



FORTRESS
ENTERPRISES



MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 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 November 8, 2019. The MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto for the three and nine month periods ended September 30, 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 September 30, 2019 relative to the previous quarter and prior year comparative period. 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, 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, restart of the mill 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; expected operational performance figures, including costs, utilization rates and efficiencies; expected returns on certain business segments; 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 procurement 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 demand for dissolving pulp will strengthen and improve from current levels; 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 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; the restart of the mill could be delayed due to technical reasons or market conditions; 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 September 30, 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.

Overall Performance

The Company reported a net loss of \$51.8 million for the third quarter of 2019, on sales of \$20.4 million. In the second quarter of 2019, the Company reported a net loss of \$61.2 million, on sales of \$36.8 million, and for the third quarter of 2018, net loss of \$4.7 million on sales of \$48.7 million.

Operating EBITDA loss was \$7.2 million for the three months ended September 30, 2019, compared to operating EBITDA loss of \$9.5 million in the previous quarter and operating EBITDA of \$7.5 million in the prior year

comparative period. Development costs incurred in the Bioproducts Segment were \$0.3 million which were somewhat offset by grants and funding. Corporate costs were \$0.6 million in the third quarter of 2019.

The Dissolving Pulp Segment incurred operating EBITDA loss of \$6.4 million for the quarter ended September 30, 2019. Operating EBITDA loss for the Dissolving Pulp Segment was \$8.5 million for the quarter ended June 30, 2019 and operating EBITDA was \$9.0 million for the prior year comparative period. Results for the third quarter of 2019 were impacted by a 7% and 20% lower realized dissolving pulp sales price in comparison to previous quarter and prior year comparative period, respectively, and lower shipments due to uncertain market conditions.

A total of 42,074 air dried metric tonnes ("ADMT") of dissolving pulp were produced in the third quarter of 2019 and the FSC mill sold 16,517 ADMT of dissolving pulp in the same period, compared to sales of 33,585 ADMT and 38,433 ADMT of dissolving pulp in the previous quarter and prior year comparative period, respectively.

Recent Developments

Strategic and Financial Initiative

On August 21, 2019, the Company announced that as a result of ongoing financial constraints impacting the Company primarily resulting from a 10-year low in dissolving pulp prices, the Board of Directors formed a Strategic Committee to implement the strategic and financing initiative announced in August 2019 (the "Strategic Initiative"), which includes the consideration of various strategic and financing alternatives potentially available to the Company, including a recapitalization, restructuring and/or business combination transaction. As part of the process, the Company engaged Houlihan Lokey Capital, Inc. to act as financial advisor.

Supplemental Liquidity Facility

On September 3, 2019, the Company announced that, through its wholly owned subsidiaries FSC and Fortress Bioenergy Ltd. ("FBL" and, together with FSC, the "Borrowers"), it had entered into a financing agreement (the "Financing Agreement") with its secured lenders or their affiliates providing for a senior secured credit facility in the amount of up to \$15.0 million (the "Facility"). To date \$7.0 million has been advanced with additional drawdowns available to the Borrowers from time to time in accordance with pre-approved budgets and subject to customary conditions. The Facility will provide the Company with supplemental liquidity to allow for uninterrupted operations in order to execute its strategic and financing initiative.

Market Downtime

On October 7, 2019, the Company announced that it would be taking market downtime at the FSC mill in Thurso, Québec. The ongoing United States-China trade dispute, as well as weakening Chinese domestic textile and apparel consumption has destabilized the demand for dissolving pulp and caused a significant decline in pricing. The Company took market downtown commencing October 8, 2019 for an unspecified interim period, and has deployed a temporary market curtailment strategy to preserve cash in order to enable an efficient restart of the mill once prices rebound. The market downtime will allow the Company to manage its dissolving pulp inventory build-up, which has resulted from the recent uncertainty in pricing and demand.

Going Concern

The financial statements have been prepared under the historical cost convention, except for certain classes of property, plant and equipment. The financial statements have also been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

Subsequent to the quarter ended September 30, 2019, the Company determined after conducting an impairment analysis that FSC and FBL was not in compliance with one of the financial covenants in the loan (the "IQ Loan") with Investissement Québec ("IQ") as at September 30, 2019. Accordingly, \$119.9 million was recorded in current debt for the period ended September 30, 2019. However, a waiver from compliance with the applicable covenant

through to the period ended December 31, 2019 was subsequently obtained from IQ which reclassifies the \$119.9 million as long term debt after receipt of the waiver.

In addition, there is uncertainty whether FBL is compliant with the terms and conditions of its \$40 million secured loan (the "FBL Loan"). FBL reasonably believes that it has obtained appropriate amendments and/or concessions from such lender to defer six months in principal payments totaling \$1.4 million on the FBL Loan beginning in September 2019. FBL believes it is compliant with the FBL Loan but continues to seek clarification with the lender. However, because discussions with the lender have not been formally finalized and approvals or concessions, as applicable, in writing have not been obtained and the decision of the lender is outside of the Company's control, the outcome cannot be considered probable and no assurance can be given regarding the likelihood, certainty or timing of receiving requisite approvals, amendments, waivers or concessions. Accordingly, \$31.7 million was recorded in current debt for the period ended September 30, 2019. If approvals, amendments, waivers or concessions are not received, the lender may, if they so choose, attempt enforcement measures under the loan agreement. Consequently, the Company is required to disclose that its ability to continue as a going concern is dependent on its ability to obtain such approvals, amendments, waivers or concessions, or to refinance such loan.

