FORTRESS GLOBAL ENTERPRISES

(FORMERLY FORTRESS PAPER Ltd.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED MARCH 31, 2018

TSX:FGE

FORTRESS GLOBAL ENTERPRISES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Fortress Global Enterprises Inc. (formerly Fortress Paper Ltd.), ("we", "our", "us", "Fortress" or the "Company") is dated and has been prepared based on information available as at May 14, 2018. The MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto for the three month period ended March 31, 2018 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Company's performance during the quarter ended March 31, 2018 relative to the previous quarter and prior year comparative quarter. The financial information contained herein has been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

This MD&A contains certain forward-looking information that reflects the current views and/or expectations of the Company with respect to its expectations, beliefs, assumptions, estimates and forecasts about its business and the industries and markets in which it operates. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: growth and future prospects of our business; market conditions for dissolving pulp, viscose staple fibre and other products; benefits that may accrue to the Company as a result of certain acquisitions, dispositions, capital expenditure programs, equipment upgrades and maintenance shutdowns; the anticipated timing for the completion of our xylitol plant; expected operational performance figures, including costs, utilization rates and efficiencies; expected returns on certain business segments; possible elimination of anti-dumping duties; availability of funds for debt allocation; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; the securement of new purchase orders for our products; and the anticipated benefits from programs and initiatives.

Assumptions underlying the Company's expectations regarding forward-looking information contained in this MD&A include, among others: that the Company will be able to effectively market its products; the ability of the Company to realize significant cost-savings from production improvements and cost reduction initiatives; that demand for viscose staple fibre will continue to grow which will result in an increased demand for dissolving pulp; that we will achieve the successful completion of the xylitol demonstration plant and thereafter construct a full-scale production plant; that the cogeneration facility will continue operating on a consistent and regular basis; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; that the Company will be able to enter into enforceable supply agreements for dissolving pulp on favourable terms and diversify its customer base; the ability of the Company to obtain financing (if necessary) on acceptable terms; that interest and foreign exchange rates will not vary materially from current levels; and that our equipment will operate at expected levels.

Persons reading this MD&A are cautioned that statements comprising forward-looking information are only predictions, and that the Company's actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other factors; fluctuations in the market price for products sold; xylitol project risks; trade restrictions or import duties imposed by foreign governments; that the Company will not be able to meet its equipment repair targets; that the Company's continuing efforts to reverse the dissolving pulp antidumping duty will not be successful; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials; foreign exchange fluctuations; availability of financing (as necessary); dependence on major customers; and other risk factors detailed in our filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities law.

Throughout this discussion, reference is made to “operating EBITDA”, defined as net income before interest, income taxes, depreciation, amortization, non-operating income and expenses and stock-based compensation, which the Company considers to be an indicative measure of operating performance and a metric to evaluate profitability. Reference is also made to “adjusted net loss”, calculated as net loss less specific items affecting comparability with prior periods and “adjusted net loss per share”, calculated as adjusted net loss divided by the weighted average number of shares outstanding in the period. Operating EBITDA, adjusted net loss and adjusted net loss per share are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Company’s operating EBITDA, adjusted net loss and adjusted net loss per share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of operating EBITDA and adjusted net loss to net income (loss) reported in accordance with IFRS and, on a segmented basis, operating income (loss) are included in this MD&A.

All references in this MD&A to “dollars” or “$” are to Canadian dollars, “CHF” are to Swiss francs and “US$” are to United States dollars.

Market and industry data contained in this MD&A is based upon information, surveys or studies conducted by independent third parties and independent industry or general publications and the Company's knowledge of, and experience in, the markets in which it operates. The Company has no reason to believe that such information is false or misleading in any material respect, however market and industry data is subject to variation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. This information has not been independently verified by the Company, any of its respective directors, officers or representatives or any other person involved in the preparation of the MD&A and no representation is given as to the accuracy of any of the data referred to in this MD&A obtained from third party sources.

Where we disclose production costs in this MD&A, such costs are calculated based on a variety of factors and inputs which may result in such costs not being comparable to similar types of costs disclosed by other issuers.

