FORTRESS GLOBAL ENTERPRISES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

TSX:FGE

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

	Note	September 30, 2019 $	December 31, 2018 $
ASSETS			
Current			
Cash and cash equivalents		3,778	12,608
Restricted cash	7	333	8,156
Trade accounts receivable		3,166	10,225
Other accounts receivable		4,567	5,706
Inventories	2	32,743	25,402
Prepaid expenses		1,453	596
		46,040	62,693
Intangible asset	5	2,404	2,404
Property, plant and equipment	2,3,6	199,530	281,216
Total assets		247,974	346,313
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		61,643	35,142
Financial instruments	4	–	1,455
Current portion of long-term debt	2, 7,14	156,647	14,225
		218,290	50,822
Long-term debt	7	59,155	195,116
Provisions and other long-term liabilities	3	643	538
Total liabilities		278,088	246,476
Shareholders' equity			
Share capital		177,266	177,196
Contributed surplus		25,251	24,959
Retained deficit		(265,130)	(135,246)
Accumulated other comprehensive income		32,499	32,928
Total shareholders' equity		(30,114)	99,837
Total liabilities and shareholders' equity		247,974	346,313
Going concern	2		
Commitments	11		
Subsequent events	14		

(See accompanying notes)

Approved by the Board of Directors:

"Anil Wirasekara" — Director

"Giovanni Iadeluca" — Chief Executive Officer

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

	Note	Three Months Ended September 30, 2019 $	Three Months Ended September 30, 2018 $	Nine Months Ended September 30, 2019 $	Nine Months Ended September 30, 2018 $
Sales		20,448	48,678	91,815	138,490
Costs and expenses					
Manufacturing and distribution costs		(23,062)	(36,070)	(103,458)	(114,562)
Amortization	6	(6,379)	(5,566)	(17,120)	(16,614)
Selling, general and administration		(4,632)	(5,063)	(14,787)	(15,152)
Stock-based compensation	9	(91)	(240)	(362)	(938)
Impairment of property, plant and equipment	6	(31,739)	–	(76,608)	–
Operating (loss) income		(45,455)	1,739	(120,520)	(8,776)
Other income (expense)					
Finance expense		(4,470)	(5,734)	(13,670)	(15,917)
Finance income		23	78	2,029	4,347
Non-operating income	6	–	204	604	1,013
Gain on financial instruments	4	(47)	283	1,789	178
Foreign exchange loss		(1,837)	(1,272)	(116)	(2,459)
Net loss		(51,786)	(4,702)	(129,884)	(21,614)
Net loss and diluted net loss per share		(3.46)	(0.31)	(8.68)	(1.47)
Weighted average number of shares outstanding basic and diluted		14,971,799	14,949,895	14,966,200	14,744,036

(See accompanying notes)

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

	Three Months Ended September 30, 2019 $	Three Months Ended September 30, 2018 $	Nine Months Ended September 30, 2019 $	Nine Months Ended September 30, 2018 $
Net loss	(51,786)	(4,702)	(129,884)	(21,614)
Other comprehensive loss				
Items that may be reclassified subsequently to net loss				
Exchange differences on translation of foreign operations	216	537	(429)	1,939
Total other comprehensive income (loss)	216	537	(429)	1,939
Total comprehensive loss	(51,570)	(4,165)	(130,313)	(19,675)

(See accompanying notes)

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

	Note	Nine Months Ended September 30, 2019 $	Nine Months Ended September 30, 2018 $
Share capital	9		
Balance at beginning of period		177,196	174,704
Share issued on business acquisition		–	2,400
Restricted share units vested		70	92
Balance at end of period		177,266	177,196
Contributed surplus			
Balance at beginning of period		24,959	24,315
Stock-based compensation		362	565
Restricted share units vested		(70)	(92)
Balance at end of period		25,251	24,788
Retained deficit			
Balance at beginning of period		(135,246)	(103,066)
Net loss		(129,884)	(21,614)
Balance at end of period		(265,130)	(124,680)
Accumulated other comprehensive income			
Balance at beginning of period		32,928	29,349
Cumulative translation adjustment on foreign operations		(429)	1,939
Balance at end of period		32,499	31,288
Total equity		(30,114)	108,592

(See accompanying notes)

