FORTRESS PAPER LTD

MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2013

FTP LISTED TORONTO STOCK EXCHANGE TSX

FORTRESS PAPER LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Fortress Paper Ltd. ("we", "our", "us", "Fortress" or the "Company") has been prepared based on information available as at March 7, 2014. The MD&A should be read in conjunction with the audited condensed consolidated financial statements and the notes thereto for the year ended December 31, 2013 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Company's performance during the quarter ended December 31, 2013 relative to the previous quarter and prior year comparative quarter and the year ended December 31, 2013 relative to the year ended December 31, 2012. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which as of January 1, 2011 is the required reporting framework for Canadian publicly accountable enterprises.

This MD&A contains certain forward-looking information that reflects the current views and/or expectations of the Company with respect to its expectations, beliefs, assumptions, estimates and forecasts about its business and the industries and markets in which it operates. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: growth and future prospects of our business; market conditions for dissolving pulp and our other products; expectations surrounding and resulting from the final determination in MOFCOM's (as defined below) anti-dumping investigation; benefits that may accrue to the Company as a result of certain acquisitions, dispositions, capital expenditure programs, equipment upgrades and maintenance shut-downs; expected returns on certain business segments; availability of funds for debt allocation; the expected benefits to be derived from implementing a swing mill strategy at the Fortress Specialty Cellulose mill; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; the submission of a tender for a new power supply agreement; the securement of new purchase orders; the anticipated benefits, cost, timing and completion dates for projects; and Fortress' intentions in respect of its normal course issuer bid.

Assumptions underlying the Company's expectations regarding forward-looking information contained in this MD&A include, among others: that the Company will be able to effectively market its products; the ability of the Company to realize significant cost-savings from production improvements, cost reduction initiatives and the cogeneration facility at the Fortress Specialty Cellulose mill; that current depressed dissolving pulp prices are indicative of unusual market conditions and are not sustainable in the long term; that the interim duty imposed by MOFCOM (as defined below), if unchanged, may result in the supply of dissolving pulp decreasing significantly with a corresponding price increase in the short to medium term; that the swing mill strategy at the Fortress Specialty Cellulose mill will assist in mitigating the adverse impacts resulting from the imposition of the dumping tariff on dissolving pulp exports into China; that the adverse impact of any dumping tariff will be limited to the short-term; that the Company will be able to successfully implement measures that will mitigate the impact of the interim duty on dissolving pulp on its business, both in the short term and if the duty remains unchanged; that the Landqart mill will continue operating on a consistent and regular basis in order to produce and deliver on its banknote orders; that the Landqart mill will secure new orders; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; that the Company will be able to enter into enforceable supply agreements for dissolving pulp on favourable terms and diversify its customer base; the ability of the Company to obtain financing (if necessary) on acceptable terms; that interest and foreign exchange rates will not vary materially from current levels; and that our equipment will operate at expected levels.

Persons reading this MD&A are cautioned that statements comprising forward-looking information are only predictions, and that the Company's actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other factors; fluctuations in the market price for products sold; trade restrictions or import duties imposed by foreign governments, including the imposition of a final anti-dumping tariff on dissolving pulp exports into China; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials; foreign exchange fluctuations; availability of financing (as necessary); dependence on major customers; and other risk factors detailed in this MD&A under "Risks and Uncertainties" and our filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities law.

Throughout this discussion, reference is also made to EBITDA (defined as net income before interest, income taxes, depreciation, amortization, non-operating income and expenses and stock-based compensation), which the Company considers to be an indicative measure of operating performance and a metric to evaluate profitability. Reference is also made to adjusted net (loss) income (calculated as net (loss) income less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the tables titled "Net Income (Loss) to Adjusted Net Loss Reconciliation") and adjusted net income (loss) per share (calculated as adjusted net income (loss) divided by the weighted average number of shares outstanding in the period). EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Company's EBITDA, adjusted net income (loss) and adjusted net income (loss) per share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and adjusted net income (loss) to net income (loss) reported in accordance with IFRS are included in this MD&A.

All references in this MD&A to "dollars" or "$" are to Canadian dollars, "€" are to the Euro currency unit, "CHF" are to Swiss francs and "US$" are to United States dollars.

Market and industry data contained in this MD&A is based upon information, surveys or studies conducted by independent third parties and independent industry or general publications and the Company's knowledge of, and experience in, the markets in which it operates. The Company has no reason to believe that such information is false or misleading in any material respect, however market and industry data is subject to variation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. This information has not been independently verified by the Company, any of its respective directors, officers or representatives or any other person involved in the preparation of the MD&A and no representation is given as to the accuracy of any of the data referred to in this MD&A obtained from third party sources.

Description of Business

The Company was incorporated on May 30, 2006 under the laws of the Province of British Columbia. During the year ended December 31, 2013, the Company operated internationally in three distinct business segments: the Dissolving Pulp Segment, the Security Paper Products Segment, and the Specialty Papers Segment. The Specialty Papers Segment was sold on April 30, 2013 leaving two remaining business segments. Accordingly, references in this MD&A to "discontinued operations" refer to the Specialty Papers Segment.

The Company operates its dissolving pulp business through the Fortress Specialty Cellulose ("FSC") mill located in Thurso, Québec, Canada. The mill expanded into the renewable energy generation sector in October 2013 and into the production of NBHK pulp. The Company is also evaluating expanding its dissolving pulp capacity by converting the Fortress Global Cellulose ("FGC") mill located at Lebel-sur-Quévillon, Québec into a dissolving pulp mill and re-starting the cogeneration facility. The Company operates its security paper products business through the Landqart mill located in Switzerland, where it produces banknote, passport, visa and other brand protection and security papers, and at its high security production and research facility located in Canada, where it manufactures optically variable thin film material. The segmentation of the Company's manufacturing operations is based on a number of factors, including production, production processes, and economic characteristics. Fortress' business segments were re-classified in 2012 given changes in the nature of products being produced.

The Company previously operated its specialty papers business through the Dresden mill located in Germany, where it was a leading international producer of specialty non-woven wallpaper base products. On April 30, 2013, the Company completed the sale of the Dresden mill and no longer operates in the specialty papers industry.

Overall Performance

Fortress reported adjusted net loss from continuing operations of $21.2 million, or diluted loss per share of $1.46 for the fourth quarter of 2013 on sales of $37.2 million. In the third quarter of 2013, the Company reported adjusted net loss from continuing operations of $15.6 million or diluted loss per share of $1.07 on sales of $53.2 million, and for the fourth quarter of 2012, adjusted net loss from continuing operations of $11.2 million or diluted loss per share of $0.77 on sales of $58.7 million.

Fortress reported net loss from continuing operations of $54.7 million, or diluted loss per share of $3.76 for the fourth quarter of 2013. Included in net loss was an impairment of property plant and equipment of $32.9 million relating to the assets of FGC. See "Management's Outlook – Dissolving Pulp Segment" for a further discussion on this impairment. In the third quarter of 2013, the Company reported net loss from continuing operations of $13.4 million or diluted loss per share of $0.92, and for the fourth quarter of 2012, net loss from continuing operations of $9.9 million or diluted loss per share of $0.68.

Net loss for the fourth quarter of 2013 was unaffected by including discontinued operations. In the third quarter of 2013, the Company reported net loss including discontinued operations of $12.4 million or diluted loss per share of $0.85. In the fourth quarter of 2012, the Company reported a net loss of $4.2 million or diluted loss per share of $0.29, including discontinued operations.

EBITDA loss from continuing operations of the Company was $9.4 million for the three months ended December 31, 2013. For the three months ended September 30, 2013, EBITDA loss was $7.3 million and for the three months ended December 31, 2012, EBITDA loss was $9.1 million.

Excluding corporate costs, combined EBITDA loss was $8.1 million in the three months ended December 31, 2013. The Dissolving Pulp Segment generated EBITDA loss of $10.8 million and the Security Paper Products Segment generated EBITDA of $2.7 million. Corporate costs contributed $1.3 million to EBITDA loss.

Early in the fourth quarter of 2013, the FSC mill reached a significant milestone for the reduction of the overall cost structure at the mill when the cogeneration facility project was successfully completed and delivering power to the Hydro Québec grid at the contracted commercial rate. Also, the FSC mill realized its swing mill capabilities producing 12,889 air dried metric tonnes (ADMT) of northern bleached hardwood kraft (NBHK) pulp early in the quarter. The FSC mill sold 6,758 ADMT of NBHK pulp inventory in the fourth quarter of 2013 and 6,950 ADMT of NBHK pulp inventory subsequent to December 31, 2013. Despite these developments, the results for the Dissolving Pulp Segment reflect a combination of the following:

- A seven day planned maintenance shut-down in October.
- A 13% interim duty imposed by China's Ministry of Commerce ("MOFCOM") on the import of dissolving pulp into China from the FSC mill and possibly a 50.9% interim duty on the import of dissolving pulp into China from future output from the FGC mill if it were to be converted to be able to produce dissolving pulp (see "Significant Developments – China Anti-Dumping Investigation").
- A five day shut-down in early December as a result of a digester issue, which has since been resolved.
- A decision to take market downtime in mid-December for approximately 10 weeks as a result of market pricing for NBHK being insufficient for sustained production.
- A build-up of dissolving pulp inventories and consequent $3.7 million write-down to fair market value.
- A $32.9 million impairment of FGC mill assets as a result of the MOFCOM interim duty imposed on the import of future dissolving pulp into China.

The Security Paper Products Segment has experienced a fourth consecutive quarter with sales, volumes and revenues significantly higher relative to any comparative period in 2012 and 2011. The Landqart mill continues to implement new initiatives to improve efficiencies and profitability. EBITDA for the Security Paper Products Segment for the quarter ended December 31 2013 was $1.1 million higher when compared to the fourth quarter of 2012, and $6.2 million higher compared to the previous quarter. However, less than favourable conditions, including the strength of the Swiss franc against the Euro, overcapacity in the banknote paper industry and increased competition for orders, continue to adversely impact the results of the Security Paper Products Segment.

Management's Outlook

Dissolving Pulp Segment

The Dissolving Pulp Segment experienced a perfect storm in the fourth quarter of 2013. The preliminary anti-dumping duty was announced on November 6, 2013 by MOFCOM for Canadian, American and Brazilian companies. The interim duty presented a significant challenge in the Company's negotiations with customers based in China leading to a material decrease in sales and sales commitments. See "Significant Developments – China Anti-Dumping Investigation" for a further discussion relating to the MOFCOM investigation. In addition, a pipe failure and deficiencies in pipe fittings in the digester area resulted in substantial production downtime.

The volatility and uncertainties in the short term dissolving pulp market resulting from the imposition of the interim MOFCOM duty, together with unfavourable market pricing for NBHK pulp, led to the decision to take market downtime at the FSC mill. The market downtime of 10 weeks has been used to further implement operational improvements that management believes will decrease the overall cost structure, as well as proactively focus on preventative procedures to enhance the FSC mill reliability.

The FSC mill initiated restart procedures early in March 2014, producing NBHK pulp. Management will continue to make strategic decisions on whether to produce NBHK or dissolving pulp based on market conditions and demand.

The dissolving pulp market remained challenging during the fourth quarter of 2013 due to continued excess supply. The average market price of dissolving pulp in China, as reported by China Chemical Fibers and Textiles Consultancy Group (CCF), a leading professional analysis company relied upon in the dissolving pulp industry, was approximately US$887 per ADMT during the fourth quarter. Management believes that currently low dissolving pulp prices are indicative of unusual market conditions and uncertainty relating to the final determination and impact of the MOFCOM investigation and are not sustainable in the long term.

With new viscose capacity starting in China and overall increased demand for dissolving pulp, as well as the potential decline in supply in 2014 if the interim duties imposed by MOFCOM are not materially changed, market conditions should start to improve gradually in 2014.

The FSC mill's operating efficiency during the fourth quarter of 2013 was negatively impacted by the planned major shut in October, the digester issue experienced in December and the market downtime that was initiated in late December. Following the market downtime, the Company expects to realize improved production efficiency and improvement from cost reduction initiatives. The FSC mill is also in the process of submitting a bid to Hydro Québec for a power supply agreement for an additional 5.2MW of power to be produced at the cogeneration facility, which should result in significant incremental cost savings per year. However, there is no assurance that the bid will be successful or that an agreement with Hydro Québec will be completed. The Company is also evaluating different options to convert the lime kiln from oil to natural gas which would provide additional annual cost savings.

Finished goods inventory levels at the end of the year were 36,085 ADMT of pulp, which included 8,520 ADMT of NBHK pulp. Subsequent to the 2013 year end, the Dissolving Pulp Segment sold 3,000 ADMT of dissolving pulp backed by letters of credit. In addition, 6,950 ADMT of NBHK pulp inventory was sold subsequent to December 31, 2013.

The Company is evaluating the impact of the MOFCOM decision on the FGC mill project in Lebel-sur-Quevillon, Quebec. The Company is also continuing the process of exploring strategic options for the FGC mill project to mitigate the financial risk, including alternative financing structures, joint ventures and partnership opportunities. The Company will be comparing the FGC mill investment opportunity to other strategic options for shareholder value creation. The upcoming MOFCOM final duty which is expected on April 6, 2014 will have a material impact on these decisions. For accounting purposes, the net book value of the FGC assets were impaired to nil in the fourth quarter of 2013 as a result of the MOFCOM interim duty and its uncertainty relating to its final determination. Due to changing economics and market conditions, there is no assurance that definitive investment arrangements will be concluded or that the FGC mill project will proceed to completion as previously planned.

Security Paper Products Segment

The Landqart mill currently has a strong order book consisting of a mix of new and repeat orders. In addition, the outlook on further opportunities for orders continues to be positive despite an ongoing competitive market for banknote tenders. Key performance indicators such as waste rates and other efficiencies have improved throughout 2013 with more anticipated improvements in 2014. The Landqart mill achieved over 8,000 tonnes of security paper sales, which is significantly higher than each of the previous two years when approximately 4,600 tonnes of security paper sales were achieved. EBITDA increased by $25.2 million in the Security Paper Products Segment from a $22.5 million EBITDA loss in 2012 to EBITDA of $2.7 million in 2013. Based on the current order book, it is expected that 2014 volumes will be comparable to 2013 however, product mix will vary.

Significant Developments

Sale of the Dresden Mill

On April 30, 2013, the Company sold all of the shares of its wholly owned subsidiary, Dresden Papier GmbH ("Dresden"), which represented the entire Specialty Papers Segment of the Company, for an aggregate purchase price of €160 million (approximately $213 million) subject to working capital and other adjustments, to Glatfelter Gernsbach GmbH & Co. KG, a subsidiary of P.H. Glatfelter Co. The transaction excluded cash and long-term debt associated with Dresden. Concurrent with the sale, the associated long term debt was repaid and the factored accounts receivable of Dresden were repurchased. An early prepayment penalty of $1.2 million was recorded on the retirement of Dresden long term debt.

Based on the book values of the net assets disposed of, the related sales proceeds, and the effect of foreign exchange, the gain on the sale of Dresden was $154.3 million, as summarized below. Adjustments to the purchase price in respect of income tax liabilities for periods prior to the closing date are still being finalized and are currently based on management's best estimate, which could be subject to change in the future.