During the nine months ended September 30, 2019, the Company incurred losses of \$129.9 million (2018: \$21.6 million) including a property, plant and equipment impairment charge of \$76.6 million, and an inventory write-down of \$11.2 million (2018: \$nil) during the three months ended September 30, 2019 to record finished goods at net realizable value. The Company had negative cash flow from operating activities of \$11.9 million (2018: \$7.0 million contribution) and a working capital deficit of \$172.3 million as at September 30, 2019 (December 31, 2018: \$11.9 million surplus).

Cash flows from operations, primarily based on operating results, have historically been the Company's primary source of liquidity and capital resources. Management anticipates that, based upon current dissolving pulp market prices, the market downtime being taken by the FSC mill, and the working capital as at September 30, 2019, the forecasted cash flows will not be sufficient to meet the Company's obligations, commitments and budgeted expenditures through September 30, 2020. As a result, there is significant uncertainty whether the Company will continue as a going concern and, therefore, whether it will realize the stated value of its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. No adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amount and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern. These adjustments could be material (see "*Liquidity and Capital Resources*" and "*Risks and Uncertainties*").

The Company has implemented measures to mitigate against the impact of the decline in dissolving pulp prices. On September 3, 2019, the Company announced that FSC and FBL entered into the Financing Agreement with their secured lenders or their affiliates providing for the Facility. The Facility provided the Company with supplemental liquidity to initially allow for uninterrupted operations in order to execute on its Strategic Initiative. The Facility matures on the earliest to occur of certain events, including: (i) the completion of a restructuring/recapitalization or other material transaction or the sale of all or substantially all of the property, assets and undertakings of the Company that results in the repayment in full of the Facility; and (ii) October 15, 2020. To-date, the Borrowers have drawn down an aggregate of \$7.0 million under the Facility.

Subsequently, as a result of continued sharp declines in dissolving pulp prices, the Company announced that it would be taking market downtime at the FSC mill beginning on October 8, 2019. This market curtailment strategy is designed to preserve cash in order to enable an efficient restart of the mill once dissolving pulp prices rebound, to allow the Company to manage its dissolving pulp inventory build-up and execute on its Strategic Initiative. The Company's ability to continue future operations and fund its planned activities is dependent on the Company's ability to seek out proposals from existing and potential new stakeholders and to execute the Strategic Initiative.

Management of the Company continues its active discussions with its financial partners, including its senior lenders, to secure the long-term financial viability of the Company's business. While management is continuing to execute on its Strategic Initiative, no assurance can be provided that it will be successful, or that the amounts realized for its assets will be equal to the amounts reflected in the interim consolidated financial statements. There

is also no assurance that the Company will not be required, or will not determine, that it is in its best interests to file for any form of creditor protection proceeding imminently or in the near future whether or not in connection with any transaction.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Longer-term risks associated with satisfying its contractual obligations in respect of its debt and convertible debentures are dependent on the Company's ability to generate future cash flows. The Company manages its liquidity risk by forecasting cash flow requirements for its planned operating activities as well as its investing and financing activities. The Company's ability to continue as a going concern is dependent upon the Company being successful in accessing additional sources of liquidity from lenders or investors until it is able to generate sufficient, sustainable cash flow from operations to meet its ongoing operating, financing and investing requirements. However, there can be no assurance that the Company will be successful in raising capital on acceptable terms if at all.

Management believes that the assumptions used by the Company in preparing its estimates are reasonable and that its planned activities are feasible. Failure to comply with the covenants contained in its financing agreements would result in one or more events of default. If this occurred and such events of default were not cured or waived, the Company could suffer further adverse effects on its operations, business or financial condition, including termination of the debt facilities and acceleration of debts. In these circumstances, there can be no assurance that the assets of the Company would be sufficient to repay such indebtedness and such default could result in secured creditors' taking action to realize on their collateral.

Delisting Review from the Toronto Stock Exchange

On October 22, 2019, the Company announced that the Toronto Stock Exchange "TSX" had notified the Company that it is reviewing the eligibility of the Company's securities for continued listing on the TSX pursuant to the requirements of the TSX Company Manual (the "Manual").

The Company is being reviewed under the TSX's remedial review process and has been granted 120 days to comply with all requirements for continued listing. If the Company cannot demonstrate that it meets applicable TSX requirements set out in the Manual on or before February 18, 2020, the Company's securities will be delisted 30 days from such date. The Company's listed common shares (TSX – "FGE") and convertible debentures (TSX – "FGE.DB.A") will continue to trade on the TSX during the remedial review process. There can be no assurance that the Company will successfully regain compliance with the TSX listing requirements within this time period, in which case the Company's common shares and convertible debentures would cease to trade on the TSX. The Company is exploring alternative listing platforms but there is no assurance that such securities may be eligible to trade on any other trading platform.