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

	Note	Nine Months Ended September 30, 2019 $	Nine Months Ended September 30, 2018 $
Cash flows from (used by) operating activities			
Net loss for the period		(129,884)	(21,614)
Adjustments:			
Gain on sale of assets		(604)	–
Gain on financial instruments		(1,455)	(73)
Amortization		17,120	16,614
Foreign exchange (gain) loss		(284)	1,764
Finance expense, net		11,641	11,570
Stock-based compensation		362	901
Inventory write-down	2	11,151	–
Impairment of property, plant and equipment	6	76,608	–
		(15,345)	9,162
Change in non-cash working capital items			
Accounts receivable		7,178	(935)
Inventories	2	(18,492)	9,903
Prepaid expenses		(857)	(1,322)
Accounts payable and accrued liabilities and other		15,618	(9,854)
		(11,898)	6,954
Cash flows (used by) from financing activities			
Repayment of long-term debt		(3,524)	(4,365)
Additions to long-term debt	7	6,570	–
Payment on lease liabilities		(421)	–
Payment of long-term debt interest and financing fees		(6,668)	(6,343)
		(4,043)	(10,708)
Cash flows (used by) from investing activities			
Additions to property, plant and equipment		(6,016)	(17,157)
Sale of assets		604	–
Cash acquired on acquisition		–	59
Government grants received offset against property, plant and equipment	10	4,726	4,827
Finance income		67	270
Restricted cash		7,719	(12)
		7,100	(12,013)
Increase (decrease) in cash position		(8,841)	(15,767)
Foreign exchange gain on cash and cash equivalents		11	(11)
Cash and cash equivalents, beginning of year		12,608	40,877
Cash and cash equivalents, end of period		3,778	25,099
Supplemental cash flow information	13		

See accompanying notes)

1. NATURE OF OPERATIONS

Fortress Global Enterprises Inc. (formerly Fortress Paper Ltd.) (the "Company" or "Fortress") was incorporated on May 30, 2006 under the laws of the Province of British Columbia. The address of the Company's registered office is 157 Chadwick Court – 2nd floor, North Vancouver, British Columbia, Canada V7M 3K2. Fortress operates in two distinct business segments: dissolving pulp and bioproducts. The Company operates its dissolving pulp business at the Fortress Specialty Cellulose ("FSC") mill located in Canada which also operates a cogeneration facility that produces renewable energy. In March of 2018, the Company acquired S2G Biochemicals Inc. (Note 5) which is included in the Bioproducts Segment (Note 12).

2. BASIS OF PRESENTATION AND GOING CONCERN

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved these statements on November 8, 2019.

These unaudited interim condensed financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and notes as at and for the year ended December 31, 2018 (available on SEDAR at www.sedar.com). These unaudited interim condensed consolidated financial statements follow the same accounting policies and methods of their application that were applied in the December 31, 2018 consolidated financial statements, except as disclosed in note 3. For significant estimates and judgments refer to notes 5 and 6 as well as the consolidated financial statements and notes as at and for the year ended December 31, 2018.

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 using generally accepted accounting principles applicable to a going concern, 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 the Company was not in compliance with one of its financial covenants as at September 30, 2019. Accordingly, $119,919 was recorded in current debt for the period ended September 30, 2019 (Note 7(a)). However, a waiver from compliance with the applicable covenant through to the period ended December 31, 2019 was subsequently obtained from the lender which reclassifies the $119,919 as long term debt after receipt of the waiver. In addition, as described in Note 7(b) the Company has been working with the lender relating to its $31,728 secured loan whereby certain principal repayments would be postponed. As the company and lender did not execute the applicable agreements to formalize the postponement the Company has reclassified the long term portion of this debt of $31,728 to current as at September 30, 2019.

During the nine months ended September 30, 2019, the Company incurred losses of $129,884 (2018: $21,614) including a property, plant and equipment impairment charge of $76,608, and an inventory write-down of $11,151 (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 $11,898 (2018: $6,954 contribution) and a working capital deficit of $172,250 as at September 30, 2019 (December 31, 2018: $11,871 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 are material uncertainties that may cast significant doubt as to whether the Company will be able to 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 Company not be able to continue as a going concern. These adjustments could be material.

On September 3, 2019, the Company announced that its subsidiaries entered into a new financing agreement with existing lenders or their affiliates (Note 7(d)), which loan facility provided the Company with supplemental liquidity to initially allow for uninterrupted operations in order to execute on its strategic initiative, which includes seeking and pursuing a recapitalization, restructuring and/or business combination transaction (the "Strategic Initiative"). The loan 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 Company has drawn down an aggregate of $7,000 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. As reported on August 21, 2019, the Company formed a Strategic Committee to consider various strategic and financing alternatives potentially available to the Company, including a recapitalization, restructuring and/or business combination transaction. As part of this process, the Company has engaged external advisors. 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.

3. NEW ACCOUNTING PRONOUNCEMENTS

Adoption of new accounting standards

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

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

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.