(thousands of dollars, audited)	April 30, 2013
Book value of net assets disposed of:	
Restricted cash	531
Accounts receivable	26,832
Inventories	12,992
Prepaid expenses	210
Property, plant and equipment	31,553
Accounts payable and accrued liabilities	(16,723)
Income taxes payable	(3,932)
Deferred income tax liability	(373)
Net assets disposed of	51,090
Sale proceeds:	
Cash	212,240
Less: purchase price adjustments	(1,649)
Less: directly attributable costs	(2,416)
Total net proceeds	208,175

Profit on disposal before recycling of cumulative translation adjustment	157,085
Cumulative translation adjustment	(2,820)
Gain on disposal	154,265

With the sale of Dresden, the Company no longer operates in the specialty papers (wallpaper base) industry.

Normal Course Issuer Bid

The Company announced in August 2013 its intentions to commence a normal course issuer bid to acquire outstanding common shares, 6.5% convertible unsecured subordinated debentures, and 7.0% convertible unsecured subordinated debentures of the Company up to an aggregate maximum amount of $15 million. However, in light of the recent MOFCOM announcement and the uncertainties relating to the preliminary duty imposed, the Company has temporarily suspended its normal course issuer bid. No purchases have been made to date.

China Anti-Dumping Investigation

In February 2013, MOFCOM announced the commencement of an anti-dumping investigation on the importing of cellulose pulp originating from Canada, the United States and Brazil, after receiving a petition from certain manufacturers in China. The announcement included Fortress Specialty Cellulose Ltd. ("Fortress Specialty"), the owner and operator of the FSC mill, as one of the Canadian producers that is subject to the investigation. Fortress Specialty registered with MOFCOM the same month and submitted its responses to MOFCOM.

On November 6, 2013, the Company announced that MOFCOM made a preliminary determination to impose an interim duty on the import of dissolving pulp into China from each of the originating countries. The interim duty applied against Fortress Specialty's dissolving pulp imports has been calculated at 13% of the CIF price to China, and will be payable in cash bonds in respect of prospective imports during the period between MOFCOM's preliminary and final determination. The interim duty applied against the Company's imports is consistent with that applied against other Canadian dissolving pulp importers who were specifically named in the investigation. The interim duty applied to American dissolving pulp producers ranged from 18.7% to 21.7%, and was 6.7% for one Brazilian producer, which were named in the investigation. All other unnamed current or future Canadian, American and Brazilian dissolving pulp producers will be subject to an interim duty of 50.9%, 49.8% and 49.4%, respectively. It appears from the preliminary determination that the interim duty applicable to unnamed Canadian dissolving pulp producers would apply to dissolving pulp produced by the FGC mill to the extent such duty remains in effect at the time the FGC mill is producing dissolving pulp and exports it into China.

The Company believes that MOFCOM's preliminary decision may serve to materially harm the business of Chinese viscose staple fibre (VSF) producers and continues to believe, as previously submitted to MOFCOM, that the assessment of injury to China's dissolving pulp market and allegations of 'dumping' activities by Canadian producers are unsupported by the facts. Chinese VSF producers have petitioned to MOFCOM against the duty as being harmful to their businesses. Fortress Specialty has responded to MOFCOM's preliminary determination and the Company continues to evaluate its legal options to reverse the preliminary decision. MOFCOM's final determination is expected to be made by April 6, 2014. If MOFCOM calculates a final dumping margin lower than 13%, any excess cash bonds paid on shipments during the interim period will be refunded. If the final dumping margin is higher than 13%, any outstanding cash bonds will be fully applied towards the formal import duty on imports subsequent to the final determination, however no additional amount will be payable for imports during the interim period.

Upon the completion of the investigation and MOFCOM's final determination, an application may be made by the Canadian Government to the World Trade Organization (WTO) to review MOFCOM's determination. WTO cases typically have a duration of approximately two years, inclusive of appeal processes. Although Fortress believes that it has strong arguments against the imposition of a dumping duty, there is no assurance that it will be successful in reversing MOFCOM's preliminary determination or in securing the Canadian Government's support in commencing a WTO review. The Company has recorded an impairment in the carrying value of its FGC mill assets as a result of MOFCOM's investigation and, if the Company is not successful in materially reducing MOFCOM's preliminary determination, there may be further impact on the carrying value of the Company's remaining dissolving pulp assets.

As part of its strategy to mitigate the adverse effects of the dissolving pulp duty, the Company successfully completed testing on the ability to operate the FSC mill as a "swing mill". With minor modifications and no capital expenditure, the FSC mill is capable of swinging production from dissolving pulp to NBHK pulp. As a result of the flexibility from being a “swing mill”, the FSC mill will be able to lower its cost structure accordingly when redirecting production from dissolving pulp to NBHK pulp, which, relative to dissolving pulp, is simpler to produce and has a higher yield derived from the same fibre source. The FSC mill is capable of shifting production between different products to maximize margins in response to changing market conditions, and will achieve a capacity increase of approximately 25% when redirecting production from dissolving pulp to NBHK pulp.

The flexibility derived from the FSC swing mill strategy is expected to allow the Company to partly mitigate the adverse impacts resulting from the imposition of the dumping tariff on dissolving pulp exports into China. However, such expected advantages are subject to market pricing of NBHK pulp compared to dissolving pulp and whether such pricing is sufficient for sustained operations. See "Risks and Uncertainties". The Company anticipates that the adverse impact of any dumping tariff will be limited to the short-term as trade patterns realign to effectively nullify any duty, and expects that global dissolving pulp prices should normalize over the long-term. The redesign of the FSC mill allows the Company to focus production on the most profitable pulp markets in the interim. The Company is also in the process of expanding its dissolving pulp sales network outside of China in order to secure the best pricing for its dissolving pulp and further mitigate the impact of the duty imposed by MOFCOM.

Selected Quarterly Information

(thousands of dollars, except per share amounts, exchange rates and shares outstanding, unaudited)	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Sales from continuing operations	37,183	53,160	59,883	57,559
Net loss from continuing operations	(54,731)	(13,427)	(20,851)	(18,814)
Net (loss) income [(1)]	(54,731)	(12,436)	134,125	(12,373)
Basic net loss per share from continuing operations	(3.76)	(0.92)	($1.43)	($1.30)
Diluted net loss per share from continuing operations	(3.76)	(0.92)	($1.43)	($1.30)
Basic net (loss) income per share [(1)]	(3.76)	(0.85)	$9.23	($0.85)
Diluted net (loss) income per share[(1)]	(3.76)	(0.85)	$9.23	($0.85)
Weighted average shares outstanding - Basic (thousands)	14,574	14,561	14,536	14,502
Weighted average shares outstanding - Diluted (thousands)	14,574	14,561	14,536	14,502
Average Swiss/Canadian exchange rate[(2)]	1.1626	1.1147	1.0862	1.0837
Average Euro/Canadian exchange rate [(2)]	1.4291	1.3759	1.3367	1.3312
Average US dollar/Canadian exchange rate [(2)]	1.0494	1.0386	1.0231	1.0083

(1) Including discontinued operations

(2) Source – Bank of Canada (average noon rate for the period).

(thousands of dollars, except per share amounts, exchange rates and shares outstanding, unaudited)	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Sales from continuing operations	58,747	38,257	43,208	23,711
Net (loss) income from continuing operations	(9,914)	(24,051)	5,919	(14,291)
Net (loss) income [(1)]	(4,226)	(19,061)	12,289	(10,670)
Basic net (loss) income per share from continuing operations	($0.68)	($1.67)	$0.41	($1.00)
Diluted net (loss) income per share from continuing operations	($0.68)	($1.67)	$0.39	($1.00)
Basic net (loss) income per share[(1)]	($0.29)	($1.32)	$0.86	($0.75)
Diluted net (loss) income per share[(1)]	($0.29)	($1.32)	$0.82	($0.75)
Weighted average shares outstanding - Basic (thousands)	14,492	14,394	14,322	14,306
Weighted average shares outstanding - Diluted (thousands)	14,492	14,394	15,032	14,306
Average Swiss/Canadian exchange rate[(2)]	1.0645	1.0340	1.0784	1.0871
Average Euro/Canadian exchange rate [(2)]	1.2857	1.2445	1.2956	1.3129
Average US dollar/Canadian exchange rate [(2)]	0.9913	0.9953	1.0105	1.0011

(1) Including discontinued operations

(2) Source – Bank of Canada (average noon rate for the period).

Fluctuations in quarterly results reflect significant transactions and developments within the Company. The Dissolving Pulp Segment start-up continued through the first quarter of 2012 with all dissolving pulp revenue and costs for production from December 2011 through March 18, 2012 being capitalized in property, plant and equipment for accounting purposes. Throughout the remainder of 2012, production rates improved in the Dissolving Pulp Segment as the ramp up at the FSC mill continued, albeit at a slower pace than first anticipated and without operating at the intended fully ramped up rate or designed efficiency levels. In the third quarter of 2012, the FSC mill had its annual extended maintenance shutdown, as well as an unplanned outage due to a temporary recovery boiler issue which both contributed to lower shipments and production during the quarter. During the fourth quarter of 2012, the Dissolving Pulp Segment saw stable production with the highest volumes of dissolving pulp produced during any quarter up to that date. As such, sales were higher, but continued deterioration in dissolving pulp prices impacted earnings, which overshadowed improved production. The first quarter of 2013 was characterized by production challenges and the lowest realized dissolving pulp prices experienced to date at that time, which contributed to disappointing results from the Dissolving Pulp Segment. Operating results improved in the second quarter of 2013 compared to the prior quarter after the planned ten day maintenance shut-down. Net loss from continuing operations was negatively impacted by a large deferred income tax expense that was accounted for in the second quarter. The third quarter of 2013 was characterized by continued depressed dissolving pulp prices, trial runs of NBHK pulp, and higher inventory levels. Dissolving pulp sales activity was suspended entirely in the fourth quarter of 2013, as a result of the challenges caused by the announcement of the

MOFCOM interim duty. As a consequence of the duty, the FGC mill assets were impaired by $32.9 million in addition to a $3.7 million inventory write-down at the FSC mill. The FSC mill produced NBHK pulp for approximately one month in the fourth quarter.

Product mix, high raw material costs, pricing pressure, a strong Swiss currency, and less than optimal production efficiency at the Landqart mill contributed to a disappointing and difficult 2012 year for the Security Paper Products Segment, which materially impacted the Company's quarterly results throughout the year. Net income for the second quarter of 2012 was significantly impacted by the sale of the hydropower assets and associated real estate at the Landqart mill to a Swiss utility company for proceeds of CHF18 million. An increase in volume sold in 2013 has contributed to improving metrics, higher sales and better results for the Security Paper Products Segment. In addition, the results were impacted by the sale of non-core assets as follows: a realized gain of $1.9 million in the first quarter of 2013, a realized loss of $0.8 million in the second quarter of 2013, and a realized gain of $4.1 million in the third quarter of 2013. Included in the third and fourth quarters of 2013 net loss are a $0.7 million and a $1.3 million legal provision, respectively.

Included in the second quarter of 2013 results is the realized gain on the sale of the Specialty Papers Segment. A working capital adjustment of $1.0 million relating to the sale was recorded in the third quarter of 2013. Discontinued operations incorporate the results of this segment through to the completion of the sale on April 30, 2013.

Fourth Quarter 2013 Earnings Review

Three Months Ended December 31

Overview

Fortress reported an adjusted net loss from continuing operations of $21.2 million, or diluted loss per share of $1.46 for the fourth quarter of 2013 on sales of $37.2 million. In the third quarter of 2013, the Company reported an adjusted net loss of $15.6 million or diluted loss per share of $1.07 on sales of $53.2 million, and for the fourth quarter of 2012, an adjusted net loss of $11.2 million or diluted loss per share of $0.77 on sales of $58.7 million.

Cost of products sold from continuing operations was $38.0 million for the three months ended December 31, 2013, compared to $49.5 million for the three months ended September 30, 2013. In the fourth quarter of 2012, cost of products sold was $61.3 million.

Sales and cost of products sold in the fourth quarter were materially lower when compared to the previous quarter as a result of the difficulties encountered by the FSC mill from the preliminary duty imposed by MOFCOM.

Selling, general and administrative ("SG&A") expenses for continuing operations were $9.3 million for the fourth quarter of 2013, compared to $12.2 million for the third quarter of 2013. The prior year comparative period SG&A was $6.6 million. SG&A was significantly lower in the fourth quarter of 2013 compared to the third quarter of 2013, primarily as a result of decreased corporate activity and compensation expenses related to the successful sale of Dresden in the prior quarter. SG&A was significantly higher in the fourth quarter of 2013 compared to the prior year comparative period, primarily as a result of a legal provision in the Security Paper Products Segment and increased activity in the Dissolving Pulp Segment, including costs relating to the care and maintenance of the FGC mill and MOFCOM related fees.

Stock-based compensation expense was ($0.3) million during the fourth quarter, compared to $0.6 million in the third quarter of 2013. The prior year comparative period stock-based compensation was $0.6 million. The fourth quarter of 2013 was impacted by a reversal of stock based compensation expense relating to employee forfeitures during the quarter and a change in estimate for certain financial performance based compensation awards.

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	Q4 2013	Q3 2013	Q4 2012
Sales from continuing operations	37,183	53,160	58,747
EBITDA from continuing operations[1]	(9,367)	(7,290)	(9,109)
EBITDA[2] [3]	(9,367)	(7,290)	241
Net loss from continuing operations	(54,731)	(13,427)	(9,914)
Net loss [3]	(54,731)	(12,436)	(4,226)
Adjusted net loss from continuing operations [4]	(21,247)	(15,573)	(11,224)
Paper shipments (tonnes) [5]	2,097	1,856	1,688
Pulp shipments (ADMT)	6,758	31,258	46,909

(1) See Net Loss to EBITDA Reconciliation for Continuing Operations.
(2) See Net Loss to EBITDA Reconciliation including Discontinued Operations.
(3) Including discontinued operations.
(4) See Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations.
(5) From continuing operations.

Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations:

(thousands of dollars, except per share amounts, unaudited)	Q4 2013	Q3 2013	Q4 2012
Net loss	(54,731)	(13,427)	(9,914)
Foreign exchange loss (gain)	(123)	739	(1,310)
Gain on sale of property, plant and equipment	-	(4,135)	-
Impairment of property, plant and equipment	32,907	-	-
Legal provision	700	1,250	-
Adjusted net loss	(21,247)	(15,573)	(11,224)
Basic and diluted net loss per share	(3.76)	(0.92)	(0.68)
Adjusted net loss per share, basic and diluted	(1.46)	(1.07)	(0.77)

Net Loss to EBITDA Reconciliation for Continuing Operations:

(thousands of dollars, unaudited)	Q4 2013	Q3 2013	Q4 2012
Net loss	(54,731)	(13,427)	(9,914)
Income tax expense (recovery)	620	(611)	(5,780)
Foreign exchange (gain) loss	(123)	739	(1,310)
Net finance expense	4,698	4,021	3,049
Amortization	6,821	4,296	4,216
Gain on sale of property, plant and equipment	-	(4,135)	-
Impairment of property, plant and equipment	32,907	-	-
Legal provision	700	1,250	-
Stock based compensation	(259)	577	630
EBITDA	(9,367)	(7,290)	(9,109)

Net Loss to EBITDA Reconciliation Including Discontinued Operations:

(thousands of dollars, unaudited)	Q4 2013	Q3 2013	Q4 2012
Net loss	(54,731)	(12,436)	(4,226)
Income tax expense (recovery)	620	(611)	(3,376)
Foreign exchange (gain) loss	(123)	739	(1,294)
Net finance expense	4,698	4,021	3,391
Amortization	6,821	4,296	5,116
Gain on disposal of business	-	(991)	-
Gain on sale of property, plant and equipment	-	(4,135)	-
Impairment of property, plant and equipment	32,907	-	-
Legal provision	700	1,250	-
Stock based compensation	(259)	577	630
EBITDA	(9,367)	(7,290)	241

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	Q4 2013	Q3 2013	Q4 2012
Sales	7,182	23,227	35,764
Operating loss	(15,442)	(8,982)	(5,776)
NBHK Pulp Shipments (ADMT)	6,758	1,193	-
Dissolving Pulp Shipments (ADMT)	-	30,065	46,909

In October 2013, the FSC mill successfully completed the mandatory grid test for its cogeneration facility and was delivering power to the Hydro Québec grid at the contracted commercial rate. The Company expects to derive significant production cost savings as a result. During the quarter ended December 31, 2013, the Company recognized $3.0 million in sales revenue from the generation of power at the cogeneration facility.

