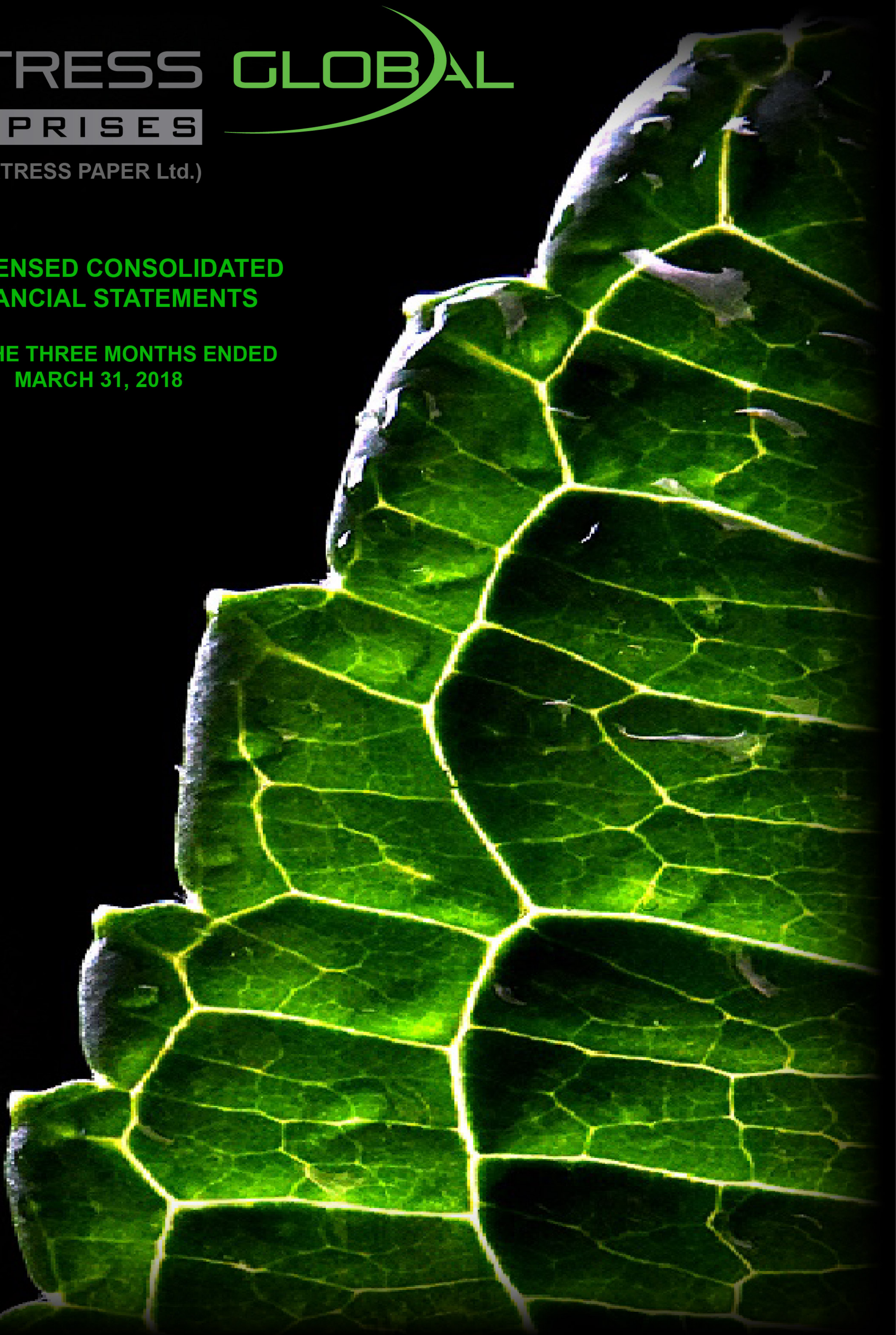
FORTRESS GLOBAL ENTERPRISES

(FORMERLY FORTRESS PAPER Ltd.)



# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE THREE MONTHS ENDED MARCH 31, 2018

TSX:FGE

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**FORTRESS GLOBAL ENTERPRISES INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(Canadian dollars, amounts in thousands)**

| | Note | March 31, 2018 $ | December 31, 2017 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | 29,749 | 40,877 |
| Restricted cash | | 8,005 | 7,790 |
| Trade accounts receivable | | 7,537 | 6,245 |
| Other accounts receivable | | 7,235 | 7,441 |
| Inventories | | 30,655 | 31,148 |
| Financial instruments | 4 | – | 176 |
| Prepaid expenses | | 1,377 | 506 |
| | | 84,558 | 94,183 |
| Other long-term receivable | | 7,000 | 7,000 |
| Intangible asset | 5 | 2,404 | – |
| Property, plant and equipment | 7 | 289,418 | 293,524 |
| **Total assets** | | 383,380 | 394,707 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | | 46,192 | 50,241 |
| Financial instruments | 4 | 23 | – |
| Current portion of long-term debt | 8 | 8,141 | 14,516 |
| | | 54,356 | 64,757 |
| Long-term debt | 8 | 198,065 | 194,719 |
| Provisions and other long-term liabilities | | 10,100 | 9,929 |
| **Total liabilities** | | 262,521 | 269,405 |
| **Shareholders' equity** | | | |
| Share capital | 9 | 177,167 | 174,704 |
| Contributed surplus | | 24,516 | 24,315 |
| Retained deficit | | (111,828) | (103,066) |
| Accumulated other comprehensive income | | 31,004 | 29,349 |
| **Total shareholders' equity** | | 120,859 | 125,302 |
| **Total liabilities and shareholders' equity** | | 383,380 | 394,707 |
| Commitments | 12 | | |

*(See accompanying notes)*

Approved by the Board of Directors:

"Chadwick Wasilenkoff" Director

"Anil Wirasekara" Director

**FORTRESS GLOBAL ENTERPRISES INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(Canadian dollars, amounts in thousands, except share and per share data)**

| | Note | Three Months Ended March 31, 2018 $ | There Months Ended March 31, 2017 $ |
|---|---|---|---|
| **Sales** | | 39,735 | 48,690 |
| **Costs and expenses** | | | |
| Manufacturing and distribution costs | | (36,168) | (37,193) |
| Amortization | 7 | (5,571) | (6,402) |
| Selling, general and administration | | (4,988) | (5,476) |
| Stock-based compensation | 10 | (411) | (125) |
| **Operating loss** | | (7,403) | (506) |
| **Other income (expense)** | | | |
| Finance expense | | (4,728) | (4,324) |
| Finance income | | 4,185 | 2,671 |
| Insurance proceeds | | 680 | – |
| (Loss) gain on financial instruments | 4 | (148) | 26 |
| Foreign exchange (loss) gain | | (1,348) | 335 |
| **Net loss from continuing operations before taxes** | | (8,762) | (1,798) |
| Income tax expense | | – | (21) |
| **Net loss from continuing operations** | | (8,762) | (1,819) |
| Net loss from discontinued operations | 6 | – | (926) |
| **Net loss** | | (8,762) | (2,745) |
| **Loss and diluted net loss per share from continuing operations** | | (0.61) | (0.13) |
| **Net loss per share and diluted net loss per share** | | (0.61) | (0.19) |
| **Weighted average number of shares outstanding** | | | |
| **Basic and diluted** | | 14,328,832 | 14,311,336 |

*(See accompanying notes)*

**FORTRESS GLOBAL ENTERPRISES INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**(Canadian dollars, amounts in thousands)**

| | Note | Three Months Ended March 31, 2018 $ | There Months Ended March 31, 2017 $ |
|---|---|---|---|
| **Net loss** | | (8,762) | (2,745) |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to net loss** | | | |
| Exchange differences on translation of foreign operations | | 1,655 | 867 |
| **Items that will not be reclassified to net loss** | | | |
| Employee future benefits (net of taxes of $nil and $nil) | 6 | – | 2,976 |
| **Total other comprehensive income** | | 1,655 | 3,843 |
| **Total comprehensive (loss) income** | | (7,107) | 1,098 |

