

A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the Provinces of Canada, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until receipt for the short form prospectus is obtained from the securities regulatory authorities. No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities in those jurisdictions. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and, except as permitted by the Underwriting Agreement (defined herein) and pursuant to certain exemptions, may not be offered or sold within the United States unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States. See heading "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Fortress Paper Ltd. at 2nd Floor, 157 Chadwick Court, North Vancouver, B.C., V7M 3K2, telephone (604) 904-2328 and are also available electronically at www.sedar.com.

PRELIMINARY SHORT FORM PROSPECTUS

New Issue

December 12, 2011



Fortress Paper Ltd.

\$35,000,000

6.50% Convertible Unsecured Subordinated Debentures

This short form prospectus qualifies the distribution (the "**Offering**") of \$35,000,000 aggregate principal amount of 6.50% convertible unsecured subordinated debentures (the "**Debentures**") of Fortress Paper Ltd. ("**Fortress**" or the "**Company**") at a price of \$1,000 per Debenture (the "**Offering Price**") pursuant to an underwriting agreement dated December 12, 2011 (the "**Underwriting Agreement**") among Fortress and Raymond James Ltd., as lead underwriter (the "**Lead Underwriter**"), on its own behalf and on behalf of Canaccord Genuity Corp., Dundee Securities Ltd., RBC Dominion Securities Inc., Scotia Capital Inc., TD Securities Inc., Cormark Securities Inc. and Acumen Capital Finance Partners Limited (collectively, the "**Underwriters**").

The Debentures will bear interest at an annual rate of 6.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing on June 30, 2012 (each, an "**Interest Payment Date**"). The maturity date of the Debentures will be December 31, 2016 (the "**Maturity Date**"). See "*Details of the Offering*".

Each Debenture will be convertible into Class A voting common shares of Fortress (the "**Common Shares**") at the option of the holder at a conversion price of \$37.50 per Common Share (the "**Conversion Price**"), subject to adjustment in certain events, representing a conversion rate of approximately 26.6667 Common Shares per \$1,000 principal amount of Debentures, at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by Fortress for redemption of the Debentures, except in respect of the 15 days before an Interest Payment Date or the Maturity Date.

The Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "FTP". The Company has applied to list the Debentures and the Common Shares issuable upon conversion, redemption or repayment thereof on the TSX. Approval of such listing will be subject to the Company fulfilling all of the listing requirements of the TSX. The closing price of the Common Shares on the TSX on December 7, 2011, the trading day on which the Offering was announced, was \$26.50.

	Price to the Public	Underwriters' Fee ⁽¹⁾	Proceeds to the Company ⁽²⁾
Per Debenture.....	\$1,000	\$40.00	\$960.00
Total ⁽³⁾	\$35,000,000	\$1,400,000	\$33,600,000

Note:

- (1) Pursuant to the terms and conditions of the Underwriting Agreement, the Company has agreed to pay a cash commission to the Underwriters equal to 4.0% of the gross proceeds of the Offering (the "**Underwriters' Fee**"). See "*Plan of Distribution*".
- (2) Before deducting the expenses of the Offering, estimated to be approximately \$450,000, which will be paid from the proceeds of the Offering.
- (3) Fortress has granted to the Underwriters an option (the "**Over-Allotment Option**") to purchase up to an additional 15% of the aggregate principal amount of the Debentures issued at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Offering to the closing of the Over-Allotment Option) on the same terms and conditions as the Offering, exercisable in whole or in part, at the sole discretion of the Underwriters at any time up until 30 days after closing of the Offering for the purpose of covering the Underwriters' over-allocation position. Debentures issuable upon the exercise of the Over-Allotment Option will be issued on the later of closing of the Offering and between three and five business days following the exercise of such option. If the Over-Allotment Option is exercised in full, the total price to the public will be \$40,250,000, the total Underwriter's Fee will be \$1,610,000 and the total proceeds to the Company, before deducting the expenses of the Offering, will be \$38,640,000. See "*Plan of Distribution*". This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of Debentures pursuant to the exercise of the Over-Allotment Option.

The following table sets forth the number of Debentures issuable pursuant to the exercise of the Over-Allotment Option:

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	5,250 Debentures	Up to and including the 30th day following the closing of the Offering	\$1,000 per Debenture

The Debentures will be direct obligations of Fortress and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to all senior indebtedness of Fortress. The terms and conditions of the Debentures will be governed by a debenture indenture between Fortress and Computershare Trust Company of Canada to be entered into on or before Closing (the "**Indenture**").

The Company may not redeem the Debentures prior to December 31, 2014 (the "**Redemption Date**"). On or after the Redemption Date and prior to the Maturity Date, the Debentures will be redeemable in whole or in part from time to time at Fortress' option at par plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Common Shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price.

There is currently no market through which the Debentures may be sold and purchasers may not be able to sell the Debentures purchased under this short form prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of the securities and the extent of issuer regulation. Upon redemption or maturity, the Company may repay the outstanding principal of the Debentures through the issuance of Common Shares. See "*Risk Factors*" and "*Details of the Offering*".

The Underwriters, as principals, conditionally offer the Debentures, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to approval of certain legal matters on behalf of the Company by Sangra Moller LLP and as to certain legal matters on behalf of the Underwriters by Lawson Lundell LLP. The Company has been advised by the Underwriters that, in connection with the Offering, the Underwriters may effect transactions which stabilize or maintain the market price of the Debentures or the Common Shares at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time.

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates for the aggregate principal amount of the Debentures will be issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee and will be deposited with CDS on closing of the Offering. The date of closing of the Offering is expected to occur on or about December 22, 2011 (the "**Closing Date**"), or such later date as the Company and the Underwriters may agree, but in any event not later than December 30, 2011. The purchaser of Debentures will receive only a customer confirmation from a registered dealer that is a participant in the CDS depository service and from or through whom a beneficial interest in the Debentures is purchased. See "*Details of the Offering*".

The earnings coverage ratio in respect of the Company's indebtedness for the 12 months ended September 30, 2011 after giving effect to the Offering is less than one-to-one. See "*Earnings Coverage Ratio*".

An investment in the Debentures and the Common Shares underlying the Debentures is subject to a number of risks. The risk factors identified under the heading "*Risk Factors*" and "*Cautionary Note Regarding*

Forward-Looking Statements in this short form prospectus should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered under this short form prospectus.

The Company's head office is located at 2nd Floor, 157 Chadwick Court, North Vancouver, British Columbia, and its registered office is Suite 1000, 925 West Georgia Street, Vancouver, British Columbia.

TABLE OF CONTENTS

SUMMARY	1
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS.....	4
GENERAL MATTERS.....	5
MARKET AND INDUSTRY DATA.....	6
ELIGIBILITY FOR INVESTMENT.....	6
DOCUMENTS INCORPORATED BY REFERENCE	6
THE COMPANY	8
DETAILS OF THE OFFERING	15
CONSOLIDATED CAPITALIZATION	20
USE OF PROCEEDS	21
PLAN OF DISTRIBUTION.....	21
CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS.....	23
EARNINGS COVERAGE RATIOS.....	26
PRIOR SALES	27
TRADING PRICE AND VOLUME	28
RISK FACTORS	28
AUDITORS, TRANSFER AGENT AND REGISTRAR.....	31
INTERESTS OF EXPERTS.....	32
PURCHASERS' STATUTORY RIGHTS.....	32
AUDITORS' CONSENT	33
CERTIFICATE OF THE COMPANY	34
CERTIFICATE OF THE UNDERWRITERS.....	35

SUMMARY

This summary is qualified by, and should be read in conjunction with, the detailed information contained elsewhere in this short form prospectus.

Fortress Paper Ltd.

Fortress was incorporated under the *Business Corporations Act* (British Columbia) on May 30, 2006.

Fortress operates internationally in three distinct business segments: dissolving pulp, specialty papers and security paper products. The Company produces dissolving pulp at its Fortress Specialty Cellulose Mill in Thurso, Quebec where it is also currently seeking to expand its business into the renewable energy sector. The Company's specialty papers business includes non-woven wallpaper base products. The Company's security paper products business includes banknote, passport, visa and other brand protection and security papers and optically variable thin film material ("OTM").

The Offering

Issue: 35,000 6.50% convertible unsecured subordinated debentures.

Amount of Offering: \$35,000,000.

Price: \$1,000 per Debenture.

Over-Allotment Option Fortress has granted to the Underwriters an over-allotment option to purchase up to 15% of the principal amount of the Debentures issued at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Offering to the closing of the Over-Allotment Option) on the same terms and conditions as the Offering, exercisable in whole or in part, at the sole discretion of the Underwriters, at any time up until 30 days after the closing of the Offering for the purposes of covering the Underwriters' over-allocation position. Debentures issuable upon exercise of the Over-Allotment Option will be issued on the later of closing of the Offering and between three and five business days following exercise of such option.

Use of Proceeds: Fortress intends to use the net proceeds of this Offering, including any net proceeds from the exercise of the Over-Allotment Option, to reduce outstanding indebtedness, to fund costs arising from the Fortress Specialty Cellulose Project (defined below) and for working capital and general corporate purposes.

Debentures

Maturity: The maturity date for the Debentures will be December 31, 2016.

Interest: 6.50% per annum payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2012. The first interest payment on June 30, 2012 will include interest accrued from the Closing Date to, but excluding, June 30, 2012.

Conversion Privilege: The Debentures will be convertible into fully paid and non-assessable Common Shares at the option of the holder thereof at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Company for redemption of the Debentures, except in respect of the 15 days before an Interest Payment Date or the Maturity Date, at a conversion price of \$37.50 per Common Share, being a conversion rate of 26.6667 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment as provided in the Indenture. Holders converting their Debentures will receive accrued and unpaid interest thereon from the period of the last Interest Payment Date on their Debentures prior to the date of conversion to the date that is one day prior to the date of conversion. See "*Details of the Offering – Conversion*

Privilege".

Redemption: The Debentures will not be redeemable before December 31, 2014. On and after December 31, 2014 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price. See "*Details of the Offering – Redemption and Purchase*".

Change of Control: Within 30 days following the occurrence of a Change of Control (as defined below), the Company will be required to make an offer (the "**Debenture Offer**") in writing to holders of Debentures to, at the Debentureholder's election, either: (i) purchase all of the Debentures then outstanding at a price equal to 100% of the principal amount thereof plus accrued and unpaid interest thereon; or (ii) convert the Debentures at the Change of Control Conversion Price (defined below). A Change of Control will be defined in the Indenture as: (i) any transaction resulting in the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction over more than 50% of the outstanding voting securities of the Company; (ii) the amalgamation, consolidation or merger of the Company with or into any other person or any merger of another person into the Company, unless the holders of voting securities of the Company immediately prior to such amalgamation, consolidation or merger hold securities representing 50% or more of the voting control or direction of the Company or the successor entity upon completion of the amalgamation, consolidation or merger; or (iii) any conveyance, transfer, lease, sale or other disposition of all or substantially all of the Company's and the Company's subsidiaries' assets and properties, taken as a whole, to another arm's length person. The Change of Control Conversion Price will be calculated as follows:

$COCCP = ECP / (1 + (CP \times (c/t)))$ where:

COCCP is the Change of Control Conversion Price;

ECP = the Conversion Price;

CP = 41.1%;

c = the number of days from and including the date of the Change of Control to but excluding the Maturity Date; and

t = the number of days from and including the Closing Date to but excluding the Maturity Date.

See "*Details of the Offering – Change of Control of the Company*".

Payment upon Redemption or Maturity: On redemption or at maturity, the Company may, at its option, on not more than 60 days and not less than 40 days prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the principal amount of the Debentures, in whole or in part, by issuing and delivering that number of freely tradeable Common Shares obtained by dividing the principal amount of the outstanding Debentures which are to be redeemed or which have matured by 95% of the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as the case may be. Any accrued and unpaid interest thereon will be paid in cash. See "*Details of the Offering – Payment upon Redemption or Maturity*".