In October 2013, the FSC mill completed successful testing on its ability to operate as a “swing mill”. The FSC mill is capable of shifting production between dissolving pulp and NBHK pulp to maximize margins in response to changing market conditions.

At December 31, 2013, the FSC mill held finished goods inventory consisting of 27,565 ADMT of dissolving pulp and 8,520 ADMT of NBHK pulp. At September 30, 2013, the mill held finished goods inventory consisting of 8,461 ADMT of dissolving pulp and 2,389 ADMT of NBHK pulp. The mill did not hold material amounts of dissolving pulp at the end of the prior year comparative period. Inventories increased from the third to fourth quarters of 2013 as a result of the MOFCOM interim duty and consequent uncertainty created in the marketplace, which led to sales and shipments in the fourth quarter of 2013 being significantly lower, compared to the prior comparative periods. Included in the operating loss of the fourth quarter of 2013 is an inventory fair market valuation allowance of $3.7 million. Subsequent to the year ended December 31, 2013, 6,950 ADMT of NBHK pulp and 3,000 ADMT of dissolving pulp inventory were sold.

In the fourth quarter of 2013, the FSC mill had its planned 7 day maintenance shut-down and an unplanned 5 day shut-down related to a digester issue. In mid-December, the Company announced that the FSC mill will take market downtime for approximately 10 weeks. These shut-downs negatively impacted operating results in the fourth quarter of 2013 by approximately $5.9 million.

Security Paper Products Segment

(thousands of dollars, except for shipments, unaudited)	Q4 2013	Q3 2013	Q4 2012
Sales	30,000	29,933	22,983
Operating loss	(173)	(1,569)	(6,932)
Shipments (tonnes)	2,097	1,856	1,688

Excluding legal provision accruals relating to operations from prior years of $0.7 million and $1.3 million in the fourth and third quarters of 2013, respectively, the adjusted operating income for the fourth quarter of 2013 was $0.5 million and adjusted operating loss for the third quarter of 2013 was $0.3 million. The improvement in the quarter is attributable to reduced waste rates and improved efficiencies. Compared to the fourth quarter of 2012, the fourth quarter of 2013 reflects higher sales volumes and a better product mix.

Security papers production includes banknotes which result in varying degrees of costs and margins depending on the complexity of the security features included. Despite the higher sales, less than favourable conditions in the prior year, such as the strength of the Swiss franc against the Euro, overcapacity in the banknote paper industry and increased competition for orders, continue to adversely impact results.

In the third quarter of 2013, non-core land sales resulted in proceeds of $5.4 million and a realized gain of $4.1 million. The gain was not included in EBITDA or operating loss.

Fortress Optical Features Ltd. ("Fortress Optical") generated sales of $0.2 million in the fourth quarter of 2013 and $0.7 million in the third quarter of 2013. In the fourth quarter of 2012, $0.1 million of sales revenue were generated. Fortress Optical began operations in 2011. Fortress Optical produces security material for security threads used in banknotes at the Fortress Optical Facility.

Discontinued Operations: Specialty Papers Segment

(thousands of dollars, except for shipments, unaudited)	Q4 2013	Q3 2013	Q4 2012
Sales	-	-	37,349
Operating income	-	-	8,448
Shipments (tonnes)	-	-	14,694

The Dresden mill results for the month of April are reflected in the second quarter 2013 results. The Dresden mill was sold on April 30, 2013.

Year Ended December 31

Selected Financial Information and Statistics for the Year Ended:

(thousands of dollars, except shipments, unaudited)	December 31, 2013	December 31, 2012	December 31, 2011
Sales from continuing operations	207,785	163,923	163,353
EBITDA from continuing operations[(1)]	(38,175)	(43,649)	(27,708)
EBITDA[(2) (3)]	(24,219)	(6,127)	3,300
Net loss from continuing operations	(107,823)	(42,337)	(37,168)
Net income (loss)[(3)]	54,585	(21,668)	(19,230)
Adjusted net loss from continuing operations [(4)]	(78,070)	(61,568)	(38,614)
Total assets	581,844	577,954	491,309
Long-term debt	213,558	248,140	137,949
Pulp shipments (ADMT)	115,111	148,831	174,383
Paper shipments (tonnes) [(5)]	8,085	4,658	4,567

(1) See Net Loss to EBITDA Reconciliation for Continuing Operations.
(2) See Net Income (Loss) to EBITDA Reconciliation including Discontinued Operations.
(3) Including discontinued operations.
(4) See Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations.
(5) From continuing operations.

Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations:

(thousands of dollars, except per share amounts, unaudited)	December 31, 2013	December 31, 2012	December 31, 2011
Net loss	(107,823)	(42,337)	(37,168)
Foreign exchange loss (gain)	138	66	(1,446)
Gain on sale of property, plant and equipment	(5,242)	(19,297)	-
Impairment of property, plant and equipment	32,907	-	-
Legal provision	1,950	-	-
Adjusted net loss	(78,070)	(61,568)	(38,614)
Basic and diluted net loss per share	(7.41)	(2.94)	(2.64)
Adjusted net loss per share, basic and diluted	(5.37)	(4.28)	(2.75)

Net Loss to EBITDA Reconciliation for Continuing Operations:

(thousands of dollars, unaudited)	**December 31, 2013**	**December 31, 2012**	**December 31, 2011**
Net loss	(107,823)	(42,337)	(37,168)
Income tax expense (recovery)	1,586	(13,439)	(4,163)
Foreign exchange loss (gain)	138	66	(1,446)
Net finance expense	16,672	10,827	1,918
Amortization	19,732	15,669	11,251
Impairment of property, plant and equipment	32,907	-	-
Gain on sale of property, plant and equipment	(5,242)	(19,297)	-
Dispute resolution accrual	-	1,346	-
Legal provision	1,950	-	-
Stock based compensation	1,905	3,516	1,900
EBITDA	(38,175)	(43,649)	(27,708)

Net Income (Loss) to EBITDA Reconciliation Including Discontinued Operations:

(thousands of dollars, unaudited)	**December 31, 2013**	**December 31, 2012**	**December 31, 2011**
Net income (loss)	54,585	(21,668)	(19,230)
Income tax expense (recovery)	5,104	(4,443)	3,939
Foreign exchange loss (gain)	162	144	(1,395)
Net finance expense	18,198	15,111	3,723
Amortization	20,477	19,164	14,363
Impairment of property, plant and equipment	32,907	-	-
(Gain) loss on sale of property, plant and equipment	(5,242)	(19,297)	-
Gain on disposal of business	(154,265)	-	-
Dispute resolution accrual	-	1,346	-
Legal provision	1,950	-	-
Stock based compensation	1,905	3,516	1,900
EBITDA	(24,219)	(6,127)	3,300

Overview

EBITDA loss for the Company from continuing operations was $38.2 million for the year ended December 31, 2013 on sales of $207.8 million, compared to $43.6 million for the year ended December 31, 2012 on sales of $163.9 million. The FSC mill experienced some challenges in the year including depressed dissolving pulp prices, operational issues, timing delays on the cogeneration facility and the MOFCOM investigation and imposition of an interim duty.

The Security Paper Products Segment generated EBITDA of $2.7 million for the year ended December 31, 2013 significantly improving results compared to the prior year EBITDA loss of $22.5 million. The Dissolving Pulp Segment generated an EBITDA loss of approximately $32.5 million in the year ended December 31, 2013 compared to $15.7 million EBITDA loss in the prior year comparative period. Corporate costs contributed to EBITDA loss in the amount of $8.4 million and $5.4 million for the year ended December 31, 2013 and 2012, respectively.

Adjusted net loss from continuing operations for the year ended December 31, 2013 was $78.1 million or $5.37 loss per share basic and diluted. Adjusted net loss from continuing operations for the prior comparative period was $61.6 million or $4.28 per share basic and diluted.

Cost of products sold from continuing operations was $206.7 million for the year ended December 31, 2013 compared to $179.7 million for the year ended December 31, 2012. In the prior year comparative period, cost of products sold as well as sales were impacted downward as a result of the capitalization of sales and cost of sales at the FSC mill for the period from January 1, 2012 through March 18, 2012. Both sales and cost of sales for the year ended December 31, 2013 increased as a result of the increased volume in the Security Paper Products Segment attributable in part to the reinstatement of a significant banknote order midway through the prior year comparative period.

SG&A was elevated compared to the prior comparative periods, primarily as a result of increased corporate activity, bonus compensation accruals related to the successful sale of the Dresden mill, costs incurred in relation to the MOFCOM investigation, a legal provision, and higher commissions in the Security Paper Products segment as a result of increased sales in the segment. SG&A was $41.2 million compared to $29.2 million in the periods ended December 31, 2013 and 2012, respectively.

Stock based compensation was $1.9 million for the year ended December 31, 2013 compared to $3.5 million in the previous comparative period. Stock based compensation was higher in the prior year comparative due to executive and management awards made under the Company's long term incentive plan.

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

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	December 31, 2013	December 31, 2012	December 31, 2011
Sales	88,637	106,857	110,481
Operating loss	(44,177)	(23,603)	(692)
Dissolving Pulp Shipments (ADMT)	106,764	148,831	-
NBHK Pulp Shipments (ADMT)	8,129	-	174,383

Results for the year ended December 31, 2013 at the FSC mill were impacted by delays in the start-up of the cogeneration facility due to faulty high pressure water pumps, production challenges related to the digester, evaporator, other operational and maintenance issues, two planned maintenance shut-downs and 10 days of market downtime. Compounding the impact on results were significantly lower realized sales prices for dissolving pulp relative to the prior comparative period due to weakening market prices of dissolving pulp in China and the interim duty imposed by MOFCOM. As a result of the interim duty and the negative impact on sales, the mill experienced higher levels of finished goods inventory on hand at the end of the quarter compared to prior periods. Included in the operating loss for the year ended December 31, 2013, is an inventory fair market valuation allowance of $4.9 million.

Results for the period ended December 31, 2012 reflected a continued ramp up period of dissolving pulp production. Commercial production for accounting purposes began on March 18, 2012, however, the equipment did not operate at its intended fully ramped up rate or at designed efficiency levels for the remainder of the year. Although the table above reflects shipments for the full period, sales and cost of sales were only included in operating results from March 18, 2012 onwards.

Security Paper Products Segment

(thousands of dollars, except for shipments, unaudited)	December 31, 2013	December 31, 2012	December 31, 2011
Sales	119,148	57,066	54,026
Operating loss	(7,256)	(31,626)	(30,855)
Shipments (tonnes)	8,085	4,658	4,567

The fiscal period ended December 31, 2013 shows a significant improvement compared to the prior year comparative period. Both volumes shipped and sales have increased materially resulting in longer production runs and, therefore, more efficient operations. Results for the year ended December 31, 2012 were adversely affected by a significant banknote order that was delayed and was only reinstated towards the end of June. Production on this order only began part way through July 2012, improving operating efficiency but at a slower rate than anticipated. The operating losses include a $2.0 million legal provision and a $1.3 million dispute resolution accrual in the twelve months ended December 30, 2013 and 2012, respectively.

Discontinued Operations: Specialty Papers Segment

(thousands of dollars, except for shipments, unaudited)	December 31, 2013	December 31, 2012	December 31, 2011
Sales	57,730	150,516	144,226
Operating income	13,211	34,026	28,353
Shipments (tonnes)	22,062	58,773	52,503

Results for the twelve month period ended December 31, 2013 reflect the Dresden mill results to its sale date of April 30, 2013.

Selected Cash Flow Items

	Year Ended December 31, 2013	Year Ended December 31, 2012
Cash used by operations before working capital changes	(28,415)	(14,788)
Non-cash working capital change	(25,785)	23,024
Cash (used) provided by operating activities	(54,200)	8,236
Cash (used) provided by financing activities	(68,033)	102,250
Additions to property, plant and equipment	(60,697)	(132,863)
Other	207,798	31,686
Cash generated (used) by investing activities	147,101	(101,177)
Change in cash position	24,868	9,309
Foreign exchange gain (loss) on cash and cash equivalents	5,529	(715)

Operating Activities

Fortress operates in a cyclical industry and its operating cash flows vary accordingly. Fortress' principal operating cash expenditures are for labour and raw materials. Operating activities used cash of $54.2 million and provided $8.2 million in the twelve months ended December 31, 2013 and 2012, respectively. Cash used by operating activities was impacted by increased inventory levels and lower sales as a result of the interim MOFCOM duty and lower operating activity at year end due to planned market downtime. Working capital is subject to cyclical operating needs, the timing of collection of receivables and the payment of payables and expenses.

Financing Activities

During the twelve months of 2013, financing activities used cash of $68.0 million. During the period, the Dresden mill entered into two credit facilities in the aggregate amount of €15 million (approximately $19.9 million) with Commerzbank AG. The new facilities were repaid, together with all other outstanding Dresden indebtedness (approximately $70.3 million), as a condition of and concurrently with the closing of the sale of the Dresden mill. In addition, $17.6 million in interest was paid on long term debt.

In the year ended December 31, 2012, financing activities generated $102.3 million. These included, among other things, a $25 million convertible debenture financing as part of the financing initiatives related to the FGC mill conversion project and a convertible unsecured subordinated debenture prospectus offering for gross proceeds of $69 million. Proceeds received from option exercises during the period were $0.6 million. Cash was generated by drawing on the final principal installments excluding holdbacks on the Company's loan agreement with Investissement Québec in respect of the FSC mill project. In March 2012, the Company entered into a new €25 million credit facility with Commerzbank to repay the balance of an existing loan agreement with GE Capital Bank AG. A penalty of $2.6 million was paid in connection with the early repayment of the GE indebtedness. Payments on indebtedness (apart from the GE repayment) and debt interest during the period used cash of $35.5 million and $13.6 million, respectively.

Investing Activities

Investing activities in the twelve months of 2013 and 2012 provided cash of $147.1 million and used cash of $101.2 million, respectively. In 2013, the sale of the Dresden mill resulted in cash proceeds of $212.2 million which were offset by $2.1 million of costs associated with the sale of the Dresden mill, $60.7 million in additions to property, plant and equipment primarily at the FSC mill and $11.5 million in restricted cash. Restricted cash relates to cash security provided primarily for banknote contracts in the Security Paper Products Segment. Non-core asset sales at the Landqart mill provided cash of $9.2 million in 2013.