*(See accompanying notes)*

**FORTRESS GLOBAL ENTERPRISES INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**(Canadian dollars, amounts in thousands)**

| | Note | Three Months Ended March 31, 2018 $ | Three Months Ended March 31, 2017 $ |
|---|---|---|---|
| **Share capital** | 9 | | |
| Balance at beginning of period | | 174,704 | 175,445 |
| Shares issued on business acquisition | 5 | 2,400 | – |
| Restricted share units vested | | 63 | 67 |
| Balance at end of period | | 177,167 | 175,512 |
| **Treasury shares** | | | |
| Balance at beginning of period | | – | (2,357) |
| Reversal of liability | | – | 2,357 |
| Balance at end of period | | – | – |
| **Contributed surplus** | | | |
| Balance at beginning of period | | 24,315 | 24,208 |
| Stock-based compensation | | 264 | 125 |
| Restricted share units vested | | (63) | (67) |
| Balance at end of period | | 24,516 | 24,266 |
| **Retained deficit** | | | |
| Balance at beginning of period | | (103,066) | (17,636) |
| Net loss | | (8,762) | (2,745) |
| Defined benefit plan actuarial gain, net of tax | 6 | – | 2,976 |
| Balance at end of period | | (111,828) | (17,405) |
| **Accumulated other comprehensive income** | | | |
| Balance at beginning of period | | 29,349 | 30,889 |
| Cumulative translation adjustment on foreign operations | | 1,655 | 867 |
| Balance at end of period | | 31,004 | 31,756 |
| **Total equity** | | 120,859 | 214,129 |

*(See accompanying notes)*

**FORTRESS GLOBAL ENTERPRISES INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Canadian dollars, amounts in thousands)**

| | Note | Three Months Ended March 31, 2018 $ | Three Months Ended March 31, 2017 $ |
|---|---|---|---|
| **Cash flows (used by) from operating activities** | | | |
| Net loss for the period | | (8,762) | (2,745) |
| Adjustments: | | | |
| Loss (gain) on financial instruments | | 199 | (26) |
| Amortization | | 5,571 | 6,402 |
| Income tax expense | | – | 21 |
| Foreign exchange loss | | 1,333 | 122 |
| Finance expense, net | | 543 | 1,656 |
| Stock-based compensation | | 374 | 125 |
| | | (742) | 5,555 |
| Change in non-cash working capital items | | | |
| Accounts receivable | | 5 | (318) |
| Inventories | | 493 | 1,585 |
| Prepaid expenses | | (871) | (780) |
| Accounts payable and accrued liabilities and other | | (3,322) | (1,425) |
| Operating cash flows from discontinued operations | | – | 10,814 |
| | | (4,437) | 15,431 |
| **Cash flows (used by) from financing activities** | | | |
| Repayment of long-term debt | | (1,406) | (325) |
| Convertible debt repurchase | 8 | – | (25,000) |
| Additions to long-term debt | 8 | – | 38,612 |
| Payment of long-term debt interest and financing fees | | (1,397) | (1,338) |
| Financing cash flows from discontinued operations | | – | (612) |
| | | (2,803) | 11,337 |
| **Cash flows (used by) from investing activities** | | | |
| Additions to property, plant and equipment | | (5,539) | (5,014) |
| Cash acquired on acquisition | | 59 | – |
| Government grants received | | 1,434 | 500 |
| Finance income | | 110 | 50 |
| Restricted cash | | (12) | (1,243) |
| Investing cash flows from discontinued operations | | – | (2,919) |
| | | (3,948) | (8,626) |
| **Increase (decrease) in cash position** | | (11,188) | 18,142 |
| Foreign exchange gain on cash and cash equivalents | | 60 | 179 |
| Cash and cash equivalents, beginning of year | | 40,877 | 22,132 |
| **Cash and cash equivalents, end of period** | | 29,749 | 40,453 |
| Supplemental cash flow information | 14 | | |

*(See accompanying notes)*

## 1. NATURE OF OPERATIONS

Fortress Global Enterprises Inc. (formerly Fortress Paper Ltd.) (the "Company" or "Fortress") was incorporated on May 30, 2006 under the laws of the Province of British Columbia. The address of the Company's registered office is 157 Chadwick Court – 2nd floor, North Vancouver, British Columbia, Canada V7M 3K2. Up until December 20, 2017 Fortress operated internationally in two distinct business segments: dissolving pulp and security paper products. The Company operates its dissolving pulp business at the Fortress Specialty Cellulose mill located in Canada which also operates a cogeneration facility that produces renewable energy. On December 20, 2017, the Company sold its security paper products business that was located at the Landqart mill in Switzerland, where Fortress was a producer of banknote, passport, visa and other brand protection and security papers (Note 6).