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.

As at September 30, 2019, the Company's market capitalization was lower than the carrying amount of its net assets. Management of the Company determined that this, in addition to deteriorating market conditions, constituted an impairment indicator and completed an impairment assessment of the FSC mill cash generating unit.

Management used a consistent valuation model compared to the one used at December 31, 2018, adjusted for updated key assumptions. Management's impairment evaluation resulted in the identification of an impairment loss of \$76.6 million at the FSC mill operations of the Dissolving Pulp Segment, as at September 30, 2019. Management determined the value in use of the cash generating unit to be \$199.4 million. There is no assurance that a further impairment will not be required.

Management's Outlook

As a result of a lower realized sales price resulting from a softened demand for dissolving pulp, an inventory write-down and significantly reduced sales volumes due to unusually low demand for dissolving pulp, operating results in the third quarter of 2019 were well below management expectations. Despite the significant headwinds in the dissolving pulp market, the Thurso mill realized one of its better operational quarters from a dissolving pulp production and power generation perspective.

As a result of a thorough evaluation of the operating economics at the FSC mill and the prevailing market conditions, the Company determined to take market downtime on October 8, 2019. This market curtailment strategy will enable the Company to focus its efforts on executing on the Strategic Initiative, which includes the consideration of various strategic and financing alternatives potentially available to the Company including a recapitalization, restructuring and/or business combination transaction, as well as planning the optimized restart of the mill when dissolving pulp prices normalize. The Company has also proactively allocated resources to enable it to restart the FSC mill on an expedited basis in order to take advantage of any significant rebound in dissolving pulp pricing. Based on historic trends, the Company continues to believe in the future pricing recovery and prospects for dissolving pulp as the market adjusts to currently volatile conditions.

Dissolving Pulp Segment

According to China Chemical Fiber Group, viscose staple fibre ("VSF") capacity grew by approximately 740,000 tonnes 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 and 2019 as mills struggled with inventory build-up as the new supply came online. VSF pricing, currently at \$2,028 (US\$1,539) per tonne, is approximately 28.0% lower year over year. Lower VSF pricing has resulted in a softening of current dissolving pulp pricing which, at \$841 (US\$638) per ADMT, is 32.4% lower year over year. The sharp decline in dissolving pulp pricing subsequent to the first quarter of 2019 is in contrast to the positive trend pricing experienced over the previous four years. Current dissolving pulp prices are at their lowest level since the end of the 2009 recession. Based on historic trends, management believes this to be a result of a temporary disruption in market conditions.

Although currently priced at \$400 (US\$303) below current cotton prices, VSF historically has traded at a premium to cotton and has been supported by stronger cotton pricing over the past three 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. World China cotton stocks for the current season are expected to be 33.2 million bales, approximately 50% of 2014/2015 levels.

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 approximately 6% per year, driving dissolving pulp demand which is forecasted to continue to increase for the foreseeable future. However, dissolving pulp pricing is currently 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.

The anti-dumping duty on dissolving pulp imposed by China's Ministry of Commerce ("MOFCOM") expired on April 4, 2019. 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 value-added bioproducts from hemicellulose and other underutilized streams produced at the FSC mill. FXI, a special purpose subsidiary company, has been established to construct and operate the demonstration plant.

The Company will minimize investments in the Bioproducts Segment while preserving funding commitments during the current uncertainty relating to the dissolving pulp market. There can be no assurance that the Company will be able to continue to fund the Bioproducts Segment.

Selected Quarterly Information

(thousands of dollars, except per share amounts and foreign exchange rates, unaudited)	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Sales	20,448	36,762	34,605	47,455
Net loss	(51,786)	(61,243)	(16,855)	(10,566)
Basic and diluted net loss per share	(3.46)	(4.09)	(1.13)	(0.71)
Weighted average shares outstanding – Basic and diluted ⁽¹⁾	14,972	14,963	14,957	14,949
Average CHF/Canadian dollar exchange rate ⁽²⁾	1.3393	1.3343	1.3336	1.3263
Average US\$/Canadian dollar exchange rate ⁽²⁾	1.3204	1.3377	1.3295	1.3204

⁽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)	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Sales from continuing operations	48,678	50,077	39,735	29,617
Net loss from continuing operations	(4,702)	(8,150)	(8,762)	(11,779)
Net loss ⁽¹⁾	(4,702)	(8,150)	(8,762)	(74,231)
Basic and diluted net loss per share from continuing operations	(0.31)	(0.55)	(0.61)	(0.82)
Basic and diluted net loss per share ⁽¹⁾	(0.31)	(0.55)	(0.61)	(5.19)
Weighted average shares outstanding – Basic and diluted ⁽²⁾	14,949	14,947	14,329	14,306
Average CHF/Canadian dollar exchange rate ⁽³⁾	1.3284	1.3105	1.3337	1.2881
Average US\$/Canadian dollar exchange rate ⁽³⁾	1.3070	1.2911	1.2647	1.2713

⁽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 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. The second quarter of 2019 was impacted by an extended annual maintenance shutdown, a lower realized dissolving pulp sales price and increased supply costs. The third quarter of 2019 was impacted by a continued decline in realized dissolving pulp sales price and uncertain market conditions.