Investing activities for the twelve months ended December 31, 2012 used cash of $101.2 million. The purchase of equipment and other capital expenditures at our mills used cash of $124.1 million. Other uses of cash relate to $8.8 million of capitalized start-up costs and $2.3 million of restricted cash. Cash used in investing activities for the year ended December 30, 2012 was positively impacted by the $19.4 million sale of non-core hydropower assets at Landqart as well as $14.5 million received from government tax credits at the FSC mill.

Foreign exchange gain (loss) on cash and cash equivalents reflects the translation of the Company's United States dollars, Swiss francs and Euro currency unit balances into Canadian dollars. The Canadian dollar has depreciated against all three currencies in the year ended December 31, 2013.

Liquidity and Capital Resources

As at December 31, 2013, the Company had cash and cash equivalents balance of $61.9 million and had made aggregate expenditures of approximately $243 million, including $0.6 million in accounts payable, on the conversion of FSC mill into a dissolving pulp mill and the construction of a new cogeneration facility. As of the date of this MD&A, both the conversion project and the cogeneration project at the FSC mill have been completed. The Company anticipates that approximately $15.5 million in project capital expenditures will be required through to the end of 2015 in order to achieve production efficiency targets and health, safety and environmental objectives.

Although there can be no assurances, Fortress believes that current cash, cash generated from operations, cashflow derived from sale of built-up inventory to normalized levels and proceeds from the divestiture of the Dresden mill and non-core assets, should be sufficient to meet its debt service, capital expenditure and short term working capital requirements. Fortress' future operating performance and its ability to finance capital expenditures, service its debt and pay other indebtedness will be subject to future economic conditions, the financial success of Fortress' business, the successful ability to swing production between dissolving pulp and NBHK pulp at the FSC mill to maximize margins in response to changing market conditions, combined with the cost benefits expected to be derived from the now operational cogeneration facility and other cost savings initiatives, and other factors, some of which are not within Fortress' control, including but not limited to changes in market prices for its products, raw materials costs, foreign currency exchange rates and the results of the MOFCOM investigation. In addition, Fortress may in the normal course of business advance the amount of duties owing on the importation of dissolving pulp into China pending MOFCOM's final determination. Such advances are to be reimbursed to Fortress in the event the duty is reduced or cancelled. Fortress may determine, in its sole discretion, that market or financial conditions may warrant that it seek additional sources of capital on terms satisfactory to Fortress, including, but not limited to additional debt or equity financing, in order to fund capital expenditures, provide additional working capital, enhance liquidity or for other general corporate purposes. See "Risks and Uncertainties".

The Company has entered into a separate project financing loan with IQ of up to $132.4 million to fund the FGC mill conversion project. The Company has not yet drawn any amounts under this loan agreement.

Principal repayments of debt outstanding as at December 31, 2013 are required as follows:

	($ 000's)
2014	14,572
2015	18,245
2016	58,013
2017	42,770
2018	17,734
Thereafter	95,727
	247,061

Under existing credit facilities, the Company has deferred $13.0 million in 2013 and $5.2 million in planned principal and interest payments on the IQ project financing loan to Fortress Specialty for the first calendar quarter of 2014, without penalty. The Company has also received non-refundable grants from IQ in the aggregate amount of approximately $0.6 million to cover certain costs and expenses relating to the care and maintenance of the FGC mill from July 2013 to and including November 2013. IQ has agreed to continue to provide such grants through to the end of June 2014.

Commitments

At December 31, 2013, the Company had aggregate indebtedness of $228 million and net working capital of $120.3 million.

As at December 31, 2013 the Company has:

- committed to purchase $1.5 million in property, plant, and equipment;
- performance bonds in the amounts of €9.0 million, US$0.2 million and CHF0.1 million; and
- committed to purchase steam from a supplier up to the end of 2015 for CHF0.9 million per year.

The Company's objectives when managing capital are to safeguard its assets and maintain a globally competitive cost structure while looking for growth opportunities to provide returns to its shareholders. In addition, the Company works with relevant stakeholders to ensure the safety of its operations and employees, and remain in compliance with applicable environmental regulations and enhance the communities in which it operates.

The Company monitors and assesses on an ongoing basis its financial performance in order to ensure that its net debt levels are prudent taking into account the anticipated direction of the business cycle. The Company continuously monitors the public and private debt markets and the public equity markets in order to ensure that its capital structure is appropriately balanced. The Company can be influenced materially by changes in the relative value of the Canadian dollar, Swiss Franc, United States dollar and Euro.

The Company's capital comprises net debt and shareholders' equity as follows:

(thousands of dollars, unaudited)	December 31, 2013	December 31, 2012
Cash and cash equivalents	61,888	31,491
Less total debt	228,130	255,901
Net debt	(166,242)	(224,410)
Shareholders' equity	302,278	229,669

The Company has certain financial covenants in its debt obligations stipulating maximum net debt to capitalization ratios and minimum current ratios. Debt obligations are owed by various entities within the organization with individual loan agreements specifying the entities within the group of companies that are to be included in the covenant calculations.

The Company ensures it remains in compliance with all of its existing debt covenants in order to facilitate future access to capital. Management reviews past results and forecasts to monitor their compliance. The Company was in compliance with all externally imposed capital requirements for the year ended December 31, 2013.

Outstanding Shares

The number of common shares outstanding at December 31, 2013 and the date of this report was 14,586,093. The number of options outstanding at December 31, 2013 and the date of this report was 650,725. At December 31, 2013 and the date of this report there were 220,606 and 267,998 restricted share units outstanding, respectively. At December 31, 2013 and the date of this report there were 160,212 and 177,900 deferred share units outstanding, respectively.

Related Party Transactions

Related party transactions consist of remuneration of directors and other key management personnel with whom we have entered into employment agreements. Further information is contained in our management information circulars in respect of our annual general meetings of shareholders, which are filed on SEDAR at www.sedar.com.

Contingencies

Provisions for liabilities relating to legal actions and claims require judgments using management's best estimates regarding projected outcomes and the range of loss, based on such factors as historical experiences and recommendations of legal counsel. Actual results may vary from estimates and the differences are recorded when known. A legal provision of $2.5 million was recorded in the year ended December 31, 2013 that related to sales from the prior year.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in Canada requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are used for, but not limited to, the accounting for doubtful accounts, amortization, asset recoverability, fair valuation of acquired assets, pensions and post-retirement obligations, provisions, stock compensation, income taxes and contingencies. Actual results could differ from these estimates.

Property, plant and equipment are stated at cost less accumulated amortization.

No amortization is charged on major improvements or expansions until the asset is ready for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Company. The carrying amount of the replaced part is derecognized. Maintenance, repairs and minor replacements are expensed as incurred. The carrying amount of a replaced asset is derecognized when it is replaced.

Property, plant and equipment are principally amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	10-50 years
Manufacturing equipment and machinery	5-20 years
Fixtures and other equipment	3-10 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and amortizes each such part separately. Residual values, methods of amortization and useful lives are reviewed at year end and adjusted if appropriate.

Impairment of long-lived assets

In accordance with the Company's accounting policy, each asset or cash generating unit is evaluated at each reporting date to determine whether there are any indicators of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount has been determined by the Company as the value in use.

The determination of value in use requires management to make estimates and assumptions about expected production and sales volumes, prices, operating costs, capital expenditures, and appropriate discount rates for future cash flows. The estimate and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of income.

On November 6, 2013, the Chinese Ministry of Commerce announced a preliminary determination to impose an interim duty on the import of dissolving pulp into China from Canada. Management of the Company determined that this constituted an impairment indicator and completed an impairment assessment of both mills in the Pulp operating segment.

An impairment assessment model for the Fortress Specialty Cellulose mill located in Thurso, Quebec included the following assumptions:

- Operating costs based on historical costs incurred and estimated forecasts
- Production volumes based on full production at industry normal utilization rates
- Efficiencies and production increases from future planned capital projects were not included
- Dissolving pulp pricing based on externally available pricing forecasts
- Discount rates reflecting the risks involved

Management's impairment evaluation did not result in the identification of an impairment loss at the Fortress Specialty Cellulose mill as at December 31, 2013.

The Company is continuing to evaluate options with respect to the Fortress Global Cellulose Mill located at Lebel-sur-Quévillon, Québec. The Company is waiting on the final determination of the duty to determine whether to continue with the conversion of this mill. As such, during the year ended December 31, 2013, the Company recognized an impairment loss of $32.9 million resulting in a $nil net book value of equipment at the Fortress Global Cellulose mill.

Employee Future Benefits

The Company maintains a defined contribution pension plan in Canada. The total cost recognized in 2013 for the Company's contribution to the plan was $1.3 million (2012: $1.3 million).

The Company maintains a defined benefit pension plan in Switzerland providing pension benefits based on either length of service or earnings and length of service. The Company measures its accrued benefit obligations and fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation for the plan was for December 31, 2013. Actuarial valuations include certain assumptions that directly affect the fair value of the assets and obligations and expenses recorded in the financial statements. Actual experience can vary materially from the estimates and impact the cost of the Company's pension and future cash flow requirements. These assumptions and estimates include:

	December 31, 2013	December 31, 2012
Significant actuarial assumptions are as follows	%	%
Discount rate to determine benefit obligations at end of year	2.2	2.1
Rate of increase in future compensation	1.5	1.5
Plan assets at fair value at the end of the year	%	%
Liquid assets	3.2	2.5
Bonds	49.3	52.6
Equity	28.1	25.3
Real estate	19.4	19.6
	100.0	100.0

The sensitivity of the defined benefit obligation to changes in assumptions is set out below.

	Ending Obligation December 31, 2013 $
Sensitivity for the ending defined benefit obligation	
Discount rate - 0.25%	83,039
Discount rate + 0.25%	77,329
Salary decrease - 0.25%	79,876
Salary increase + 0.25%	80,306
Life expectancy - 1 year	77,848
Life expectancy + 1 year	82,265

Deferred Taxes

In accordance with IFRS, Fortress recognizes deferred income tax assets when it is probable that the deferred income tax assets will be realized. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions are changed in the future, the value of the deferred income tax assets could be reduced or increased, resulting in an income tax expense or recovery. Fortress reevaluates its deferred income tax assets on a regular basis.

Provisions

Provisions for cleanup of landfill sites and legal claims, where applicable, are recognized as liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting year, and are discounted to present value where the effect is material.

Landfills / Environmental Remediation

The Company has costs associated with containment and ongoing maintenance relating to landfill sites in Canada. These costs are measured at fair value, which approximates the cost a third party would incur in performing the tasks associated with the landfill sites. These obligations represent estimated undiscounted future payments of $0.5 million to remediate the landfills at the end of their useful lives. These payments are expected to occur within the next 12 months and have been recorded in accounts payable.

On June 20, 2012, through its wholly owned subsidiary, FGC, the Company purchased the assets of a mill in Lebel-sur-Quévillon, Québec. As part of the purchase, FGC entered into an environmental trust agreement (the "Environmental Trust") to be used for environmental remediation for potential problems that existed at the date of purchase. FGC does not have access to, and cannot control, the funds in the Environmental Trust. FGC must fund $7.5 million over the five years following the entering into of the Environmental Trust in intervals. FGC must also fund another $2.5 million in the event that the FGC mill is dismantled in the future. The liability for existing environmental liabilities at the date of purchase has been limited at the amounts set out above. Any further environmental remediation costs are to be paid by the previous owners of the mill and the provincial government. The discount rates used for the valuation of the long-term liability range from 6.8% to 8.0% depending on the timing of the expected payment. The discount rate used for the valuation of the $2.5 million provision is 9.8%.

Warrants

On June 20, 2012, the Company issued 715,000 warrants to a lender. The warrants have an exercise price of $21.52 and are exercisable from December 31, 2014 to December 31, 2017, when they expire. The warrants were valued at $8.62 per warrant at the grant date using the Black Scholes pricing model. The Black Scholes pricing model requires the input of highly subjective assumptions including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's warrants. Assumptions used in the pricing model are as follows:

	2012
Risk-free interest rate	1.3%
Expected life of warrants	5 years
Annualized volatility	51.2%
Dividend rate	Nil

New Accounting Pronouncements

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes have been made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income (loss) or comprehensive income (loss).

IAS 19 – Employee Benefits

The Company has adopted IAS 19 (revised) – *Employee Benefits*. The amendments to IAS 19 are effective for financial years beginning on or after January 1, 2013, with earlier adoption permitted. The amended Standard resulted in an employee future benefit obligation of $1.8 million and an expense of $1.5 million for the 2012 comparative statements.

IFRS 10 – Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. The adoption of this standard did not have a significant impact on the Company.

IFRS 11 – Joint Arrangements

IFRS 11, Joint Arrangements, provides guidance on accounting for joint arrangements. If an arrangement has joint control, IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved.

A joint operation is an arrangement where the jointly controlling parties have rights to the assets and obligations in respect of the liabilities relating to the arrangement. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is accounted for using the equity method. Proportionate consolidation is no longer permitted. This standard did not impact the financial statements as Fortress currently has no joint arrangements.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. This standard did not have a significant impact on the financial statements of the Company.

IFRS 13 – Fair Value Measurement

IFRS 13, Fair Value Measurement defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value. This standard did not have a significant impact on amounts recorded in the financial statements of the Company.

Accounting standards issued and not applied

IFRS 9 - Financial Instruments

The first part of IFRS 9 was issued in November 2009 and addresses classification and measurement of financial assets. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. However, as at December 31, 2013, the November 2013 amendment has not yet been incorporated into the CPA Canada Handbook, Part I – IFRS and is therefore not yet available for early adoption by the Company.

IFRIC 21 – Levies

In May 2013, the IASB issued IFRIC 21 Levies ("IFRIC 21"). IFRIC 21 provides guidance on when an obligating event occurs that gives rise to a liability to pay a government levy that is not income tax. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

Risks and Uncertainties

A comprehensive discussion of risk factors is included in the Company’s Annual Information Form dated April 1, 2013, available on SEDAR at www.sedar.com. Those as well as the following additional risks may impact the business of the Company.

Trade Restrictions/Dissolving Pulp Export Tariffs

In February 2013, MOFCOM announced that it would commence an anti-dumping investigation on the importing of cellulose pulp originating from the United States, Canada and Brazil, after receiving a petition from certain manufacturers in China. The period of investigation for dumping is from January 1, 2012 to December 31, 2012, and the period of investigation for industry injury is from January 1, 2010 to December 31, 2012. The announcement included Fortress Specialty Cellulose as one of the Canadian producers that is subject to the investigation. Fortress Specialty registered with MOFCOM the same month and has submitted its response. In November 2013, MOFCOM announced its preliminary determination to impose an interim duty on dissolving pulp imports into China from each of the originating countries, including an interim duty against Fortress Specialty of 13% of the CIF price to China. All other unnamed current or future Canadian dissolving pulp producers will be subject to an interim duty of 50.9%, which the Company understands would be applicable to dissolving pulp produced by the FGC mill to the extent such duty remains in effect at the time the FGC mill is producing dissolving pulp and exports it into China. MOFCOM's final determination is expected by April 6, 2014. The interim duty has resulted in reduced revenues and margins in the fourth quarter of 2013 for the Company's dissolving pulp business. These tariffs have had a material adverse effect on our business, financial results, financial condition and carrying value of our dissolving pulp assets, and may continue to have a material adverse effect if the Company is unsuccessful in materially reducing MOFCOM's preliminary determination. There is no assurance that the Company will be successful in reversing MOFCOM's preliminary determination or in securing the Canadian Government's support in commencing a WTO review.