Common Share
Interest Payment
Option:

The Company may elect that from time to time, subject to any required regulatory or stock exchange approval and provided that no event of default has occurred and is continuing, to satisfy all or part of its interest payment obligations by delivering sufficient freely tradeable Common Shares to the Debenture Trustee (as defined below) for sale, in which event Debenture holders will be entitled to receive a cash payment equal to the interest owed from the proceeds of the sale of the requisite number of Common Shares by the Debenture Trustee. See "*Details of the Offering – Interest Payment Option*".

Subordination:

The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness (as defined herein) of the Company and indebtedness to trade creditors and will rank *pari passu* with all other unsecured subordinated indebtedness. The Debentures will also be effectively subordinated to claims of creditors of the Company's subsidiaries except to the extent the Company is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Debentures will not limit the ability of the Company to incur additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness. See "*Details of the Offering – Subordination*".

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus contains forward-looking statements within the meaning of applicable Canadian securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to Fortress or its management, are intended to identify forward-looking statements. Examples of such forward-looking statements within this document include statements relating to the anticipated closing of the Offering; the benefits that may accrue to the Company, its shareholders and the Debenture holders as a result of the Offering; the Company's ability to fund debt maturities; the use of proceeds from this Offering; the Company's business strategy; the Company's future growth; the Company's results of operations and performance; the Company's business prospects and opportunities; and realization of the anticipated benefits of acquisitions and projects related thereto. In addition, this short form prospectus contains forward-looking statements concerning the anticipated closing of the Offering. The closing of the Offering could be delayed if Fortress is not able to obtain the necessary stock exchange approval or any other approvals required for completion in the timelines it has planned. The Offering will not be completed at all if these approvals are not obtained or, unless waived, any other condition to the closing is not satisfied. Accordingly, there is a risk that the Offering will not be completed within the anticipated time or at all.

Forward-looking statements reflect the current views of Fortress with respect to expectations, beliefs, assumptions, estimates and forecasts about its business and the industry and markets in which it operates. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Assumptions underlying the Company's expectations regarding forward-looking statements or information contained in this short form prospectus include, among others: the general stability of the economic and political environments within the countries where the Company conducts operations; the timely receipt of any required stock exchange and regulatory approvals; that Fortress will use the net proceeds derived from this Offering in the manner specified herein; that capital expenditure levels will be consistent with the Company's disclosed estimated capital expenditures; 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 the Company will be able to effectively market its products. The foregoing list of assumptions is not exhaustive.

Persons reading this short form prospectus 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, but not limited to: the inability of Fortress to obtain the necessary stock exchange approval or any other approvals required for completion of the Offering within the anticipated time or at all; there may be circumstances that are not known to Fortress at this time where re-allocations of the net proceeds from the Offering may be advisable for business reasons that management believes are in the Company's best interest; general economic, market and business conditions in Canada and the jurisdictions where the Company operates; the Company's ability to raise capital on acceptable terms; incorrect assessments of the value of acquisitions; fluctuations in foreign exchange or interest rates and stock market volatility; damage to the Company's reputation; the ability of the Company to implement its business plan; competition for, among other things, capital and skilled personnel; dependence on the Company's major customers; protection of intellectual property; fluctuations in the price of raw materials; the dependence on key personnel; the Company's competitive position in the industries in which it does business; potential disruptions to production and delivery; actions taken by governmental authorities; the ability to efficiently and effectively manage growth; and other factors referenced under the heading "*Risk Factors*" in the Company's annual information form dated March 29, 2011 and under the heading "*Risk Factors*" herein.

Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described herein. These forward-looking statements are made as of the date of this short form prospectus or, in the case of documents incorporated by reference herein, as of the date of such documents, and the Company does not intend, and does not assume any obligation, to update these forward-looking statements, except as may be required by applicable law. The Company does not provide any assurances that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to place undue reliance on forward-looking statements due to the inherent uncertainty therein.

GENERAL MATTERS

You should rely only on the information contained or incorporated by reference in this short form prospectus. Neither Fortress nor the Underwriters have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither Fortress nor the Underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this document may only be accurate as of the date on the front cover of this short form prospectus.

All references in this short form prospectus to "\$" are to Canadian dollars, "€" are to the Euro currency unit, CHF are to Swiss francs and US\$ are to United States dollars unless otherwise noted.

Currency Conversion

The following table sets out the rates of exchange in Canadian dollars for one Swiss franc based on the Bank of Canada Daily Noon Rate during the periods noted.

<u>Year Ended</u>	<u>High</u>	<u>Low</u>	<u>\$ per CHF</u>		<u>End Rate</u>
			<u>Average Rate</u>		
December 31, 2010	1.0681	0.8966	0.9896		1.0645
<u>Nine Month Period Ended</u>					
September 30, 2011	1.3578	1.0149	1.1178		1.1480

On December 9, 2011, the exchange rate was CHF 1.00 = \$1.1035.

The following table sets out the rates of exchange in Canadian dollars for one Euro based on the Bank of Canada Daily Noon Rate during the periods noted.

<u>Year Ended</u>	<u>High</u>	<u>Low</u>	<u>\$ per €</u>		<u>End Rate</u>
			<u>Average Rate</u>		
December 31, 2010	1.5067	1.2478	1.3661		1.3319
<u>Nine Month Period Ended</u>					
September 30, 2011	1.4305	1.2847	1.3759		1.3971

On December 9, 2011, the exchange rate was €1.00 = \$1.3636.

The following table sets out the rates of exchange in Canadian dollars for one United States dollar based on the Bank of Canada Daily Noon Rate during the periods noted.

<u>Year Ended</u>	<u>High</u>	<u>Low</u>	<u>\$ per US\$</u>		<u>End Rate</u>
			<u>Average Rate</u>		
December 31, 2010	1.0778	0.9946	1.0299		0.9946
<u>Nine Month Period Ended</u>					
September 30, 2011	1.0389	0.9449	0.9781		1.0389

On December 9, 2011, the exchange rate was US\$1.00 = \$1.0201.

Presentation of Financial Matters

In February 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises would be required to report under International Financial Reporting Standards ("IFRS") for financial years beginning on or after January 1, 2011. The term "**Canadian GAAP**" in this short form prospectus means generally accepted accounting policies in effect prior to the adoption of IFRS.

Fortress adopted IFRS effective for interim and annual periods commencing January 1, 2011. Prior to the adoption of IFRS, Fortress prepared its consolidated financial statements in accordance with Canadian GAAP. The audited consolidated financial statements of Fortress as at and for the years ended December 31, 2010 and 2009 incorporated by reference in this short form prospectus are based on financial results in respect of financial years ending prior to January 1, 2011 and therefore such financial information does not reflect the impact of Fortress' transition to IFRS.

The Company will issue its first IFRS annual consolidated financial statements for the year ended December 31, 2011, with comparative statements of financial position as at December 31, 2010 and January 1, 2010 and earnings for the year ended December 31, 2010.

The Company's interim consolidated financial statements for the period ended September 30, 2011 incorporated by reference in this short form prospectus have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34—*Interim Financial Reporting* and IFRS 1—*First Time Adoption of International Financial Reporting Standards*, with comparative information for the applicable 2010 comparative period.

MARKET AND INDUSTRY DATA

Market and industry data contained in this short form prospectus 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, the Underwriters or any of its or their respective directors, officers or representatives or any other person involved in the Offering and no representation is given as to the accuracy of any of the data from third party sources referred to in this short form prospectus.

ELIGIBILITY FOR INVESTMENT

In the opinion of Sangra Moller LLP, counsel to Fortress, and Lawson Lundell LLP, counsel to the Underwriters, provided the Debentures are listed on a designated stock exchange, as defined in the *Income Tax Act* (Canada) (the "**Tax Act**") (which currently includes the TSX), based on the laws as of the date hereof, the Debentures and the Common Shares issuable upon the conversion, redemption or maturity of the Debentures, if issued on the date hereof, would be qualified investments under the Tax Act and the regulations thereunder for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**TFSAs**").

Notwithstanding the foregoing, if the Debentures or Common Shares are a "prohibited investment" for a particular TFSA, the holder of the particular TFSA will be subject to penalty taxes under the Tax Act. The Debentures would be a "prohibited investment" for a TFSA if the holder of the TFSA has a "significant interest" in, or does not deal at arm's length with the Company. Generally, a holder of the TFSA will not have a significant interest in the Company unless the holder and/or persons not dealing at arm's length with the holder owns, directly or indirectly at any time in the year, 10% or more of the issued shares of any class of the capital stock of the Company or of a corporation related to the Company. The Minister of Finance (Canada) has proposed to extend the "prohibited investment" rules currently applicable to TFSAs to RRSPs and RRIFs. These new rules are to apply to transactions occurring and investments acquired after March 22, 2011, with certain transitional provisions. There can be no assurance that these proposals will be enacted in their current form or at all. **Investors are advised to consult their own tax advisors.**

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of documents incorporated herein by reference

may be obtained on request without charge from the Corporate Secretary of Fortress at 2nd Floor, 157 Chadwick Court, North Vancouver, B.C., V7M 3K2, telephone (604) 904-2328, and are also available electronically at www.sedar.com. The filings of the Company through the System for Electronic Document Analysis and Retrieval (SEDAR) are not incorporated by reference in this short form prospectus except as specifically set out herein.

The following documents, as filed with the various securities commissions or similar authorities in each of the provinces and territories of Canada, are specifically incorporated by reference into and form an integral part of this short form prospectus:

- (a) the annual information form of the Company dated March 29, 2011, for the year ended December 31, 2010 (the "**Annual Information Form**");
- (b) the audited consolidated financial statements of the Company and notes thereto for the years ended December 31, 2010 and December 31, 2009, together with the auditors' report thereon;
- (c) management's discussion and analysis of financial condition and results of operations for the Company for the financial year ended December 31, 2010;
- (d) the unaudited amended consolidated financial statements of the Company and notes thereto for the nine month period ended September 30, 2011;
- (e) management's discussion and analysis of financial condition and results of operations for the Company for the nine month period ended September 30, 2011;
- (f) the management information circular of the Company dated May 12, 2011, prepared in connection with the Company's annual general meeting of shareholders held on June 13, 2011;
- (g) the material change report of the Company dated January 4, 2011 announcing the completion of the acquisition by the Company of the assets of the Bank of Canada's Optical Security Material (OSM) division and the completion of the papermachine number 1 rebuild;
- (h) the material change report of the Company dated February 11, 2011 announcing the completion of the Company's bought deal offering of Common Shares, including the exercise in full of the underwriters' over-allotment option, resulting in aggregate gross proceeds of \$57,548,587;
- (i) the material change report of the Company dated March 2, 2011 announcing that the Company had retired all of its debt owed to Solidarity Fund QFL (Fonds de solidarité FTQ) ("**FTQ**") under an unsecured convertible debenture issued on April 30, 2010;
- (j) the material change report of the Company dated May 13, 2011 announcing a production efficiency plan to be implemented at the Landqart Mill;
- (k) the material change report of the Company dated October 28, 2011 announcing that the Company had resumed construction activities at its Fortress Specialty Cellulose Mill following an unexpected walkout by unionized employees of the contractors engaged by the Company at the mill; and
- (l) the material change report of the Company dated December 6, 2011 announcing the commencement of dissolving pulp production and the completion of the conversion project at the Fortress Specialty Cellulose Mill, together with updates on the Company's other business segments.

Any documents of the type required by National Instrument 44-101 *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any material change reports (excluding confidential reports), comparative interim financial statements, comparative annual financial statements and the auditor's report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms and business acquisition reports filed by the Company with the securities

commissions or similar authorities in Canada subsequent to the date of this short form prospectus and before the termination of the distribution under the Offering, are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained in this short form prospectus or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference into this short form prospectus modifies or supersedes that statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this short form prospectus.

Neither the Company nor the Underwriters have provided or otherwise authorized any other person to provide investors with information other than as contained or incorporated by reference in this short form prospectus. If an investor is provided with different or inconsistent information, he or she should not rely on it.