Third Quarter 2019 Earnings Review

Three Months Ended September 30, 2019

Overview

Fortress reported a net loss of \$51.8 million or basic and diluted net loss per share of \$3.46 for the third quarter of 2019 on sales of \$20.4 million. In the second quarter of 2019, the Company reported a net loss of \$61.2 million or basic and diluted net loss per share of \$4.09 on sales of \$36.8 million and for the third quarter of 2018, the Company reported a net loss of \$4.7 million or basic and diluted net loss per share of \$0.31 on sales of \$48.7 million. Sales, relative to the prior year comparative period, have been negatively impacted by both lower sales volumes and realized dissolving pulp prices.

Operating EBITDA loss was \$7.2 million for the three months ended September 30, 2019, compared to operating EBITDA loss of \$9.5 million in the previous quarter and operating EBITDA of \$7.5 million in the prior year comparative period. The Dissolving Pulp Segment incurred operating EBITDA loss of \$6.4 million and, net of funding received, the Bioproducts Segment operating EBITDA loss was \$0.3 million. Corporate costs were \$0.6 million in the third quarter of 2019. Results for the third quarter of 2019 were primarily impacted by 7% and 20% lower realized dissolving pulp sales price in comparison to the previous quarter and prior year comparative period, uncertain market conditions and an inventory write-down.

Manufacturing and distribution costs were \$23.1 million for the three months ended September 30, 2019, compared to \$41.0 million for the three months ended June 30, 2019. In the third quarter of 2018, manufacturing and distribution costs were \$36.1 million. Costs were significantly lower due to materially decreased sales volume in the quarter as a result of the dissolving pulp market uncertainty. In addition, the continued dissolving pulp price decline in the quarter lead to an \$11.2 million inventory write-down.

Selling, general and administrative ("SG&A") expenses were \$4.6 million for the third quarter of 2019, compared to \$5.2 million for the second quarter of 2019. In the second and third quarters of 2019, the Bioproducts Segment development costs were offset by funding and grants. The prior year comparative period SG&A expenses were \$5.1 million.

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	Q3 2019	Q2 2019	Q3 2018
Sales	20,448	36,762	48,678
Operating EBITDA (loss) ⁽¹⁾	(7,246)	(9,456)	7,545
Net loss	(51,786)	(61,243)	(4,702)
Pulp shipments (ADMT)	16,517	33,585	38,433

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

Net Loss to Operating EBITDA (Loss) Reconciliation:

(thousands of dollars, unaudited)	Q3 2019	Q2 2019	Q3 2018
Net loss	(51,786)	(61,243)	(4,702)
Foreign exchange loss (gain)	1,837	(1,007)	1,272
Net finance expense	4,447	2,814	5,656
Amortization	6,379	5,536	5,566
Loss (gain) on financial instruments	47	(517)	(283)
Stock-based compensation	91	92	240
Impairment of property, plant and equipment	31,739	44,869	–
Non-operating income	–	–	(204)
Operating EBITDA (loss)	(7,246)	(9,456)	7,545

Operating Results by Business Segment**Dissolving Pulp Segment**

(thousands of dollars, except for shipments, unaudited)	Q3 2019	Q2 2019	Q3 2018
Sales	20,448	36,762	48,678
Operating (loss) income	(44,483)	(58,848)	3,436
Amortization	6,358	5,514	5,566
Impairment of property, plant and equipment	31,739	44,869	–
Operating EBITDA (loss)	(6,386)	(8,465)	9,002
Dissolving pulp shipments (ADMT)	16,517	33,585	38,433

The Dissolving Pulp Segment incurred operating EBITDA loss of \$6.4 million for the quarter ended September 30, 2019, compared to operating EBITDA loss of \$8.5 million for the second quarter of 2019 and operating EBITDA of \$9.0 million for the prior year comparative period. A total of 42,074 ADMT of dissolving pulp was produced in the third quarter of 2019 and the FSC mill sold 16,517 ADMT of dissolving pulp in the same period, compared to sales of 33,585 ADMT and 38,433 ADMT of dissolving pulp in the previous quarter and prior year comparative period, respectively. Results for the third quarter of 2019 were impacted by a 7% and 20% lower realized dissolving pulp sales price in comparison to previous quarter and prior year comparative periods, respectively, and lower shipments due to uncertain market conditions.

Revenues of \$6.1 million were generated from the cogeneration facility in the quarter ended September 30, 2019 compared to \$4.7 million in the quarter ended June 30, 2019. Revenues from the generation of power at the cogeneration facility during the quarter ended September 30, 2018 were \$5.7 million. Revenues generated from the cogeneration facility were negatively impacted by the annual planned maintenance shutdown in the second quarter of 2019.