Description of Business

The Company was incorporated on May 30, 2006 under the laws of the Province of British Columbia. During the quarter ended March 31, 2018, the Company operated in the Dissolving Pulp Segment. The Security Papers Products Segment was sold on December 20, 2017, leaving one remaining business segment. Accordingly, references in this MD&A to “discontinued operations” refer to the Security Papers Products Segment.

The Company operates its dissolving pulp business through the Fortress Specialty Cellulose (“FSC”) mill located in Thurso, Québec, Canada, that also operates in the renewable energy generation sector through its cogeneration facility. On March 26, 2018, the Company announced that it had acquired S2G Biochemicals Inc. (“S2G”) which has been included in the Dissolving Pulp Segment for reporting purposes (See “*Significant Developments* - *Acquisition of S2G Biochemicals Inc”).* The segmentation of the Company's manufacturing operations is based on a number of factors, including production, production processes, and economic characteristics. Consistent with the Company’s overall strategy, we continue to explore various shareholder enhancing opportunities, including investments in industries external to the Company’s current business segment, as well as joint venture, partnership and divestiture transactions. The Company’s core strengths involve identifying and capitalizing on investment opportunities and divestitures. In relation to these core strengths, the Company may pursue opportunities outside of the Company’s existing business segment that would diversify the asset base or monetize existing assets.

Overall Performance

During the first quarter of 2018, the Company completed, on time and on budget, the construction and began commissioning of the fifth digester at the FSC mill. The Company also completed the acquisition of S2G, a chemical engineering and technology company, for the purposes of utilizing S2G’s proprietary process technologies and license, know-how and expertise for the production of xylitol at the FSC mill (See *"Significant Developments – Acquisition of S2G Biochemicals Inc."*).

The Company reported an adjusted net loss from continuing operations of $8.1 million for the first quarter of 2018, on sales of $39.7 million. In the fourth quarter of 2017, the Company reported an adjusted net loss from continuing operations of $13.4 million, on sales of $29.6 million, and for the first quarter of 2017, adjusted net loss from continuing operations of $2.2 million on sales of $48.7 million.

Operating EBITDA loss from continuing operations was $1.4 million for the three months ended March 31, 2018, compared to operating EBITDA loss from continuing operations of $5.7 million in the previous quarter and operating EBITDA from continuing operations of $6.0 million in the prior year comparative period. Corporate costs were $1.6 million in the first quarter of 2018.

The Dissolving Pulp Segment generated operating EBITDA of $0.2 million for the quarter ended March 31, 2018, compared to operating EBITDA loss of $4.4 million for the fourth quarter of 2017 and operating EBITDA of $8.3 million for the prior year comparative period. During the first quarter of 2018, the FSC mill was shutdown for three days in order to complete the connections of the fifth digester (See *"Significant Developments – Completion of the Fifth Digester"*). The results of the first quarter of 2018 were impacted by an increase in production costs and an 8% lower realized Canadian sales price when compared to the prior year comparative period. Results for the fourth quarter of 2017 were impacted by the auxiliary system failure and the planned annual shutdown at the FSC mill. A total of 34,126 air dried metric tonnes ("ADMT") of dissolving pulp were produced in the first quarter of 2018 and the FSC mill sold 33,144 ADMT of dissolving pulp in the same period, compared to sales of 24,798 ADMT and 37,833 ADMT of dissolving pulp in the previous quarter and prior year comparative period, respectively.

In the first quarter of 2018, the FSC mill's production costs, including amortization of some of the planned shutdown costs and the positive impact of the cogeneration facility, averaged $1,056 per ADMT after adjusting for the impact of the shutdown. Production costs adjusted for shutdowns in the fourth quarter of 2017 and prior year comparative period averaged $1,071 and $945 per ADMT, respectively.

Management's Outlook

Dissolving Pulp Segment

During the first quarter of 2018, the company successfully completed a three day planned shutdown in order to finalize the connections on the fifth digester. The fifth digester project has been completed and commissioned on time and on budget. The ramp up and optimization of the fifth digester continues in the second quarter of 2018 with successful cooks having been completed on a batch basis. The requisite permit required for commercial operation has been sought and is expected to be received in the normal course before the end of the second quarter. The fifth digester is expected to result in an additional 8,500 ADMT production in 2018, once operating as projected. Additionally, the Company implemented reliability and productivity solutions identified during the shutdown held in the fourth quarter of 2017. Lower than expected production volumes at the FSC mill in the first quarter was primarily due to issues encountered in January which were seasonal in nature. Progress has been made throughout the first quarter of 2018 with production volumes and cost structure continuing to improve month over month and continuing into April 2018. In April, the FSC mill experienced an average daily production volume increase of approximately 40 ADMT per day or 10% as compared to the first quarter average of 2018 with improvements anticipated in the second and third quarters of 2018.

