



FORTRESS
ENTERPRISES

GLOBAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE MONTHS ENDED
MARCH 31, 2019**

TSX:FGE

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**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 13, 2019. 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, 2019 (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, 2019 relative to the previous quarter and prior year comparative period. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS").

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, including price and demand, for dissolving pulp, viscose staple fibre, bioproducts, 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 and the timing thereof; the anticipated capacity, cost of and timing for the completion of our xylitol and other complementary bioproducts demonstration plant, the anticipated sources of financing for the construction of the plant and the expected timing for such financing; the expected construction of a commercial plant at the same location as the proposed bioproducts demonstration 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 and other complementary bioproducts demonstration plant and thereafter construct a full-scale production plant; 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 diversify its customer base for dissolving pulp; 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; bioproducts 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. Operating EBITDA is not generally an accepted earnings measure 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 this measure, the Company’s operating EBITDA may not be directly comparable with similarly titled measures used by other companies. Reconciliations of operating EBITDA 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, “US\$” are to United States dollars and “RMB” are to Chinese Yuan.

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, 2019, the Company operated in two business segments: the Dissolving Pulp Segment and the Bioproducts Segment. The Bioproducts Segment includes Fortress Advanced Bioproducts Inc. (“FortressAB”), the segment’s parent holding company, S2G Biochemicals Inc. (“S2G”), a xylitol and biochemicals technology company that was acquired in the first quarter of 2018, and Fortress Xylitol Inc. (“FXI”), a special purpose company established to construct a demonstration plant to produce xylitol and other complementary bioproducts at the Fortress Specialty Cellulose (“FSC”) mill. The Security Paper Products Segment was sold on December 20, 2017. Accordingly, references in this MD&A to “discontinued operations” refer to the Security Paper Products Segment.

The Company operates its dissolving pulp business through the FSC mill located in Thurso, Québec, Canada, and also operates in the renewable energy generation sector through its cogeneration facility. On March 26, 2018, the Company announced that it had acquired S2G which is included in the Bioproducts Segment. 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 corporate strategy, we continue to explore various shareholder enhancing opportunities, but the primary focus at this time will be on operational excellence and optimization of our existing assets. Corporate resources will be allocated to supporting operational efficiency and productivity improvements at the FSC mill and advancing the Bioproducts Segment.

Overall Performance

The Company reported a net loss of \$16.9 million for the first quarter of 2019, on sales of \$34.6 million. In the fourth quarter of 2018, the Company reported a net loss of \$10.6 million, on sales of \$47.5 million, and for the first quarter of 2018, net loss of \$8.8 million on sales of \$39.7 million.

Operating EBITDA loss was \$9.7 million for the three months ended March 31, 2019, compared to operating EBITDA of \$4.2 million in the previous quarter and operating EBITDA loss of \$1.4 million in the prior year comparative period. Development costs incurred in the Bioproducts Segment were \$0.8 million which was offset by grants and funding. Corporate costs were \$0.9 million in the first quarter of 2019.

The Dissolving Pulp Segment incurred operating EBITDA loss of \$8.8 million for the quarter ended March 31, 2019. Operating EBITDA for the Dissolving Pulp Segment was \$6.1 million for the quarter ended December 31, 2018 and operating EBITDA was \$0.2 million for the prior year comparative period. Results for the first quarter of 2019 were negatively impacted by multiple region-wide electrical power outages and extreme weather conditions which impacted both production volumes and pulp quality resulting in a reduction in realized pricing and sales.

A total of 30,688 air dried metric tonnes ("ADMT") of dissolving pulp were produced in the first quarter of 2019 and the FSC mill sold 31,232 ADMT of dissolving pulp in the same period, compared to sales of 37,818 ADMT and 33,144 ADMT of dissolving pulp in the previous quarter and prior year comparative period, respectively.

The requisite permit for the fifth digester required for commercial operation was received during the fourth quarter of 2018. The fifth digester is expected to result in approximately 17,000 tonnes increased annualized production once operating as projected, which is anticipated to be by the summer once cooking sequence (time, temperature and recipe) have been optimized.