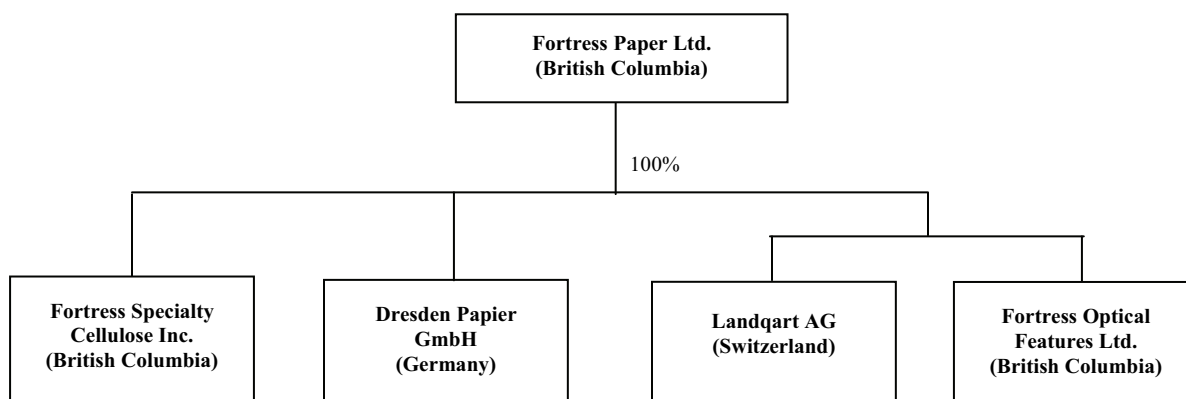
THE COMPANY

General

The full corporate name of the Company is Fortress Paper Ltd. The Company's head office is located at 2nd Floor, 157 Chadwick Court, North Vancouver, British Columbia and its registered and records office is located at Suite 1000, 925 West Georgia Street, Vancouver, British Columbia.

The Company was incorporated under the *Business Corporations Act* (British Columbia) on May 30, 2006. On June 20, 2007, the Company consolidated its issued and outstanding capital on a 2:1 basis.

The Company's material subsidiaries and their respective jurisdictions of organization are set out in the diagram below.



In this short form prospectus:

- the terms "**the Company**" or "**Fortress**" will refer to the consolidated operations of the Company and its subsidiaries unless otherwise specifically noted or the context requires otherwise;
- Landqart AG will be referred to as "**Landqart**";

- **"Landqart Mill"** means the paper mill located in Landqart, Switzerland, owned by Landqart;
- Dresden Papier GmbH will be referred to as **"Dresden"**;
- **"Dresden Mill"** means the paper mill located in Heidenau, Germany, owned by Dresden;
- Fortress Specialty Cellulose Inc. will be referred to as **"Fortress Specialty"**;
- **"Fortress Specialty Cellulose Mill"** means the dissolving pulp manufacturing facility located at Thurso, Québec, owned by Fortress Specialty;
- **"Fortress Specialty Cellulose Project"** means the project at the Fortress Specialty Cellulose Mill including the conversion of the mill from a producer of northern bleached hardwood kraft ("**NBHK**") pulp to one of dissolving wood pulp and the construction of a co-generation facility; and
- Fortress Optical Features Ltd. will be referred to as **"Fortress Optical"**.

Recent Developments

Commencement of Dissolving Pulp Production at Fortress Specialty Cellulose Mill

On December 5, 2011, Fortress announced that it had successfully completed the conversion of the Fortress Specialty Cellulose Mill into a dissolving pulp operation and commenced the production of dissolving pulp. The remaining portion of the Fortress Specialty Cellulose Project, comprising the construction of co-generation facility, is scheduled for completion in the fourth quarter of 2012.

The schedule for the commencement of dissolving pulp production was initially delayed due to rescheduling of the delivery and installation of specialized equipment, the enhancement of certain processes and other ancillary matters. Further delays resulted from an unexpected walkout in October 2011 of construction employees of contractors engaged by the Company, the extra time subsequently required upon the return of the workers to fully ramp-up construction activities at the site, completion of identified improvements to infrastructure relating to buildings, supports and the chip tower inter-connection and implementation of enhancements to the mill's safety and control systems.

In general, the dissolving pulp conversion portion of the Fortress Specialty Cellulose Project was completed materially on budget with the exception of costs resulting from the unexpected walkout of construction workers which remain unquantified. The Company intends to use a portion of net proceeds of this Offering to fund costs arising from the completion of the dissolving pulp conversion. See "*Use of Proceeds*".

On June 28, 2011, the Company received the Pulp and Paper Green Transformation Program approval to apply the funding of \$9.9 million to the installation of lime kiln and recovery boiler upgrades at the Fortress Specialty Cellulose Mill, which have been completed and which are expected to provide economic and environmental benefits to the Company's operations. As at November 26, 2011, the Company had received \$5.2 million under the Program and \$3.8 million is expected to be received prior to the 2011 year end with the remainder in the first quarter of 2012.

The Company also announced on March 1, 2011 that it had converted \$7.0 million principal amount of its unsecured convertible debenture held by FTQ, that was issued in connection with the financing of the conversion and co-generation project at the Fortress Specialty Cellulose Mill, into 350,000 Common Shares of the Company, thereby retiring all of its debt owed to FTQ thereunder.

Landqart Production Efficiency Plan and Update

On May 6, 2011, the Company announced a production efficiency plan at Landqart to consolidate production of bank note and security papers into its new papermachine number 1 and to downsize personnel as a result of a reduction of overall labour requirements. The streamlined labour costs and improvement in production efficiency were expected to partially offset increased cotton costs and address some of the challenges resulting from a current over capacity due to the postponement of implementation of several major currencies, including the new Euro2,

Swiss franc and other banknotes. These challenges have materially impacted results of operations and, together with less than optimal production efficiency as announced by the Company on December 5, 2011, are expected to continue to do so in the fourth quarter of 2011. However, the Company expects results of operations to improve once the new currencies have been adopted and as a result of new banknote paper orders that have recently been placed at the mill and which represent a significant portion of the mill's 2012 banknote capacity.

Prospectus Offering

In February 2011, Fortress completed a public offering by way of short form prospectus of 967,000 Common Shares of the Company and the exercise of an over-allotment option by the underwriters of an additional 145,050 Common Shares, at a price of \$51.75 per share, resulting in aggregate gross proceeds of approximately \$57.5 million.

Acquisition of the Fortress Optical OSM Assets

On January 4, 2011, Fortress, through its wholly-owned subsidiary, Fortress Optical, completed the acquisition of the assets of the Bank of Canada's Optical Security Material (OSM) division (the "**OSM Assets**"), which produces optically variable security material for the security threads contained in Canadian banknotes and various international currency denominations. The purchase price for the OSM Assets was \$750,000 along with Fortress granting to the Bank of Canada a royalty-free license to use the intellectual property comprising the assets for Canadian banknote applications. The OSM Assets have been relocated to a new multi-million dollar high security production and research and development facility which the Company built adjacent to the Fortress Specialty Cellulose Mill in Thurso, Québec. The Company has also received a grant in the amount of \$585,000 relating to the establishment of a research centre in respect of the Fortress Optical facility. The OSM Assets will supplement Fortress' existing paper-based high security feature offerings.

The Business

Overview

Fortress 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, where it has recently commenced production of dissolving pulp after successfully completing the conversion of the mill from a NBHK pulp to a dissolving pulp operation. The Fortress Specialty Cellulose Mill is also in the process of expanding into the renewable energy generation sector with the construction of a co-generation facility. The Company operates its specialty papers business at the Dresden Mill located in Germany, where it produces 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 OTM.

Dissolving Pulp (Fortress Specialty)

The Company announced on December 5, 2011 that it completed the conversion of the Fortress Specialty Cellulose Mill from a producer of NBHK pulp to one of dissolving wood pulp, also known as specialty cellulose, and has commenced the production of dissolving pulp.

Dissolving pulp is a chemically refined bleached pulp that has unique properties, including a high purity of cellulose and uniform molecular-weight distribution. Dissolving pulps are used in the production of rayon and acetate textile fibres, cellophane, and various chemical additives. Rayon is used in a variety of products including home furnishings, medical and surgical products and packaging materials. Fortress intends to initially focus its sales of dissolving pulp for the rayon industry with a geographic focus on markets in Asia. In addition, Fortress is in the process of building a biomass-fueled co-generation plant at the Fortress Specialty Cellulose Mill that will produce green electricity.

Specialty Papers (Dresden)

The Dresden Mill is a leading global supplier of non-woven wallpaper base with an estimated market share of over 50% of the world-wide non-woven wallpaper base market. The Dresden Mill is located in Germany in the town of

Heidenau, approximately 12 kilometres south of the city of Dresden and produces non-woven wallpaper base for the wall coverings industry. Traditional simplex and duplex wallpaper base contains only pulp layers whereas the Company's non-woven wallpaper base contains a certain proportion of synthetic fibres which provide unique characteristics, the most important of which is ease of removal due to its dry-stripability. Other features of non-woven wallpaper base include increased dimensional stability preventing expansion and contraction which occurs in traditional wallpaper base products and results in noticeable seams upon drying. In addition, the non-woven wallpaper base allows for the paste to be applied directly to the wall instead of to the wallpaper itself.

While overall global demand for wallpaper base has generally been declining, certain markets have recently experienced increased sales volume. The wallpaper market is expected to benefit from recovery in residential construction and renovations markets, as well as replacement of other types of wallcoverings. Factors expected to spur growth of non-woven wallpaper in mature markets include continued substitution of traditional paper-based wallpaper products and the introduction of new non-woven products.

Growth is expected to come from markets such as Russia and China which experienced increased sales volumes in 2010 and 2011, as well as from new markets which are beginning to adopt non-woven wallpaper products, including Japan, Korea, Brazil and Chile. By expanding and refining its production of non-woven wallpaper base, the Dresden Mill is well positioned to meet the changing market demand.

The Company's strategy with respect to the Dresden Mill has been to shift away from duplex and simplex wallpaper base production to more value-added and higher margin non-woven wallpaper base products. As a result, to date in 2011, 100% of the Company's sales revenue derived from the Dresden Mill has consisted of non-woven wallpaper base. As a direct result of the Company's capacity expansion capital expenditures program at the Dresden Mill, the Company achieved a further increase of non-woven wallpaper base production to date in 2011.

Security Paper Products (Landqart and Fortress Optical)

The Landqart Mill is well known for its production of banknote paper and has a reputation for being an industry leader within the security paper industry. Since 1979, the Landqart Mill has been the sole provider of banknote paper for the Swiss currency and has produced banknote papers for over 100 currency denominations for more than 50 countries. The Landqart Mill is one of only nine authorized suppliers of banknote paper for the Euro currency. The Landqart Mill is situated in Switzerland in the town of Landqart, approximately 100 kilometres east of the city of Zurich and produces banknote papers and other paper-based security products. The security papers incorporate internationally recognized overt and covert security features which are embedded into the paper and supplemented with customer-specific requirements.

Fortress Optical is a manufacturer of OTM used in colour-shift security threads that are currently incorporated in Canadian banknotes and various other international currency denominations. OTM is a unique combination of layered or 'stacked' thin film materials to produce a predictable colour replay. Additional features include differing optical features or colors which appear when the banknote is tilted. The features will complement and are expected to enhance the Landqart Mill's operations. Fortress Optical is presently working on the development of next generation OTM including: (i) colour-shift with content (such as text); (ii) compressible colour-shift; (iii) two-component colour-shift; and (iv) electro-active colour-shift. Fortress Optical is also working on the development of OTM for incorporation into polymer substrates as well the development of lower-cost methods for applying colour-shift coating to substrates. Fortress Optical's high security production and research and development facility, situated in Thurso, Québec, has an estimated annual production capacity of approximately 1,860,000 sq.mt. (approximately 1,860 rolls) of OTM and intends to use these security features within the product offerings of the Landqart Mill in its efforts to market high security products to security paper manufacturers throughout the world.

The Fortress Specialty Cellulose Mill

The following contains information relating specifically to the Fortress Specialty Cellulose Mill. For further information relating to the Landqart Mill and the Dresden Mill, please refer to the Annual Information Form.