Dissolving pulp pricing was stronger through 2017 compared to 2016, averaging US$900 per ADMT compared to US$888 respectively. Dissolving pulp prices in 2018 have been increasing through the first quarter and the current price of US$932 per tonne is US$69 higher year over year. Typical market cycle peak occurs in the fall coinciding with downstream textile and viscose staple fibre ("VSF") market cycles. Dissolving pulp prices are likely being supported by favorable paper pulp market pricing, which influences swing mill production toward paper pulp, and increases in Chinese VSF output. VSF prices averaged US$2,380 per ADMT in 2017 compared to US$2,221 per ADMT in 2016. VSF pricing is currently about US$2,200 per ADMT. VSF prices historically trade at a premium to cotton and have been supported by a 32% increase in spot cotton pricing over the past two years. Sales of reserve cotton sales for 2018 began in April and are expected to further reduce the Chinese stockpile which is expected to improve stability in the cotton market. Cotton ending stocks in China for 2017 and 2018 are projected to decline more than 15.3% to 41.0 million bales, the lowest level in six years and the supply of higher quality imported cotton remains limited. Growing population and middle class continue to drive the worldwide demand for fiber (103. million tonnes) as reported in "The Fiber Year 2018". Increased demand for fiber has resulted in increased prices and demand for textile feedstocks, including manmade materials which continue to capture market share. VSF is expected to continue to grow by over 6% per year.

In March 2018, the Company acquired all of the issued and outstanding common shares of S2G Biochemicals Inc. (See *"Significant Developments - Acquisition of S2G Biochemicals Inc*"). With the acquisition of S2G, the Company plans to create a new advanced bioproducts segment and commission the construction of a demonstration plant to produce xylitol at the FSC mill, utilizing proprietary process technologies, know-how and expertise developed by S2G and technology licensed exclusively to S2G by Mondelēz International, Inc. ("Mondelēz") that was jointly developed by S2G and Mondelēz. Mondelēz is one of the world's largest snacking companies and one of the world's largest users of xylitol. The demonstration plant will use C5 sugars extracted from hemicellulose, which is a byproduct from the Fortress Specialty Mill, to produce xylitol. The extraction and conversion of this byproduct will also further debottleneck the mill and increase its annual production capacity of dissolving pulp. The demonstration plant is expected to commence operation in 2020.

The Company is currently in the process of finalizing funding for the xylitol demonstration plant through various non-dilutive sources including federal and provincial grants, other non-recourse financing, and consortium partners.

The Company believes that the new xylitol project provides a variety of unique business opportunities, including to: (a) become a globally low cost producer of a product with attractive growth rates; (b) have a major international snacking company as a technology partner to support the commercialization process; (c) diversify our product portfolio to extract and optimize value from a current byproduct; (d) create a new advanced bioproducts segment; (e) further debottleneck the mill by offloading the recovery boiler; and (f) develop an attractive financing structure with government support.

Significant Developments

Completion of the Fifth Digester

In March 2018, the Company announced that the FSC mill completed, on time and on budget, construction and began commissioning of the fifth digester that was announced in November 2016. The mill successfully performed a first cook on March 27, 2018. The Company expects the fifth digester to incrementally increase production capacity by 8,500 ADMT in 2018 and 17,000 ADMT in 2019 compared to current production capacity.

Acquisition of S2G Biochemicals Inc.