	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 $1,069 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 recorded $6 and $21 in interest expense and has made $141 and $420 in repayment on the lease obligations in the three and nine months ended September 30, 2019, respectively, in relation to the lease liabilities. 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:

	$
2019	142
2020	507

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

4. FINANCIAL INSTRUMENTS

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

The three levels of the fair value hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
Level 3 – Inputs that are unobservable for the asset or liability.

The following table summarizes the Company's financial instruments measured at fair value at September 30, 2019 and December 31, 2018, and shows the level within the fair value hierarchy in which they have been classified:

	Fair Value Hierarchy Level	September 30, 2019 $	December 31, 2018 $
Derivative financial instruments – FVTPL	Level 2	–	(1,455)
Total financial instruments		–	(1,455)

The following table summarizes the (loss) gain on financial instruments for the three and nine months ended September 30, 2019 and September 30, 2018:

	Three Months Ended September 30, 2019 $	Three Months Ended September 30, 2018 $	Nine Months Ended September 30, 2019 $	Nine Months Ended September 30, 2018 $
Derivative financial instrument US dollar collars and variable rate forwards	(47)	283	1,789	178
Gain on financial instruments	(47)	283	1,789	178

The Company had the following foreign exchange derivatives at September 30, 2019 and December 31, 2018:

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

	September 30, 2019		**December 31, 2018**	
US dollar collars and variable rate forwards	Notional Amount US dollars	Exchange Rates protection/ topside, per dollar	Notional Amount US dollars	Exchange Rates protection/ topside, per dollar
0-12 Months	–	–	37,500	1.31/1.37

5. BUSINESS ACQUISITION

On March 26, 2018, the Company acquired all of the issued and outstanding common shares of S2G Biochemicals Inc. ("S2G"), a chemical engineering and technology company, for the purchase price of $2,400 paid through the issuance of 666,652 (Note 8) common shares of the Company. The purchase price was calculated using the closing share price of the Company's common shares on the date of acquisition. Through a newly formed subsidiary, the Company intends to commission the construction of a demonstration plant to produce xylitol at its Fortress Specialty Cellulose Mill.

The recognition of assets acquired and liabilities assumed is based upon estimated fair values at the date of acquisition. Fair values are estimated using market information where applicable; however, directly comparable information is not always readily available so significant estimates and judgments are used. The Company has recorded an intangible asset for the proprietary process technologies and license, know-how and expertise acquired. The acquisition has been accounted for as follows:

	Note	**March 26, 2018 $**
Assets acquired at fair values		
Cash		59
Restricted cash		11
Prepaid expenses		17
Intangible assets		2,404
		2,491
Liabilities acquired at fair values		
Accounts payable and accrued liabilities		91
Net assets acquired at fair values		2,400
Consideration paid	8	2,400

6. PROPERTY, PLANT AND EQUIPMENT

During the three and nine month periods ended September 30, 2019, the Company sold non-core assets for $nil and $604. The carrying amount of the assets sold was $nil with a resulting gain of $604.

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 Fortress Specialty Cellulose 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 $31,739 and $76,608 during the three and nine months period ended September 30, 2019 at the Fortress Specialty Cellulose mill operations of the Dissolving Pulp Segment. Management determined the value in use of the cash generating unit to be $199,424 at September 30, 2019.

The impairment assessment model for the Fortress Specialty Cellulose mill included the following assumptions:

- Operating costs based on historical costs incurred and estimated forecasts
- Cash flow projections over a period of 5 years based on forecasts approved by management with no growth rate beyond the projection.
- Production volumes based on expected production compared to industry normal utilization rates.
- Efficiencies and production increase from future planned capital projects were not included.
- Dissolving pulp pricing based on externally available pricing forecasts.
- Ability to complete a timely restart of the mill operations following current market downtime.
- Discount rate of 9.75%.

Key sensitivities for inputs in the impairment assessment model for the Fortress Specialty Cellulose mill, assuming all other variables are held constant, are as follows:

- For each 1% change in the price of dissolving pulp, the calculated fair value of the cash generating unit changes by approximately $14,807.
- For each $0.01 change in the Canadian dollar when compared to the United States dollar, the calculated fair value of the cash generating unit changes by approximately $17,476.
- For each 1% change in the discount rate, the calculated fair value of the cash generating unit changes by approximately $25,309.

