



FORTRESS PAPER ANNOUNCES SECOND QUARTER 2012 RESULTS

Vancouver, British Columbia, Aug 7, 2012 – Fortress Paper Ltd. (“Fortress Paper” or the “Company”) reported 2012 second quarter EBITDA of \$2.3 million. For the first quarter of 2012, EBITDA loss was \$1.8 million and for the second quarter of 2011, EBITDA was \$4.6 million.

Excluding corporate costs, the three business segments’ combined EBITDA was \$3.6 million in the 3 months ended June 30, 2012. The Specialty Papers Segment contributed \$10.5 million EBITDA while the Dissolving Pulp Segment and the Security Paper Products Segment generated EBITDA losses of \$0.7 million and \$6.2 million, respectively. Corporate costs contributed to EBITDA loss in the amount of \$1.3 million.

Net income for the second quarter of 2012 was \$12.5 million or basic and diluted net income of \$0.87 per share. In the prior quarter net loss was \$10.5 million or diluted loss per share of \$0.73. In the prior year comparative period, net income was \$2.9 million or diluted net income per share of \$0.19. The much improved current period result was primarily due to the gain realized on the sale of certain non-core assets in the Security Paper Products Segment (see “Management’s Outlook”).

Production of dissolving pulp commenced in early December 2011. Commercial production for accounting purposes, with the equipment operating as intended by management, began on March 18, 2012. After such date all sales and cost of sales have been included in the operating results. The Dissolving Pulp Segment improved operating results gradually throughout the quarter.

The Specialty Papers Segment continued its strong performance in the second quarter. Margins remain strong and the order log is healthy. Contributing to the positive results were continued production efficiency, relatively lower pulp prices, full utilization of the Company’s new dry waste plant and strong sales tonnage and realized prices.

The Security Paper Products Segment experienced another difficult quarter. Unfortunately, the continued postponement of several major currencies has resulted in optimization challenges due to low volumes. As announced in June 2012, Landqart had a material banknote order reinstated, the benefits of which are expected to be realized in the second half of 2012 at the earliest. Although the Company continues to pursue opportunities with other customers, there can be no assurance that new orders will be secured nor certainty as to when or whether all remaining postponed orders will be reinstated.

Management’s Outlook

Dissolving Pulp Segment

The Fortress Specialty Cellulose mill continued to ramp up dissolving pulp production during the second quarter of 2012 and achieved approximately 75% average capacity in June and 70% for

the quarter. Previously it was anticipated that full capacity would be achieved by the end of June 2012; however, additional planned and unplanned downtime was incurred to address remaining process deficiencies.

All process areas have operated for extended periods at or above design levels and process efficiency and reliability continues to improve. The remaining issues to achieve full capacity center on pulp dryer causticising and optimization are now focal points for the mill team. The new digester plant is performing well.

Dissolving pulp quality continues to progress with further reductions in off-specification product in the second quarter of 2012. Currently, we remain fully sold through the third quarter.

With the completion of the Fortress Global Cellulose mill acquisition, Fortress plans to increase its overall dissolving pulp production capacity to approximately 450,000 metric tonnes per year. Detailed engineering and process design has commenced for the conversion to dissolving pulp. In addition, the site workforce is ramping up and commencing rebuilding work to bring the asset to full operational condition.

Specialty Papers Segment

Following the paper machine upgrade in 2011, production speed reached 450 m/min, as planned, which translated to an increased capacity of approximately 56,000 tonnes per year of non-woven wallpaper base at the Dresden mill. The Specialty Papers Segment has experienced a record first half of 2012 and is expected to continue generating positive returns as it maximizes this increased capacity.

Security Paper Products Segment

The unexpected delay in the production and delivery of a significant order that occurred in the fourth quarter of 2011 and continued into the first and second quarters of 2012 was reinstated in June 2012. The delay contributed to a temporary disruption in the production schedule and impacted results negatively in the first half of 2012. It is anticipated that this reinstated order will allow Landqart to better optimize the overall mill. Production for this order began in July 2012.

The Company continues to assess strategic options for this segment, including sales of non-core assets. In May 2012, the Landqart mill completed the sale of its hydropower assets and associated real estate with a Swiss utility company for proceeds of CHF 18 million. In order to maintain the supply of its operational power requirements, the Landqart mill concurrently entered into a long term power purchase agreement with the same utility company at competitive rates. Of the proceeds from the sale, CHF 4.9 million was included in restricted cash. It is anticipated that full amount will become unrestricted in the third quarter of 2012, of which, approximately CHF 3.1 will be allocated towards debt repayment with the remainder available to the Landqart mill.

Significant Developments

Effective June 13, 2012, Fortress completed the acquisition, through its wholly owned subsidiary, Fortress Global, of the Fortress Global Cellulose mill from Domtar Inc., pursuant to which Fortress Global acquired the buildings, equipment and other ancillary property relating to the mill, including a 30 megawatt non-operating cogeneration facility, for a nominal purchase

price and an agreement to make contributions pursuant to a trust agreement in escalating tranches over the next five years of an aggregate of \$7.5 million and an additional contingent amount of \$2.5 million only in the event of a permanent closing of the Fortress Global Cellulose mill in respect of environmental remediation costs.

Concurrent with the completion of the acquisition, the Company finalized a \$132.4 million project financing loan with Investissement Québec and a \$25 million unsecured convertible debenture financing Fonds de Solidarité FTQ.

Subsequent Events

In July 2012, the Company completed a bought deal short form prospectus offering of 7.0% convertible unsecured subordinated debentures, including the exercise in full of the underwriters' over-allotment option, resulting in aggregate gross proceeds of \$69 million. The debentures are listed and posted for trading on the Toronto Stock Exchange under the symbol "FTP/DB.A". Holders of debentures may, at their option, convert debentures into common shares at any time prior to December 31, 2019 at a price of \$31.00 per share.