Management's Outlook

Due to a combination of factors, such as unusual multiple region-wide electrical outages and extreme weather conditions in excess of normal seasonal patterns, operating results in the first quarter and April of 2019 did not carryforward the positive momentum from the prior three quarters. However, as we begin the seasonally more productive months, we will be continuing our progress for the remainder of 2019.

Our annual maintenance shutdown is scheduled for 6 days in the second quarter of 2019. This annual maintenance shutdown has been reduced by 1 day as we were able to perform some maintenance during the power outages.

Looking mid to long term, with support from our partners, the Company is finalizing plans to modernize the Fortress Specialty Cellulose ("FSC") mill, diversify revenue streams by converting underutilized mill process streams into high value bioproducts, such as xylitol, and more permanently improve the balance sheet. Investissement Québec ("IQ") has agreed in principle to grant additional interest and principal payment deferrals on our \$105.2 million debt, subject to definitive documentation as the Company and IQ work towards a longer term multi-year moratorium and an extended term.

Dissolving Pulp Segment

According to China Chemical Fiber Group, viscose staple fibre ("VSF") capacity grew by approximately 740,000 tonnes per year in 2018, driving dissolving pulp demand which is forecasted to continue to grow in 2019. Dissolving pulp prices in 2018 were relatively stable, with average weekly pricing up 3.6% to \$1,206 (US\$931) per ADMT as compared to \$1,167 (US\$899) per ADMT in 2017. The substantial increases in VSF capacity in 2018 contributed to softening of VSF pricing throughout 2018, as mills struggled with inventory build-up as the new supply came online. VSF pricing, currently at \$2,426 (US\$1,802) per tonne, is approximately 12.2% lower year over year (based on quoted RMB pricing). Lower VSF pricing has resulted in a softening of current dissolving pulp pricing which at \$1,136 (US\$844) per ADMT is 9.4% lower year over year (based on quoted US\$ pricing). Typical dissolving pulp market cycle peak occurs in the fall, coinciding with downstream textile and viscose staple fibre market cycles. Although currently priced at \$419 (US\$311) below current cotton prices, VSF historically has

traded at a premium to cotton and has been supported by stronger cotton pricing over the past two years. Cotton sales from China's national reserve have reduced their stocks significantly during the past several years which is expected to improve stability in the cotton market. Global production for the 2019/20 season is expected to increase by 5.6% compared to the previous year to 125.5 million bales, while world consumption is expected to reach a record high at approximately 125.9 million bales in 2019/20, further reducing world cotton stocks to 75.7 million bales, the lowest in eight years. Population growth, particularly the middle class, continue to drive the worldwide demand for fibre which is expected to increase from 103 million tonnes to 114 million tonnes produced by 2020 as reported in "The Fiber Year 2018". Increased demand for fibre has resulted in increased prices and demand for textile feedstocks, including manmade materials, which continue to capture market share.

VSF demand is expected to continue to grow by over 6% per year, driving dissolving pulp demand which is forecasted to continue to be strong for the foreseeable future. However, near-term dissolving pulp pricing will most likely continue to be impacted by VSF/rayon downstream market pricing and conditions, paper pulp market pricing influencing swing mills, general macro-economic uncertainties pertaining to the ongoing US/China trade issues and US\$/RMB exchange rates.

China's Ministry of Commerce ("MOFCOM") anti-dumping duty on dissolving pulp expired on April 4, 2019, the fifth year anniversary of the 13% duty imposed by MOFCOM on dissolving pulp imports from Canada in 2014. On April 1, 2019 China reduced the value-added tax ("VAT") rate for VSF by 3%, further increasing its cost competitiveness over cotton compared to cotton's 1% reduction in VAT.

Bioproducts Segment

FortressAB, a wholly owned subsidiary of the Company and the parent holding company of the Bioproducts Segment, continued work to advance its planned xylitol and complementary bioproducts demonstration plant project. The Company intends to produce xylitol and potentially other valuable bioproducts from hemicellulose and other underutilized streams produced at the FSC mill. FXI, a subsidiary special purpose company, has been established to construct and operate the demonstration plant.