The Mill

The Fortress Specialty Cellulose Mill is located in Thurso, Québec, approximately 150 kilometers west of Montréal and is located on approximately 800 acres of land. On April 30, 2010, the Company completed the acquisition of the Fortress Specialty Cellulose Mill from Fraser Papers Inc. for net proceeds of approximately \$1.2 million. The Company commenced the production and sale of high-quality NBHK pulp in May 2010, with an initial annual capacity of approximately 250,000 ADMT, which operations were conducted on an interim basis while the Company undertook the process of converting the Fortress Specialty Cellulose Mill to a low cost, high quality dissolving pulp producer. Since restarting operations in May 2010, the Fortress Specialty Cellulose Mill has produced approximately 141,355 ADMT of NBHK pulp and had sales of approximately \$85.8 million for the year ended December 31, 2010. For the nine months ended September 30, 2011, the Fortress Specialty Cellulose Mill produced approximately 166,215 ADMT of NBHK and specialty pulp with sales of approximately \$112.4 million. Specialty pulp is manufactured in strict accordance with certain technical specifications requested by the Company's customers and yielded a higher margin as compared to NBHK pulp.

The Company announced the completion of the conversion project, being the first phase of the Fortress Specialty Cellulose Project, and the commencement of production of dissolving pulp on December 5, 2011. The Fortress Specialty Cellulose Mill has a planned annual production capacity of more than 200,000 ADMT of dissolving pulp. Dissolving pulp sales are anticipated to provide significantly higher margins than NBHK and specialty pulp sales, targeting customers that are primarily in the rayon textile industry.

The Company is also currently working on the second phase of the Fortress Specialty Cellulose Project with the construction of a new biomass-based co-generation facility that will produce green energy, which is expected to be completed in the fourth quarter of 2012. Fortress Specialty has entered into an energy supply agreement (the "**Energy Supply Agreement**") with Hydro Québec for the sale of green electricity to be produced at the Fortress Specialty Cellulose Mill upon completion of the co-generation facility. The Energy Supply Agreement provides for the construction of a facility to provide net 18.8 megawatts of green power to Hydro Québec over a 15-year term with deliveries estimated to commence in the fourth quarter of 2012.

Dissolving Pulp

Dissolving wood pulp, also known as specialty cellulose or dissolving pulp, is a chemically refined bleached pulp that has unique properties, including a high purity of cellulose and uniform molecular-weight distribution. Dissolving pulps are specialty pulps used in a wide variety of applications, such as the production of rayon and acetate textile fibres, cellophane, tire filaments, filters and various chemical additives. It is also used by pharmaceutical companies and the food industry as a binding agent. The production of dissolving pulp involves the chemical extraction of fibres from wood to obtain cellulose. Dissolving pulp is categorized into either rayon grades of dissolving pulp or specialty grades of dissolving pulp, based on its purity. Rayon is used in a variety of products including textiles, home furnishings, medical and surgical products and packaging materials. In the textile industry, rayon is considered to be a substitute for cotton with positive characteristics such as biodegradability. Specialty grades of dissolving pulp are distinguished from rayon grades of pulp based on their levels of cellulose purity, as well as their brightness and viscosity.

Production of Dissolving Pulp

The production process for dissolving pulp involves the chemical extraction of fibres from wood to obtain cellulose. To produce rayon grades of dissolving pulp requires the debarking and chipping of logs, the cooking and delignification of the resulting wood chips whereby the lignin and hemicellulose are separated from the cellulose, bleaching the cellulose with various bleaching agents, and finally drying the wet dissolving pulp and compressing it into sheets. To create specialty grades of dissolving pulp additional processing steps are required, which increase the purity level of the cellulose.

Market for Dissolving Pulp

The Company has entered into dissolving pulp supply agreements with three producers of viscose fibre (rayon) products located in China for delivery of an aggregate of 156,000 ADMT of dissolving pulp per annum, representing approximately 78% of the Fortress Specialty Cellulose Mill's planned annual production capacity. The pulp supply

agreements provide for a purchase price based on various formula that factor in prevailing market prices in China and are for terms between five and ten years.

In 2010, demand for dissolving pulp was approximately 4.9 million ADMT and is expected to increase, particularly in Asian markets. The increase in disposable income in Asia, together with the migration of a significant portion of the global textile manufacturing industry and significant investments in capacity of textile fibre producers in China, has made Asia the main driver in this industry. Rayon grades of dissolving pulp is a principal raw material involved in the production of viscose staple fibres and the demand for such pulp has grown recently as the production of viscose staple fibres has increased. The demand for dissolving pulp is expected to increase as the demand for textile fibres increases with the continued growth of the global population. Further, the development of new applications should contribute to the increasing demand for dissolving pulp. An increased focus on environmental awareness is also driving demand for dissolving pulp.

The Company intends to initially focus its sales of dissolving pulp for the rayon industry with a geographic focus primarily on markets in Asia, which accounted for approximately 70% of worldwide demand in 2010 and continues to be the largest market for dissolving pulp. Demand for dissolving pulp in China has increased significantly in recent years, as a result of increased viscose staple fibre production. As the supply of cotton has remained relatively flat, there has been an increase in demand in textile fibres, which the Company believes will favourably affect the demand of dissolving pulp.

Historically, demand for dissolving pulp has been concentrated in developed markets. The globalization of the production of cellulose-based products, including viscose staple fibres, has led to the establishment of operations in lower cost markets, especially in Asia. Demand for dissolving pulp is expected to continue to grow in Asian markets as capacity for viscose staple fibres and other cellulose-based products grows, while at the same time demand develops in other markets. The growth in viscose staple fibres production capacity in China has led to increased demand for dissolving pulp and cotton linter pulp. Because of the lack of domestic sources of dissolving pulp, demand was initially met by domestic Chinese production of cotton linter pulp. However, the increase in viscose staple fibers production has resulted in increased imports of dissolving pulp, as Chinese cotton linter pulp producers have been unable to keep up with demand due to the shortage of cotton linter. As a result, higher costs exist for cotton linter pulp compared to dissolving pulp.

Demand for pulp and dissolving pulps has historically been determined by the level of economic growth and has been closely tied to overall business activity. From 2006 to mid-2008, pulp prices steadily improved. However, a global economic crisis in the latter half of 2008 resulted in a sharp decline of pulp prices. Pulp prices recovered quickly commencing in the second half of 2009 and continued through mid-2011, spurred by the scarcity of cotton and rapid growth of viscose staple fiber (VSF) production capacity in China. As the global economy has slowed in late 2011, pulp prices weakened substantially despite remaining above the five year and ten year trends. Any further slow down in the global economy or significant new production capacity entering the market may result in further pricing deterioration in the future. See "*Risk Factors - Dissolving Pulp Markets*".

Transportation

The Fortress Specialty Cellulose Mill is located adjacent to rail lines and major highway connections to several ports in Québec. Our operations have the flexibility to load product into various types of road and rail equipment, enabling them to take advantage of the most competitive rates. Distribution arrangements covering rail and ocean transport, terminal handling and storage are in place to provide competitive access to the markets served. Different types of packaging configuration are available depending on customer requirements.

Competition

The market for dissolving pulp is highly competitive. Competitors in the rayon grades of pulp market include, among others, Neucel Specialty Cellulose Ltd., Tembec Inc., Sappi Limited, Lenzing AG and Sateri Holdings Limited. The market for specialty grades of dissolving pulp places greater emphasis on product quality. Competitors in the specialty grades of pulp market include, among others, Borregaard, Rayonier, Inc., Tembec Inc., Buckeye Technologies, Inc., Sappi Limited and Sateri Holdings Limited.

Raw Materials and Utilities

The primary raw material used for the production of dissolving pulp is wood. Hardwood logs and wood chips are the primary raw material used by the Fortress Specialty Cellulose Mill with approximately 60% of requirements from logs and 40% from chips. The Fortress Specialty Cellulose Mill is located on the Ottawa River between the cities of Montréal and Ottawa in proximity to its major fibre sourcing centres that include the western region of Québec, the eastern region of Ontario and parts of Northeastern United States. The Fortress Specialty Cellulose Mill accesses approximately 43% of its log and chip needs from provincial cutting rights (CAAF) and wood reservation, and the remainder is purchased on the open market from local wood marketing boards, sawmills and private woodlot owners. While there is adequate log and chip supply, constant monitoring of market conditions and regulatory developments is needed to ensure the lowest cost of fiber supply. In April 2013, all previously granted CAAFs will be cancelled and former CAAF holders will be entitled to a timber supply guarantee in amounts to be determined by the Québec Government, provided they meet certain conditions. The Government also has the discretion to reduce the volume to which a CAAF holder was entitled under the previous regime. The aggregate amount of such reduced timber volumes is expected to be made available to market to eligible purchasers by way of auction. As this will provide access for Fortress to sources of wood previously assigned to other users, the Company believes that the mill will benefit overall from availability of this wood volume. However, there is no assurance that Fortress Specialty will be able to maintain its wood fibre supply allocation pursuant to any subsequent fibre supply arrangements under the new regime which are subject to change and the annual allowable timber volume may fluctuate. An insufficient supply or increased demand for wood fibre or raw materials could materially adversely affect the business, financial condition, results of operations and cash flows of the Fortress Specialty Cellulose Mill.

The Fortress Specialty Cellulose Mill also purchases chemicals and energy. The chemicals consist primarily of sodium hydroxide and sodium chlorate and these products can generally be obtained from a number of competitive suppliers and are subject to overall market fluctuations. The sources of energy are bunker C oil, biomass and electricity. The mill currently purchases electricity from Hydro Québec.

The Fortress Specialty Cellulose Mill obtains the water required in the process from the Ottawa River.

Environmental

Fortress Specialty's operations are regulated by a wide array of federal, provincial and local environmental legislation, and the respective regulations thereunder. Operation managers at the Fortress Specialty Cellulose Mill have been assigned responsibility for monitoring compliance with prescribed standards and with Fortress Specialty's own environmental operating procedures. The Fortress Specialty Cellulose Mill has established an environmental management and reporting system that is designed to monitor environmental compliance with regulatory requirements.

Fortress Specialty Cellulose Mill is equipped with its own waste-water treatment plant and a closed water cycle system that allows it to reduce water consumption as well as effluent release.

To the Company's knowledge, the Fortress Specialty Cellulose Mill has obtained all required environmental permits, authorizations and approvals for its operations, and its operations are currently in substantial compliance with the requirements of all applicable environmental laws and regulations and its respective operating permits. The Fortress Specialty Cellulose Mill manufactures its products materially in accordance with regulations governing air emissions and effluent discharges and within an overall context of maximizing the efficient use of resources and reducing the flow of all forms of waste materials. The Fortress Specialty Cellulose Mill monitors the release of specified gaseous and particulate materials into the atmosphere during the manufacturing process and controls the discharge of liquid waste into the environment. The Fortress Specialty Cellulose Mill has received a Forest Stewardship Council Chain of Custody certification which it can identify on its products and also provides waste water treatment for the town of Thurso, Québec as part of its daily operation.

Environmental laws and requirements have become increasingly stringent over time. Federal, provincial and local governments have become increasingly active in the area of environmental regulation. The enforcement of environmental laws changes from time to time and there can be no assurance that the current level of enforcement of environmental laws will not change in the future. Regulation and enforcement by the various levels of government,

with respect to past, current and future operations and activities, can reasonably be expected to continue to affect the Fortress Specialty Cellulose Mill.

Personnel

As of the date hereof, the Company had 235 unionized and 65 non-unionized employees at the Fortress Specialty Cellulose Mill. The mill has entered into collective agreements with three unions which will be in effect until 2016. The Communication, Energy and Paperworkers Union ("**CEP**") represents most of the workers at the Fortress Specialty Cellulose Mill. Office workers are represented by CEP Local 189 and production and maintenance workers are represented by CEP Local 894. There have been no material labour issues at the Fortress Specialty Cellulose Mill relating to employees of Fortress Specialty to date and none are expected.

DETAILS OF THE OFFERING

The Offering consists of 35,000 Debentures at a price of \$1,000 per Debenture. The Debentures will be issued under an Indenture to be dated the Closing Date between the Company and Computershare Trust Company of Canada, as trustee (the "**Debenture Trustee**"). The following description of the Debentures is a summary of their material attributes and characteristics and is subject to the detailed provisions of the Indenture and is qualified in its entirety by reference to the Indenture.