Most of the agreements to which the Company or its affiliates are party or will be party in the future with respect to sales of pulp products will involve sales into the People's Republic of China. Any disputes relating to such sales arrangements may be subject to dispute resolution procedures in China, which would subject the Company to uncertainties that could limit the legal protection available to it. It may be impossible to obtain swift and equitable enforcement of the Company's rights or to obtain enforcement of judgments by a court of another jurisdiction in respect of such sales arrangements, including any potential disputes relating to the reimbursement of advances relating to the interim duty levied by MOFCOM**.** The inability to enforce or obtain a remedy under such agreements could have a material adverse impact on the Company.

Pulp Markets

The dissolving pulp and NBHK pulp business is highly cyclical in nature and may result in periods of supply and demand imbalance, which in turn affects product prices. Dissolving pulp and NBHK 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. The expected advantages to be derived, for example, from the implementation of the swing mill strategy at the FSC mill in order to partly mitigate the MOFCOM interim duty, are subject to market pricing of NBHK pulp compared to dissolving pulp. Prolonged depressed pricing in both dissolving and NBHK pulp markets may make it uneconomical for the FSC mill to produce either product, which may materially adversely affect the Company's business, operations and financial results. Alternatively, oversupply of the Company's products can also result from producers introducing new capacity in response to favorable pricing trends.

Financial Risk Management

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk.

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is managed on a Company basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers.

Cash and cash equivalents include cash on deposit and cash equivalents with an original maturity date of 90 days or less. In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. The cash and cash equivalents balance at December 31, 2013 was $61.9 million (2012: $31.5 million).

The Company utilizes credit insurance to manage the risk associated with trade receivables. Approximately 26% of the outstanding trade receivables are covered under credit insurance or backed by letters of credit. The majority of the balance is with large and financially sound customers, including national banks. The Company sells the majority of its pulp through a third party agent that takes ownership of the inventory before it is delivered to the final customer. Accounts receivable aged greater than 90 days are $1.8 million of which $0.2 million is provided for as potentially impaired. The remaining amount is considered collectable. The Company's trade receivable balance at December 31, 2013 was $12.4 million (2012: $13.8 million). At December 31, 2013, approximately, 87% of the trade accounts receivable balance was within the Company's established credit terms.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. Cash flow forecasting is performed in the operating entities of the Company in and aggregated by Company finance. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while not breaching borrowing limits or covenants. The Company manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities. The Company manages liquidity risk through ongoing review of accounts receivable balances and the management of its cash and debt positions.

At December 31, 2013, the Company's current portion of long term debt, accounts payable and accrued liabilities totaled $48.6 million (2012: $87.6 million), all of which fall due for payment within one year of the statement of financial position date.

Although there can be no assurances, Fortress believes that cash generated from operations, together with amounts expected to be available under its credit facilities and the potential of proceeds from equity financings, will be sufficient to meet its debt service requirements, capital expenditure needs and working capital needs for thenext year. Fortress' future operating performance and its ability to service its debt and pay other indebtedness of Fortress will be subject to future economic conditions and the financial success of Fortress' business and other factors, many of which are not within Fortress' control, including changes in market prices for its dissolving pulp, security papers and raw material costs. See "Liquidity and Capital Resources".

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates and foreign currency.

(i) Currency risk:

The Company is exposed to foreign exchange risk primarily in Euros, Swiss Francs, and US dollars. The Company's products are sold globally with prices denominated primarily in Euros, Swiss Francs and US dollars. The majority of the Company's expenditures are denominated in Euros, Swiss Francs and Canadian dollars. In addition, the Company holds financial assets and liabilities in the local operating currencies.

For the years ended December 31, 2013 and December 31, 2012, the Company did not use derivative instruments to reduce its exposure to currency risk for sales denominated in a foreign currency.

(d) Earnings Sensitivity

The Company has completed a sensitivity analysis to estimate the impact on operating earnings for the year that a change in foreign exchange rates or interest rates during the year ended December 31, 2013 would have had.

This sensitivity analysis includes the following assumptions:

- Changes in individual foreign exchange rates do not cause foreign exchange in other countries to alter; and
- Changes in market interest rates do not cause a change in foreign exchange rates.

The results of the foreign exchange sensitivity analysis can be seen in the following table:

	Impact on operating income $
Change in CHF exchange rates:	
Weakening of 1% compared to EUR foreign exchange rate	+ 0.4 million
Change in Canadian dollar exchange rate	
Weakening of 1% compared to USD foreign exchange rate	+ 0.9 million

The above results arise due to the combined impact of foreign currency fluctuations on operations. Fortress will continue to monitor and evaluate the future use of exchange contracts to limit exposure to exchange fluctuations.

The Company also has translation risk for the translation of foreign subsidiaries into the functional currency of Fortress Paper. This risk has no bearing on the operations of the Company and only relates to the reporting of earnings in the consolidated functional currency. This risk is partially mitigated by both revenues and expenses being mainly denominated in local currencies for each subsidiary. The results of foreign exchange sensitivity analysis on translation of foreign subsidiaries can be seen in the following table:

	Impact on operating income $
Change in Canadian exchange rates:	
Weakening of 1% compared to CHF foreign exchange rate	+ 0.1 million

Changes in market interest rates would have no significant impact on operating income.

Limitations of sensitivity analysis

The financial position of the Company may vary at the time that a change in the factors occurs, causing the impact on the Company's results to differ from that shown above.

Disclosure Controls and Internal Controls over Financial Reporting

The Company has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the board of directors of the Company and the Audit Committee. The Company's chief executive officer ("CEO") and chief financial officer ("CFO") have evaluated the effectiveness of these disclosure controls and procedures for the year ending December 31, 2013, and have concluded that they are effective.

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"), and confirm that there were no changes in these controls that occurred during the year ended December 31, 2013 which materially affected, or are reasonably likely to materially affect, the Company's ICFR. Based upon their evaluation of these controls for the year ended December 31, 2013, the CEO and CFO have concluded that these controls are operating effectively.

March 10, 2014

Independent Auditor's Report

To the Shareholders of
Fortress Paper Ltd.

We have audited the accompanying consolidated financial statements of Fortress Paper Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place 250 Howe Street, Suite 700, Vancouver, British Columbia, Canada V6C 3S7
T:604 806 7000, F: 604 806 7806 www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fortress Paper Ltd. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

FORTRESS PAPER LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Canadian dollars, amounts in thousands)

	Note	December 31, 2013 $	December 31, 2012 $
ASSETS			
Current			
Cash and cash equivalents		61,888	31,491
Restricted cash	5	14,934	2,600
Trade accounts receivable	6	12,446	13,835
Other accounts receivable	7	8,751	28,403
Inventories	8	62,390	53,064
Prepaid expenses	13	8,486	8,334
		168,895	137,727
Property, plant and equipment	10	412,949	440,227
Total assets		581,844	577,954
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	11	34,044	79,806
Income taxes payable	12	–	3,123
Current portion of long-term debt	13	14,572	7,761
		48,616	90,690
Long-term debt	13	213,558	248,140
Deferred income taxes	12	4,734	2,154
Provisions and other long-term liabilities	14	7,921	5,528
Employee future benefits	15	4,737	1,773
Total liabilities		279,566	348,285
Shareholders' equity			
Share capital	16	180,040	178,052
Contributed surplus		25,950	26,078
Retained earnings		75,368	23,387
Accumulated other comprehensive income		20,920	2,152
Total shareholders' equity		302,278	229,669
Total liabilities and shareholders' equity		581,844	577,954
Commitments	21		

(See accompanying notes)

Approved by the Board of Directors:

"Chadwick Wasilenkoff" — Director

"Anil Wirasekara" — Director

FORTRESS PAPER LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended
(Canadian dollars, amounts in thousands)

	Note	December 31, 2013 $	December 31, 2012 $
Sales		207,785	163,923
Costs and expenses			
Manufacturing and product costs		(202,980)	(178,036)
Freight and other distribution costs		(3,750)	(1,674)
Amortization	10	(19,732)	(15,669)
Selling, general and administration		(41,180)	(29,208)
Stock-based compensation	17	(1,905)	(3,516)
Operating loss		(61,762)	(64,180)
Other income (expense)			
Finance expense	18	(16,970)	(11,153)
Finance income	18	298	326
Gain on sale of property, plant and equipment	10	5,242	19,297
Impairment of property plant and equipment	10	(32,907)	–
Foreign exchange (loss)		(138)	(66)
Net loss from continuing operations before income taxes		(106,237)	(55,776)
Income tax (expense) recovery	12	(1,586)	13,439
Net loss from continuing operations		(107,823)	(42,337)
Net income from discontinued operations	9	162,408	20,669
Net income (loss)		54,585	(21,668)
Loss and diluted loss per share from continuing operations		$ (7.41)	$ (2.94)
Earnings (loss) per share and diluted earnings (loss) per share	19	$ 3.75	$ (1.51)
Weighted average number of shares outstanding			
Basic and diluted	19	14,543,597	14,379,012

(See accompanying notes)

FORTRESS PAPER LTD.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the years ended
(Canadian dollars, amounts in thousands)

	Note	December 31, 2013 $	December 31, 2012 $
Net income (loss) for the year		54,585	(21,668)
Other comprehensive income			
Items that may be reclassified subsequently to net income			
Exchange differences on translation of foreign operations		18,768	(536)
Items that will not be reclassified to net income			
Actuarial (loss) gain recognized on employee future benefits (net of taxes of $521 and ($795))	15	(2,604)	3,974
Total other comprehensive income for the year		16,164	3,438
Total comprehensive income (loss) for the year		70,749	(18,230)

(See accompanying notes)

FORTRESS PAPER LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended
(Canadian dollars, amounts in thousands)

	Note	December 31, 2013 $	December 31, 2012 $
Share Capital	16		
Balance at beginning of year		178,052	175,200
Restricted share units vested		1,619	2,013
Deferred share units vested		369	–
Exercise of stock options		–	839
Balance at end of year		180,040	178,052
Contributed Surplus			
Balance at beginning of year		26,078	13,010
Stock based compensation	17	1,905	3,516
Early vesting of restricted share units on disposal of business	9	221	–
Restricted share units vested	17	(1,619)	(2,013)
Deferred share units vested		(369)	–
Exercise of stock options	17	–	(231)
Issuance of convertible debt	13	–	7,388
Warrants	16	–	4,408
Deferred income tax adjustment		(266)	–
Balance at end of year		25,950	26,078
Retained Earnings			
Balance at beginning of year, as reported		23,387	40,741
Effect of retroactive adoption of new accounting pronouncement		–	340
Balance at beginning of year, restated		23,387	41,081
Net income (loss) for the year		54,585	(21,668)
Defined benefit plan actuarial (loss) gain, net of tax		(2,604)	3,974
Balance at end of year		75,368	23,387
Accumulated Other Comprehensive Income			
Balance at beginning of year		2,152	2,688
Cumulative translation adjustment on foreign operations		18,768	(536)
Balance at end of year		20,920	2,152
Total equity		302,278	229,669

(See accompanying notes)

FORTRESS PAPER LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended
(Canadian dollars, amounts in thousands)

	Note	December 31, 2013 $	December 31, 2012 $
Cash flows from (used by) operating activities			
Net income (loss) for the year		54,585	(21,668)
Adjustments:			
Gain on disposal of business	9	(154,265)	–
Amortization	23	20,477	19,164
Income tax expense (recovery)	12	5,104	(4,443)
Income taxes paid		(2,003)	(7,855)
Foreign exchange (gain) loss		(342)	339
Finance expense		18,459	15,456
Gain on sale of assets	10	(5,242)	(19,297)
Impairment of property plant and equipment	10	32,907	–
Stock-based compensation	17	1,905	3,516
		(28,415)	(14,788)
Change in non-cash working capital items			
Accounts receivable		14,867	2,780
Inventories		(20,022)	9,240
Prepaid expenses		(1,017)	(141)
Accounts payable and accrued liabilities and other		(19,613)	11,145
		(54,200)	8,236
Cash flows from (used by) financing activities			
Options exercised	17	–	608
Repayment of long-term debt	13	(52,306)	(35,492)
Proceeds from long-term debt	13	19,860	150,728
Repurchase of factored accounts receivable		(18,006)	–
Payment of long-term debt interest		(17,581)	(13,594)
		(68,033)	102,250
Cash flows from (used by) investing activities			
Additions to property, plant and equipment		(60,697)	(132,863)
Proceeds from disposal of business		212,240	–
Adjustments and costs associated with disposal of business		(2,126)	–
Proceeds from sale of property, plant and equipment	10	9,228	19,413
Restricted cash		(11,544)	(2,270)
Proceeds from Green Transformation Program		–	1,000
Investment tax credits received		–	13,543
		147,101	(101,177)
Increase in cash position		24,868	9,309
Foreign exchange gain (loss) on cash and cash equivalents		5,529	(715)
Cash and cash equivalents, beginning of year		31,491	22,897
Cash and cash equivalents, end of year		61,888	31,491

(See accompanying notes)

1. NATURE OF OPERATIONS

Fortress Paper Ltd. (the "Company" or “Fortress”) was incorporated on May 30, 2006 under the laws of the Province of British Columbia. The address of the Company’s registered office is 157 Chadwick Court – 2nd floor, North Vancouver, British Columbia, Canada V7M 3K2. From the date of incorporation to July 31, 2006, the Company was inactive. As at December 31, 2013, Fortress operates internationally in two distinct business segments: dissolving pulp and security paper products. The Company operates its dissolving pulp business at the Fortress Specialty Cellulose Mill located in Canada. As of September of 2013, the Fortress Specialty Cellulose Mill also operates in the renewable energy sector with the completion of a cogeneration facility. Fortress Specialty Cellulose was converted into a dissolving pulp mill with ramp up production starting in December of 2011. Commercial production at Fortress Specialty Cellulose for accounting purposes, with the equipment operating as intended by management, began on March 18, 2012. Prior to commercial production of dissolving pulp, results from dissolving pulp start-up operations were capitalized to property, plant, and equipment. The Company is also evaluating expanding its dissolving pulp capacity by converting the Fortress Global Cellulose Mill located at Lebel-sur-Quévillon, Québec into a dissolving pulp mill and re-starting the cogeneration facility (*Note 10)*. Up to April 30, 2013, the Company operated its specialty papers business at the Dresden Mill located in Germany, where it was a producer of specialty non-woven wallpaper base products (*Note 9)*. The Company operates its security paper products business at the Landqart Mill located in Switzerland, where it produces banknote, passport, visa and other brand protection and security papers, and at its Fortress Optical Facility located in Canada, where it manufactures optically variable thin film material.

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of financial statements as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The Company has consistently applied the same accounting policies throughout all years presented.

On March 6, 2014 the Board of Directors approved these financial statements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3. The consolidated financial statements have been prepared on the historical cost basis with the exception of compound financial instruments, employee future benefits, and provisions which are discussed in Note 3.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements include the accounts of the Company and, from their respective dates of acquisition of control or formation, its wholly owned subsidiaries.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency.

