favorable variance of \$128K is temporary and mainly due to timing. A disbursement of \$120K related to the 2020 vacations was budgeted but was not paid yet.

Note 5: Hydro-Québec The unfavorable variance of \$229K is mainly due to timing as the September's disbursement of \$108K was planned in the week ending October 24, 2020 but occurred earlier. Also, as of October 10, 2020, two weekly prepaids totaling \$53K were made related to the month of October.

Note 6: Professional fees The favorable variance of \$52K in professional fees is due to timing as invoices have not all been received by the Company as of the date of this Report.

Note 7: KERP The Key Employee Retention Plan (KERP), as described in the Initial Application and granted in the Amended and Restated Initial order, has been partially paid pursuant the terms and conditions thereof.

Appendix B

APPENDIX B

**Fortress Global Enterprises
Consolidated Cash-Flow**

For the period ending October 2, 2021

		Weekly															
Consolidated (\$000)	Period ending	Forecast 17-Oct-20	Forecast 24-Oct-20	Forecast 31-Oct-20	Forecast 07-Nov-20	Forecast 14-Nov-20	Forecast 21-Nov-20	Forecast 28-Nov-20	Forecast 05-Dec-20	Forecast 12-Dec-20	Forecast 19-Dec-20	Forecast 26-Dec-20	Forecast 02-Jan-21	Forecast 09-Jan-21	Forecast 16-Jan-21	Forecast 23-Jan-21	Forecast 30-Jan-21
Receipts																	
Cogen sales		-	-	-	-	-	-	-	-	-	808	-	-	-	-	800	-
GST & QST refunds		-	-	-	-	-	-	-	357	-	77	-	-	-	-	10	91
DIP		-	-	2,000	-	-	2,000	-	-	-	-	-	-	-	-	-	-
Total - Receipts		-	-	2,000	-	-	2,000	-	357	-	885	-	-	-	-	810	91
Disbursements																	
Trade payables - Operation		(5)	(155)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)	(45)
Biomass		(32)	(115)	(115)	(111)	(111)	(111)	(111)	(129)	(155)	(155)	(155)	(155)	(155)	(155)	(155)	(155)
Chemicals		-	-	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
Payroll		(70)	-	(78)	(15)	(100)	(15)	(100)	(15)	(100)	(15)	(100)	(15)	(100)	(15)	(150)	(15)
Payroll related		(26)	-	-	-	(24)	-	-	-	(33)	-	-	-	-	(41)	-	-
Hydro-Quebec		-	-	-	-	-	(108)	-	-	-	(251)	-	-	-	-	(251)	-
Municipal taxes		-	-	-	(1,100)	-	-	-	-	-	-	-	-	-	-	-	-
Insurance		-	-	-	(167)	-	-	-	(167)	-	-	-	(167)	-	-	-	-
GST & QST payments		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Professional fees		(15)	(103)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)	(15)
Total - Disbursements		(148)	(373)	(260)	(1,460)	(302)	(301)	(278)	(378)	(355)	(488)	(322)	(404)	(322)	(278)	(623)	(237)
Change in Cash-Flow		(148)	(373)	1,740	(1,460)	(302)	1,699	(278)	(21)	(355)	397	(322)	(404)	(322)	(278)	187	(146)
Net cash (Shortfall) - Beginning		1,061	913	540	2,280	820	518	2,217	1,939	1,918	1,563	1,960	1,638	1,234	912	634	821
Net cash (Shortfall) - End		913	540	2,280	820	518	2,217	1,939	1,918	1,563	1,960	1,638	1,234	912	634	821	675

APPENDIX B

**Fortress Global Enterprises
Consolidated Cash-Flow**

For the period ending October 2, 2021

Consolidated (\$000)	Period ending	Monthly								Total
		Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
		Feb 2021	March 2021	April 2021	May 2021	June 2021	July 2021	Aug 2021	Sept 2021	
Receipts										
Cogen sales		1,000	800	800	-	-	-	-	-	4,208
GST & QST refunds		-	-	-	-	74	91	26	74	800
DIP		2,000	-	-	-	1,000	-	1,000	1,000	9,000
Total - Receipts		3,000	800	800	-	1,074	91	1,026	1,074	14,008
Disbursements										
Trade payables - Operation		(180)	(185)	(20)	(20)	(25)	(20)	(20)	(25)	(1,285)
Biomass		(534)	-	-	-	-	-	-	-	(2,609)
Chemicals		(28)	(28)	-	-	-	-	-	-	(154)
Payroll		(230)	(324)	(148)	(148)	(148)	(148)	(148)	(222)	(2,419)
Payroll related		(33)	(33)	(38)	(22)	(22)	(28)	(22)	(22)	(344)
Hydro-Quebec		(251)	(251)	(251)	(108)	(108)	(108)	(108)	(108)	(1,903)
Municipal taxes		(367)	-	-	(367)	-	-	(367)	-	(2,201)
Insurance		(167)	(334)	-	(167)	(334)	-	(167)	(334)	(2,004)
GST & QST payments		(51)	(27)	(13)	(78)	-	-	-	-	(169)
Professional fees		(60)	(75)	(56)	(52)	(65)	(52)	(52)	(65)	(805)
Total - Disbursements		(1,901)	(1,257)	(526)	(962)	(702)	(356)	(884)	(776)	(13,893)
Change in Cash-Flow		1,099	(457)	274	(962)	372	(265)	142	298	115
Net cash (Shortfall) - Beginning		675	1,774	1,317	1,591	629	1,001	736	878	1,061
Net cash (Shortfall) - End		1,774	1,317	1,591	629	1,001	736	878	1,176	1,176

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>			
Cogeneration plant revenues	Based on the Company's calculation for a production of 7.5 MW per hour		X
QST & GST refunds	Based on the level of receipts and disbursements budgeted	X	
<u>Forecast cash disbursements:</u>			
Trade payables – Operation	Weekly estimate of disbursements required based on historical costs	X	
Biomass	Based on the Company's calculation for a production of 7.5 MW per hour and historical costs		X
Chemicals	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	
Municipal Taxes	Estimated disbursements based on historical costs	X	
Insurance	Insurance contract for the reopening of the Cogen facility has not yet been finalized. The amount is based on last year's insurance cost		X
GST & QST 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