As at September 30, 2019, the FSC mill held finished goods inventory consisting of 29,747 ADMT of dissolving pulp compared to 4,190 ADMT as at June 30, 2019. As at September 30, 2018, the FSC mill held finished goods inventory consisting of 4,929 ADMT of dissolving pulp.

During the three months ended September 30, 2019, the Company recognized an impairment loss at the FSC mill (see “*Significant Developments – Impairment of Property, Plant and Equipment*”) in the amount of \$31.7 million. The Company recognized an impairment loss of \$44.9 million at the FSC mill in the quarter ended June 30, 2019.

Bioproducts Segment

(thousands of dollars, unaudited)	Q3 2019	Q2 2019	Q3 2018
Operating loss	(260)	(130)	(430)
Operating EBITDA loss	(260)	(130)	(430)

During the third quarter of 2019, net development costs incurred in the Bioproducts Segment were \$0.3 million. The Company is minimizing investments in the Bioproducts Segment while preserving funding commitments during the current uncertainty relating to the dissolving pulp market.

Nine Months Ended September 30, 2019

Selected Financial Information and Statistics for the Nine Months Ended:

(thousands of dollars, except for shipments, unaudited)	September 30, 2019	September 30, 2018
Sales	91,815	138,490
Operating EBITDA (loss) ⁽¹⁾	(26,430)	8,776
Net loss	(129,884)	(21,614)
Pulp shipments (ADMT)	81,334	111,459

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

Net Loss to Operating EBITDA (Loss) Reconciliation:

(thousands of dollars, unaudited)	Nine Months Ended	
	September 30, 2019	September 30, 2018
Net loss	(129,884)	(21,614)
Foreign exchange loss	116	2,459
Net finance expense	11,641	11,570
Amortization	17,120	16,614
Gain on financial instruments	(1,789)	(178)
Non-operating income	(604)	(1,013)
Impairment of property, plant and equipment	76,608	–
Stock based compensation	362	938
Operating EBITDA (loss)	(26,430)	8,776

Overview

During the nine months ended September 30, 2019, the Company reported net loss of \$129.9 million or basic and diluted net loss per share of \$8.68. During the nine months ended September 30, 2018, the Company reported net loss of \$21.6 million or basic and diluted net loss per share from continuing operations of \$1.47.

Operating EBITDA loss for the Company was \$26.4 million for the nine months ended September 30, 2019 on sales of \$91.8 million compared to operating EBITDA of \$8.8 million for the nine months ended September 30, 2018 on sales of \$138.5 million.

During the nine months ended September 30, 2019, the Dissolving Pulp Segment generated operating EBITDA loss of \$23.6 million compared to operating EBITDA of \$13.4 million in the prior year comparative period. Corporate costs contributed to operating EBITDA loss of \$2.4 million and \$3.7 million in the nine months ended September 30, 2019 and 2018, respectively. The Bioproducts Segment costs were \$0.4 million and \$0.9 million in the nine months ended September 30, 2019 and September 30, 2018, respectively.

Manufacturing, product, freight and other distributions costs equaled \$103.5 million for the nine months ended September 30, 2019, compared to \$114.6 million for the nine months ended September 30, 2018.

SG&A expenses were \$14.8 million for the nine months ended September 30, 2019, which is comparable to the prior year comparative period of \$15.2 million.

Stock-based compensation was \$0.4 million for the nine months ended September 30, 2019, compared to \$0.9 million in the prior year comparative period.

Foreign exchange gains and losses relate primarily to translation losses or gains on foreign denominated debt.

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	Nine Months Ended	
	September 30, 2019	September 30, 2018
Sales	91,815	138,490
Operating loss	(117,312)	(3,212)
Impairment of property, plant and equipment	76,608	–
Amortization	17,055	16,614
Operating EBITDA (loss)	(23,649)	13,402
Dissolving Pulp Shipments (ADMT)	81,334	111,459

Operating EBITDA loss for the first nine months of 2019 at the FSC mill was \$23.6 million compared to operating EBITDA of \$13.4 million in the prior year comparative period. The first nine months of 2019 were negatively impacted by 13% lower realized pricing and 8% lower production due in part to the planned shutdown, multiple region-wide electrical power outages and extreme weather conditions. In addition, dissolving pulp shipments were lower by 27% mainly due to uncertain market conditions.

During the nine months ended September 30, 2019 the Company recognized an impairment loss at the FSC mill in the amount of \$76.6 million.

Bioproducts Segment

(thousands of dollars, except for shipments, unaudited)	Nine Months Ended	
	September 30, 2019	September 30, 2018
Operating loss	(396)	(896)
Operating EBITDA loss	(396)	(896)

During the first nine months 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 \$3.4 million which were largely offset by grants and funding.