Negotiations continue with the Government of Québec for an additional \$7.0 million of investment and loan funding previously committed to FXI, subject to the execution of definitive agreements with Investissement Québec ("IQ").

Recent Developments

Federal Government Support for Planned Bioproducts Demonstration Plant

On February 6, 2019, the Company entered into a definitive contribution agreement with Natural Resources Canada ("NRC") whereby NRC has committed \$10.0 million in contribution funding to support the planned construction and operation of the xylitol and other complementary bioproducts demonstration plant at the FSC mill.

On April 8, 2019, the Company announced that it had entered into a definitive contribution agreement with Sustainable Development Technology Canada ("SDTC") whereby SDTC has committed \$10.4 million in contribution funding to support the planned construction and operation of the demonstration plant at the FSC mill. This funding from SDTC is in addition to the \$10 million grant from NRC and is a part of the anticipated federal and provincial investments, grants, and loans of up to \$27.4 million of which \$7 million remains subject to the execution of definitive agreements.

Selected Quarterly Information

(thousands of dollars, except per share amounts and foreign exchange rates, unaudited)

	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Sales	34,605	47,455	48,678	50,077
Net loss	(16,855)	(10,566)	(4,702)	(8,150)
Basic and diluted net loss per share	(1.13)	(0.71)	(0.31)	(0.55)
Weighted average shares outstanding – Basic and diluted ⁽¹⁾	14,957	14,949	14,949	14,947
Average CHF/Canadian dollar exchange rate ⁽²⁾	1.3336	1.3263	1.3284	1.3105
Average US\$/Canadian dollar exchange rate ⁽²⁾	1.3295	1.3204	1.3070	1.2911

⁽¹⁾ Thousands of shares

⁽²⁾ Source – Bank of Canada (average indicative rate for each period)

(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)	(14,316)	(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 and diluted ⁽²⁾	14,329	14,306	14,273	14,307
Average CHF/Canadian dollar exchange rate ⁽³⁾	1.3337	1.2881	1.3012	1.3664
Average US\$/Canadian dollar exchange rate ⁽³⁾	1.2647	1.2713	1.2528	1.3450

⁽¹⁾ Including discontinued operations

⁽²⁾ Thousands of shares

⁽³⁾ Source – Bank of Canada (average noon rate for each period, until February 28, 2017; average indicative rate for the period, after March 1, 2017)

Historical Discussion

The second quarter of 2017 was negatively impacted by operational challenges in the chemical recovery area of the FSC 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 six months of 2018 saw improvements in production costs and volumes, the completion of the connections of the fifth digester and the acquisition of S2G. The third and fourth quarters of 2018 saw improved operations at the FSC mill and the operational ramp up of the fifth digester. The first quarter of 2019 was negatively impacted by multiple region-wide electrical power outages and extreme weather conditions which impacted production volumes, pulp quality and sales.

First Quarter 2019 Earnings Review

Three Months Ended March 31, 2019

Overview

Fortress reported a net loss of \$16.9 million or basic and diluted net loss per share of \$1.13 for the first quarter of 2019 on sales of \$34.6 million. In the fourth quarter of 2018, the Company reported a net loss of \$10.6 million or basic and diluted net loss per share of \$0.71 on sales of \$47.5 million and for the first quarter of 2018, the Company reported a net loss of \$8.8 million or basic and diluted net loss per share of \$0.61 on sales of \$39.7 million.

Operating EBITDA loss was \$9.7 million for the three months ended March 31, 2019, compared to operating EBITDA of \$4.2 million in the previous quarter and operating EBITDA loss of \$1.4 million in the prior year comparative period. The Dissolving Pulp Segment incurred operating EBITDA loss of \$8.8 million and net of funding received, the Bioproducts Segment was operating EBITDA neutral. Corporate costs were \$0.9 million in the first quarter of 2019. The Dissolving Pulp Segment results for the first quarter of 2019 were negatively impacted by multiple region-wide electrical power outages and extreme weather conditions which impacted both production volumes and pulp quality resulting in a reduction in realized pricing and sales.