The following summary uses words and terms which will be defined in the Indenture. For full particulars, reference is made to the Indenture, which, following the Closing Date, will be available for inspection at the offices of the Company and will be filed on SEDAR at www.sedar.com. Particular provisions of the Indenture, which are referred to in this short form prospectus, are incorporated by reference as a part of the statements made, and the statements are qualified in their entirety by the reference.

General

The aggregate principal amount of the Debentures authorized for issue immediately will be limited to the aggregate principal amount of \$35,000,000 (\$40,250,000 in the event the Over-Allotment Option is exercised in full). However, the Company may, from time to time, without the consent of holders of Debentures, issue additional Debentures of the same series or of a different series under the Indenture. References in this section to "debentures" is a reference to all debentures outstanding from time to time under the Indenture, as it may be further supplemented from time to time.

The Debentures will be dated as at the Closing Date and will be issuable only in denominations of \$1,000 and integral multiples thereof. The maturity date for the Debentures will be December 31, 2016.

The Debentures will bear interest from the date of issue at 6.50% per annum, which will be payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2012. The first interest payment will include interest accrued from the closing of this Offering to, but excluding, June 30, 2012.

The principal amount of the Debentures will be payable in lawful money of Canada or, at the option of the Company and subject to applicable regulatory approval, by payment of Common Shares as further described under "*Payment upon Redemption or Maturity*" and "*Redemption and Purchase*". The interest on the Debentures will be payable in lawful money of Canada including, at the option of the Company and subject to applicable regulatory approval, in accordance with the Common Share Interest Payment Election as described under "*Interest Payment Option*".

The Debentures will be direct obligations of the Company and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to other liabilities of the Company as described under "*Subordination*". The Indenture will not limit the ability of the Company to incur additional indebtedness, including indebtedness for borrowed money or from mortgaging, pledging or charging its properties to secure any indebtedness.

Conversion Privilege

The Debentures will be convertible at the holder's option into fully paid and non-assessable Common Shares at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Company for redemption of the Debentures, except in respect of the 15 days before an Interest Payment Date or the Maturity Date, at a conversion price of \$37.50 per Common Share, being a conversion rate of 26.6667 Common Shares for each \$1,000 principal amount of Debentures. No adjustment will be made for dividends on Common Shares issuable upon conversion. No adjustment will be made for interest accrued since the then most recently completed Interest Payment Date on Debentures surrendered for conversion; however, holders converting their Debentures on an Interest Payment Date will receive all interest which has accrued prior to that Interest Payment Date and which has not been paid. Holders converting their Debentures shall become holders of record of Common Shares of the Company on the business day immediately after the conversion date and such Common Shares will be delivered to such holders as soon as practicable after the conversion date.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Common Shares; (b) the distribution of Common Shares to holders of all or substantially all of the outstanding Common Shares by way of dividend or otherwise other than an issue of securities to holders of Common Shares who have elected to receive dividends in securities of the Company in lieu of receiving cash dividends paid in the ordinary course; (c) the issuance of options, rights or warrants to all or substantially all holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares at less than 95% of the then current market price (as defined below) of the Common Shares; and (d) the distribution to all holders of Common Shares of any securities or assets (other than cash dividends and equivalent dividends in securities paid in lieu of cash dividends in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (b), (c) or (d) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be. The Company will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

The term "current market price" will be defined in the Indenture to mean the volume weighted average trading price of the Common Shares on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Common Shares or in the case of any consolidation, amalgamation or merger of the Company with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the Company, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, acquisition, sale or conveyance or liquidation, dissolution or winding up, be entitled to receive the number of Common Shares or other securities on the exercise of the conversion right such holder would be entitled to receive if on the effective date thereof, it had been the holder of the number of Common Shares into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, arrangement, merger, acquisition, sale or conveyance or liquidation, dissolution or winding up.

No fractional Common Shares will be issued on any conversion but in lieu thereof the Company shall satisfy fractional interests by a cash payment equal to the current market price of any fractional interest provided, however, that the Company shall not be required to make any payment of less than \$10.00.

Redemption and Purchase

The Debentures will not be redeemable before December 31, 2014 (except in the event of certain circumstances described under "*Change of Control of the Company*"). On and after December 31, 2014 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the TSX during

the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a pro rata basis or in such other manner as the Debenture Trustee deems equitable.

The Company will have the right to purchase Debentures in the market, by tender or by private contract.

Payment upon Redemption or Maturity

On redemption or at maturity, the Company will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the aggregate principal amount of the outstanding Debentures which are to be redeemed or which have matured, together with accrued and unpaid interest thereon. The Company may, at its option, on not more than 60 and not less than 40 days prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to pay the principal amount of the Debentures which are to be redeemed or the principal amount of the Debentures which are due on the Maturity Date, as the case may be, in whole or in part, by issuing freely tradeable Common Shares to the holders of the Debentures. Any accrued and unpaid interest thereon will be paid in cash. The number of Common Shares to be issued will be determined by dividing the aggregate principal amount of the outstanding Debentures which are to be redeemed or which have matured by 95% of the current market price on the date fixed for redemption or the Maturity Date, as the case may be. No fractional Common Shares will be issued on redemption or maturity but in lieu thereof the Company shall satisfy fractional interests by a cash payment equal to the current market price of any fractional interest provided, however, that the Company shall not be required to make any payment of less than \$10.00.

Subordination

The payment of the principal and premium, if any, of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness and indebtedness to trade creditors of the Company. "**Senior Indebtedness**" of the Company will be defined in the Indenture as the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness of the Company (whether outstanding as at the date of Indenture or thereafter incurred), other than indebtedness evidenced by the Debentures, and all other existing and future debentures or other instruments of the Company which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be *pari passu* with, or subordinate in right of payment to, the Debentures. Subject to statutory or preferred exceptions or as may be specified by the terms of any particular securities, each debenture issued under the Indenture will rank *pari passu* with each other debenture, and with all other present and future subordinated and unsecured indebtedness of the Company except for sinking provisions (if any) applicable to different series of debentures or similar types of obligations of the Company.

The Indenture will provide that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Company, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Company, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Company, then those holders of Senior Indebtedness, including any indebtedness to trade creditors, will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture will also provide that the Company will not make any payment, and the holders of the Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without any limitation by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (a) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures, or (b) at any time when a default with respect to any Senior Indebtedness permitting the holders thereof to accelerate the maturity thereof has occurred under the Senior Indebtedness and is continuing and the notice of the event of default has been given by or on behalf of the holders of Senior Indebtedness to the Company, unless the Senior Indebtedness has been repaid in full. The Debentures will also be effectively subordinated to claims of creditors of the Company's subsidiaries except to the extent the Company is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors.

Change of Control of the Company

Within 30 days following the occurrence of a Change of Control, the Company will be required to make the Debenture Offer to, at the Debenture holder's election, either: (i) purchase all of the Debentures then outstanding at the Debenture Offer Price; or (ii) convert the Debentures at the Change of Control Conversion Price. A "**Change of Control**" will be defined in the Indenture as: (a) the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction of more than 50% of the outstanding voting securities of the Company; (b) the Company's amalgamation, consolidation or merger with or into another person or any merger of another person into the Company, excluding an acquisition, merger, reorganization, amalgamation, arrangement, combination or other similar transaction if the holders of voting securities of the Company immediately prior to such transaction hold securities representing at least 50% of the voting control or direction in the Company or the successor entity upon completion of the transaction; and (c) any conveyance, transfer, sale, lease or other disposition of all or substantially all of the Company's and its subsidiaries' assets and properties, taken as a whole, to another arm's-length person.

The Indenture will contain notification and repurchase provisions requiring the Company to give written notice to the Debenture Trustee of the occurrence of a Change of Control within 30 days of such event together with the Debenture Offer. The Debenture Trustee will thereafter promptly mail to each holder of Debentures a notice of the Change of Control together with a copy of the Debenture Offer to repurchase all the outstanding Debentures.

If 90% or more of the aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered to the Company pursuant to the Debenture Offer, the Company will have the right to redeem all the remaining Debentures at the Debenture Offer Price. Notice of such redemption must be given by the Company to the Debenture Trustee within ten days following the expiry of the Debenture Offer, and as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered pursuant to the Debenture Offer.

The Change of Control Conversion Price will be calculated as follows:

$COCCP = ECP / (1 + (CP \times (c/t)))$ where:

COCCP is the Change of Control Conversion Price;

ECP = is the Conversion Price in effect on the date on which the Change of Control becomes effective ("**Effective Date**");

CP = 41.1%;

c = the number of days from and including the Effective Date to but excluding December 31, 2016; and

t = the number of days from and including the Closing Date to but excluding December 31, 2016.

Interest Payment Option

The Company may elect, from time to time, to satisfy its obligation to pay interest on the Debentures (the "**Interest Obligation**"), on an Interest Payment Date, by delivering sufficient Common Shares to the Debenture Trustee to satisfy the Interest Obligation in accordance with the Indenture (the "**Common Share Interest Payment Election**"). The Indenture will provide that, upon such election, the Debenture Trustee shall: (a) accept delivery from the Company of Common Shares; (b) accept bids with respect to, and consummate sales of, such Common Shares, each as the Company shall direct in its absolute discretion; (c) invest the proceeds of such sales in securities issued or guaranteed by the Government of Canada which mature prior to the applicable Interest Payment Date, and use the proceeds received from such permitted government securities, together with any additional cash provided by the Company, to satisfy the Interest Obligation; and (d) perform any other action necessarily incidental thereto.

The Indenture will set forth the procedures to be followed by the Company and the Debenture Trustee in order to effect the Common Share Interest Payment Election. If a Common Share Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Common Shares (plus any amount received by the Debenture Trustee from the Company) in

full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Company in respect of the Interest Obligation.

Neither the Company's making of the Common Share Interest Payment Election nor the consummation of sales of Common Shares will (a) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date, or (b) entitle such holders to receive any Common Shares in satisfaction of the Interest Obligation.

Events of Default

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures, whether at maturity, upon redemption, by declaration or otherwise; or (iii) certain events of bankruptcy, insolvency or reorganization of the Company under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon request of holders of not less than 25% in principal amount of the Debentures, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of a majority of the principal amount of Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms as such holders shall prescribe.

Offers for Debentures

The Indenture will contain provisions to the effect that if an offer is made for Debentures which would be a take-over bid for Debentures within the meaning of Multilateral Instrument 62-104 – *Take-over bids and Issuer Bids* if Debentures were considered equity securities and not less than 90% of the Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by the holders of Debentures who did not accept the offer on the terms offered by the offeror.

Modification

The rights of the holders of the Debentures as well as any other series of Debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture will contain certain provisions which will make binding on all Debenture holders resolutions passed at meetings of the holders of Debentures by votes cast thereat by holders of not less than 66 ²/₃% of the principal amount of the Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66 ²/₃% of the principal amount of the Debentures. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of Debentures of each particularly affected series.

Book-Entry System

The Debentures will be issued in "book-entry only" form and must be purchased or transferred through a participant in the depository service of CDS (a "**Participant**"). On the Closing Date, a certificate representing such Debentures will be issued in registered form to CDS or its nominee and will be deposited with CDS pursuant to the book-entry only system.

Unless the book-entry only system is terminated as described below, a purchaser acquiring a beneficial interest in the Debentures (a "**Beneficial Owner**"), will not be entitled to receive a certificate for Debentures. Purchasers of Debentures will not be shown on the records maintained by CDS, except through a Participant.

Beneficial interests in Debentures will be represented solely through the book-entry only system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the applicable Debentures are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Debentures will be made only through the depository service of CDS. As indirect holders of Debentures, investors should be aware that they (subject to the situations described below)

may not: (a) have Debentures registered in their name; (b) have physical certificates representing their interest in the Debentures; (c) be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) be able to pledge Debentures as security.