## 2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved these statements on May 14, 2018.

These unaudited interim financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and notes as at and for the year ended December 31, 2017 (available on SEDAR at www.sedar.com). These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of their application that were applied in the December 31, 2017 consolidated financial statements, except as disclosed in note 3. For significant estimates and judgments refer to notes 5 and 7 as well as the consolidated financial statements and notes as at and for the year ended December 31, 2017.

## 3. NEW ACCOUNTING PRONOUNCEMENTS

### Adoption of new accounting standards

*IFRS 15 - Revenue from Contracts with Customers*

Effective January 1, 2018, the Company has adopted IFRS 15 – Revenue from Contracts with Customers. The standard supersedes IAS 18 - Revenue, IAS 11 - Construction Contracts, and related interpretations. This standard addresses revenue recognition and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 requires that revenue is recognised at the transaction price when certain contractual obligations are met. Any variable consideration elements of the price should be recognised when it is highly probably that there will be no reversal of that revenue.

The Company elected to apply IFRS 15 using a modified retrospective approach; however, the adoption of IFRS 15 resulted in no impact on the financial statements of the Company, as the timing of revenue recognition was unchanged.

*IFRS 9 – Financial Instruments - Classification and Measurement*

Effective January 1, 2018, the Company has adopted IFRS 9 Financial Instruments. IFRS 9 supersedes IAS 39 Financial Instruments: Recognition and Measurement. The standard makes changes to the previous guidance on the classification and measurement of financial assets and liabilities and introduces an expected credit loss model for the impairment of financial assets. The standard also has new requirements on the application of hedge accounting.

The Company applied IFRS 9 retrospectively; however, the adoption of IFRS 9 did not require any adjustments to the classification or measurement of the Company's financial assets and financial liabilities. The adoption of the new expected credit loss model under IFRS 9 had only a negligible impact on the carrying amount of our financial assets on the transition date given the Company has no history of bad debt expenses. Any gain or losses on modifications of existing debt have always immediately been recorded through the profit and loss in accordance with IFRS 9.

**Accounting standards issued and not applied**

*IFRS 16 – Leases*

In January 2016, the IASB issued IFRS 16, *Leases,* which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as a financing lease. The required adoption date is January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact from the adoption of this standard.

*IFRIC 23 − Uncertainty over Income Tax Treatments*

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 – Income Taxes when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods beginning on or after January 1, 2019. The Company is currently evaluating the impact from the adoption of this interpretation.

There are no other standards or amendments or interpretations to existing standards issued but not yet effective which are expected to have a material impact on our consolidated financial statements.

## 4. FINANCIAL INSTRUMENTS

The Company's cash and cash equivalents, restricted cash, trade accounts receivable, other accounts receivable, other long-term receivable, accounts payable and accrued liabilities, and long term debt are measured at amortized cost subsequent to initial measurement. Derivative financial instruments are measured at fair value through profit and loss in accordance with IFRS 9, *Financial Instruments* and IFRS 13, *Fair Value Measurement*, which requires the classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement. The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates.

The three levels of the fair value hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

**(Canadian dollars, amounts in thousands except share and per share data)**

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
Level 3 – Inputs that are unobservable for the asset or liability.