In March 2018, the Company acquired all of the issued and outstanding common shares of S2G for a purchase price of $2.5 million which was satisfied by the issuance of 666,652 common shares of the Company to S2G's shareholders at a deemed price of $3.75 per share. The acquisition advances the Company's strategy to grow revenues and profitability of the FSC mill through the production of valuable bio products. The Company expects the conversion of C5 sugars into xylitol will reduce the load on the FSC mills recovery boiler, optimize its wood fibre use, and diversify the product portfolio into a new high margin business. Funding support is being secured through various non-dilutive sources including federal and provincial grants, other non-recourse financing, and consortium partners. Through a newly formed subsidiary, the Company intends to commission the construction of a demonstration plant to produce xylitol at its FSC 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. The acquisition has been accounted for as follows:

	March 26, 2018 $ (000's)
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	2,400
Gain (loss) on acquisition	–

Name and Symbol Change

In January 2018, the Company announced that it changed its name to Fortress Global Enterprises Inc., in order to better reflect its existing business and future prospects. The Company's common shares and the 7% convertible unsecured subordinated debentures due on December 31, 2019 (the "2019 Debentures") now trade on the Toronto Stock Exchange under the new symbols "FGE" and "FGE.DB.A", respectively.

Selected Quarterly Information

(thousands of dollars, except per share amounts and foreign exchange rates, unaudited)	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Sales from continuing operations	39,735	29,617	35,299	42,808
Net loss from continuing operations	(8,762)	(11,779)	(14,315)	(5,075)
Net loss [(1)]	(8,762)	(74,231)	(14,319)	(2,087)
Basic and diluted net loss per share from continuing operations	(0.61)	(0.82)	($1.00)	($0.35)
Basic and diluted net loss per share	(0.61)	(5.19)	($1.00)	($0.15)
Weighted average shares outstanding – Basic	14,329	14,306	14,273	14,307
Weighted average shares outstanding – Diluted	14,329	14,306	14,273	14,307
Average Swiss franc/Canadian dollar exchange rate[(2)]	1.3337	1.2881	1.3012	1.3664
Average US$/Canadian dollar exchange rate [(2)]	1.2647	1.2713	1.2528	1.3450

(1) Including discontinued operations

(2) Source – Bank of Canada (average noon rate for the period)

(thousands of dollars, except per share amounts and foreign exchange rates, unaudited)	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Sales from continuing operations	48,690	41,196	48,862	43,780
Net (loss) income from continuing operations	(1,819)	(6,587)	(195)	5,059
Net (loss) income [(1)]	(2,745)	(7,274)	20,301	6,893
Basic net loss (income) per share from continuing operations	($0.13)	($0.46)	($0.01)	$0.34
Diluted net loss (income) per share from continuing operations	($0.13)	($0.46)	($0.01)	$0.33
Basic and diluted net (loss) income per share	($0.19)	($0.51)	$1.38	$0.47
Diluted net (loss) income per share	($0.19)	($0.51)	$1.38	$0.45
Weighted average shares outstanding – Basic	14,311	14,184	14,748	14,812
Weighted average shares outstanding – Diluted	14,311	14,184	14,748	15,205
Average Swiss franc/Canadian dollar exchange rate[(2)]	1.3194	1.3327	1.3376	1.3281
Average US$/Canadian dollar exchange rate [(2)]	1.3238	1.3341	1.3050	1.2886

(1) Including discontinued operations

(2) Source – Bank of Canada (average noon rate for the period)

Historical Discussion

Results from the second quarter of 2016 improved due to increased productivity at the FSC mill and continued stable electricity generation. The third quarter saw improved productivity and production costs, continued stable electricity generation and improved pricing. The fourth quarter of 2016 was impacted by the planned annual maintenance shutdown. The results of the first quarter of 2017 were positively impacted by improvements in production rates and quality, particularly during the normally slower winter season, as well as better pricing relative to the prior year comparative period. The second quarter of 2017 was negatively impacted by operational challenges in the chemical recovery area of the mill. The third quarter of 2017 was negatively impacted by the continuing challenges in the chemical recovery area and an auxiliary system failure at the FSC mill which caused the mill to temporarily suspend the production of dissolving pulp in order to complete the necessary repairs. The results for the fourth quarter of 2017 were impacted by continued challenges as a result of the auxiliary system failure and the annual maintenance shutdown. The first quarter of 2018 saw improvements in production costs and volume compared to the previous period and the Company completed the connections of the fifth digester.

