FORTRESS GLOBAL
ENTERPRISES

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 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	June 30, 2019 $	December 31, 2018 $
ASSETS			
Current			
Cash and cash equivalents		5,073	12,608
Restricted cash		3,724	8,156
Trade accounts receivable		4,141	10,225
Other accounts receivable		3,926	5,706
Inventories	2	18,085	25,402
Prepaid expenses		2,270	596
Financial instruments	4	480	–
		37,699	62,693
Intangible asset	5	2,404	2,404
Property, plant and equipment	2,3,6	236,838	281,216
Total assets		276,941	346,313
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		44,876	35,142
Financial instruments	4	–	1,455
Current portion of long-term debt	7	3,064	14,225
		47,940	50,822
Long-term debt	7	206,682	195,116
Provisions and other long-term liabilities	3	954	538
Total liabilities		255,576	246,476
Shareholders' equity			
Share capital		177,266	177,196
Contributed surplus		25,160	24,959
Retained deficit		(213,344)	(135,246)
Accumulated other comprehensive income		32,283	32,928
Total shareholders' equity		21,365	99,837
Total liabilities and shareholders' equity		276,941	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 June 30, 2019 $	Three Months Ended June 30, 2018 $	Six Months Ended June 30, 2019 $	Six Months Ended June 30, 2018 $
Sales		36,762	50,077	71,367	89,812
Costs and expenses					
Manufacturing and distribution costs		(40,980)	(42,324)	(80,396)	(78,492)
Amortization	6	(5,536)	(5,477)	(10,741)	(11,048)
Selling, general and administration		(5,238)	(5,101)	(10,155)	(10,089)
Stock-based compensation	9	(92)	(287)	(271)	(698)
Impairment of property, plant and equipment	6	(44,869)	–	(44,869)	–
Operating loss		(59,953)	(3,112)	(75,065)	(10,515)
Other income (expense)					
Finance expense		(3,477)	(5,455)	(9,200)	(10,183)
Finance income	7(a)	663	84	2,006	4,269
Non-operating income		–	129	604	809
Gain (loss) on financial instruments	4	517	43	1,836	(105)
Foreign exchange gain (loss)		1,007	161	1,721	(1,187)
Net loss		(61,243)	(8,150)	(78,098)	(16,912)
Net loss per share and diluted net loss per share		(4.09)	(0.55)	(5.22)	(1.16)
Weighted average number of shares outstanding					
Basic and diluted		14,963,228	14,946,555	14,960,134	14,639,400

(See accompanying notes)

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

	Three Months Ended June 30, 2019 $	Three Months Ended June 30, 2018 $	Six Months Ended June 30, 2019 $	Six Months Ended June 30, 2018 $
Net loss	(61,243)	(8,150)	(78,098)	(16,912)
Other comprehensive loss				
Items that may be reclassified subsequently to net loss				
Exchange differences on translation of foreign operations	186	(253)	(645)	1,402
Total other comprehensive income (loss)	186	(253)	(645)	1,402
Total comprehensive loss	(61,057)	(8,403)	(78,743)	(15,510)

(See accompanying notes)

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

	Note	Six Months Ended June 30, 2019 $	Six Months Ended June 30, 2018 $
Share capital	8		
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		271	438
Restricted share units vested		(70)	(92)
Balance at end of period		25,160	24,661
Retained deficit			
Balance at beginning of period		(135,246)	(103,066)
Net loss		(78,098)	(16,912)
Balance at end of period		(213,344)	(119,978)
Accumulated other comprehensive income			
Balance at beginning of period		32,928	29,349
Cumulative translation adjustment on foreign operations		(645)	1,402
Balance at end of period		32,283	30,751
Total equity		21,365	112,630

(See accompanying notes)