The following table summarizes the Company's financial instruments measured at fair value at March 31, 2018 and December 31, 2017, and shows the level within the fair value hierarchy in which they have been classified:

| | Fair Value Hierarchy Level | March 31, 2018 $ | December 31, 2017 $ |
|---|---|---|---|
| Derivative financial instruments | Level 2 | (23) | 176 |
| Total financial instruments | | (23) | 176 |

The following table summarizes the (loss) gain on financial instruments for the three months ended March 31, 2018 and March 31, 2017:

| | Three Months Ended March 31, 2018 $ | Three Months Ended March 31, 2017 $ |
|---|---|---|
| Derivative financial instrument | | |
| US dollar collars and variable rate forwards | (148) | 26 |
| (Loss) gain on financial instruments | (148) | 26 |

The Company had the following foreign exchange derivatives at March 31, 2018 and December 31, 2017:

| | March 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| US dollar collars and variable rate forwards | Notional Amount US dollars | Exchange Rates protection/ topside, per dollar | Notional Amount US dollars | Exchange Rates protection/ topside, per dollar |
| 0-12 Months | 15,250 | 1.26/1.33 | 11,000 | 1.26/1.32 |

(Canadian dollars, amounts in thousands except share and per share data)

## 5. BUSINESS ACQUISITION

On March 26, 2018, the Company acquired all of the issued and outstanding commons shares of S2G Biochemicals Inc. ("S2G"), a chemical engineering and technology company, for the purchase price of $2,400 paid through the issuance of 666,652 (Note 9) common shares of the Company. The purchase price was calculated using the closing share price of the Company's common shares on the date of acquisition. Through a newly formed subsidiary, the Company intends to commission the construction of a demonstration plant to produce xylitol at its Fortress Specialty Cellulose Mill.

The recognition of assets acquired and liabilities assumed is based upon estimated fair values at the date of acquisition. Fair values are estimated using market information where applicable; however, directly comparable information is not always readily available so significant estimates and judgments are used.

The Company has recorded an intangible asset for the proprietary process technologies and license, know-how and expertise acquired. As at March 31, 2018, S2G contributed $8 in expenses to the net loss of the Company. The acquisition has been accounted for as follows:

| | Note | March 26, 2018 $ |
|---|---|---|
| Assets acquired at fair values | | |
| Cash | | 59 |
| Restricted cash | | 11 |
| Prepaid expenses | | 17 |
| Intangible assets | | 2,404 |
| | | 2,491 |
| Liabilities acquired at fair values | | |
| Accounts payable and accrued liabilities | | 91 |
| Net assets acquired at fair values | | 2,400 |
| Consideration paid | 9 | 2,400 |
| Gain (loss) on acquisition | | – |

## 6. DISPOSAL OF BUSINESS

On December 20, 2017, the Company sold all of the shares of its wholly owned subsidiaries Landqart AG (the "Landqart mill") and Landqart Management and Services AG which represents the entire security paper products segment of the Company, for an aggregate purchase price of 21,500 CHF.

Based on the book values of the net assets disposed of, the related sales proceeds, and the effect of foreign exchange, the loss recognized on disposal of the Landqart Mill was $56,558, as summarized below.

**(Canadian dollars, amounts in thousands except share and per share data)**

| | **December 20, 2017 $** |
|---|---|
| Book value of net assets disposed of | 80,067 |
| Sale proceeds | |
| Cash | 27,694 |
| Less: directly attributable costs | (526) |
| Total net proceeds | 27,168 |
| Loss on disposal before cumulative translation adjustment | 52,899 |
| Cumulative translation adjustment | 3,659 |
| Loss on disposal | 56,558 |

With the sale of the Landqart mill, the Company no longer holds a defined benefit pension plan. The results for the three months ended March 31, 2017 have been reclassified in the statement of operations as discontinued operations. The results of the discontinued operations are as follows:

| | **Three Months Ended March 31, 2017 $** |
|---|---|
| Sales from discontinued operations | 43,770 |
| Costs and expenses from discontinued operations | (44,696) |
| Net loss before income taxes | (926) |
| Income taxes | – |
| Net loss from discontinued operations | (926) |
| Basic and diluted net loss per share | (0.06) |

## 7. PROPERTY, PLANT AND EQUIPMENT

*Impairment of property, plant and equipment*

In accordance with the Company's accounting policy, each asset or cash generating unit is evaluated at each reporting date to determine whether there are any indicators of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount has been determined by the Company as the value in use.

The determination of value in use requires management to make estimates and assumptions about expected production and sales volumes, prices, operating costs, capital expenditures, and appropriate discount rates for future cash flows. The estimate and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of operations.