The Debentures will be issued to Beneficial Owners thereof in fully registered and certificate form (the "**Debenture Certificates**") only if: (a) required to do so by applicable law including where a Debenture certificate requires the addition of a legend under applicable securities law in the United States; (b) the book-entry only system ceases to exist; (c) the Company or CDS advises the Debenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depository with respect to the Debentures and the Company is unable to locate a qualified successor; (d) the Company, at its option, decides to terminate the book-entry only system through CDS; or (e) after the occurrence of an Event of Default (as defined herein), Participants acting on behalf of Beneficial Owners of Debentures representing, in the aggregate, more than 25% of the aggregate principal amount of the Debentures (as applicable) then outstanding advise CDS in writing that the continuation of a book-entry only system through CDS is no longer in their best interest provided the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Upon the occurrence of any of the events described in the immediately preceding paragraph, the Debenture Trustee must notify CDS, for and on behalf of Participants and Beneficial Owners of Debentures, of the availability through CDS of Debenture Certificates. Upon surrender by CDS of the global certificates representing the Debentures, and receipt of instructions from CDS for the new registrations, the Debenture Trustee will deliver the Debentures in the form of Debenture Certificates and thereafter the Company will recognize the holders of such Debenture Certificates as Debenture holders under the Indenture.

Interest on the Debentures will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, interest will be paid by cheque drawn on the Company and sent by prepaid mail to the registered holder or by such other means as may become customary for the payment of interest. Payment of principal, including payment in the form of Common Shares if applicable, and the interest due, at maturity or on a redemption date, will be paid directly to CDS while the book-entry only system is in effect. If Debenture Certificates are issued, payment of principal, including payment in the form of Common Shares if applicable, and interest due, at maturity or on a redemption date, will be paid upon surrender thereof at any office of the Debenture Trustee or as otherwise specified in the Indenture.

Neither the Company nor the Underwriters will assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or any payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and contained in this short form prospectus and relating to the rules governing CDS or any action to be taken by CDS or at the direction of a Participant. The rules governing CDS provide that it acts as the agent and depository for the Participants. As a result, Participants must look solely to CDS and Beneficial Owners must look solely to Participants for any payments relating to the Debentures, paid by or on behalf of the Company to CDS.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at September 30, 2011: (i) before giving effect to the Offering; (ii) after giving effect to the Offering (assuming the Over-Allotment Option is not exercised); and (iii) after giving effect to the conversion of the Debentures issued under the Offering.

Description	Authorized	Outstanding as at September 30, 2011 before giving effect to the Offering (unaudited)	Outstanding as at September 30, 2011 after giving effect to the Offering (unaudited) ⁽¹⁾	Outstanding as at September 30, 2011 after giving effect to the conversion of the Debentures (unaudited)
<i>(in thousands of \$, except share amounts)</i>				
Debentures	-	-	\$ 35,000	-
Long-term Debt	-	\$ 87,294	\$ 87,294	\$ 87,294
Current Debt	-	\$ 8,572	\$ 6,472 ⁽²⁾⁽³⁾	\$ 6,472
Common Shares	Unlimited	\$ 477,492 (14,291,886 Common Shares)	\$ 477,492 (14,291,886 Common Shares)	\$ 512,492 (15,225,219 Common Shares) ⁽⁴⁾

Notes:

- (1) Not including the exercise of the Over-Allotment Option.
- (2) Fortress intends to use net proceeds of the Offering to repay, in aggregate: (i) approximately \$2.1 million of a loan facility between UBS and Landqart entered into in 2008 (the "**UBS Loan**") and a loan facility between Landqart and Canton Bank Glarus (the "**Canton Loan**") which represents the current portion of long-term debt; and (ii) approximately \$1.0 million of the principal of the UBS Loan which was drawn subsequent to the quarter and is not included in the table. See "*Use of Proceeds*".
- (3) Not including a loan facility between Commerzbank and Dresden which was entered into in the fourth quarter of 2011 (the "**Commerzbank Loan**") of which the Company intends to repay the outstanding balance of approximately \$6.8 million (as at November 30, 2011) using net proceeds of the Offering. See "*Use of Proceeds*".
- (4) Assumes conversion of all Debentures (not including those issued under the Over-Allotment Option) into Common Shares.

USE OF PROCEEDS

The aggregate net proceeds to be derived by the Company from the Offering are estimated to be approximately \$33,150,000, not including any proceeds received from the exercise of the Over-Allotment Option and after deducting the estimated expenses of the Offering of approximately \$450,000 and the Underwriters' Fee. Fortress intends to use the net proceeds from the Offering as follows:

To repay outstanding indebtedness:	Approximately \$10 million
To fund costs arising from the Fortress Specialty Cellulose Project:	Approximately \$15 million
Working capital and general corporate purposes:	Approximately \$8 million

The proceeds to be used to repay outstanding indebtedness are primarily attributable to making payments on the Commerzbank Loan, the UBS Loan and the Canton Loan pursuant to which €5,000,000 (\$6,800,000), CHF7,200,000 (\$7,900,000) and CHF2,500,000 (\$2,800,000) is outstanding as at November 30, 2011, respectively, and includes any applicable prepayment fees and penalties. See "*Consolidated Capitalization*". The proceeds of the UBS Loan were used primarily in connection with development costs relating to the Company's *Durasafe*® product. The proceeds of the Canton Loan were used primarily for the rebuilding of paper machine number 2 at Landqart. The proceeds of the Commerzbank Loan were used primarily for working capital at Landqart in the fourth quarter of 2011. The Company will continue to be able to draw down on the UBS Loan and the Commerzbank Loan after making the intended repayments. The proceeds to be used to finance costs arising from the Fortress Specialty Cellulose Project include costs resulting from project scope changes and the extended required shutdown period of the Fortress Specialty Cellulose Mill prior to the ramp up of commercial production. The proceeds to be used for working capital will be utilized for ongoing projects of the Company in the normal course. If the Over-Allotment Option is exercised, the Company intends to use the additional net proceeds for working capital and general corporate purposes. See "*Recent Developments*" for more information relating to the Company's Fortress Specialty Cellulose Mill.

The actual use of the net proceeds of the Offering may vary depending on the operating and capital needs of the Company from time to time. Accordingly, management of the Company will have broad discretion in the application of the proceeds of the Offering.

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Company has agreed to issue and sell 35,000 Debentures to the Underwriters, and the Underwriters have severally agreed to purchase, as principals, such Debentures on the Closing Date or on such other date as may be agreed among the parties to the Underwriting Agreement. Delivery of the Debentures is conditional upon payment on closing of the Offering of \$1,000 per Debenture by the Underwriters to the Company. The Underwriting Agreement provides that the Company will pay to the Underwriters a fee of \$40 per Debenture issued and sold by the Company, for an aggregate fee payable by the Company of \$1,400,000.

The Offering Price for the Debentures offered hereunder was determined by negotiation between the Company and the Lead Underwriter on its own behalf and on behalf of the other Underwriters.

Fortress has granted to the Underwriters the Over-Allotment Option to purchase up to 5,250 Debentures at a price of \$1,000 per Debenture, on the same terms and conditions as the Offering, exercisable in whole or in part, in the sole

discretion of the Lead Underwriter, on behalf of the Underwriters, at any time up until 30 days after the closing of the Offering. If the Over-Allotment Option is exercised in full, the price to the public, Underwriters' Fee and net proceeds to Fortress (before deducting expenses of the Offering) will be \$40,250,000, \$1,610,000 and \$38,640,000, respectively (excluding accrued interest paid in respect of such Debentures). This short form prospectus qualifies for distribution the Debentures as well as the grant of the Over-Allotment Option and the issuance of the Debentures pursuant to the exercise of the Over-Allotment Option.

A purchaser who acquires Debentures forming part of the Underwriters' over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Fortress has been advised by the Underwriters that, in connection with this Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Debentures or Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The obligations of the Underwriters under the Underwriting Agreement are several, and not joint, and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Debentures if any are purchased under the Underwriting Agreement. If an Underwriter fails to purchase the Debentures which it has agreed to purchase, any one or more of the other Underwriters may, but is not obligated to, purchase such Debentures, subject to certain exceptions.

During a period ending 90 days after the date of the Closing, each of the Company and the directors and senior officers of the Company and its subsidiaries will not offer, sell or issue for sale or resale any Common Shares (other than pursuant to the terms of the Debentures or the exercise of the Over-Allotment Option) or financial instruments or securities convertible into, or exercisable or exchangeable for, Common Shares or agree to, or announce, any such offer, sale or issuance, without the prior written consent of the Underwriters, which consent may not be unreasonably withheld (the "**Standstill Period**"). Notwithstanding the foregoing, certain insiders of the Company as a group will be permitted to sell, within the Standstill Period, not more than 100,000 Common Shares or securities exchangeable or convertible into Common Shares previously granted pursuant to the Company's 2009 long term incentive plan (the "**LTIP**"), pursuant to the Company's automatic share disposition plan, in connection with any withholding tax obligations or for any other purpose.

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without prior notice. Except in certain limited circumstances, the Debentures will be issued in "book-entry only" form and must be purchased or transferred through a Participant in the depository service of CDS. See "*Details of the Offering*".

The Company has applied to list the Debentures and the Common Shares issuable on the conversion, redemption or maturity of the Debentures on the TSX. Listing will be subject to Fortress fulfilling all of the listing requirements of the TSX.

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell Debentures purchased under this short form prospectus.

The Debentures and the Common Shares issuable pursuant to such securities (collectively, the "**Securities**") issued or made subject to issuance under this Offering have not been and will not be registered under the U.S. Securities Act or any state securities laws, and accordingly may not be offered or sold within the United States except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

Except as permitted in the Underwriting Agreement and as expressly permitted by applicable laws of the United States, the Underwriters will not offer or sell the Securities within the United States. The Underwriting Agreement permits the Underwriters to offer and resell the Securities that they have acquired pursuant to the Underwriting Agreement to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act ("**Rule 144A**")), in the United States, provided such offers and sales are made in transactions exempt from the registration

requirements of the U.S. Securities Act in accordance with Rule 144A. The Underwriting Agreement also provides that the Underwriters will offer and sell the Securities outside the United States only in accordance with Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Securities within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the U.S. Securities Act.

The Closing is expected to take place on or about December 22, 2011 or on any other date which may be agreed upon, but no later than December 30, 2011.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Sangra Moller LLP, counsel to the Company, and Lawson Lundell LLP, counsel to the Underwriters, the following summary describes the principal Canadian federal income tax considerations pursuant to the Tax Act and the regulations thereunder (the "**Regulations**") generally applicable to a holder who acquires Debentures pursuant to this Offering and who, for purposes of the Tax Act and at all relevant times, holds the Debentures and will hold the Common Shares issuable on the conversion, redemption or maturity of the Debentures as capital property and deals at arm's length with the Company and the Underwriters and is not affiliated with the Company. Generally, the Securities will be considered to be capital property to a holder provided the holder does not hold the Securities in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain holders who might not otherwise be considered to hold their Debentures and Common Shares as capital property may, in certain circumstances, be entitled to have the Debentures and Common Shares, and all other "Canadian securities" (as defined in the Tax Act) owned by such holders, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to (i) a holder that is a "financial institution", as defined in the Tax Act for the purposes of the mark-to-market rules, (ii) a holder an interest in which would be a "tax shelter investment" as defined in the Tax Act, (iii) a holder that is a "specified financial institution" as defined in the Tax Act or (iv) a holder whose functional currency for the purposes of the Tax Act is the currency of a country other than Canada. Any such holder should consult its own tax advisor with respect to an investment in the Debentures.

This summary is based upon the provisions of the Tax Act and the Regulations in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced prior to the date hereof (the "**Proposed Amendments**") and counsel's understanding of the current published administrative practices of the Canada Revenue Agency (the "**CRA**"). This summary assumes the Proposed Amendments will be enacted in the form proposed, however, no assurance can be given that the Proposed Amendments will be enacted in the form proposed, if at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account any changes in the law, whether by legislative, governmental or judicial action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder or prospective holder of Debentures, and no representations with respect to the income tax consequences to any holder or prospective holder are made. Consequently, holders and prospective holders of Debentures should consult their own tax advisors for advice with respect to the tax consequences to them of acquiring Debentures pursuant to this Offering, having regard to their particular circumstances.

Holders Resident in Canada

The following discussion applies to a holder of Securities who, at all relevant times, for purposes of the Tax Act and any applicable income tax treaty or convention, is resident in Canada (a "**Resident Holder**").