First Quarter 2018 Earnings Review

Three Months Ended March 31, 2018

Overview

Fortress reported an adjusted net loss from continuing operations of $8.1 million or basic and diluted adjusted net loss per share from continuing operations of $0.56 for the first quarter of 2018 on sales of $39.7 million. In the fourth quarter of 2017, the Company reported an adjusted net loss from continuing operations of $13.4 million or basic and diluted adjusted net loss per share from continuing operations of $0.94 on sales of $29.6 million, and for the first quarter of 2017, an adjusted net loss from continuing operations of $2.2 million or basic and diluted adjusted net loss from continuing operations per share of $0.15 on sales of $48.7 million.

Operating EBITDA loss from continuing operations was $1.4 million for the three months ended March 31, 2018, compared to operating EBITDA loss from continuing operations of $5.7 million in the previous quarter and operating EBITDA from continuing operations of $6.0 million in the prior year comparative period. The Dissolving Pulp Segment generated operating EBITDA of $0.2 million and corporate costs were $1.6 million in the first quarter of 2018. Corporate costs reflect increased activity related to the acquisition of S2G.

Manufacturing and distribution costs from continuing operations were $36.2 million, or 91% of sales, for the three months ended March 31, 2018, compared to $31.9 million, or 108% of sales, for the three months ended December 31, 2017. In the first quarter of 2017, manufacturing and distribution costs from continuing operations were $37.2 million, or 76% of sales. Such costs are representative of tonnage sold and production cost per tonne.

SG&A expenses from continuing operations were $5.0 million for the first quarter of 2018, compared to $4.7 million for the fourth quarter of 2017. The prior year comparative period SG&A was $5.5 million.

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	**Q1 2018**	**Q4 2017**	**Q1 2017**
Sales from continuing operations	39,735	29,617	48,690
Operating EBITDA[1] (loss) from continuing operations	(1,421)	(5,682)	6,021
Operating EBITDA (loss)[2], [3]	(1,421)	(9,943)	7,489
Net loss from continuing operations	(8,762)	(11,779)	(1,819)
Net loss[3]	(8,762)	(74,231)	(2,745)
Adjusted net loss from continuing operations[4]	(8,094)	(13,431)	(2,154)
Pulp shipments (ADMT)	33,144	24,798	37,833

(1) See Net Loss to Operating EBITDA (Loss) Reconciliation from Continuing Operations.
(2) See Net Loss to Operating EBITDA (Loss) Reconciliation including Discontinued Operations.
(3) Including Discontinued Operations.
(4) See Net Loss to Adjusted Net Loss Reconciliation from Continuing Operations.

Net Loss to Adjusted Net Loss Reconciliation from Continuing Operations:

(thousands of dollars, except per share amounts, unaudited)	Q1 2018	Q4 2017	Q1 2017
Net loss from continuing operations	(8,762)	(11,779)	(1,819)
Foreign exchange loss (gain)	1,348	(972)	(335)
Gain on disposal of assets	–	(680)	–
Insurance proceeds	(680)	–	–
Adjusted net loss from continuing operations	(8,094)	(13,431)	(2,154)
Basic and diluted net loss per share	(0.61)	(0.82)	(0.13)
Adjusted net loss per share, basic and diluted	(0.56)	(0.94)	(0.15)

Net Loss to Operating EBITDA (Loss) Reconciliation from Continuing Operations:

(thousands of dollars, unaudited)	Q1 2018	Q4 2017	Q1 2017
Net loss from continuing operations	(8,762)	(11,779)	(1,819)
Income tax (recovery) expense	–	(3)	21
Foreign exchange loss (gain)	1,348	(972)	(335)
Net finance expense	543	3,779	1,653
Amortization	5,571	2,517	6,402
Gain on disposal of assets	–	(680)	–
Loss (gain) on financial instruments	148	(161)	(26)
Auxiliary system failure	–	1,320	–
Insurance proceeds	(680)	–	–
Stock-based compensation	411	297	125
Operating EBITDA (loss) from continuing operations	(1,421)	(5,682)	6,021

Net Loss to Operating EBITDA (Loss) Reconciliation Including Discontinued Operations:

(thousands of dollars, unaudited)	Q1 2018	Q4 2017	Q1 2017
Net loss	(8,762)	(74,231)	(2,745)
Income tax (recovery) expense	–	(3)	21
Foreign exchange loss (gain)	1,348	(1,146)	(254)
Net finance expense	543	3,910	1,846
Amortization	5,571	4,361	8,522
Gain on disposal of assets	–	(353)	–
(Gain) loss on financial instruments	148	(161)	(26)
Auxiliary system failure	–	1,320	–
Insurance proceeds	(680)	–	–
Stock-based compensation	411	297	125
Reversal of legal provision	–	(495)	–
Loss on sale of business	–	56,558	–
Operating EBITDA (loss)	(1,421)	(9,943)	7,489

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	**Q1 2018**	**Q4 2017**	**Q1 2017**
Sales	39,735	29,617	48,690
Operating loss	(5,380)	(8,202)	1,905
Auxiliary system failure	–	1,320	–
Amortization	5,571	2,517	6,402
Operating EBITDA (loss)	191	(4,365)	8,307
Dissolving pulp shipments (ADMT)	33,144	24,798	37,833

The Dissolving Pulp Segment generated operating EBITDA of $0.2 million for the quarter ended March 31, 2018, compared to operating EBITDA loss of $4.4 million for the fourth quarter of 2017 and operating EBITDA of $8.3 million for the prior year comparative period. During the first quarter of 2018, the FSC mill was shutdown for three days in order to complete the connections of the fifth digester (See *"Significant Developments – Completion of the Fifth Digester"*). The results of the first quarter of 2018 were impacted by an increase in production costs and an 8% lower realized Canadian sales price when compared to the prior year comparative period. Results for the fourth quarter of 2017 were impacted by the auxiliary system failure and the planned annual shutdown at the FSC mill. A total of 34,126 air dried metric tonnes ("ADMT") of dissolving pulp were produced in the first quarter of 2018 and the FSC mill sold 33,144 ADMT of dissolving pulp in the same period, compared to sales of 24,798 ADMT and 37,833 ADMT of dissolving pulp in the previous quarter and prior year comparative period, respectively.

Revenues of $4.9 million were generated from the cogeneration facility in the quarter ended March 31, 2018 compared to $4.4 million in the quarter ended December 31, 2017. Revenues from the generation of power at the cogeneration facility during the quarter ended March 31, 2016 were $5.1 million.

As at March 31, 2018, the FSC mill held finished goods inventory consisting of 4,359 ADMT of dissolving pulp compared to 3,377 ADMT as at December 31, 2017. At March 31, 2017, the mill held finished goods inventory consisting of 1,891 ADMT of dissolving pulp.

Selected Cash Flow Items

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Cash flows from (used by) operating activities		
Cash (used by) from operating activities before working capital changes from continuing operations	(742)	5,555
Non-cash working capital change from continuing operations	(3,695)	(938)
Operating cash flows from discontinued operations	–	10,814
	(4,437)	15,431
Cash flows from (used by) financing activities		
Cash flows (used by) from financing activities from continuing operations	(2,803)	11,949
Cash flows used by financing activities from discontinued operations	–	(612)
	(2,803)	11,337
Cash flows (used by) from investing activities		
Additions to property, plant and equipment from continuing operations	(5,539)	(5,014)
Investing cash flows used by discontinued operations	–	(693)
Other	1,591	(2,919)
	(3,948)	(8,626)
Change in cash position	(11,188)	18,142
Foreign exchange gain on cash and cash equivalents	60	179
Cash and cash equivalents, beginning of period	40,877	22,132
Cash and cash equivalents, end of period	29,749	40,453

Operating Activities

Fortress operates in a cyclical industry and its operating cash flows vary accordingly. Fortress' principal operating cash expenditures are for labour and raw materials. Operating activities used cash of $4.4 million mainly due to a decrease in accounts payable and provided $15.4 million mainly due to discontinued operations in the three months ended March 31, 2018 and 2017, respectively. Working capital is subject to cyclical operating needs, the timing of collection of receivables and the payment of payables and expenses.

Financing Activities

During the three months ended March 31, 2018 and 2017, financing activities used cash of $2.8 million and provided cash of $11.3 million, respectively. Included in financing activities for the three months ended March 31, 2018, was $2.8 million in long-term debt principal and interest payments.