(Canadian dollars, amounts in thousands except share and per share data)

As at March 31, 2018, the Company's market capitalization was lower than the carrying amount of its net assets. Management of the Company determined that this constituted an impairment indicator and completed an impairment assessment of the Fortress Specialty Cellulose mill.

Management used a consistent valuation model compared to the one used at December 31, 2017, adjusted for updated key assumptions. Management's impairment evaluation did not result in the identification of an impairment loss at the Fortress Specialty Cellulose mill as at March 31, 2018.

## 8. LONG-TERM DEBT

| | Note | March 31, 2018 $ | December 31, 2017 $ |
|---|---|---|---|
| **Credit facilities with lenders** | | | |
| $100,061 (2017: $99,469), interest at 5% (6% on $42,400), maturing 2026, secured by the assets of the Fortress Specialty Cellulose mill | 8(a) | 109,380 | 111,469 |
| $36,817 (2017: $37,532) interest and fees at 6.5%, maturing 2031, secured by certain assets of the Fortress Specialty Cellulose mill | 8(b) | 35,618 | 36,303 |
| US$1,894 (2017: US$2,497) interest at LIBOR plus 5.75%, secured by certain inventory of the Fortress Specialty Cellulose mill | 8(c) | 2,442 | 3,133 |
| **Unsecured convertible debentures** | | | |
| $62,100 (2017: $62,100) principal, interest at 7%, maturing December 2019 | | 58,766 | 58,330 |
| | | 206,206 | 209,235 |
| Less: current portion | | (8,141) | (14,516) |
| Long-term debt | | 198,065 | 194,719 |

| | March 31, 2018 $ | December 31, 2017 $ |
|---|---|---|
| Principal value of debt | 201,420 | 202,233 |
| Adjustments for unamortized borrowing costs, amounts allocated to equity for convertible debentures, and expected contingent payments | 4,786 | 7,002 |
| Net amount recorded in liabilities | 206,206 | 209,235 |

Principal repayments as at March 31, 2018 are required as follows:

| | **($ 000's)** |
|---|---:|
| 2018 | 4,585 |
| 2019 | 76,325 |
| 2020 | 14,225 |
| 2021 | 14,225 |
| 2022 | 14,225 |
| Thereafter | 77,835 |
| | 201,420 |

At March 31, 2018, the fair value of the long-term debt, measured at its amortized cost of $206,206 was $202,931. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

Borrowings under the above agreements require maintenance of subsidiary specific minimum working capital ratios, maximum long-term debt to adjusted net worth ratios, and certain non-financial covenants. The Company has been in compliance with all covenants for all periods presented.

At March 31, 2018, the Company's current portion of long term debt, accounts payable and accrued liabilities totaled $54,333 all of which fall due for payment within one year of the statement of financial position date. If necessary, the Company has the ability to repay principal amounts outstanding, subject to receiving requisite approvals, of the $62,100 of convertible debentures due in 2019, in common shares of the Company.

Although there can be no assurances, the Company believes that current cash, cash generated from operations, cashflow derived from improved inventory and cash management, alternative financing arrangements, and other cash generating initiatives, should be sufficient to meet its debt service, capital expenditure and short term working capital requirements. The Company's future operating performance and its ability to service its debt and pay other indebtedness will be subject to future economic conditions and the financial success of the Company's business and other factors, many of which are not within the Company's control, including changes in market prices for its dissolving pulp and raw material costs.

(a) During the three months ended March 31, 2018, the Company entered into an amendment with a lender to which three quarterly principal payments payable in 2018 totaling $8,523 have been deferred, without penalty or interest accruing on such amounts. Quarterly payments of $2,842 will resume on March 31, 2019. This amendment resulted in a reduction in the current portion of long-term debt and an increase in long-term debt by the amount of the principal deferred. Twelve monthly interest payments for the period January 1, 2018 to December 31, 2018, totaling $4,411 will be accruing on the outstanding principal amount and such accrued interest will not bear interest during this period. Commencing on March 31, 2019, the same quarterly principal payments will resume with a lump sum payment due on maturity. The ongoing application of the amendment is subject to a condition that is required to be satisfied by the end of August 2018, which the Company believes is achievable in the normal course. The Company recorded a gain of $4,075 in finance income in relation to the amendment.