Taxation of Interest on Debentures

A Resident Holder of Debentures that is a company, partnership, unit trust or any trust of which a company or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the

Debentures that accrues to it to the end of the particular taxation year or that has become receivable by or is received by the Resident Holder before the end of that taxation year, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), except to the extent that the interest was included in the Resident Holder's income for a preceding taxation year. In addition, if at any time a Debenture should become an "investment contract" (as defined in the Tax Act) in relation to a Resident Holder, such Resident Holder will be required to include in computing income for a taxation year any interest that accrues to the Resident Holder on the Debenture up to any "anniversary day" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Resident Holder's income for that year or a preceding year.

A Resident Holder of Debentures that throughout the relevant taxation year is a "Canadian-controlled private Company", as defined in the Tax Act, may be liable to pay the refundable tax of 6 2/3% on its "aggregate investment income", which is defined in the Tax Act to include interest income.

Exercise of Conversion Privilege

Generally, a Resident Holder who converts a Debenture into Common Shares (or Common Shares and cash delivered in lieu of a fraction of a Common Share) pursuant to the conversion privilege will be deemed not to have disposed of the Debenture and, accordingly, will not be considered to realize a capital gain (or capital loss) on such conversion. Under the current administrative practice of the CRA, a Resident Holder who, upon conversion of a Debenture, receives cash not in excess of \$200 in lieu of a fraction of a Common Share may either treat this amount as proceeds of disposition of a portion of the Debenture, thereby realizing a capital gain (or capital loss), or reduce the adjusted cost base of the Common Shares that the Resident Holder receives on the conversion by the amount of the cash received.

Upon a conversion of a Debenture, interest accrued thereon to the date of conversion will be included in computing the income of the Resident Holder as described above under "*Taxation of Interest on Debentures*".

The aggregate cost to a Resident Holder of the Common Shares acquired on the conversion of a Debenture will generally be equal to the aggregate of the Resident Holder's adjusted cost base of the Debenture immediately before the conversion. The adjusted cost base to a Resident Holder of Common Shares at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base of any other Common Shares owned by the Resident Holder as capital property at the time.

Disposition of Debentures

A disposition or deemed disposition of a Debenture by a Resident Holder, including a redemption, payment on maturity or purchase for cancellation but not including the conversion of a Debenture into Common Shares pursuant to the Resident Holder's right of conversion as described above, will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (adjusted as described below) are greater (or less) than the aggregate of the Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Taxation of Capital Gains and Capital Losses*".

If the Company pays any amount upon the redemption, purchase or maturity of a Debenture by issuing Common Shares to the Resident Holder, the Resident Holder's proceeds of disposition of the Debenture will be equal to the fair market value, at the time of disposition of the Debenture, of the Common Shares and any other consideration so received (except Common Shares received in satisfaction of accrued interest). The Resident Holder's adjusted cost base of the Common Shares so received will be equal to the fair market value of such Common Shares. The adjusted cost base to a Resident Holder of Common Shares at any time will be determined by averaging the cost of such Common Shares with the adjusted cost base of any other Common Shares owned by the Resident Holder as capital property at that time.

Upon a disposition or deemed disposition of a Debenture, interest accrued thereon to the date of disposition will be included in computing the income of the Resident Holder as described above under "*Taxation of Interest on Debentures*", and will be excluded in computing the Resident Holder's proceeds of disposition of the Debenture.

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Resident Holder (except to the Company) will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the Resident Holder's adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Taxation of Capital Gains and Capital Losses*".

Taxation of Capital Gains and Capital Losses

Generally, one-half of any capital gain (a "**taxable capital gain**") realized by a Resident Holder in a taxation year must be included in the Resident Holder's income for the year, and one-half of any capital loss (an "**allowable capital loss**") realized by a Resident Holder in a taxation year must be deducted from taxable capital gains realized by the Resident Holder in that year. Allowable capital losses for a taxation year in excess of taxable capital gains for that year generally may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years, to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a Company on the disposition of a Common Share may be reduced by the amount of dividends received or deemed to be received by it on such Common Share (or on a share for which the Common Share has been substituted) to the extent and under the circumstances described by the Tax Act. Similar rules may apply where a company is a member of a partnership or a beneficiary of a trust that owns Common Shares, directly or indirectly, through a partnership or a trust.

A Resident Holder that is, throughout the relevant taxation year, a "Canadian-controlled private company", as defined in the Tax Act, may be liable to pay the refundable tax of 6 2/3% on its "aggregate investment income", which is defined to include taxable capital gains.

Capital gains realized by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

Receipt of Dividends on Common Shares

A Resident Holder will be required to include in computing its income for a taxation year any dividends received (or deemed to be received) on Common Shares, unless in the case of Canadian resident companies, the application of a specific anti-avoidance rule re-characterizes such dividends as proceeds of disposition or a capital gain.

In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian Companies, including the enhanced gross-up and dividend tax credit rules for "eligible dividends". Eligible dividends will generally include dividends paid by taxable Canadian companies, such as the Company, where those dividends have been designated as "eligible dividends" by the company at or prior to the time the dividends are paid. There are limitations on the ability of a company to designate dividends as eligible dividends.

Taxable dividends received by an individual (including certain trusts) may give rise to a liability for alternative minimum tax as calculated under the detailed rules set out in the Tax Act.

In the case of a Resident Holder that is a company, dividends received (or deemed to be received) on Common Shares by the Resident Holder will generally be included in the Resident Holder's gross income for the taxation year in which such dividends are received and will generally be deductible in computing the Resident Holder's taxable income. A "private company", as defined in the Tax Act, or any other company controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), may be liable to pay a refundable tax of 33 1/3% under Part IV of the

Tax Act on dividends received (or deemed to be received) on Common Shares to the extent such dividends are deductible in computing taxable income for the year.

Holders Not Resident in Canada

The following discussion applies to a holder of Securities who, at all relevant times, for purposes of the Tax Act and any applicable income tax treaty or convention, is neither resident nor deemed to be resident in Canada and does not, and is not deemed to, use or hold Debentures or Common Shares acquired upon the conversion of a Debenture, in carrying on a business in Canada (a "**Non-Resident Holder**"). In addition, this discussion does not apply to an insurer who carries on an insurance business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act).

Taxation of Interest on Debentures

A Non-Resident Holder will not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Company as, on account or in lieu of payment of, or in satisfaction of, interest or principal on the Debentures.

Exercise of Conversion Privilege

The conversion of a Debenture into Common Shares only on the exercise of a conversion privilege by a Non-Resident Holder will generally be deemed not to constitute a disposition of the Debenture and, accordingly, a Non-Resident Holder will not realize a gain or a loss on such conversion.

Disposition of Debentures and Common Shares

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition of a Debenture (including as a result of a redemption, payment on maturity or purchase for cancellation) or a Common Share, as the case may be, unless the Debenture or Common Share constitutes "taxable Canadian property" (as defined in the Tax Act) of the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention.

As long as the Common Shares are then listed on a designated stock exchange (which currently includes the TSX), the Debentures and the Common Shares generally will not constitute taxable Canadian property of a Non-Resident Holder unless at any time during the 60-month period immediately preceding the disposition of the Debenture or Common Share, as the case may be: (i) the Non-Resident Holder, persons not dealing at arm's length with such Non-Resident Holder or the Non-Resident Holder together with all such persons, owned 25% or more of the issued shares of any class or series of shares of the capital stock of the Company; and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly, from one or any combination of real or immovable property situated in Canada, Canadian resource property, timber resource property, or any option in respect of, or interests in, such properties.

Receipt of Dividends on Common Shares

Where a Non-Resident Shareholder receives or is deemed to receive a dividend on Common Shares, the amount of such dividend will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax convention between Canada and the Non-Resident Holder's country of residence. Where the Non-Resident Holder is a resident of the United States who is entitled to benefits under the Canada-United States Income Tax Convention (1980) and is the beneficial owner of the dividends, the rate of Canadian withholding tax applicable to dividends is generally reduced to 15%.

EARNINGS COVERAGE RATIOS

The following earnings coverage calculations are calculated on a consolidated basis for the twelve months ended December 31, 2010 and the twelve months ended September 30, 2011 and are derived from audited financial information in the case of the period ended December 31, 2010, and unaudited financial information in the case of the period ended September 30, 2011. The Company adopted IFRS commencing January 1, 2011. Prior to the

adoption of IFRS, the Company prepared its consolidated financial statements in accordance with Canadian GAAP. For the purposes of presenting the earnings coverages, all amounts appearing under this heading for the year ended December 31, 2010 are presented under Canadian GAAP and for the 12 months ended September 30, 2011 are presented under IFRS. The Company's interest requirements, after giving effect to the issue of the securities to be distributed under the short form prospectus, would have amounted to approximately \$2,915,000 and \$5,630,000 for the 12 months ended December 31, 2010 and September 30, 2011, respectively. The Company's net income (loss) before interest and income tax for the 12 months then ended would have been approximately \$41,203,000 and \$(13,975,000), respectively, resulting in earnings coverage ratios of approximately 14.13 and (2.48) for the respective periods.

The earnings coverage ratio for the 12 months ended September 30, 2011, after giving effect to the issuance of the Debentures, is less than one-to-one. The Company would have required a net income (before interest and income taxes) of approximately \$5,630,000 for the 12 months ended September 30, 2011 in order to have achieved a ratio of one-to-one in such period.

	For the 12 months ended	
	December 31, 2010	September 30, 2011
	<i>(in thousands of \$, except ratios)</i>	
Interest	2,915	5,630
Denominator for Earnings Coverage Ratio	2,915	5,630
Net Income/(Loss)	34,753	(22,844)
Interest Expense ⁽¹⁾	373	2,920
Income Taxes /(Recoveries)	6,077	5,949
Numerator for Earnings Coverage Ratio	41,203	(13,975)
Earnings Coverage Ratio	14.13	(2.48)

Note:

(1) Net of interest income.

Under Canadian GAAP and IFRS, the Debentures are and will be classified as a liability with a portion allocated to equity related to the conversion feature and with the related interest expensed as incurred and financing charges amortized over the term of such Debentures. The entire amount of the annual carrying charges for the Debentures is reflected in interest expense and, accordingly, the coverage ratios described above would be unchanged had the entire amount of the Debentures been classified as a liability. The portion of the Debentures classified as equity will be accreted to interest expense over the term of such Debentures to increase the carrying value of the liability to the face value of the Debentures.

PRIOR SALES

The following table summarizes the issuances of Common Shares and securities convertible into Common Shares within the 12 months prior to the date of this short form prospectus:

Date	Price per Security (\$)	Number and Type of Securities	Reason for Issuance
December 16, 2010	43.49	3,508 Common Shares	Vesting of restricted share units
December 21, 2010	8.00	10,000 Common Shares	Exercise of options granted April 5, 2007
December 24, 2010	8.00	5,000 Common Shares	Exercise of options granted June 23, 2009
January 21, 2011	48.81	1,953 deferred share units ⁽¹⁾	Director fees
February 10, 2011	51.75	1,112,050 Common Shares	Public offering
February 28, 2011	20.00	350,000 Common Shares	Conversion of FTQ debenture
March 16, 2011	8.00	30,000 Common Shares	Exercise of options granted January 1, 2008
March 18, 2011	48.76	17,128 restricted share units ⁽¹⁾	Executive and employee bonus
March 18, 2011	48.76	13,245 Common Shares	Vesting of restricted share units

Date	Price per Security (\$)	Number and Type of Securities	Reason for Issuance
March 18, 2011	48.76	3,723 Common Shares	Vesting of restricted share units
March 28, 2011	8.00	2,000 Common Shares	Exercise of options granted June 23, 2009
March 31, 2011	8.00	30,625 Common Shares	Exercise of options granted April 5, 2007
April 14, 2011	44.35	604 deferred share units ⁽¹⁾	Director fees
May 16, 2011	8.00	13,100 Common Shares	Exercise of options granted April 5, 2007
June 15, 2011	8.00	4,000 Common Shares	Exercise of options granted April 5, 2007 and May 2, 2007
June 21, 2011	8.00	525 Common Shares	Exercise of options granted May 2, 2007
July 15, 2011	37.47	684 deferred share units ⁽¹⁾	Director fees
August 29, 2011	25.61	49,030 Common Shares	Vesting of restricted share units
October 17, 2011	40.27	609 deferred share units ⁽¹⁾	Director fees
October 25, 2011	8.00	6,100 Common Shares	Exercise of options granted April 5, 2007
November 2, 2011	8.00	2,100 Common Shares	Exercise of options granted April 5, 2007 and November 1, 2007

Note:

- (1) Issued under the Company's 2009 Long Term Incentive Plan (the "LTIP") and representing a right to receive one Common Share upon satisfaction of the vesting and other conditions set forth in the LTIP.