Selected Cash Flow Items

(thousands of dollars)	Q3 2019	Q2 2019	Nine Months Ended September 30, 2019	Q3 2018	Nine Months Ended September 30, 2018
Cash flows from (used by) operating activities					
Cash from (used by) operating activities before working capital changes	2,728	(8,360)	(15,345)	7,120	9,162
Non-cash working capital change	(9,793)	8,864	3,447	1,499	(2,208)
	(7,065)	504	(11,898)	8,619	6,954
Cash flows (used by) from financing activities					
Cash flows (used by) from financing activities	2,986	(6,677)	(4,043)	(2,628)	(10,708)
	2,986	(6,677)	(4,043)	(2,628)	(10,708)
Cash flows (used by) from investing activities					
Additions to property, plant and equipment	150	(3,311)	(6,016)	(5,526)	(17,157)
Other	2,625	8,194	13,116	574	5,144
	2,775	4,883	7,100	(4,952)	(12,013)
Change in cash position	(1,304)	(1,290)	(8,841)	1,039	(15,767)
Foreign exchange loss on cash and cash equivalents	9	19	11	(58)	(11)
Cash and cash equivalents, beginning of period	5,073	6,344	12,608	24,118	40,877
Cash and cash equivalents, end of period	3,778	5,073	3,778	25,099	25,099

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 \$11.9 million and \$7.0 million in the nine months ended September 30, 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 nine months ended September 30, 2019, financing activities used cash of \$4.0 million. Included in financing activities in the nine months ended September 30, 2019 was \$3.5 million in long-term debt payments, \$5.0 million drawn from the facility, \$1.6 million in other additions to long-term debt and \$6.7 million in long-term debt interest and financing payments.

During the first nine months of 2018, financing activities used cash of \$10.7 million for the repayment of long-term debt, interest and financing fees.

Investing Activities

During the first nine months of 2019, investing activities provided cash of \$7.1 million. Investing activities relating to the purchase of equipment and other capital expenditures at the FSC mill used cash of \$6.0 million. The Company also received \$4.7 million in government grants.

During the first nine months of 2018, investing activities used cash of \$12.0 million. Investing activities relating to the purchase of equipment and other capital expenditures at the mill used cash of \$17.2 million. The Company also received \$4.8 million in government grants relating to the fifth digester project.

Liquidity and Capital Resources

As at September 30, 2019, the Company had a cash and cash equivalents balance of \$3.8 million and \$0.3 million in restricted cash. During the three months ended September 30, 2019, \$3.4 million in restricted cash pursuant to the FBL Loan was released for the purpose of securing certain inventory at the FSC mill.

As at September 30, 2019, the Company's current portion of long-term debt, accounts payable and accrued liabilities totaled \$218.3 million, all of which fall due for payment within one year of the statement of financial position date. Included in current liabilities is the amount of \$119.9 million owing under the IQ Loan, resulting from a determination, after conducting an impairment analysis subsequent to September 30, 2019, that FSC and FBL was not in compliance with a financial covenant as at September 30, 2019. However, a waiver from compliance with the applicable covenant through to the period ended December 31, 2019 was subsequently obtained from IQ which reclassifies the \$119.9 million as long term debt after receipt of the waiver (see "*Recent Developments – Going Concern*"). As at September 30, 2019, the Company's current assets were \$46.0 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 September 30, 2019 was \$4.1 million compared to \$8.8 million as at June 30, 2019. As at September 30, 2019, the Company had working capital deficit of \$172.3 million (however, a current liability in the amount of \$119.9 million included in this amount will be re-classified as long-term debt after the quarter end, as discussed above). The Company's ability to continue as a going concern is dependent upon the Company being successful in accessing additional sources of liquidity from lenders or investors until it is able to generate sufficient, sustainable cash flow from operations to meet its ongoing operating, financing and investing requirements. In order to meet future working capital requirements, the Company may need to reduce its production costs, access additional sources of capital, and/or sell assets, of which there can be no assurance. Such uncertainty casts doubt on the Company's ability to continue as a going concern, and failure to continue as a going concern would require that the Company's assets and liabilities be restated on a liquidation basis, which would differ from the going concern basis. 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.

The Company had previously entered into an amendment (the "First Amendment") to the IQ Loan, 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 FBL 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, and interest payments are now to be made on a quarterly basis.

During the three months ended June 30, 2019, the Company entered into an additional amendment to the IQ Loan whereby the quarterly principal and interest payments due from June 30, 2019 to December 31, 2021, totaling \$31.8 million and \$13.3 million, respectively, were postponed. The interest payable has been capitalized and added to the outstanding balance of the loan. The principal amount of the loan, including capitalized interest, will be repaid in quarterly instalments beginning March 31, 2022. The maturity date of the loan has been extended by five years to December 31, 2031. The Company recorded a gain of \$2.0 million in finance income in relation to the amendment.

During the three months ended September 30, 2019, the Company entered into the Financing Agreement providing for the Facility in the amount of up to \$15.0 million. As at September 30, 2019, the balance drawn on the Facility was \$5.0 million. Interest is payable monthly on the aggregate outstanding amount of the Facility at a rate of 10.0% per annum. The loan will be due and payable in full on the earlier of the completion of a restructuring transaction and October 15, 2020 (see “Recent Developments - Supplemental Liquidity Facility”).