(b) The Company entered into an agreement with a new lender for a $40,000 secured loan. The loan matures in 14 years from the advance date of February 2, 2017, and is repayable in monthly payments of principal and interest over the term. The loan accrues interest at a rate of 6% per annum plus an account maintenance fee of 0.5% per annum. Security for the loan includes a charge against the cogeneration assets of the Dissolving Pulp segment and guarantees from Fortress Specialty Cellulose and Fortress Global Enterprises. The Company was required to set up a debt service reserve fund consisting of nine months of principal and interest payments. The Company has recorded $3,624 in restricted cash in relation to the fund. In connection with the loan, which is held by a wholly owned subsidiary, a distribution test must be met for the cash held by the subsidiary to be available within the group. There are no restrictions on the cash for use within the subsidiary. As at March 31, 2018, the cash and cash equivalents balance of the subsidiary was $2,837.

(Canadian dollars, amounts in thousands except share and per share data)

(c) During the year ended December 31, 2017, the Company entered into a credit agreement with a private arm's length lender for a secured revolving credit facility in the principal amount of up to US$5,000 as determined by the balance of certain eligible inventory. The loan will mature on December 30, 2020 and will accrue interest at a rate of LIBOR plus 5.75% per annum. The loan is secured by certain inventory located at the Fortress Specialty Cellulose mill.

## 9. SHARE CAPITAL

*Authorized*

Unlimited number of common shares without par value
Unlimited number of preferred shares with par value $1,000

*Issued and fully paid — common shares*

| | | Number of Shares | Share Capital $ |
|---|---|---|---|
| **Balance, December 31, 2016** | | 14,286,092 | 175,445 |
| Restricted share units vested | | 66,074 | 169 |
| Exercise of stock options | | 1,915 | 371 |
| Repurchase of common shares | | (104,468) | (1,281) |
| **Balance, December 31, 2017** | | 14,249,613 | 174,704 |
| Shares issued on business acquisition | 5 | 666,652 | 2,400 |
| Restricted share units vested | | 20,415 | 63 |
| **Balance, March 31, 2018** | | 14,936,680 | 177,167 |

*Repurchase of common shares*

During the year ended December 31, 2017, the Company repurchased and cancelled 104,468 common shares for $621 through a normal course issuer bid.

(Canadian dollars, amounts in thousands except share and per share data)

## 10. STOCK-BASED COMPENSATION

*Stock Options*

Stock option transactions and the number of stock options outstanding are summarized as follows:

| | Number of Options | Weighted Average Exercise Price $ |
|---|---|---|
| **Balance, December 31, 2016** | 590,725 | 10.51 |
| Granted | 305,658 | 6.55 |
| Expired | (103,575) | 8.00 |
| Cancelled | (169,800) | 8.00 |
| Exercised | (117,350) | 8.00 |
| **Balance, December 31, 2017** | 505,658 | 10.05 |
| Granted | 21,403 | 3.50 |
| **Balance, March 31, 2018** | 527,061 | 9.79 |

*Deferred Share Unit Awards*

A deferred share unit ("DSU") is a right granted to a non-employee director to receive one common share of the Company, from treasury, on a deferred basis. The value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company. The Company recognizes the expense at the time of grant.

DSU transactions and the number of DSUs outstanding are summarized as follows:

| | Number of DSUs | Expense Recognized $ |
|---|---|---|
| **Balance, December 31, 2016** | 243,795 | 6,524 |
| Granted | 32,717 | 214 |
| **Balance, December 31, 2017** | 276,512 | 6,738 |
| Granted | 29,141 | 108 |
| **Balance, March 31, 2018** | 305,653 | 6,846 |

(Canadian dollars, amounts in thousands except share and per share data)

*Restricted Share Unit Awards*

A restricted share unit ("RSU") is a right granted to a key employee to receive one common share of the Company, from treasury, on a time vested basis. The fair value of restricted share awards is determined based upon the number of shares granted and the quoted price of the Company's stock on the date of grant. Restricted shares generally vest over three to five years.