TRADING PRICE AND VOLUME

The Common Shares of the Company are listed and posted for trading on the TSX under the symbol "FTP". The following table sets forth, for the periods indicated, the reported high and low sales prices and aggregate volume of trading of the Common Shares of the Company on the TSX:

Period	High (\$)	Low (\$)	Volume
2010			
December	48.94	41.01	550,430
2011			
January	57.86	42.00	867,339
February	63.15	53.00	1,378,676
March	56.40	42.60	1,782,523
April	48.55	40.56	1,801,964
May	43.10	35.25	1,202,812
June	37.22	28.25	1,317,200
July	38.50	30.51	1,176,756
August	31.51	24.00	1,098,241
September	35.00	27.64	1,008,644
October	45.23	28.27	1,434,174
November	38.25	29.00	702,537
December ¹	32.67	24.84	668,312

¹The monthly price range and trading volume presented is for the period from December 1, 2011 to December 9, 2011.

RISK FACTORS

An investment in the Debentures and the underlying Common Shares is subject to a number of risks. A prospective purchaser of the Debentures and the underlying Common Shares should carefully consider the information and risks faced by the Company described in this short form prospectus and the documents incorporated herein by reference, including without limitation the risk factors set out under the heading "Risk Factors" in the Annual Information Form.

Risks Related to the Offering

Market for Securities

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under the short form prospectus, which may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation. No assurance can be given that an active or liquid trading market for the Debentures will

develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including the liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Company's financial condition, historic financial performance and future prospects. Further, the holders of the Common Shares may suffer dilution if the Company decides to redeem outstanding Debentures for Common Shares or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Common Shares.

Existing and Prior Ranking Indebtedness

The Debentures will be subordinate to Senior Indebtedness of the Company and to any indebtedness of trade creditors of Fortress. The Debentures will also be effectively subordinated to claims of creditors of the Company's subsidiaries, except to the extent that the Company is a creditor of such subsidiaries ranking at least *pari passu* with such creditors. In the event of the Company's insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up, its assets would be made available to satisfy the obligations of the creditors of such Senior Indebtedness before being available to pay the Company's obligations to the holders of the Debentures. Accordingly, all or a substantial portion of the Company's assets could be unavailable to satisfy the claims of the holders of the Debentures.

Repayment of the Debentures

The Company may not be able to refinance the principal amount of the Debentures in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. The Company may, at its option, on not more than 60 days' and not less than 40 days' prior notice and subject to any required regulatory approvals, unless an Event of Default has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering Common Shares to the holders of the Debentures. There is no guarantee that the Company will be able to repay the outstanding principal amount in cash upon maturity of the Debentures.

Redemption on a Change of Control

The Company may be required by Debenture holders to offer to purchase for cash all outstanding Debentures upon the occurrence of a Change of Control. However, it is possible that following a Change of Control, the Company will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness will restrict those purchases. In addition, the Company's ability to purchase the Debentures in such an event may be limited by law by the terms of other present or future agreements relating to indebtedness and agreements that the Company may enter into in the future which may replace, supplement or amend the Company's future debt. The Company's future credit agreements or other agreements may contain provisions that could prohibit the purchase of the Debentures by the Company. The Company's failure to purchase the Debentures would constitute an Event of Default under the Indenture, which might constitute a default under the terms of the Company's other indebtedness at that time.

Absence of Covenant Protection

The Indenture will not restrict the Company or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. The Indenture will not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Company or any of its subsidiaries.

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Company, on or after December 31, 2014 and prior to the Maturity Date at any time and from time to time, at the redemption prices set forth in this short form prospectus, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option will be exercised if the Company is able to refinance at a lower interest rate or it is otherwise in the interest of the Company to redeem the Debentures. Fortress may determine to redeem outstanding Debentures for Common Shares

or repay outstanding principal amounts of the Debentures at maturity by issuing additional Common Shares. Accordingly, holders of Common Shares may suffer dilution.

Credit Risk

The likelihood that purchasers of the Debentures will receive payments owing to them under the terms of the Debentures will depend on the Company's financial health and creditworthiness at the time of such payments.

Tax Laws

The Indenture will not contain a requirement that the Company increase the amount of interest or other payments to holders of Debentures in the event that the Company is required to withhold amounts in respect of income or similar taxes on payment of interest or other amounts on the Debentures. At present, no amount is required to be withheld from such payments to holders of Debentures under the circumstances discussed under the heading "*Certain Canadian Federal Income Tax Considerations*", but no assurance can be given that, in the future, applicable income tax laws or treaties will not be changed in a manner that may require the Company to withhold amounts in respect of tax payable on such amounts.

Investment Eligibility

The Company will endeavour to ensure that the Debentures and the Common Shares issuable upon the conversion, redemption or maturity of the Debentures continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans (except, in the case of Debentures, a deferred profit sharing plan to which the Company, or an employer that does not deal at arm's length with the Company, has made a contribution), registered education savings plans, registered disability savings plans and tax free savings accounts. No assurance can be given in this regard. The Tax Act (as defined herein) imposes penalties for the acquisition or holding of non-qualified investments.

Use of Net Proceeds

Fortress currently intends to allocate the net proceeds to be received from this Offering as described under the heading "*Use of Proceeds*". However, management of Fortress will have discretion in the actual application of the net proceeds, and may elect to allocate net proceeds differently from that described under the heading "*Use of Proceeds*" if it believes it would be in Fortress' best interest to do so. Fortress' securityholders, including holders of the Debentures, may not agree with the manner in which management chooses to allocate and spend the net proceeds. The failure by management to apply these funds effectively could have a material adverse effect on Fortress' business.

Risks Related to the Company

Dissolving Pulp Markets

The pulp and dissolving pulp business is highly cyclical in nature and may result in periods of supply and demand imbalance, which in turn affects product prices. Pulp and dissolving pulp markets are highly competitive and are sensitive to cyclical changes in the global economy, industry capacity and foreign exchange rates, 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.

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. Oversupply of the Company's products can also result from producers introducing new capacity in response to favorable pricing trends.

Although the Company has entered into long term purchase and sale contracts with customers representing approximately 78% of the Company's anticipated dissolving pulp production, the prices agreed to under such

contracts are currently significantly above prevailing dissolving pulp market prices. The Company may be restricted in its ability to realize these contracted prices in the event of a dispute with contract counterparties.

Additional Funding Requirements

Despite the net proceeds of the Offering expected to be received by the Company, the Company may need additional financing in connection with the implementation of its business and strategic plans from time to time. However, there can be no assurance that the Company will be able to obtain the necessary financing in a timely manner or on acceptable terms, if at all. The implementation of the Company's business and strategic plans from time to time will require a substantial amount of capital and the amounts available to the Company without seeking additional debt or equity financing may not be sufficient to fund such business and strategic plans. The Company may accordingly have further capital requirements to take advantage of further opportunities or acquisitions.

Fortress Specialty Cellulose Mill Conversion

Although dissolving pulp production at the Fortress Specialty Cellulose Mill has commenced, there may be unanticipated delays or costs arising as production volumes increase to expected capacity, and the Fortress Specialty Cellulose Mill could experience operating difficulties or delays during this period, including difficulties or delays in the generation of electricity at the co-generation facility, once completed. The Fortress Specialty Cellulose Mill may not achieve the Company's planned production level, quality or cost projections in respect of the dissolving pulp operation, or the power generation or the level required under the Energy Supply Agreement. Cost overruns, equipment breakdowns, damage during shipment of equipment or failures to perform to design specifications, delays in the generation and sales of surplus energy, including contracted amounts, could have a material adverse effect on the Fortress Specialty Cellulose Mill's results of operations and financial performance.

Global Economic Downturn

In the event of a continued general economic downturn or a recession, there can be no assurance that the business, financial condition and results of operations of the Company would not be materially adversely affected. Current global financial conditions have been subject to increased volatility and numerous commercial and financial enterprises have either gone into bankruptcy or creditor protection or have had to be rescued by governmental authorities. Access to public financing has been negatively impacted by sub-prime mortgage defaults in the United States, the liquidity crisis affecting the asset-backed commercial paper and collateralized debt obligation markets, massive investment losses by banks with resultant recapitalization efforts and a deterioration in the global economy. Although economic conditions showed improvement towards the latter portion of 2009 and in 2010, the recovery from the recession since then has been slow in various jurisdictions including in Europe and the United States and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and which have resulted in high volatility in currencies and global debt and stock markets.

These factors may impact the Company's ability to obtain equity, debt or bank financing on terms commercially reasonable to the Company, or at all. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. If these increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Company's securities could continue to be adversely affected.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, at their offices located at 700-250 Howe Street, Vancouver, British Columbia.

Computershare Trust Company of Canada is the Company's registrar and transfer agent at its principal offices located at 2nd Floor, 510 Burrard Street, Vancouver, British Columbia.

INTERESTS OF EXPERTS

Certain legal matters relating to the Offering will be passed upon by Sangra Moller LLP, counsel to the Company, and Lawson Lundell LLP, counsel to the Underwriters. As at the date hereof, the partners and associates of each of Sangra Moller LLP and Lawson Lundell LLP, as a group, each owned, directly or indirectly, less than 1% of the outstanding Common Shares. In addition, none of the aforementioned persons is or is expected to be elected, appointed or employed as a director, officer or employee of the Company or of any associate or affiliate of the Company.

PricewaterhouseCoopers LLP have advised that they are independent of the Company in accordance with the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia, Canada.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain of the Provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the Provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if this short form prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's Province. You should refer to any applicable provisions of the securities legislation of your Province for the particulars of these rights or consult with a legal advisor.

AUDITORS' CONSENT

We have read the short form prospectus dated ●, 2011 relating to the issue and sale of \$35,000,000 aggregate principal amount of 6.50% convertible unsecured subordinated debentures of Fortress Paper Ltd. (the "**Company**"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2010 and 2009 and the consolidated statements of operations, comprehensive income, retained earnings (deficit) and cash flows for the years then ended. Our report is dated March 14, 2011.

Vancouver, B.C., Canada
●, 2011

● LLP
Chartered Accountants

CERTIFICATE OF THE COMPANY

December 12, 2011

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation in each of the Provinces of Canada.

/s/ Chadwick Wasilenkoff

Chadwick Wasilenkoff
Chief Executive Officer

/s/ Kurt Loewen

Kurt Loewen
Chief Financial Officer

On behalf of the Board of Directors
of the Company

/s/ Richard O'C. Whittall

Richard O'C. Whittall
Director

/s/ Pierre Monahan

Pierre Monahan
Director

CERTIFICATE OF THE UNDERWRITERS

December 12, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the Provinces of Canada.

RAYMOND JAMES LTD.

By: /s/ Ian G. MacKay
Ian G. MacKay

CANACCORD GENUITY CORP.

DUNDEE SECURITIES LTD.

**RBC DOMINION
SECURITIES INC.**

By: /s/ David Rentz
David Rentz

By: /s/ Aaron Unger
Aaron Unger

By: /s/ Riadh Zine
Riadh Zine

SCOTIA CAPITAL INC.

TD SECURITIES INC.

By: /s/ Andrew McLenan
Andrew McLenan

By: /s/ Edward J. McGurk
Edward J. McGurk

CORMARK SECURITIES INC.

By: /s/ Jeff Kennedy
Jeff Kennedy

**ACUMEN CAPITAL
FINANCE PARTNERS LIMITED**

By: /s/ Kelly Hughes
Kelly Hughes