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

	Note	Six Months Ended June 30, 2019 $	Six Months Ended June 30, 2018 $
Cash flows (used by) from operating activities			
Net loss for the period		(78,098)	(16,912)
Adjustments:			
(Gain) loss on financial instruments		(1,935)	163
Amortization		10,741	11,048
Foreign exchange (gain) loss		(510)	1,168
Finance expense, net		7,193	5,914
Gain on sale of assets		(604)	–
Impairment of property, plant and equipment	6	44,869	–
Stock-based compensation		271	661
		(18,073)	2,042
Change in non-cash working capital items			
Accounts receivable		6,743	(2,314)
Inventories		7,317	11,152
Prepaid expenses		(1,674)	(779)
Accounts payable and accrued liabilities and other		854	(11,766)
		(4,833)	(1,665)
Cash flows (used by) from financing activities			
Repayment of long-term debt		(2,842)	(3,250)
Additions to long-term debt	7	1,620	–
Payment on lease liabilities		(296)	–
Payment of long-term debt interest and financing fees		(5,511)	(4,830)
		(7,029)	(8,080)
Cash flows (used by) from investing activities			
Additions to property, plant and equipment		(6,166)	(11,631)
Sale of assets		604	–
Cash acquired on acquisition		–	59
Government grants received	10	5,542	4,330
Finance income		44	193
Restricted cash		4,301	(12)
		4,325	(7,061)
Increase (decrease) in cash position		(7,537)	(16,806)
Foreign exchange gain on cash and cash equivalents		2	47
Cash and cash equivalents, beginning of year		12,608	40,877
Cash and cash equivalents, end of period		5,073	24,118
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 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 August 6, 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 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.

During the financial period ended June 30, 2019 the Company incurred losses of $78,098 (2018: $16,912) including an impairment charge of $44,869. The inventory write-down to record finished goods at the lower of cost and net realizable value at June 30, 2019 was $3,565 (2018: $178). The Company had negative cash flows from operating activities of $4,833 (2018: $1,665). The Company has a working capital deficit of $10,241 (December 31, 2018: $11,871 surplus). 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. Active discussions with the Company's lenders are ongoing, as well as efforts to seek other sources of financing. However, there can be no assurance that the Company will be successful in raising capital on acceptable terms if at all.

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.

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

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 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	(44)	(242)	(286)
At June 30, 2019	127	656	783

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 $7 and $15 in interest expense and has made $140 and $279 in repayment on the lease obligations in the three and six months ended June 30, 2019, respectively, in relation to the lease liabilities. The adoption of IFRS 16 resulted in no impact on the Company's equity.

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

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

	$
2019	283
2020	507
	790

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 June 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	June 30, 2019 $	December 31, 2018 $
Derivative financial instruments – FVTPL	Level 2	480	(1,455)
Total financial instruments		480	(1,455)

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

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

	Three Months Ended June 30, 2019 $	Three Months Ended June 30, 2018 $	Six Months Ended June 30, 2019 $	Six Months Ended June 30, 2018 $
Derivative financial instrument				
US dollar collars and variable rate forwards	517	43	1,836	(105)
Gain (loss) on financial instruments	517	43	1,836	(105)

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

	June 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	22,250	1.32/1.37	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 six month periods ended June 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 June 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 $44,869 at the Fortress Specialty Cellulose mill operations of the Dissolving Pulp Segment, as at June 30, 2019. Management determined the value in use of the cash generating unit to be $236,709.

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.
- Discount rate of 9.75%.

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

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 $15,984.
- 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 $18,687.
- For each 1% change in the discount rate, the calculated fair value of the cash generating unit changes by approximately $24,705.

7. LONG-TERM DEBT

	Note	June 30, 2019 $	December 31, 2018 $
Credit facilities with lenders			
$106,641 (2018: $103,879), interest at 5%, maturing 2031, secured by the assets of the Fortress Specialty Cellulose mill	7(a)	118,440	117,413
$33,246 (2018: $34,675) interest and fees at 6.5%, maturing 2031, secured by certain assets of the Fortress Specialty Cellulose mill	7(b)	32,231	33,598
US$158 (2018: US$ nil) interest at LIBOR plus 5.75%, secured by certain inventory of the Fortress Specialty Cellulose mill	7(c)	206	–
Unsecured convertible debentures			
$62,100 (2018: $62,100) principal, interest at 9.75%, maturing December 2021		58,869	58,330
		209,746	209,341
Less: current portion		(3,064)	(14,225)
Long-term debt		206,682	195,116