RSU transactions and the number of RSUs outstanding are summarized as follows:

| | Number of RSUs |
|---|---|
| **Balance, December 31, 2016** | 160,761 |
| Granted | 8,711 |
| Vested | (66,074) |
| Cancelled | (26,114) |
| **Balance, December 31, 2017** | 77,284 |
| Granted | 42,979 |
| Vested | (20,415) |
| Cancelled | (9,108) |
| **Balance March 31, 2018** | 90,740 |

## 11. GOVERNMENT GRANTS

During the three months ended March 31, 2018, the Company received $1,434 (2017: $500) and recorded a receivable for $2,366 (2017: $1,790) as at March 31, 2018 in non-repayable government grant contributions from the governments of Canada and Québec. The grants received have reduced additions to property, plant and equipment.

## 12. COMMITMENTS

As at March 31, 2018, the Company has guaranteed the secured note receivable, transferred to a lender as early repayment of principal amounts due in 2017 in the amount of $7,000.

As at March 31, 2018, the Company has issued guaranteed letters of credit of $1,070 relating to the continued delivery of power at our cogeneration facility and a performance security guarantee of up to $2,000 for derivative financial instruments.

As at March 31, 2018, the Company has committed to purchase $5,107 in property, plant, and equipment at the Fortress Specialty Cellulose mill.

The minimum operating lease commitments for land, buildings, equipment, storage, and offices over the next five years and thereafter are as follows:

(Canadian dollars, amounts in thousands except share and per share data)

| | $ |
|---|---|
| 2018 | 744 |
| 2019 | 876 |
| 2020 | 614 |
| 2021 | – |
| 2022 | – |
| Thereafter | – |
| | 2,234 |

## 13. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations is based on a number of factors, including production and economic characteristics. Up until December 20, 2017, the Landqart mill produced security papers and products. Fortress Specialty Cellulose produces dissolving pulp products. S2G is developing a demonstration plant for the production of xylitol at the Fortress Specialty Cellulose mill and has been included in the Dissolving Pulp Segment.

| | Three Months Ended March 31, 2018 | | |
|---|---|---|---|
| | Pulp | Corporate | Fortress Global Consolidated |
| | $ | $ | $ |
| Sales | 39,735 | – | 39,735 |
| Operating loss | (5,380) | (2,023) | (7,403) |
| Amortization[1] | (5,571) | – | (5,571) |
| Stock-based compensation[1] | – | (411) | (411) |
| Capital expenditures | 1,464 | – | 1,464 |
| Total assets | 357,316 | 26,064 | 383,380 |

| **Sales by geographic area** | % |
|---|---|
| Asia | 87.7 |
| Canada[2] | 12.3 |
| Total | 100.0 |

[1]Stock-based compensation and amortization are included in operating loss.
[2]Canadian sales are from the cogeneration facility.

**(Canadian dollars, amounts in thousands except share and per share data)**

| | Three Months Ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | **Pulp** | **Corporate** | **Continuing Operations** | **Discontinued Operations (Security)** | **Fortress Global Consolidated** |
| | **$** | **$** | **$** | **$** | **$** |
| Sales | 48,690 | – | 48,690 | 43,770 | 92,460 |
| Operating income (loss) | 1,905 | (2,411) | (506) | (652) | (1,158) |
| Amortization[1] | (6,402) | – | (6,402) | (2,120) | (8,522) |
| Stock-based compensation[1] | – | (125) | (125) | – | (125) |
| Capital expenditures | 1,166 | – | 1,166 | 1,612 | 2,778 |
| Total assets | 350,184 | 21,763 | 371,947 | 121,673 | 493,620 |
| **Sales by geographic area** | | | % | % | **%** |
| Europe | | | – | 15.6 | 7.4 |
| Asia | | | 89.6 | 84.4 | 87.1 |
| Canada[2] | | | 10.4 | – | 5.5 |
| Total | | | 100.0 | 100.0 | 100.0 |

[1]Stock-based compensation and amortization are included in operating income (loss).
[2]Canadian sales are from the cogeneration facility.

## 14. SUPPLEMENTAL CASH FLOW INFORMATION

*Non Cash Financing and Investing Activities*

During the three months ended March 31, 2018, the Company issued 666,652 common shares as consideration in a business acquisition (Note 5).