The financial statements of entities that have a functional currency other than Canadian dollars ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – using actual rates in place at the time of the transaction or an average rate if it is considered a reasonable approximation for the actual rate. All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.
When the Company disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income related to the foreign operation are recognized in profit or loss. If the Company disposes of part of an interest in a foreign operation which remains a subsidiary, a proportionate amount of foreign currency gains or losses accumulated in other comprehensive income related to the subsidiary are reallocated between controlling and non-controlling interests.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statement of operations.

Consolidation

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Intercompany transactions, balances, income and expenses on transactions between companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Company.

Cash and cash equivalents

The Company considers cash, cash in banks, and deposits with financial institutions with original maturities of three months or less and that can be liquidated without prior notice or penalty, to be cash or cash equivalents.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Derivatives are also included in this category unless they are designated as hedges. The Company does not hold any instruments in this category.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations within other gains and losses in the year in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond 12 months of the statement of financial position date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not hold any instruments in this category.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within 12 months, or management expects to dispose of them within 12 months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of operations as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of operations as part of other gains and losses when the Company’s right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and included in other gains and losses.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company’s loans and receivables comprise trade accounts receivable, other accounts receivable, cash and cash equivalents, restricted cash and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities as well as long-term debt. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. Long-term debt is recognized initially at fair value, net of any transaction costs incurred, and subsequently at amortized cost using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment for liquidity services and amortized over the term of the facility to which it relates.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

Government assistance

Government assistance related to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government assistance related to non-capital projects is recorded as a reduction of the related expenses.

Inventories

Inventories are valued at the lower of average cost and net realizable value. The cost of finished goods and work-in-progress comprises raw materials, direct labour, other direct costs and related production overheads including applicable amortization on property, plant and equipment. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated amortization and impairment charges.

No amortization is charged on major improvements or expansions until the asset is ready for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the Company. The carrying amount of the replaced part is derecognized. Maintenance, repairs and minor replacements are expensed as incurred. The carrying amount of a replaced asset is derecognized when it is replaced.

The cost of major overhaul, repairs and replacement which increase the useful lives of existing property plant and equipment are capitalized and amortized over the period of benefit.

Property, plant and equipment are principally amortized on a straight-line basis over their estimated useful lives as follows:

Buildings	10-50 years
Manufacturing equipment and machinery	5-20 years
Fixtures and other equipment	3-10 years

The Company allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant components and amortizes each such part separately. Residual values, methods of amortization and useful lives are reviewed at year end and adjusted if appropriate.

Impairment of long-lived assets

The Company reviews property, plant, and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or cash generating unit). An impairment loss is recognized in the statement of operations for the amount by which the asset's carrying amount exceeds its recoverable amount and will be reviewed for possible reversal at each reporting date.

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of operations in the year in which they are incurred.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Employee future benefits

Employees of entities included in these consolidated financial statements have entitlements under Company pension plans which are either defined contribution or defined benefit pension plans. These plans take different forms depending on the legal regime of each country.

For the Company's defined contribution pension plan, contributions are recognized as employee benefit expense when they are due.

For the Company’s defined benefit pension plan the following policies have been adopted:

- The measurement date used for accounting purposes is December 31;
- The cost of pensions earned by employees is actuarially determined using the projected unit credit method pro-rated on service and management's estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- The discount rate applied in arriving at the present value of the pension liability represents yields on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the pension liability;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- The related net pension liability recognized in the statement of financial position is the fair value of the plan assets less the present value of the defined benefit obligation at the statement of financial position date; and
- Actuarial gains and losses are recognized during the year in which they occur, in other comprehensive income (loss) and retained earnings, without recycling to the statement of operations in subsequent years.

Provisions

Provisions for cleanup of landfill sites and legal claims, where applicable, are recognized as liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management’s best estimate of the expenditure required to settle the obligation at the end of the reporting year, and are discounted to present value where the effect is material.

Income taxes

Income taxes comprise current and deferred taxes. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly in other comprehensive income (loss) or equity, in which case the income tax is recognized directly in other comprehensive income (loss) or equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting year in the countries where the Company and its subsidiaries operate and generate taxable income. The Company periodically evaluates the position taken and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognized, using the liability method, in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided for taxable temporary differences associated with investments in subsidiaries except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Earnings (loss) per share

Basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted earnings per share for convertible debt assumes the debt has been converted at the beginning of the period or, if later, the date of the issue of the convertible debt.

Stock-based compensation

The Company grants stock options and other share-based awards to certain employees. Each tranche in an award is considered a separate award with its own vesting year and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. The value of stock options granted to directors and officers is recorded as stock-based compensation and credited to contributed surplus over the relevant vesting period. Any consideration received on the exercise of stock options is credited to share capital and the appropriate original fair value is reallocated from contributed surplus to share capital.

Performance options and share awards based on certain conditions are recognized when it is considered likely that the performance condition will be achieved.

Revenue and related cost recognition

The Company recognizes revenue from product sales when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, title of ownership and risk of loss have passed to the customer and collectability is reasonably assured. Sales are reported net of discounts and allowances. Amounts charged to customers for shipping and handling are recognized as revenue. Shipping and handling costs incurred by the Company are included in cost of products sold. The Company does not have any multiple element revenue arrangements.

The Company reports the sale of energy as revenue upon generation at its cogeneration facility.

Development costs

Expenditure incurred in the development of products or enhancements to existing product ranges is capitalized as an intangible asset only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured. Development costs not meeting these criteria are expensed in the statement of operations as incurred. Capitalized development costs are amortized on a straight-line basis over their estimated useful economic lives once the product or enhancement is available for use. Product research costs are written off as incurred.

Leases

The Company leases certain property, plant and equipment. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis over the year of the lease.

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in provisions and other long term liabilities. The interest element of the finance cost is charged to the statement of operations over the lease year so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are amortized over the shorter of the useful life of the asset and the lease term.

Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The Company regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which cause actual results to differ from management estimates, and these differences could be material. Revisions to accounting estimates are recognized in the period in which estimates are reviewed and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 3, 10 – Property, plant and equipment;
- Note 14 – Provisions and other long term liabilities; and
- Note 15 – Employee future benefits.

Segmented reporting

Operating segments are reported in a manner consistent with the internal reporting provided to management and the Board of Directors. The Company's operations are managed and reported internally on a divisional basis that reflects the different characteristics of each business. These divisions have been disclosed as reportable segments because they are the components that management and the Board monitors regularly in making decisions about operating matters such as allocating resources to businesses and assessing performance.

4. NEW ACCOUNTING PRONOUNCEMENTS

Changes in accounting policies

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

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes have been made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income (loss) or comprehensive income (loss).

IAS 19 – Employee Benefits

IAS 19, *Employee Benefits* (Revised 2011), amends certain accounting requirements for defined benefit plans and termination benefits.

The revised standard requires that the net defined benefit liability (asset) be recognized on the statement of financial position excluding any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense; rather, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Adjustments consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company also continues to recognize interest expense (income) on the net post-employment benefits liability (asset) in finance expense (income) in the consolidated statement of operations.

IAS 19 (Revised 2011) also clarifies that benefits are classified as long-term if payments are not expected to be made within the next 12 months. The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes restructuring costs. Termination benefits that require future services are recognized over the period the future services will be provided.

The Company adopted these amendments retrospectively and has adjusted its opening equity as at January 1, 2012 to recognize an amended employee future benefits liability according to the new standard. The employee future benefits' finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit plans. There were no changes to the Company for other long-term employment benefits or termination benefits as a result of adopting the amended standard. The adjustments for each financial statement line item are presented in the tables below.

Adjustments to the statement of financial position	**December 31, 2012 $**	**January 1, 2012 $**
Equity before accounting change	229,330	231,639
Decrease in employee future benefits liability	407	408
Increase in deferred income tax liability	(68)	(68)
Equity after accounting change	229,669	231,979

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

Adjustments to the statement of operations	**12 Months Ended December 31, 2012 $**
Net loss before accounting change	(20,887)
Increase in finance expense	(151)
Increase in selling, general and administrative expense	(786)
Decrease in deferred income tax expense	156
Net loss after accounting change	(21,668)

Adjustments to comprehensive income	**12 Months Ended December 31, 2012 $**
Comprehensive loss before accounting change	(18,229)
Increase in net loss	(781)
Increase in actuarial gain	789
Increase in exchange differences on translation of foreign operations	(9)
Comprehensive loss after accounting change	(18,230)

IFRS 10 – Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in an entity's consolidated financial statements. The adoption of this standard did not have a significant impact on the Company.

IFRS 11 – Joint Arrangements

IFRS 11, Joint Arrangements, provides guidance on accounting for joint arrangements. If an arrangement has joint control, IFRS 11 classifies joint arrangements as either joint operations or joint ventures, depending on the rights and obligations of the parties involved.

A joint operation is an arrangement where the jointly controlling parties have rights to the assets and obligations in respect of the liabilities relating to the arrangement. An entity accounts for a joint operation by recognizing its portion of the assets, liabilities, revenues and expenses. A joint venture is accounted for using the equity method. Proportionate consolidation is no longer permitted. This standard did not impact the financial statements as Fortress currently has no joint arrangements.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12, Disclosure of Interests in Other Entities outlines the disclosure requirements for interests in subsidiaries and other entities to enable users to evaluate the risks associated with interests in other entities and the effects of those interests on an entity's financial position, financial performance and cash flows. This standard did not have a significant impact on the financial statements of the Company.

IFRS 13 – Fair Value Measurement

IFRS 13, Fair Value Measurement defines fair value, sets out a single IFRS framework for measuring fair value and outlines disclosure requirements about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement, so assumptions that market participants would use should be applied in measuring fair value. This standard did not have a significant impact on amounts recorded in the financial statements of the Company.

Accounting standards issued and not applied

IFRS 9 - Financial Instruments

The first part of IFRS 9 was issued in November 2009 and addresses classification and measurement of financial assets. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss.

IFRS 9 was amended In November 2013, to (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9) and (iii) remove the previous mandatory effective date of January 1, 2015, although the standard is available for early adoption. However, as at December 31, 2013, the November 2013 amendment has not yet been incorporated into the CPA Canada Handbook, Part I – IFRS and is therefore not yet available for early adoption by the Company.

IFRIC 21 – Levies

In May 2013, the IASB issued IFRIC 21 Levies ("IFRIC 21"). IFRIC 21 provides guidance on when an obligating event occurs that gives rise to a liability to pay a government levy that is not income tax. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

5. RESTRICTED CASH

As at December 31, 2013, restricted cash was comprised of $14,508 to secure performance bonds for security contracts (*Note 21)* and $426 in letters of credit for construction contracts. As at December 31, 2012, restricted cash was comprised of $2,600 in letters of credit for construction contracts.

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

6. TRADE ACCOUNTS RECEIVABLE

	Note	December 31, 2013 $	December 31, 2012 $
Trade accounts receivable		12,639	14,251
Less: provision for impairment of trade receivable	24	(193)	(416)
Trade accounts receivable		12,446	13,835

7. OTHER ACCOUNTS RECEIVABLE

	December 31, 2013 $	December 31, 2012 $
Receivable from lender	389	4,052
Investment and other tax credits	317	468
Value added tax	3,473	6,668
Income tax	799	–
Holdbacks	–	6,690
Receivable from supplier	–	6,241
Other	3,773	4,284
	8,751	28,403

8. INVENTORIES

	December 31, 2013 $	December 31, 2012 $
Raw materials and supplies	26,784	37,475
Work in progress	1,167	1,987
Finished goods	34,439	13,602
	62,390	53,064

The cost of raw materials, purchased materials and change in inventory recognized as expenses included in cost of products sold amounted to $147,002 (2012: $190,968).

The inventory write-down to record finished goods inventory at the lower of cost and net realizable value at December 31, 2013 was $4,897 (2012: $ nil).

The carrying amount of inventories pledged as security amounted to $23,400 (2012: $16,309).

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

9. DISPOSAL OF BUSINESS

On April 30, 2013, the Company sold all of the shares of its wholly owned subsidiary, Dresden Papier GmbH (the "Dresden Mill"), which represented the entire specialty papers segment of the Company, for an aggregate purchase price of EUR 160,000 subject to working capital and other adjustments. The transaction excluded cash and long-term debt associated with the Dresden Mill. Prior to the sale, the long term debt associated with Dresden was repaid by the Company and the factored accounts receivable of the Dresden Mill were repurchased. An early prepayment penalty of $1,166 was recorded on the retirement of the Dresden Mill long term debt.

Based on the book values of the net assets disposed of, the related sales proceeds, and the effect of foreign exchange, the gain on disposal of Dresden Mill is $154,265, as summarized below. The final purchase price adjustment related to income taxes is still being determined and is currently based on management's best estimate, which could be subject to change in the future.

	April 30, 2013 $
Book value of net assets disposed of:	
Restricted cash	531
Accounts receivable	26,832
Inventories	12,992
Prepaid expenses	210
Property, plant and equipment	31,553
Accounts payable and accrued liabilities	(16,723)
Income taxes payable	(3,932)
Deferred income tax liability	(373)
Net assets disposed of	51,090
Sale proceeds:	
Cash	212,240
Less: purchase price adjustments	(1,649)
Less: directly attributable costs	(2,416)
Total net proceeds	208,175
Profit on disposal before reclassification of cumulative translation adjustment	157,085
Cumulative translation adjustment	(2,820)
Gain on disposal	154,265

The Dresden Mill represents the entire wallpaper segment of the Company. The results for the periods ended December 31, 2013 and December 31, 2012 have been reclassified in the statement of operations as discontinued operations. The results of the discontinued operations are as follows:

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

	December 31, 2013 $	December 31, 2012 $
Income before income taxes and gain on disposal	11,661	29,665
Income taxes	(3,518)	(8,996)
Gain on disposal	154,265	–
Net income from discontinued operations	162,408	20,669
Cash flows from operating activities	7,932	13,411
Cash flows from financing activities	(49,231)	(1,278)
Cash flows from investing activities	(4,231)	(4,231)
Increase in cash	(45,530)	7,902

10. PROPERTY, PLANT AND EQUIPMENT

	2013				
	Land $	Building $	Equipment $	Work in Progress $	Total $
At December 31, 2012					
Cost	22,990	91,157	251,556	126,102	491,805
Accumulated amortization	–	(7,141)	(44,437)	–	(51,578)
Net book value	22,990	84,016	207,119	126,102	440,227
Year ended December 31, 2013					
Additions	–	(235)	4,557	48,248	52,570
Disposals	(2,933)	(45)	(935)	–	(3,913)
Transfers	–	44,889	97,306	(142,195)	–
Disposal of business (*Note 9*)	(4,377)	(1,993)	(21,741)	(3,442)	(31,553)
Impairment of equipment	–	–	(7,206)	(25,701)	(32,907)
Amortization	–	(3,543)	(16,934)	–	(20,477)
Exchange differences	1,491	1,573	5,825	113	9,002
Net book value	17,171	124,662	267,991	3,125	412,949
At December 31, 2013					
Cost	17,171	135,396	317,543	3,125	473,235
Accumulated amortization	–	(10,734)	(49,552)	–	(60,286)
Net book value	17,171	124,662	267,991	3,125	412,949

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

	2012				
	Land	Building	Equipment	Work in Progress	Total
	$	$	$	$	$
At December 31, 2011					
Cost	23,080	53,839	148,128	147,653	372,700
Accumulated amortization	−	(4,153)	(28,198)	−	(32,351)
Net book value	23,080	49,686	119,930	147,653	340,349
Year ended December 31, 2012					
Additions	−	311	7,539	111,416	119,266
Disposals	(86)	−	(71)	−	(157)
Transfers	−	36,973	95,959	(132,932)	−
Amortization	−	(2,958)	(16,206)	−	(19,164)
Exchange differences	(4)	4	(32)	(35)	(67)
Net book value	22,990	84,016	207,119	126,102	440,227
At December 31, 2012					
Cost	22,990	91,157	251,556	126,102	491,805
Accumulated amortization	−	(7,141)	(44,437)	−	(51,578)
Net book value	22,990	84,016	207,119	126,102	440,227

Included in property, plant and equipment were capitalized borrowing costs and accretion of $3,278 (2012: $3,105). Borrowing costs and accretion were capitalized at effective interest rates ranging from 4.1% to 5.6%.