Included in financing activities for the three months ended March 31, 2017, was the repayment of a $25.0 million unsecured convertible debenture. The Company also entered into an agreement with a new lender for a $40.0 million secured loan and made $1.3 million in long-term debt interest payments.

Investing Activities

Investing activities in the three months of 2018 used cash of $3.9 million. Investing activities relating to the purchase of equipment and capital expenditures at continuing operations used cash of $5.5 million. The Company received $1.4 million in government grants relating to the fifth digester project.

Investing activities in first three months of 2017 used cash of $8.6 million. Investing activities relating to the purchase of equipment and other capital expenditures at the mills used cash of $5.0 million. The Company received $0.5 million in government grants relating to the fifth digester project.

Liquidity and Capital Resources

As at March 31, 2018, the Company had a cash and cash equivalents balance of $29.7 million. Business maintenance capital expenditure was approximately $0.2 million in the quarter ended March 31, 2018. Project and/or discretionary capital expenditure for the quarter ended March 31, 2018 was approximately $1.3 million.

As at March 31, 2018, the Company had $8.0 million in restricted cash. Included in the restricted cash balance was a $3.6 million deposit pursuant to its $36.8 million secured loan with IAM Infrastructure Private Debt Fund (the "IAM loan") loan and CHF 3.2 million in escrow as a result of the sale of the Security Paper Products Segment.

At March 31, 2018, the Company's current portion of long-term debt, accounts payable and accrued liabilities totaled $54.3 million, 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 remaining $62.1 million principal amount of 2019 Debentures in common shares of the Company.

Corporate expenses for the three months ended March 31, 2018 decreased by $0.7 million to $1.6 million compared to the prior year comparative period primarily due to a decrease in personnel costs.

Cash and restricted cash at March 31, 2018 was $37.8 million compared to $48.7 million at the 2017 fiscal year end. Although there can be no assurances, Fortress believes that current cash, cash generated from operations, alternative financing arrangements, and other cash generating initiatives, should be sufficient to meet its debt service, capital expenditure, short term working capital requirements, and investment activities external to the Company's current business segments. Fortress' future operating performance and its ability to finance capital expenditures, service its debt, repay its indebtedness upon maturity and pay other indebtedness will be subject to future economic conditions, the potential renegotiation or refinancing of existing indebtedness, the financial success of Fortress' business, Fortress' ability to successfully maximize margins and diversify product mix in response to changing market conditions, success of cost savings initiatives and other factors, some of which are not within Fortress' control, including but not limited to changes in market prices for its products, raw materials costs, foreign currency exchange rates and the impact of duties and tariffs. No assurances are given as to the likelihood that the outcome of any such factors will be successful or will operate to positively impact the Company's business, operations and/or financial results.

Fortress may determine, in its sole discretion, that market or financial conditions may warrant that it seek additional sources of capital on terms satisfactory to Fortress, including, but not limited to additional debt or equity financing, in order to fund capital expenditures, refinance indebtedness, provide additional working capital, enhance liquidity or for other general corporate purposes.

The Company had previously entered into an amendment (the "First Amendment") to its loan ("the IQ Loan") with Investissement Québec ("IQ"), whereby IQ agreed to defer interest on the IQ Loan until April 1, 2018 and to further defer an aggregate of $6.3 million of quarterly principal payments otherwise payable September 30, 2017, December 31, 2017, and March 31, 2018, without penalty or interest accruing on such amounts, until the one year anniversary of each such principal payment due date (the "Initial Deferrals"). In connection with the IAM Loan, Fortress agreed to increase the interest payable on $40.0 million principal amount of the IQ Loan to 6% per annum and pay interest on this portion of the IQ Loan commencing February 2017. All principal payments to IQ will be applied firstly to the higher interest bearing principal amount outstanding.

During the three months ended March 31, 2018, the Company entered into a further amendment (the "Second Amendment") to the IQ Loan pursuant to which the three quarterly principal payments payable in 2018 totaling $8.5 million have been deferred to March 31, 2019, without penalty or interest accruing on such amounts. This amendment has 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. In addition, twelve monthly interest payments for the period January 1, 2018 to December 31, 2018, totaling $4.4 million will be accruing on the outstanding principal amount and such accrued interest will not bear interest during this period. The Initial Deferrals remain in effect. 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 Second Amendment was subject to a condition that has since been satisfied.