Selected Financial Information

The selected financial information presented herein is qualified in its entirety by, and should be read in conjunction with, our unaudited consolidated financial statements as at and for the three and six month periods ended June 30, 2012 and the related notes thereon and our Management's Discussion and Analysis ("MD&A") filed on SEDAR.

Three Months Ended June 30

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	Q2 2012	Q1 2012	Q2 2011
Sales	84,023	61,368	89,905
EBITDA ⁽¹⁾	2,343	(1,813)	4,599
Operating (loss) income	(3,075)	(6,220)	617
Net income (loss)	12,462	(10,493)	2,905
Adjusted net loss ⁽²⁾	(5,024)	(9,087)	(984)
Paper shipments (tonnes) ⁽³⁾	16,556	15,290	14,670
Pulp shipments (tonnes)	35,679	35,682	54,384

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

⁽²⁾ See Net Income (Loss) to Adjusted Net Loss Reconciliation.

⁽³⁾ Includes shipments of security and specialty paper products by the Landqart and Dresden mills.

Net Income (Loss) to Adjusted Net Loss Reconciliation:

(thousands of dollars, except per share amounts, unaudited)	Q2 2012	Q1 2012	Q2 2011
Net income (loss)	12,462	(10,493)	2,905
Foreign exchange loss (gain)	1,811	(1,209)	(3,889)
Gain on sale of property, plant and equipment	(19,297)		
Long-term debt prepayment penalty	-	2,615	-
Adjusted net loss	(5,024)	(9,087)	(984)
Basic net income (loss) per share	0.87	(0.73)	0.20
Diluted net income (loss) per share	0.83	(0.73)	0.19
Adjusted net loss per share, basic and diluted	(0.35)	(0.64)	(0.07)

Net Income (Loss) to EBITDA Reconciliation:

(thousands of dollars, unaudited)	Q2 2012	Q1 2012	Q2 2011
Net income (loss)	12,462	(10,493)	2,905
Income tax	(290)	678	740
Foreign exchange loss (gain)	1,811	(1,209)	(3,889)
Net finance expense	2,239	4,804	861
Amortization	4,920	3,997	3,394
Stock based compensation	498	410	588
Gain on sale of property, plant and equipment	(19,297)	-	-
EBITDA	2,343	(1,813)	4,599

The Company

Fortress Paper operates internationally in three distinct business segments: dissolving pulp, specialty papers and security paper products. The Company operates its dissolving pulp business at the Fortress Specialty Cellulose mill located in Canada, which is also in the process of expanding into the renewable energy generation sector with the construction of a cogeneration facility. The Company is also seeking to expand its dissolving pulp capacity with the recent acquisition of the Fortress Global Cellulose mill located at Lebel-sur-Quévillon, Québec, which the Company intends to convert into a dissolving pulp mill and re-start the cogeneration facility. The Company operates its specialty papers business at the Dresden mill located in Germany, where it is a leading international producer of specialty non-woven wallpaper base products. The Company operates its security paper products business at the Landqart mill located in Switzerland, where it produces banknote, passport, visa and other brand protection and security papers, and at its Fortress Optical Facility located in Canada, where it manufactures optically variable thin film material.

Conference Call

A conference call to discuss the financial results for the second quarter 2012 will be held on August 8, 2012 at 8:00 a.m. (EDT). To attend the conference call, please dial one of the following numbers:

North America: 1-855-353-9183
Vancouver: 604-681-8564
Calgary and international: 403-532-5601
Edmonton: 780-429-5820
Toronto: 416-623-0333
Ottawa: 613-212-0171
Montreal: 514-687-4017

Participant pass code: 15086#

Conference Reference Number: 844739

A replay of the conference call will be available for 7 days. To access the replay, listeners may dial 1-855-201-2300 from North America or 403-255-0697 International. The conference reference number is 844739 and the participant pass code to access the replay is 15086 #.

Forward-Looking Statements

This news release contains certain forward-looking statements that reflect the current views and/or expectations of the Company with respect to its expectations, beliefs, assumptions, estimates and forecasts about its business and the industry and markets in which it operates. The reader is cautioned that forward-looking statements 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 statements. Accordingly, readers should not place undue reliance on forward-looking statements. Examples of such forward-looking statements contained in this news release include: growth and future prospects of our business; expected returns on certain business segments; our perceptions of the industry and markets in which we operate and anticipated trends in such markets; benefits that may accrue to the Company as a result of certain acquisitions; and the anticipated benefits of acquisitions and projects. Assumptions underlying the Company's expectations regarding forward-looking statements or information contained in this news release include, among others: that the Company will be able to effectively market its products; the ability of the Company to complete the ramp-up of its dissolving pulp production at the Fortress Specialty Cellulose mill to reach maximum capacity; that dissolving pulp will experience continued and improved demand in the marketplace at anticipated prices; that the Landqart mill will continue operating on a consistent and regular basis in order to produce and deliver on its reinstated banknote order; the general stability of the economic and political environments within the countries where the Company conducts operations; that all necessary approvals and arrangements will be obtained and/or finalized in a satisfactory manner in order to proceed with the Fortress Global Cellulose mill project; and that our equipment will operate at expected levels. Persons reading this news release are cautioned that forward-looking statements or 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; labour relations; 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; dependence on major customers; and other risk factors detailed in our filings with 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 release publicly any revisions for updating any voluntary forward-looking statements, except as required by applicable securities law.

For further information please contact:

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