During the three months ended September 30, 2019, the Company received assurances from its lender that it has agreed to defer principal payments under the FBL Loan for a period of six months commencing September 2019, and to waive certain covenant compliance requirements under the FBL Loan. However, because such assurances have not been formally finalized and provided in writing, no assurance can be given regarding the certainty of the Company having obtained such concessions (see “Recent Developments – Going Concern”).

Repayments of principal for debt outstanding as at September 30, 2019 are required as follows:

	(\$ 000's)
2019	–
2020	145,872
2021	62,100
2022	–
2023	–
Thereafter	–
	207,972

Commitments

As at September 30, 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 \$0.1 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)	September 30, 2019 \$	December 31, 2018 \$
Cash and cash equivalents	3,778	12,608
Less total debt	215,802	209,341
Net debt	(212,024)	(196,733)
Shareholders' equity	(30,114)	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 FBL 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 June 30, 2019, the cash and cash equivalents balance of the subsidiary was \$0.7 million.

The Company seeks to remain 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 to the extent possible. The Company believes that it was in compliance with all externally imposed loan covenant requirements for the period ended September 30, 2019, other than a financial covenant under the IQ Loan in respect of which a waiver from IQ was obtained subsequent to September 30, 2019 and under the FBL Loan (see "*Recent Developments – Going Concern*").

Outstanding Shares and Other Securities

The number of common shares outstanding as at September 30, 2019, and as at the date of this report was 14,971,799 and 15,121,378, respectively. The number of options outstanding as at September 30, 2019, and as at the date of this report was 20,000. As at September 30, 2019, and as at the date of this report, there were 397,389 and 344,621 restricted share units outstanding, respectively. As at September 30, 2019, and as at the date of this

report there were 644,004 and 608,027 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. The Company has taken steps to ensure that the FSC action continues to be prosecuted and to preserve the value of such litigation.

During the reporting period ended September 30, 2019 and subsequently, certain of the Company's service providers and suppliers have initiated legal proceedings alleging that the Company has failed to pay for goods and/or services rendered (the "Claims"). Demands for payment under the Claims are for an aggregate amount of approximately \$9 million. The Company is evaluating the Claims and has defended or will defend against the Claims in the ordinary course. However, if the Company is unable to resolve, defer or enter into forbearance or settlement agreements in respect of the Claims, the Claims may result in seizure of the Company's assets, proceedings under bankruptcy and insolvency legislation and defaults under the Company's existing loan arrangements, all of which would have a material adverse impact on the Company's results of operations, financial performance, liquidity and the Company's ability to continue operating as a going concern. See "*Risks and Uncertainties*".

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	(65)	(364)	(429)
At September 30, 2019	106	534	640

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 and \$0.4 million in repayment on the lease obligation in the three and nine months ended September 30, 2019, respectively. The adoption of IFRS 16 resulted in no impact on the Company's equity.

Principal repayments for the lease liabilities as at September 30, 2019 are required as follows:

(thousands of dollars, unaudited)		\$
2019		142
2020		507
		649

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 as well as the following 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.

The Company's substantial debt may impair its financial and operating flexibility

The terms and conditions of the Facility could potentially impact the Company's financial condition, operating

results and business, including:

- Limiting the Company's ability to obtain additional financing to fund its working capital, capital expenditures, debt service requirements or other purposes;
- Limiting the Company's ability to use operating cash flows for operations, capital expenditures or other business purposes and opportunities, due to constraints on use of cash based on pre-approved budgets and the implementation of the Strategic Initiative which is subject to certain milestones;
- Limiting the Company's ability to compete with companies that have less debt and/or more flexibility in the use of their cash flow; and
- Limiting the Company's ability to react to changing market conditions, changes in the industry and economic events.

A significant or prolonged downturn in general business and economic conditions, including prolonged depressed dissolving pulp prices, may affect the Company's ability to comply with debt covenants in the future and could result in the Company being in default under the Facility and other credit agreements and debt instruments which, if not cured or waived, could result in funding ceasing to be available. There is no assurance that the Company could cure an event of default or obtain a waiver of such a default.

Current operating performance, ongoing capital requirements and ability to raise additional capital cast doubt on the Company's ability to continue to operate as a going concern.

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will continue operating for the next 12 months and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. However, certain adverse conditions and material uncertainties cast doubt upon the ability of the Company to continue as a going concern. As at September 30, 2019, the Company has a working capital deficit of \$172.3 million (however, a current liability in the amount of \$119.9 million included in this amount will be re-classified as long-term debt after the quarter end, as discussed above under the heading, "*Liquidity and Capital Resources*"). Trade and other payables of the Company continue to accumulate due to liquidity constraints. The Company has other current liabilities which require settlement in the short-term, including, \$36.8 million in current portion of long-term debt after deducting the \$119.9 million owing to IQ under the IQ Loan that will be re-classified as long-term debt after the quarter ended September 30, 2019, discussed under the heading, "*Liquidity and Capital Resources*".