	June 30, 2019 $	December 31, 2018 $
Principal value of debt	202,194	200,654
Adjustments for unamortized borrowing costs, amounts allocated to equity for convertible debentures, and expected contingent payments	7,552	8,687
Net amount recorded in liabilities	209,746	209,341

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

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

	$
2019	1,635
2020	2,857
2021	64,957
2022	15,067
2023	15,067
Thereafter	102,611
	202,194

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

At June 30, 2019, the fair value of the long-term debt, measured at its amortized cost of $209,746 was $173,648. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

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

At June 30, 2019, the Company's current portion of long term debt, accounts payable and accrued liabilities totaled $47,940 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 three months ended June 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 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 $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. The Company has recorded $3,624 (Note 14) in restricted cash in relation to the fund. In connection with the loan, which is held by a wholly owned subsidiary, a distribution test must be met for the cash held by the subsidiary to be available within the group. There are no restrictions on the cash for use within the subsidiary. As at June 30, 2019, the cash and cash equivalents balance of the subsidiary was $651.

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

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

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, June 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

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

Balance, December 31, 2018	527,061	9.79
Cancelled	(285,658)	6.65
Balance, June 30, 2019	241,403	13.50

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	188,341	245
Balance, June 30, 2019	584,220	7,343

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:

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

	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)
Balance, June 30, 2019	397,389

10. GOVERNMENT GRANTS

During the three and six months ended June 30, 2019, the Company received $3,875 (2018: $2,896) and $5,542 (2018: $4,330), respectively and recorded a receivable for $826 (2018: $1,016) as at June 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.

11. COMMITMENTS

As at June 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 June 30, 2019, the Company has committed to purchase $757 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 June 30, 2019			
	Bioproducts	Pulp	Corporate	Fortress Global Consolidated
		$	$	$
Sales	–	36,762	–	36,762
Operating loss	(130)	(58,848)	(975)	(59,953)
Amortization[1]	–	(5,514)	(22)	(5,536)
Stock-based compensation[1]	–	–	(92)	(92)
Capital expenditures	–	8,577	–	8,577
Total assets	5,297	270,233	1,411	276,941

Sales by geographic area	%
Asia	87.3
Canada[2]	12.7
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 June 30, 2018			
	Bioproducts	Pulp	Corporate	Fortress Global Consolidated
	$	$	$	$
Sales	–	50,077	–	50,077
Operating loss	(458)	(1,276)	(1,378)	(3,112)
Amortization[1]	–	(5,477)	–	(5,477)
Stock-based compensation[1]	–	–	(287)	(287)
Capital expenditures	–	3,295	–	3,295
Total assets	2,520	340,691	21,994	365,205

Sales by geographic area	%
Asia	89.1
Canada[2]	10.9
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)

	Six Months Ended June 30, 2019			
	Bioproducts	**Pulp**	**Corporate**	**Fortress Global Consolidated**
		$	$	$
Sales	–	71,367	–	71,367
Operating loss	(135)	(72,830)	(2,100)	(75,065)
Amortization[1]	–	(10,697)	(44)	(10,741)
Stock-based compensation[1]	–	–	(271)	(271)
Capital expenditures	–	11,060	–	11,060
Total assets	5,297	270,233	1,411	276,941

Sales by geographic area	%
Asia	89.1
Canada[2]	10.9
Total	100.0

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

	Six Months Ended June 30, 2018			
	Bioproducts	**Pulp**	**Corporate**	**Fortress Global Consolidated**
	$	$	$	$
Sales	–	89,812	–	89,812
Operating loss	(466)	(6,648)	(3,401)	(10,515)
Amortization[1]	–	(11,048)	–	(11,048)
Stock-based compensation[1]	–	–	(698)	(698)
Capital expenditures	–	4,759	–	4,759
Total assets	2,520	340,691	21,994	365,205

Sales by geographic area	%
Asia	88.5
Canada[2]	11.5
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 June 30, 2019, the Company received $3,396 in restricted cash (Note 7(b)) previously held in a debt service reserve account from an existing lender to be used to secure certain inventory at Fortress Specialty Cellulose.