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

7. LONG-TERM DEBT

	Note	September 30, 2019 $	December 31, 2018 $
Credit facilities with lenders			
$108,102 (2018: $103,879), interest at 5%, maturing 2031, secured by the assets of the Fortress Specialty Cellulose mill	7(a)	119,919	117,413
$32,770 (2018: $34,675) interest and fees at 6.5%, maturing 2031, secured by certain assets of the Fortress Specialty Cellulose mill	7(b)	31,728	33,598
US$ nil (2018: US$ nil) interest at LIBOR plus 5.75%, secured by certain inventory of the Fortress Specialty Cellulose mill	7(c)	–	–
$5,000 (2018: $nil) interest at 10%, secured by the assets of the Fortress Specialty Cellulose mill	7(d)	5,000	–
Unsecured convertible debentures			
$62,100 (2018: $62,100) principal, interest at 9.75%, maturing December 2021		59,155	58,330
		215,802	209,341
Less: current portion		(56,647)	(14,225)
Long-term debt		59,155	195,116

	September 30, 2019 $	December 31, 2018 $
Principal value of debt	207,972	200,654
Adjustments for unamortized borrowing costs, amounts allocated to equity for convertible debentures, and expected contingent payments	7,830	8,687
Net amount recorded in liabilities	215,802	209,341

Principal repayments as at September 30, 2019 are required as follows:

	$
2019	–
2020	145,872
2021	62,100
2022	–
2023	–
Thereafter	–
	207,972

At September 30, 2019, the fair value of the long-term debt, measured at its amortized cost of $215,802, cannot be reliably measured due to current market conditions.

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 $119,919 loan (Note 7(a)) in respect of which a waiver from the lender was obtained subsequent to September 30, 2019 and under the $31,728 loan (Note 7(b)).

At September 30, 2019, the Company's current portion of long term debt, accounts payable and accrued liabilities totaled $218,290 all of which fall due for payment within one year of the statement of financial position date. If necessary, the Company has the ability to repay principal amounts outstanding, subject to receiving requisite approvals, of the $62,100 convertible debentures due in 2021, in common shares of the Company.

(a) During the nine months ended September 30, 2019, the Company entered into an amendment with a lender to which the quarterly principal and interest payments due from June 30, 2019 to December 31, 2021, totaling $31,753 and $13,299, respectively, have been postponed. The interest payable has been added to the outstanding balance of the loan. The principal amount of the loan, including deferred interest will be repayable 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 $1,962 in finance income in relation to the amendment.

(b) During the year ended December 31, 2017, the Company entered into an agreement with a new lender for a $40,000 secured loan. The loan matures in 14 years from the advance date of February 2, 2017, and is repayable in monthly payments of principal and interest over the term. The loan accrues interest at a rate of 6% per annum plus an account maintenance fee of 0.5% per annum. Security for the loan includes a charge against the cogeneration assets of the Dissolving Pulp segment and guarantees from Fortress Specialty Cellulose and Fortress Global Enterprises. The Company was required to set up a debt service reserve fund consisting of nine months of principal and interest payments totaling. During the nine months ended September 30, 2019, the Company received $3,418 in restricted cash which was held in the debt service reserve account to be used to secure certain inventory at Fortress Specialty Cellulose Mill. In addition, the Company reasonably believes that it has obtained appropriate amendments and/or concessions from such lender to defer six months in principal payments totaling $1,429 on such loan beginning in September 2019 which will be due on maturity. The Company continues to seek clarification with the lender. However, approvals from the lender have not been formally finalized in writing as at September 30, 2019. Accordingly, $31,728 was recorded in current debt for the period ended September 30, 2019.

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

(d) During the three months ended September 30, 2019, the Company entered into a financing agreement with its secured lenders for a senior secured credit facility in the amount of up to $15,000. As at September 30, 2019, the balance drawn on the facility was $5,000. 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.

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

8. SHARE CAPITAL

Authorized

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

Issued and fully paid — common shares

		Number of Shares	Share Capital $
Balance, December 31, 2017		14,249,613	174,704
Shares issued on business acquisition	5	666,652	2,400
Restricted share units vested		33,630	92
Balance, December 31, 2018		14,949,895	177,196
Restricted share units vested		21,904	70
Balance, September 30, 2019		14,971,799	177,266

9. STOCK-BASED COMPENSATION

Stock Options

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

	Number of Options	Weighted Average Exercise Price $
Balance, December 31, 2017	505,658	10.05
Granted	21,403	3.50
Balance, December 31, 2018	527,061	9.79
Cancelled	(507,061)	6.65
Balance, September 30, 2019	20,000	5.10

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

Deferred Share Unit Awards

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

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

	Number of DSUs	Expense Recognized $
Balance, December 31, 2017	276,512	6,738
Granted	119,367	360
Balance, December 31, 2018	395,879	7,098
Granted	248,125	285
Balance, September 30, 2019	644,004	7,383