Continued difficult market conditions suffered by the dissolving pulp business caused by the 10 year low in pricing, weak viscose staple fibre demand, increased fibre supply costs and operational challenges have put pressure on our cash flows from operating activities. As a result, there is material uncertainty related to future events that may cast substantial doubt on our ability to continue as a going concern and therefore, we may be unable to realize our assets and discharge our liabilities in the normal course of business. Our continuation as a going concern is dependent upon the occurrence of all or some of these future events: successfully growing revenues; lowering production costs and/or accessing additional sources of capital to offset increased supply costs; selling assets; dissolving pulp prices exceeding the current estimates in the short term; pursuing, in the alternative, a strategic restructuring, refinancing or other transaction to provide the Company with additional liquidity; or other unforeseen events. There can be no assurance that the Company will be successful in the Strategic Initiative, or in raising capital, selling assets and/or cutting or offsetting sufficient costs to meet the Company's future working capital requirements. As such, there is significant doubt and there can be no assurance we will be able to continue as a going concern.

We may require further financing in order to proceed with our operations and to fund our ongoing corporate and administrative activities. If we are unable to successfully finance our current and future operations, we may not be able to realize our assets and discharge our liabilities in the normal course of operations and could eventually result in, among other things, default under our various loan agreements.

If the going concern assumption is not appropriate, adjustments may be necessary to the carrying value and classification of our assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used. These adjustments could be material.

If the Company is unable to continue as a going concern, due to, among other reasons, not being able to resolve, defer or enter into forbearance or settlement agreements in respect of the Claims, it may be compelled to seek relief under applicable bankruptcy and insolvency legislation.

If the Company seeks relief under applicable bankruptcy and insolvency legislation, its business and operations will be subject to certain risks, including but not limited to, the following:

- An insolvency filing by or against the Company will cause an event of default under the Company's various loan and credit agreements, as well as the indenture governing the outstanding convertible debentures;
- An insolvency filing by or against the Company may adversely affect its business prospects, including its ability to continue to obtain and maintain the contracts necessary to operate its business on competitive terms;
- There can be no assurance as to the Company's ability to maintain or obtain sufficient financing sources for operations or to fund any reorganization plan and meet future obligations;
- There can be no assurance that the Company will be able to successfully develop, prosecute, confirm and consummate one or more plans of reorganization that are acceptable to the applicable courts and its creditors, equity and debenture holders and other parties in interest; and
- The value of the common shares could be reduced to zero as result of an insolvency filing.

Cyclical nature of dissolving pulp markets could result in prolonged depressed dissolving pulp prices which could materially adversely affect the Company's financial condition and its ability to continue as a going concern.

The dissolving pulp business is highly cyclical in nature and may result in periods of supply and demand imbalance, which in turn affects pulp product prices. Dissolving pulp markets are highly competitive and are sensitive to cyclical changes in the global economy, industry capacity and foreign exchange rates, as well as decreased demand due to generally reduced economic activity, product-specific activity or inventory de-stocking by customers, all of which can have a significant influence on selling prices and the Company's operating results.

The length and magnitude of industry cycles have varied over time, but generally reflect changes in macro-economic conditions and levels of industry capacity. Demand and prices for pulp products are cyclical and are influenced by a variety of factors. These factors include periods of excess product supply due to industry capacity increases. Industry capacity can fluctuate as changing industry conditions can influence producers, including the Company, to idle production capacity or permanently close mills. In addition, to avoid substantial cash costs in idling or closing a mill, some producers, including the Company, may choose to operate at a loss, sometimes even a cash loss, which can prolong weak pricing environments due to oversupply.

Dissolving pulp prices are currently at a 10 year low. Prolonged depressed pricing may make it uneconomical for the FSC mill to produce dissolving pulp for an extended basis, which may materially adversely affect the Company's business, operations and financial results, and impact the Company's ability to continue operating as a going concern. In response to the current market conditions, the Company announced that it commenced taking market downtime at the FSC mill on October 8, 2019. Prolonged curtailments of production or extended shutdowns could have a material adverse effect on the Company's business, financial condition and results of operations and also impact the Company's ability to continue operating as a going concern. In addition, the relatively high fixed cost component of certain manufacturing processes, specifically in pulp production, requires producers to operate facilities with target efficiency in the high 80% range even when demand is not sufficient to absorb all of the output. Increases in fixed costs, for example fibre costs, would materially reduce efficiency rates and contribute to the negative financial impact already exacerbated by depressed dissolving pulp market prices. Any excess production may saturate the market and have a negative impact on product prices, further increasing the inherent cyclical nature of the industry.

Risks relating to restart of the FSC mill

Our plans to restart the FSC mill once dissolving pulp prices recover is subject to customary risks and uncertainties inherent in projects of this nature that experience a potentially extended period of downtime, which could include, among other things, operational deficiencies and delays in ramping up production, during which time the mill may not achieve planned production rates and efficiency or quality, and which could result in additional unplanned expenditures. Equipment breakdowns or failures to perform to specifications, as well as delays in production ramp-up, could have a material adverse effect on the Company's results of operations and financial performance. In addition there is no assurance that the Company will have sufficient funds to restart the mill upon the recovery of the dissolving pulp market.

Disclosure Controls and Internal Controls over Financial Reporting

During the quarter ended September 30, 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.