Manufacturing and distribution costs were \$39.4 million, or 114% of sales, for the three months ended March 31, 2019, compared to \$37.7 million, or 80% of sales, for the three months ended December 31, 2018. In the first quarter of 2018, manufacturing and distribution costs were \$36.2 million, or 91% of sales.

Selling, general and administrative (“SG&A”) expenses were \$4.9 million for the first quarter of 2019, compared to \$6.1 million for the fourth quarter of 2018, both of which include development costs related to the Bioproducts Segment. In the first quarter of 2019, the Bioproducts Segment development costs were largely offset by funding and grants. SG&A was higher in the fourth quarter relative to the first quarter primarily due to severance payments made in relation to the transition of the former President and CEO and Bioproducts Segment development costs. The prior year comparative period SG&A expenses were \$5.0 million.

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	Q1 2019	Q4 2018	Q1 2018
Sales	34,605	47,455	39,735
Operating EBITDA (loss) ⁽¹⁾	(9,728)	4,151	(1,421)
Net loss	(16,855)	(10,566)	(8,762)
Pulp shipments (ADMT)	31,232	37,818	33,144

⁽¹⁾ See Net Loss to Operating EBITDA (Loss) Reconciliation.

Net Loss to Operating EBITDA (Loss) Reconciliation:

(thousands of dollars, unaudited)	Q1 2019	Q4 2018	Q1 2018
Net loss	(16,855)	(10,566)	(8,762)
Foreign exchange (gain) loss	(714)	1,578	1,348
Net finance expense	4,380	6,728	543
Amortization	5,205	5,518	5,571
(Gain) loss on financial instruments	(1,319)	1,712	148
Non-operating income	–	(808)	(680)
Gain on sale of assets	(604)	–	–
Stock-based compensation	179	(511)	411
Transition payment cost	–	500	–
Operating EBITDA (loss)	(9,728)	4,151	(1,421)

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	Q1 2019	Q4 2018	Q1 2018
Sales	34,605	47,455	39,735
Operating (loss) income	(13,982)	559	(5,380)
Amortization	5,183	5,518	5,571
Operating EBITDA (loss)	(8,799)	6,077	191
Dissolving pulp shipments (ADMT)	31,232	37,818	33,144

The Dissolving Pulp Segment incurred operating EBITDA loss of \$8.8 million for the quarter ended March 31, 2019, compared to operating EBITDA of \$6.1 million for the fourth quarter of 2018 and operating EBITDA of \$0.2 million for the prior year comparative period. In the fourth quarter of 2018, the FSC mill had its annual maintenance shutdown. A total of 30,688 ADMT of dissolving pulp was produced in the first quarter of 2019 and the FSC mill sold 31,232 ADMT of dissolving pulp in the same period, compared to sales of 37,818 ADMT and 33,144 ADMT of dissolving pulp in the previous quarter and prior year comparative period, respectively.

Revenues of \$3.1 million were generated from the cogeneration facility in the quarter ended March 31, 2019 compared to \$5.4 million in the quarter ended December 31, 2018. Revenues from the generation of power at the cogeneration facility during the quarter ended March 31, 2018 were \$4.9 million. Revenues generated from the cogeneration facility were negatively impacted by multiple region-wide electrical power outages during the first quarter of 2019.

As at March 31, 2019, the FSC mill held finished goods inventory consisting of 6,065 ADMT of dissolving pulp compared to 6,609 ADMT as at December 31, 2018. As at March 31, 2018, the FSC mill held finished goods inventory consisting of 4,359 ADMT of dissolving pulp.

Bioproducts Segment

(thousands of dollars, unaudited)	Q1 2019	Q4 2018	Q1 2018
Operating loss	(5)	(838)	-
Operating EBITDA loss	(5)	(838)	-

During the first quarter of 2019, the Company continued to make progress on a xylitol and other complementary bioproducts demonstration plant planned for the FSC mill site. Development costs incurred in the Bioproducts Segment were \$0.8 million, which were offset by grants and funding.