Restricted Share Unit Awards

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

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

	Number of RSUs
Balance, December 31, 2017	77,284
Granted	65,542
Vested	(33,630)
Cancelled	(9,108)
Balance, December 31, 2018	100,088
Vested	(21,904)
Granted	362,184
Cancelled	(42,979)

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

Balance, September 30, 2019	397,389

10. GOVERNMENT GRANTS

During the three and nine months ended September 30, 2019, the Company received $1,391 (2018: $497) and $6,933 (2018: $4,827), respectively and recorded a receivable for $176 (2018: $1,016) as at September 30, 2019 in non-repayable government grant contributions from the governments of Canada and Québec. The grants received related to the acquisition of property, plant and equipment have been recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to non-capital projects have been recorded as a reduction of the related expense. During the three and nine months ended September 30, 2019, the Company received $853 (2018: $nil) and $2,207 (2018: $nil) in government grants that were recorded as a reduction in related expense.

11. COMMITMENTS

As at September 30, 2019, the Company has issued guaranteed letters of credit of $840 relating to the continued delivery of power at our cogeneration facility and $400 relating to suppliers. The Company has a performance security guarantee of up to $2,500 for derivative financial instruments.

As at September 30, 2019, the Company has committed to purchase $74 in property, plant, and equipment.

12. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations is based on a number of factors, including production and economic characteristics. Fortress Specialty Cellulose produces dissolving pulp products. S2G is developing a demonstration plant for the production of xylitol at the Fortress Specialty Cellulose mill and has been included in the Bioproducts segment.

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

	Three Months Ended September 30, 2019			
	Bioproducts	Pulp	Corporate	Fortress Global Consolidated
		$	$	$
Sales	–	20,448	–	20,448
Operating loss	(260)	(44,483)	(712)	(45,455)
Amortization[1]	–	(6,358)	(21)	(6,379)
Stock-based compensation[1]	–	–	(91)	(91)
Capital expenditures	–	2,236	–	2,236
Total assets	4,521	243,043	410	247,974

Sales by geographic area	%
Asia	70.0
Canada[2]	30.0
Total	100.0

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

	Three Months Ended September 30, 2018			
	Bioproducts	Pulp	Corporate	Fortress Global Consolidated
	$	$	$	$
Sales	–	48,678	–	48,678
Operating (loss) income	(430)	3,436	(1,267)	1,739
Amortization[1]	–	(5,566)	–	(5,566)
Stock-based compensation[1]	–	–	(240)	(240)
Capital expenditures	–	2,686	–	2,686
Total assets	2,626	337,725	16,650	357,001

Sales by geographic area	%
Asia	88.3
Canada[2]	11.7
Total	100.0

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

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

	Nine Months Ended September 30, 2019			
	Bioproducts	**Pulp**	**Corporate**	**Fortress Global Consolidated**
		$	**$**	**$**
Sales	–	91,815	–	91,815
Operating loss	(396)	(117,312)	(2,812)	(120,520)
Amortization[1]	–	(17,055)	(65)	(17,120)
Stock-based compensation[1]	–	–	(362)	(362)
Capital expenditures	–	13,296	–	13,296
Total assets	4,521	243,043	410	247,974

Sales by geographic area	%
Asia	84.9
Canada[2]	15.1
Total	100.0

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

	Nine Months Ended September 30, 2018			
	Bioproducts	**Pulp**	**Corporate**	**Fortress Global Consolidated**
	$	**$**	**$**	**$**
Sales	–	138,490	–	138,490
Operating loss	(896)	(3,212)	(4,668)	(8,776)
Amortization[1]	–	(16,614)	–	(16,614)
Stock-based compensation[1]	–	–	(938)	(938)
Capital expenditures	–	7,445	–	7,445
Total assets	2,626	337,725	16,650	357,001

	%
Sales by geographic area	
Asia	88.4
Canada[2]	11.6
Total	100.0

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

13. SUPPLEMENTAL CASH FLOW INFORMATION

Non Cash Financing and Investing Activities

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

14. SUBSEQUENT EVENTS

Subsequent to the quarter ended September 30, 2019, the Company determined after conducting an impairment analysis that the Company was not in compliance with one of its financial covenants as at September 30, 2019. Accordingly, $119,919 was recorded in current debt for the period ended September 30, 2019 (Note 7(a)). However, a waiver from compliance with the applicable covenant through to the period ended December 31, 2019 was subsequently obtained from the lender which reclassifies the $119,919 as long term debt after receipt of the waiver.