Property, plant and equipment pledged as security for loans and mortgages amounted to $322,692 (2012: $330,312).

During the year ended December 31, 2013, the Company sold non-core assets at the Landqart mill for $9,336 (2012: $19,411). The carrying amount of the assets sold was $4,094 (2012: $114) with a resulting net gain of $5,242 (2012: $19,297).

Impairment of property, plant and equipment

In accordance with the Company's accounting policy, each asset or cash generating unit is evaluated at each reporting date to determine whether there are any indicators of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount has been determined by the Company as the value in use.

The determination of value in use requires management to make estimates and assumptions about expected production and sales volumes, prices, operating costs, capital expenditures, and appropriate discount rates for future cash flows. The estimate and assumptions are subject to risk and uncertainty, and as such there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of income.

On November 6, 2013, the Chinese Ministry of Commerce announced a preliminary determination to impose an interim duty on the import of dissolving pulp into China from Canada. Management of the Company determined

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

that this constituted an impairment indicator and completed an impairment assessment of both mills in the Pulp operating segment.
An impairment assessment model for the Fortress Specialty Cellulose mill located in Thurso, Quebec included the following assumptions:

- Operating costs based on historical costs incurred and estimated forecasts
- Production volumes based on full production at industry normal utilization rates
- Efficiencies and production increases from future planned capital projects were not included
- Dissolving pulp pricing based on externally available pricing forecasts
- Discount rates reflecting the risks involved

Management's impairment evaluation did not result in the identification of an impairment loss at the Fortress Specialty Cellulose mill as at December 31, 2013.

The Company is continuing to evaluate options with respect to the Fortress Global Cellulose Mill located at Lebel-sur-Quévillon, Québec. The Company is waiting on the final determination of the duty to determine whether to continue with the conversion of this mill. As such, during the year ended December 31, 2013, the Company recognized an impairment loss of $32,907 resulting in a $ nil net book value of equipment at the Fortress Global Cellulose mill.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	December 31, 2013 $	December 31, 2012 $
Trade payables and accrued liabilities		14,552	61,208
Accrued payroll and related liabilities		4,202	6,317
Customer prepayments		6,791	5,293
Landfill and environmental remediation	14	964	1,389
Tax liability relating to discontinued operations		1,891	–
Other accruals		5,644	5,599
		34,044	79,806

12. INCOME TAXES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	December 31, 2013 $	December 31, 2012 $
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	48,603	35,378
Deferred tax asset to be recovered within 12 months	–	–
	48,603	35,378

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

Deferred tax liabilities:		
Deferred tax liability to be reversed after more than 12 months	49,699	34,838
Deferred tax liability to be reversed within 12 months	3,638	2,694
	53,337	37,532
Deferred tax liability (net)	4,734	2,154

The gross movement on the deferred income tax account is as follows:

	December 31, 2013 $	December 31, 2012 $
Opening deferred tax liability (net)	2,154	12,398
Charged to continuing operations	3,079	(13,324)
Charged to discontinued operations	(373)	(88)
Charged to comprehensive income	(521)	795
Charged to property, plant and equipment	(186)	(3,060)
Charged to equity	266	5,448
Exchange differences	315	(15)
Deferred tax liability (net)	4,734	2,154

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred Tax Liabilities	Property, Plant and Equipment $	Long-term Debt $	Other $	Total $
As at December 31, 2011	21,744	1,654	353	23,751
Charged to continuing operations	8,691	(454)	137	8,374
Charged to discontinued operations	(34)	–	–	(34)
Charged to equity	–	5,448	–	5,448
Exchange differences	(7)	–	–	(7)
As at December 31, 2012	30,394	6,648	490	37,532
As at December 31, 2012	30,394	6,648	490	37,532
Charged to continuing operations	12,539	(910)	4,132	15,761
Charged to discontinued operations	(475)	–	–	(475)
Charged to equity	–	266	–	266
Exchange differences	242	–	11	253
As at December 31, 2013	42,700	6,004	4,633	53,337

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

Deferred Tax Assets	**Tax Credits** $	**Tax Loss Carry-forwards** $	**Employee Future Benefits** $	**Other** $	**Total** $
As at December 31, 2011	2,222	7,801	1,145	185	11,353
Charged to continuing operations	730	18,254	(63)	2,777	21,698
Charged to discontinued operations	–	–	–	54	54
Charged to comprehensive income	–	–	(795)	–	(795)
Charged to property, plant and equipment	3,060	–	–	–	3,060
Exchange differences	–	–	8	–	8
As at December 31, 2012	6,012	26,055	295	3,016	35,378
As at December 31, 2012	6,012	26,055	295	3,016	35,378
Charged to continuing operations	372	11,345	–	965	12,682
Charged to discontinued operations	–	–	–	(102)	(102)
Charged to comprehensive income	–	–	521	–	521
Charged to property, plant and equipment	186	–	–	–	186
Exchange differences	–	–	(24)	(38)	(62)
As at December 31, 2013	6,570	37,400	792	3,841	48,603

Deferred income tax assets are recognized for tax loss carry-forwards and other tax credits to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company did not recognize deferred tax assets of $36,670 in 2013. Tax loss carry-forwards consist of approximately $261,748, which expire beginning in 2015 through 2033.

The components of income tax (recovery) expense for continuing operations are as follows:

	Year Ended December 31, 2013 $	**Year Ended December 31, 2012** $
Current	(1,493)	(115)
Deferred	3,079	(13,324)
	1,586	(13,439)

The reconciliation of income taxes calculated at the statutory rate of 25.75% to the actual income tax provision is as follows:

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

	Year Ended December 31, 2013 $	Year Ended December 31, 2012 $
Net loss from continuing operations before income taxes	(106,237)	(55,776)
Income tax recovery at statutory rates	(27,356)	(13,944)
Stock-based compensation and other non-deductible expenses	558	872
Rate differentials between foreign jurisdictions, capital gains and future tax rates	1,321	2,993
Investment and other tax credits	168	(730)
Undistributed earnings of subsidiary	3,750	–
Use of previously unrecognized tax assets	(1,407)	–
Change in deferred tax assets not recognized	24,552	(2,630)
Income tax (recovery) expense	1,586	(13,439)

13. LONG-TERM DEBT

	December 31, 2013 $	December 31, 2012 $
Credit facilities with lenders		
Credit agreement with bank maturing 2013; interest at 2.7%; secured by current assets (EUR nil; 2012: EUR 96) (a)	–	126
Credit agreement with lender maturing 2017; interest at 3.8% secured by property, plant and equipment and inventory (EUR nil ; 2012: EUR 22,339) (a)	–	29,305
Credit agreement with bank maturing 2015; interest at 4.9%; secured by property, plant and equipment (CHF nil; 2012: CHF 2,250) (b)	–	2,445
Credit agreement with lender maturing 2020; unsecured (CHF 5,310; 2012: CHF 4,461) (c)	5,549	4,849
Credit agreement with lender maturing 2020; interest up to 5.5%; secured by the assets of the Fortress Specialty Cellulose Mill	105,107	104,523
Undrawn credit facility (d)	–	–
Unsecured convertible debentures		
Credit agreement with lender maturing 2016; interest at 6.5%; unsecured (principal $40,250)	35,872	34,695
Credit agreement with lender maturing 2017; interest at 7%; unsecured (principal $25,000)	22,997	22,548
Credit agreement with lender maturing 2019; interest at 7%; unsecured (principal $69,000)	58,605	57,410
	228,130	255,901
Less: Current portion	(14,572)	(7,761)
Long-term debt	213,558	248,140

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

	December 31, 2013 $	December 31, 2012 $
Principal value of debt	247,061	277,165
Unamortized borrowing costs and amounts allocated to equity	(18,931)	(21,264)
Net amount recorded in liabilities	228,130	255,901

Principal repayments as at December 31, 2013 are required as follows:

	$
2014	14,572
2015	18,245
2016	58,013
2017	42,770
2018	17,734
Thereafter	95,727
	247,061

Borrowings under the above agreements require maintenance of certain financial and non-financial covenants. The Company has been in compliance with all covenants for the year ended December 31, 2013.

Under existing credit facilities, the lender has agreed with the Company to defer $13.0 million in 2013 and $5.2 million in planned principal and interest payments on the IQ project financing loan to Fortress Specialty for the first calendar quarter of 2014, without penalty.

At December 31, 2013, the fair value of the long term debt, measured at its amortized costs of $228,130 was $183,279. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

(a) These credit facilities were repaid on April 30, 2013, concurrent with the disposal of the Dresden Mill (*Note 9)*.

(b) This credit facility was repaid during the year ended December 31, 2013.

(c) The credit agreement bears no interest and is repayable based on the timing of production for the lender. Interest has been calculated at a 5% effective rate.

(d) The credit agreement is a facility for up to $132,400, granted to Fortress Global Cellulose to support the conversion to dissolving pulp expenditure program and is secured by the assets of Fortress Global Cellulose. The loan is repayable ten years after the first draw on the facility. At December 31, 2013, $nil has been drawn on this facility. Borrowing costs of $6,339 have been deferred as prepaid expenses and are being amortized over the remaining period that the facility can be drawn upon.

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

14. PROVISIONS AND OTHER LONG-TERM LIABILITIES

	December 31, 2013 $	December 31, 2012 $
Provisions		
Landfills	464	889
Environmental remediation	157	143
	621	1,032
Long term liabilities		
Legal provisions	2,457	–
Environmental remediation	5,807	5,885
	8,885	6,917
Less: current portion of provisions and long-term liabilities	(964)	(1,389)
Total provisions and other long-term liabilities	7,921	5,528

Landfills

The Company has costs associated with containment and ongoing maintenance relating to landfill sites in Canada. These costs are measured at fair value, which approximates the cost a third party would incur in performing the tasks associated with the landfill sites. These obligations represent estimated undiscounted future payments of $464 to remediate the landfills at the end of their useful lives. These payments are expected to occur within the next 12 months and have been recorded in accounts payable.

The following table reflects changes in the provision for the landfill related provisions:

	December 31, 2013 $	December 31, 2012 $
Opening balance	889	853
Change in estimated costs of capping existing landfills	(200)	161
Landfill maintenance payments	(225)	(125)
Balance at end of year	464	889
Less: current portion included in accounts payable	(464)	(889)
Long-term landfill related provisions	–	–

Environmental Remediation

On June 20, 2012, the Company purchased the assets of a mill in Lebel-sur-Quévillon, Québec. As part of the purchase, the Company entered into an environmental Trust Agreement (the “Trust”) to be used for environmental remediation for potential problems that existed at the date of purchase. The Company does not have access to, and cannot control, the funds in the Trust. The Company must fund $7.5 million over the next 5 years in the intervals set out below. The Company must also fund another $2.5 million in the event that the mill is dismantled in the future. The liability for the Company is for existing environmental liabilities at the date of purchase has been limited at the amounts set out above. Any further environmental remediation costs are to be paid by the previous owners of the mill and the provincial government. The discount rates used for the valuation of the long-term liability range from 6.8% to 8.0% depending on the timing of the expected payment. The discount rate used for the valuation of the $2.5 million provision is 9.8%.

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

	Environmental Remediation Liability	Provision
	$	$
Balance, June 20, 2012	5,676	136
Accretion	209	7
Balance, December 31, 2012	5,885	143
Accretion	422	14
Payment	(500)	–
Balance, December 31, 2013	5,807	157

The timing of potential Trust payments are as follows:

	$
2014	500
2015	1,500
2016	1,500
2017	3,500
2018	–
Thereafter	2,500
Total potential Trust payments	9,500

15. EMPLOYEE FUTURE BENEFITS

The Company maintains defined contribution pension plans in Canada. The total cost recognized in 2013 for the Company's contribution to the plans was $1,316 (2012: $1,289).

The Company maintains a defined benefit pension plan in Switzerland providing pension benefits based on either length of service and earnings. The Company measures its accrued benefit obligations and fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation for the plan was December 31, 2013.

The status of the Company's defined benefit pension plan is as follows:

	Year Ended December 31, 2013	Year Ended December 31, 2012
	$	$
Reconciliation of amount recognized in the statement of financial position		
Fair value of plan assets	75,354	65,609
Present value of defined benefit obligation	80,091	67,382
Employee future benefits	(4,737)	(1,773)

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

	Year Ended December 31, 2013 $	Year Ended December 31, 2012 $
Components of defined benefit expense recognized in statement of operations		
Current service cost	1,796	1,359
Past service cost	(559)	–
Interest expense on defined benefit obligation	1,459	1,657
Interest income on plan assets	(1,416)	(1,506)
Administration costs	34	33
Net expense recognized in net income	1,314	1,543

	Year Ended December 31, 2013 $	Year Ended December 31, 2012 $
Components of defined benefit recognized in other comprehensive income		
Return on plan assets excluding interest income	900	2,970
Actuarial gain (loss) on benefit obligation from change in financial assumptions	928	(3,200)
Actuarial (loss) gain on benefit obligation from experience adjustments	(4,953)	4,999
Gain (loss) recognized in other comprehensive income before taxes	(3,125)	4,769

	Year Ended December 31, 2013 $	Year Ended December 31, 2012 $
Reconciliation of defined benefit obligation		
Beginning of year	67,382	67,605
Service cost	1,796	1,359
Interest expense on defined benefit obligation	1,459	1,657
Benefit payments	(1,961)	(2,908)
Contributions by plan participants	1,292	1,165
Past service costs	(559)	–
Administration costs	34	33
Actuarial loss (gain)	4,025	(1,800)
Foreign exchange	6,622	271
End of year	80,090	67,382

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

	Year Ended December 31, 2013 $	Year Ended December 31, 2012 $
Plan assets		
Fair value, beginning of year	65,609	61,556
Interest income on plan assets	1,416	1,506
Employer contributions	1,292	1,165
Employee contributions	1,292	1,165
Return on plan assets excluding interest income	900	2,969
Benefit payments	(1,961)	(2,908)
Foreign exchange	6,805	156
End of year	75,353	65,609

	December 31, 2013	December 31, 2012
Significant actuarial assumptions are as follows	%	%
Discount rate to determine benefit obligations at end of year	2.2	2.1
Rate of increase in future compensation	1.5	1.5
Plan assets at fair value at the end of the year	%	%
Liquid assets	3.2	2.5
Bonds	49.3	52.6
Equity	28.1	25.3
Real estate	19.4	19.6
	100.0	100.0

The sensitivity of the defined benefit obligation to changes in assumptions is set out below.