Selected Cash Flow Items

(thousands of dollars, unaudited)	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash flows used by operating activities		
Cash used by operating activities before working capital changes	(9,713)	(742)
Non-cash working capital change	4,376	(3,695)
	(5,337)	(4,437)
Cash flows used by financing activities		
Cash used by from financing activities	(352)	(2,803)
	(352)	(2,803)
Cash used by investing activities		
Additions to property, plant and equipment	(2,855)	(5,539)
Other	2,297	1,591
	(558)	(3,948)
Change in cash position	(6,247)	(11,188)
Foreign exchange gain on cash and cash equivalents	(17)	60
Cash and cash equivalents, beginning of period	12,608	40,877
Cash and cash equivalents, end of period	6,344	29,749

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 \$5.3 million and \$4.4 million in the three months ended March 31, 2019 and 2018, 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, 2019, financing activities used cash of \$0.4 million. Included in financing activities in the three months ended March 31, 2019 was \$0.7 million in long-term debt payments, \$1.6 million in additions to long-term debt and \$1.1 million in long-term debt interest and financing payments.

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

Investing Activities

During the first quarter of 2019, investing activities used cash of \$0.6 million. Investing activities relating to the purchase of equipment and other capital expenditures at the FSC mill used cash of \$2.9 million. The Company also received \$1.7 million in government grants.

Investing activities in the first quarter of 2018 used cash of \$3.9 million. Investing activities relating to the purchase of equipment and capital expenditures used cash of \$5.5 million. The Company received \$1.4 million in government grants relating to the fifth digester project.

Liquidity and Capital Resources

As at March 31, 2019, the Company had a cash and cash equivalents balance of \$6.3 million and \$8.1 million in restricted cash. Included in the restricted cash balance was a \$3.6 million deposit pursuant to the Company's \$32.9 million secured loan with IAM Infrastructure Private Debt Fund (the "IAM Loan") and CHF 3.2 million in escrow as a result of the sale of the former Security Paper Products Segment, which is expected to be released from escrow in June of 2019.

As at March 31, 2019, the Company's current portion of long-term debt, accounts payable and accrued liabilities totaled \$52.9 million, all of which fall due for payment within one year of the statement of financial position date. As at March 31, 2019, the Company's current assets were \$50.3 million. In October 2018, the Company made certain amendments to its outstanding convertible unsecured debentures which included an extension of the maturity date from December 31, 2019 to December 31, 2021.

Cash and restricted cash as at March 31, 2019 was \$14.4 million compared to \$20.8 million as at December 31, 2018. Although there can be no assurances, Fortress believes that current cash, cash generated from operations, alternative financing arrangements, government financing grants and investments, and other cash generating initiatives, should be sufficient to meet its debt service, capital expenditure, project development and short term working capital requirements. 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, the impact of duties and tariffs and the receipt of necessary permits. 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 and other project development costs, 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 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 year ended December 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 were deferred to March 31, 2019, without penalty or interest accruing on such amounts. In addition, twelve monthly interest payments for the period January 1, 2018 to December 31, 2018, totaling \$4.4 million was capitalized on the outstanding principal amount and such capitalized interest did not bear interest during this period. The Initial Deferrals remained in effect during the first quarter of 2019.

During the three months ended March 31, 2019, the Company entered into a further amendment to the IQ Loan pursuant to which the quarterly principal payment due March 31, 2019 is now due on maturity of the loan in December 2026. The interest payable from January 1, 2019 to March 31, 2019 was capitalised and added to the outstanding balance of the loan. The next principal and interest payment will be due on June 30, 2019, and interest and principal will be payable on a quarterly basis thereafter. IQ has agreed in principle to grant additional interest and principle payment deferrals subject to definitive documentation as the Company and IQ work towards a longer term multi-year moratorium and an extended term.