Repayments of principal for debt outstanding 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

As at March 31, 2018, the Company had $30.2 million net working capital and aggregate indebtedness of $206.2 million, including unamortized borrowing costs.

Commitments

As at March 31, 2018, the Company has:

- issued guaranteed letters of credit of $1.1 million relating to the continued delivery of power from our cogeneration facility and a performance security guarantee of up to $2.0 million for derivative financial instruments;
- guaranteed the secured note receivable transferred to a lender as early repayment of principal amounts due in 2017; and
- committed to purchase $5.1 million in property, plant and equipment.

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

	($ 000's)
2018	744
2019	876
2020	614
2021	–
2022	–
Thereafter	–
	2,234

The Company's objectives when managing capital are to safeguard its assets and maintain a globally competitive cost structure while looking for growth opportunities to provide returns to its shareholders. In addition, the Company works with relevant stakeholders to ensure the safety of its operations and employees, and remain in compliance with applicable environmental regulations and enhance the communities in which it operates.

The Company monitors and assesses on an ongoing basis its financial performance in order to ensure that its net debt levels are prudent taking into account the anticipated direction of the business cycle. The Company continuously monitors the public and private debt markets and the public equity markets in order to ensure that its capital structure is appropriately balanced. The Company can be influenced materially by changes in the relative value of the Canadian dollar, and United States dollar.

The Company's capital comprises net debt and shareholders' equity as follows:

(thousands of dollars, unaudited)	**March 31, 2018 $**	**December 31, 2017 $**
Cash and cash equivalents	29,749	40,877
Less total debt	206,206	209,235
Net debt	(176,457)	(168,358)
Shareholders' equity	120,859	125,302

The Company has certain financial covenants stipulating subsidiary specific minimum ratios of working capital and debt to earnings, maximum ratios of long-term debt to adjusted net worth and debt service coverage, as well as certain non-financial covenants. Debt obligations are held by various entities within the Company with individual debt agreements specifying the entities within the Company that are to be included in the covenant calculations. In connection with the IAM 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 $2.8 million.

The Company ensures it remains in compliance with all of its existing debt covenants in order to facilitate future access to capital. Management reviews past results and forecasts to monitor their compliance. The Company was in compliance with all externally imposed capital requirements for the period ended March 31, 2018.

Outstanding Shares

The number of common shares outstanding at March 31, 2018, and the date of this report was 14,936,680 and 14,949,895, respectively. The number of options outstanding at March 31, 2018 and the date of this report was 527,061. At March 31, 2018 and the date of this report there were 90,740 and 86,755 restricted share units outstanding, respectively. At March 31, 2018 and the date of this report there were 305,653 and 332,970 deferred share units outstanding, respectively.

Related Party Transactions

Related party transactions consist of remuneration of directors and other key management personnel with whom we have entered into employment agreements in the normal course. Further information is contained in our management information circulars in respect of our annual general meetings of shareholders, which are filed on SEDAR at www.sedar.com.

Contingencies

Provisions for liabilities relating to legal actions, tax reassessments and claims require judgment using management's best estimates regarding projected outcomes and the range of loss, based on such factors as historical experiences, stage of proceedings and recommendations of legal counsel and tax advisors. Actual results may vary from estimates and the differences are recorded when known.

In 2013, FSC commenced legal action in the Superior Court of Quebéc against Goulds Pumps Canada Inc. and ITT Goulds Pumps Inc. seeking, among other things, damages relating to delays with the start-up of the cogeneration facility. Although no trial date has yet been set, legal proceedings are advancing in the normal course.

Critical Accounting Estimates

For a review of significant management judgments affecting financial results and critical accounting estimates, see the Management's Discussion and Analysis for the year ended December 31, 2017 available on SEDAR.

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.

Risks and Uncertainties

A comprehensive discussion of risk factors is included in the Company's Annual Information Form dated March 28, 2018, available on SEDAR at www.sedar.com. Those as well as risks detailed in the Management's Discussion and Analysis for the year ended December 31, 2017, also available on SEDAR, may impact the business of the Company.

Disclosure Controls and Internal Controls over Financial Reporting

During the quarter ended March 31, 2018, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.