	Ending Obligation December 31, 2013 $
Sensitivity for the ending defined benefit obligation	
Discount rate - 0.25%	83,039
Discount rate + 0.25%	77,329
Salary decrease - 0.25%	79,876
Salary increase + 0.25%	80,306
Life expectancy - 1 year	77,848
Life expectancy + 1 year	82,265

The defined benefit plan is funded through a legally separate trustee administered pension fund. The board of trustees is responsible for the investment of the assets and risk management. The cash funding of the plan is designed to ensure that present and future contributions are sufficient to meet future liabilities. The pension fund is able to adapt the contributions and benefits at any time. In case of underfunding, this may involve special payments from the employer.

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

Approximately $2,563 is expected to be contributed by the Company to all pension plans for the year ended December 31, 2014.

16. SHARE CAPITAL

(a) **Authorized:**

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

(b) **Issued and fully paid — common shares**

	Note	Number of Shares	Share Capital $
Balance, December 31, 2011		14,303,594	175,200
Restricted Share Units vested		115,481	2,013
Options exercised	17	76,000	839
Balance, December 31, 2012		14,495,075	178,052
Restricted Share Units vested	17	66,570	1,619
Deferred Share Units vested	17	24,448	369
Balance, December 31, 2013		14,586,093	180,040

Warrants

On June 20, 2012, the Company issued 715,000 warrants to a lender. The warrants have an exercise price of $21.52 and are exercisable from December 31, 2014 to December 31, 2017, when they expire. The warrants were valued at $8.62 per warrant at the grant date using the Black Scholes pricing model. The Black Scholes pricing model requires the input of highly subjective assumptions including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's warrants. Assumptions used in the pricing model are as follows:

	2012
Risk-free interest rate	1.3%
Expected life of warrants	5 years
Annualized volatility	51.2%
Dividend rate	Nil

All 715,000 warrants were outstanding as at December 31, 2013.

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

17. STOCK-BASED COMPENSATION

During 2006, the Company adopted a stock incentive plan. The exercise price of options granted under the stock option plan shall be as determined by the Board of Directors when such options are granted, subject to any limitations imposed by any relevant stock exchange or regulatory authority.

At the Company's annual general meeting held April 30, 2009, shareholders approved a long-term incentive plan which provides for the grant of restricted share units, performance share units and deferred share units to key employees and directors of the Company. The aggregate number of shares issuable under the long-term incentive plan in respect of awards, together with shares reserved for issuance under all of the Company's other security-based compensation arrangements, shall not exceed ten percent of the Company's issued and outstanding shares.

Stock Options

During the year ended December 31, 2013, there were no options granted to employees of the Company (2012: 300,000). The weighted average fair value of the options granted in 2012 was $6.80 per option at the grant date using the Black Scholes option pricing model. Option pricing models require the input of highly subjective assumptions including the expected volatility. Expected volatility is based on historical Fortress stock performance. Changes in the assumptions can materially affect the fair value estimate, and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Assumptions used in the pricing model are as follows:

	2013
Risk-free interest rate	1.4%
Expected life of options	5 years
Annualized volatility	52.3%
Dividend rate	Nil

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

	Number of options	**Weighted Average Exercise Price $**
Balance, December 31, 2011	566,725	8.00
Exercised	(76,000)	8.00
Cancelled	(100,000)	8.00
Granted	300,000	15.41
Balance, December 31, 2012	690,725	11.22
Forfeited	(40,000)	15.41
Balance, December 31, 2013	650,725	10.96

During the year ended December 31, 2013, 40,000 unvested options were forfeited when an employee left the Company.

The following table summarizes stock options outstanding as at December 31, 2013:

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

Exercise Price $	Number outstanding as at December 31, 2013	Weighted average remaining life of outstanding options (years)	Number exercisable as at December 31, 2013	Weighted average remaining life of exercisable options (years)
8.00	390,725	3.64	390,725	3.64
15.41	260,000	8.67	260,000	8.67
	650,725	5.65	650,725	5.65

The following table summarizes stock options outstanding as at December 31, 2012:

Exercise Price $	Number outstanding as at December 31, 2012	Weighted average remaining life of outstanding options (years)	Number exercisable as at December 31, 2012	Weighted average remaining life of exercisable options (years)
8.00	390,725	4.64	390,725	4.64
15.41	300,000	9.67	200,000	9.66
	690,725	6.83	590,725	6.34

Deferred Share Unit Awards

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

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

	Number of DSUs	Expense recognized $
Balance, December 31, 2011	142,873	5,642
Granted	6,797	163
Balance, December 31, 2012	149,670	5,805
Granted	34,990	290
Vested	(24,448)	–
Balance, December 31, 2013	160,212	6,095

Restricted Share Unit Awards

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

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

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

	Number of RSUs
Balance, December 31, 2011	262,664
Granted	60,869
Vested	(115,481)
Forfeited	(6,850)
Balance, December 31, 2012	201,202
Granted	97,183
Vested	(66,570)
Forfeited	(11,209)
Balance, December 31, 2013	220,606

18. FINANCE INCOME AND EXPENSE FROM CONTINUING OPERATIONS

	December 31, 2013 $	**December 31, 2012 $**
Interest expense:		
Long-term debt interest	13,528	9,033
Accretion and other	6,720	5,225
	20,248	14,258
Less: amounts capitalized on qualifying assets	(3,278)	(3,105)
Total finance expense	16,970	11,153
Finance income – interest on short-term bank deposits	(298)	(326)
Net finance expense	16,672	10,827

19. EARNINGS PER SHARE FOR CONTINUING OPERATIONS

a) Basic

Basic earnings (loss) per share, is calculated by dividing the income (loss) attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year.

	2013	**2012**
Loss from continuing operations	(107,823)	(42,337)
Weighted average number of common shares outstanding	14,543,597	14,379,012

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. The Company has four categories of dilutive potential common shares: convertible debt, stock options, RSUs and DSUs. The convertible debt is assumed to have been converted into common shares, and the net income is adjusted to eliminate the interest expense less the tax effect. For the stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated reduces the number of shares that would have been issued assuming the exercise of the share options. RSUs and DSUs are assumed to be converted as of the grant date.

Adjustments for the weighted average number of common shares of 4,373,422 (2012: 3,144,790) for convertible debt, stock options, warrants, RSUs and DSUs have not been included in the calculation for diluted loss per share as they are antidilutive.

The weighted average diluted number of shares is based on continuing operations. The weighted average diluted number of shares for comparative periods in 2012 differs from numbers previously reported due to items no longer being dilutive when based solely on continuing operations.

20. GOVERNMENT ASSISTANCE

During the year ended December 31, 2013, the Company has recorded non-refundable investment and other tax credits from the Canada and Québec governments totalling $558 as deferred income tax assets (2012: $3,790).

21. COMMITMENTS

As at December 31, 2013, the Company has committed to purchase $1.5 million in property, plant, and equipment.

As at December 31, 2013, the Company has outstanding performance bonds in the amounts of EUR 8,982, USD 170 and CHF 51.

As at December 31, 2013, the Company has committed to purchase steam from a supplier up to the end of 2015 for CHF 900 per year.

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

22. RELATED PARTIES

The remuneration of directors and other key management personnel was as follows:

	December 31, 2013 $	December 31, 2012 $
Salaries and other short-term employee benefits	5,793	3,187
Share-based awards	1,425	3,056
Total	7,218	6,243

23. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations is based on a number of factors, including production, production processes, and economic characteristics. The Landqart mill and Fortress Optical Features produce security papers and products. The Dresden mill produces non-woven wallpaper base products and is included in the specialty papers segment. Fortress Specialty Cellulose produces dissolving pulp products. During the year ended December 31, 2013, three customers individually accounted for 33%, 15%, and 17% of sales from continuing operations. During 2012, the same customers accounted for 12%, 30%, and 22% of sales from continuing operations, respectively.

	Year ended December 31, 2013					
	Security	Pulp	Corporate	Continuing Operations	Discontinued Operations (Wallpaper)	Fortress Consolidated
	$	$	$	$	$	$
Sales	119,148	88,637	-	207,785	57,730	265,515
Operating income (loss)	(7,256)	(44,177)	(10,329)	(61,762)	13,211	(48,551)
Amortization[1]	(8,041)	(11,691)	-	(19,732)	(745)	(20,477)
Stock-based compensation[1]	-	-	(1,905)	(1,905)	-	(1,905)
Capital expenditures	1,855	47,063	-	48,918	3,652	52,570
Total assets	143,153	384,951	53,740	581,844	-	581,844
Sales by geographic area				%	%	%
Europe				12.2	96.6	30.6
Asia				75.5	3.1	59.8
Other				12.3	0.3	9.6
Total				100.0	100.0	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

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

	Year ended December 31, 2012					
	Security	Pulp	Corporate	Continuing Operations	Discontinued Operations (Wallpaper)	Fortress Consolidated
	$	$	$	$	$	$
Sales	57,066	106,857	-	163,923	150,516	314,439
Operating income (loss)	(31,626)	(23,603)	(8,951)	(64,180)	34,026	(30,154)
Amortization[1]	(7,742)	(7,927)	-	(15,669)	(3,495)	(19,164)
Stock-based compensation[1]	-	-	(3,516)	(3,516)	-	(3,516)
Capital expenditures	1,363	106,333	-	107,696	4,364	112,060
Total assets	140,540	361,894	11,862	514,296	63,658	577,954
Sales by geographic area				%	%	%
Europe				20.5	96.5	53.7
Asia				71.2	3.2	43.2
Other				8.3	0.3	3.1
Total				100.0	100.0	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

	December 31, 2013	December 31, 2012
	$	$
Property, plant and equipment by location		
Canada	318,137	316,042
Switzerland	94,812	95,846
Germany	-	28,339
Total	412,949	440,227

24. FINANCIAL RISK MANAGEMENT

a. Financial risk factors

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is managed on a Company basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analyzing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers.

Cash and cash equivalents include cash on deposit and cash equivalents with an original maturity date of 90 days or less. In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. The cash and cash equivalents balance at December 31, 2013 was $61.9 million (2012: $31.5 million).

The Company utilizes credit insurance to manage the risk associated with trade receivables. Approximately 26% of the outstanding trade receivables are covered under credit insurance or backed by letters of credit. The majority of the balance is with large and financially sound customers, including national banks. The Company sells all pulp through a third party agent that takes ownership of the inventory before it is delivered to the final customer. Accounts receivable aged greater than 90 days are $1.8 million of which $0.2 million is provided for as potentially impaired. The remaining amount is considered collectable. The Company's trade receivable balance at December 31, 2013 was $12.4 million (2012: $13.8 million). At December 31, 2013, approximately, 87% of the trade accounts receivable balance was within the Company's established credit terms.

Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they fall due. Cash flow forecasting is performed in the operating entities of the Company in and aggregated by Company finance. Company finance monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs while not breaching borrowing limits or covenants. The Company manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities. The Company manages liquidity risk through ongoing review of accounts receivable balances and the management of its cash and debt positions.

At December 31, 2013, the Company's current portion of long term debt, accounts payable and accrued liabilities totaled $48.6 million (2012: $87.6 million), all of which fall due for payment within one year of the statement of financial position date.

Although there can be no assurances, Fortress believes that cash generated from operations, together with amounts expected to be available under its credit facilities and the potential of proceeds from equity financings, will be sufficient to meet its debt service requirements, capital expenditure needs and working capital needs for the next year. Fortress' future operating performance and its ability to service its debt and pay other indebtedness of Fortress will be subject to future economic conditions and the financial success of Fortress' business and other factors, many of which are not within Fortress' control, including changes in market prices for its dissolving pulp, security papers and raw material costs.

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates and foreign currency.

Currency risk:

The Company is exposed to foreign exchange risk primarily in Euros, Swiss Francs and American dollars. The Company's products are sold globally with prices denominated primarily in Euros, Swiss Francs and American dollars. The majority of the Company's expenditures are denominated in Euros, Swiss Francs and Canadian dollars. In addition, the Company holds financial assets and liabilities in the local operating currencies.

For the years ended December 31, 2013 and December 31, 2012, the Company did not use derivative instruments to reduce its exposure to currency risk for sales denominated in a foreign currency.

Sensitivity analysis:

The Company has completed a sensitivity analysis to estimate the impact on operating income for the year that a change in foreign exchange rates or interest rates during the year ended December 31, 2013 would have had.

This sensitivity analysis includes the following assumptions:

- Changes in individual foreign exchange rates do not cause foreign exchange in other countries to alter
- Changes in market interest rates do not cause a change in foreign exchange rates

The results of the foreign exchange sensitivity analysis on operations can be seen in the following table:

		Impact on operating income $
Change in CHF exchange rates		
Weakening of 1% compared to EUR foreign exchange rate	+	420
Change in Canadian dollar exchange rate		
Weakening of 1% compared to USD foreign exchange rate	+	863

The above results arise due to the impact of foreign currency fluctuations on operations for transactions denominated in Euros and USD. Fortress will continue to monitor and evaluate the future use of exchange contracts to limit exposure to exchange fluctuations.

The Company also has translation risk for the translation of foreign subsidiaries into the functional currency of Fortress Paper. This risk has no bearing on the operations of the Company and only relates to the reporting of earnings in the consolidated functional currency. This risk is partially mitigated by both revenues and expenses being mainly denominated in local currencies for each subsidiary. The results of foreign exchange sensitivity analysis on translation of foreign subsidiaries can be seen in the following table:

		Impact on operating income $
Change in Canadian exchange rates:		
Weakening of 1% compared to CHF foreign exchange rate	+	70

Changes in market interest rates would have no significant impact on operating income.

Limitations of sensitivity analysis

The financial position of the Company may vary at the time that a change in the factors occurs, causing the impact on the Company's results to differ from that shown above.

b. Capital management

The Company's objectives when managing capital are to safeguard its assets and maintain a globally competitive cost structure while looking for growth opportunities to provide returns to its shareholders. In addition, the

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

Company works with all relevant stakeholders to ensure the safety of its operations and employees, and remain in compliance with all environmental regulations and enhance the communities in which it operates.

The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent taking into account the anticipated direction of the business cycle. The Company continuously monitors the public and private debt markets and the public equity markets in order to assure that its capital structure is appropriately balanced. The Company can be materially influenced by changes in the relative value of the Canadian dollar, Swiss Franc, American dollar, and Euro.

The Company's capital comprises net debt and shareholders' equity:

	December 31, 2013 $	December 31, 2012 $
Cash and cash equivalents	61,888	31,491
Less total debt	228,130	255,901
Net (debt) cash	(166,242)	(224,410)
Shareholders' equity	302,278	229,669

The Company has certain financial covenants stipulating maximum net debt to capitalization ratios, maximum debt to earnings before interest, taxes, amortization and amortization ratios, and minimum current ratios. Debt obligations are held by various entities within the Company with individual debt agreements specifying the entities within the Company that are to be included in the covenant calculations.

The Company's strategy is to ensure it remains in compliance with all of its existing debt covenants in order to ensure continuous access to capital. Management reviews past results and forecasts to monitor their compliance. The Company was in compliance with all externally imposed capital requirements for the years ended December 31, 2013 and December 31, 2012.