During the year ended December 31, 2018, the Company amended its outstanding convertible debentures in the aggregate principal amount of \$62.1 million due in 2019. The Company extended the maturity date of the debentures from December 31, 2019 to December 31, 2021, increased the interest rate on the debentures from 7.0% to 9.75% per annum, effective January 1, 2019, and incorporated certain negative covenants. The Company accounted for the amendments as a modification to the existing debentures which resulted in a loss of \$0.9 million in the year ended December 31, 2018, and an additional \$1.7 million in interest per annum in 2019.

Repayments of principal for debt outstanding as at March 31, 2019 are required as follows:

	(\$ 000's)
2019	12,422
2020	14,404
2021	76,504
2022	14,404
2023	14,404
Thereafter	70,762
	202,900

Commitments

As at March 31, 2019, the Company has:

- issued guaranteed letters of credit of \$0.8 million relating to the continued delivery of power from our cogeneration facility and \$0.4 million relating to suppliers;
- a performance security guarantee of up to \$2.5 million for derivative financial instruments; and
- committed to purchase \$1.7 million in property, plant and equipment.

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, 2019 \$	December 31, 2018 \$
Cash and cash equivalents	6,344	12,608
Less total debt	212,040	209,341
Net debt	(205,696)	(196,733)
Shareholders' equity	82,330	99,837

The Company has certain financial covenants stipulating subsidiary specific minimum ratios of debt to earnings and 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 of the Company, 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, 2019, the cash and cash equivalents balance of the subsidiary was \$2.2 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, 2019.

Outstanding Shares and Other Securities

The number of common shares outstanding as at March 31, 2019, and as at the date of this report was 14,963,228 and 14,971,799, respectively. The number of options outstanding as at March 31, 2019, and as at the date of this report was 442,911. As at March 31, 2019, and as at the date of this report, there were 43,776 and 67,813 restricted share units outstanding, respectively. As at March 31, 2019, and as at the date of this report there were 511,407 and 584,220 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 Québec 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, 2018, available on SEDAR at www.sedar.com.

New Accounting Pronouncements

IFRS 16 – Leases

Effective January 1, 2019, the Company adopted 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 Company has applied the standard on a modified retrospective method. Under this method, the cumulative effect of initial application has been recognized as an adjustment to the opening balance of equity as of January 1, 2019 and comparative figures have not been restated.

On adoption of IFRS 16, the Company recognized both right of use assets and lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 – Leases. These right of use assets and lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate. The weighted average rate applied at January 1, 2019, was 3%. The Company leases office space and equipment. The lease contracts are typically 3 to 4 years.

For leases previously classified as finance leases, the Company recognized the carrying amount of the right of use asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

The Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with similar characteristics;
- The accounting for leases with the underlying asset of low value as operating leases, and;
- The accounting for operating leases with a remaining lease term of less than one year as at January 1, 2019 as short term leases.

The Company recorded the following right of use assets in property, plant and equipment upon the adoption of IFRS 16 on January 1, 2019.

(thousands of dollars, unaudited)	Properties	Equipment	Total
	\$	\$	\$
At January 1, 2019			
Right of use asset	171	898	1,069
Amortization	(22)	(121)	(143)
At March 31, 2019	149	777	926

The Company recorded \$1.1 million in lease liabilities and right of use assets upon the adoption of IFRS 16 on January 1, 2019. The long-term portion of the liability has been recorded in provisions and other long-term liabilities and the current portion in accounts payable and accrued liabilities. The Company has made \$0.1 million in repayment on the lease obligation. The adoption of IFRS 16 resulted in no impact on the Company's equity.

Principal repayments for the lease liabilities as at March 31, 2019 are required as follows:

(thousands of dollars, unaudited)	\$
2019	424
2020	507
	931

Risks and Uncertainties

A comprehensive discussion of risk factors is included in the Company's Annual Information Form dated March 29, 2019, available on SEDAR at www.sedar.com. Those risks may impact the business of the Company. Those as well as risks detailed in the Management's Discussion and Analysis for the year ended December 31, 2018, 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, 2019, 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.