

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities in those jurisdictions. The securities offered hereby have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and, except as permitted by the Underwriting Agreement (defined herein) and pursuant to certain exemptions, may not be offered or sold within the United States unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities in the United States. See heading "Plan of Distribution".

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

SHORT FORM PROSPECTUS

New Issue

February 3, 2011



Fortress Paper Ltd.

\$50,042,250

967,000 Common Shares

This short form prospectus qualifies the distribution (the "Offering") of 967,000 Class A Voting common shares (the "Offered Shares") of Fortress Paper Ltd. ("Fortress" or the "Company") at a price of \$51.75 (the "Offering Price") per Offered Share. The Offering Price was determined by negotiation between the Company and Raymond James Ltd., as lead underwriter (the "Lead Underwriter"), on its own behalf and on behalf of Dundee Securities Corporation, RBC Dominion Securities Inc., Cormark Securities Inc., TD Securities Inc. and Acumen Capital Finance Partners Limited (collectively, the "Underwriters").

The Class A Voting common shares of the Company (the "Common Shares") are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the symbol "FTP". The closing price of the Common Shares on the TSX on January 20, 2011, the trading day on which the Offering was announced, was \$54.00. The TSX has conditionally approved the listing of the Offered Shares (including the Additional Shares (as defined herein) issuable pursuant to the exercise of the Over-Allotment Option (as defined herein)) on the TSX. Approval of such listing will be subject to the Company fulfilling all of the listing requirements of the TSX on or before April 26, 2011.

Price: \$51.75 per Offered Share

	Price to the Public	Underwriters' Fee ⁽¹⁾	Proceeds to the Company ⁽²⁾
Per Offered Share	\$51.75	\$2.07	\$49.68
Total ⁽³⁾	\$50,042,250	\$2,001,690	\$48,040,560

Note:

- (1) Pursuant to the terms and conditions of an underwriting agreement between the Company and the Underwriters dated January 26, 2011 (the "Underwriting Agreement"), the Company has agreed to pay a cash commission to the Underwriters (the "Underwriters' Fee") equal to 4.0% of the gross proceeds of the Offering. See heading "Plan of Distribution".
- (2) Before deducting the expenses of the Offering, estimated to be approximately \$450,000, which will be paid from the proceeds of the Offering.
- (3) If the Over-Allotment Option (as defined herein) is exercised in full, the total price to the public will be \$57,548,588, the total Underwriter's Fee will be \$2,301,944 and the total proceeds to the Company, before deducting the expenses of the Offering, will be \$55,246,644.

The Company has granted the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional 145,050 Common Shares (the "Additional Shares"), representing up to 15.0% of the Offered Shares, at the Offering Price, exercisable in whole or in part from time to time, at the sole discretion of the Underwriters, not later than 5:00 p.m. (Vancouver time) on the second business day prior to the Closing Date (as defined below), to cover over-allotments, if any,

and for market stabilization purposes. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of the Additional Shares pursuant to the exercise of the Over-Allotment Option. See heading "*Plan of Distribution*".

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

Underwriters' Position	Maximum Size or Number of Securities Available	Exercise Period	Exercise Price
Over-Allotment Option	145,050 Common Shares	Up to and including 5:00 p.m. (Vancouver time) on the second business day prior to the date of closing of the Offering	\$51.75 per Additional Share

Purchasers acquiring Additional Shares pursuant to the exercise of the Over-Allotment Option (see heading "*Plan of Distribution*") acquire such shares under this short form prospectus, regardless of whether the over-allotment is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when issued by the Company and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under the heading "*Plan of Distribution*", and subject to the approval of certain legal matters on behalf of the Company by Sangra Moller LLP and on behalf of the Underwriters by Lawson Lundell LLP. Pursuant to the terms and conditions of the Underwriting Agreement, the Underwriters have agreed to purchase, as principals, on a "bought deal" basis, in the respective percentages set forth in the Underwriting Agreement, the Offered Shares from the Company and the Company has agreed to issue and sell to the Underwriters all but not less than all of the Offered Shares at the Offering Price.

The Company has been advised by the Underwriters that, subject to applicable laws, the Underwriters may, in connection with the Offering, effect transactions intended to stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. The Underwriters propose to offer the Offered Shares initially at the Offering Price. **After a reasonable effort has been made to sell all of the Offered Shares at the Offering Price, the Underwriters may subsequently reduce the selling price to investors from time to time in order to sell any of the Offered Shares remaining unsold. Any such reduction will not affect the proceeds received by the Company.** See heading "*Plan of Distribution*".

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Company will arrange for an instant deposit of the Offered Shares to or for the account of the Underwriters with CDS Clearing and Depository Services Inc. ("**CDS**") on the date of closing of the Offering, which is anticipated to occur on or about February 10, 2011 or at such other date as the Company and the Underwriters may agree (the "**Closing Date**"), but in any event will be no later than February 17, 2011, against payment by the Underwriters to the Company of the aggregate purchase price for the Offered Shares purchased by the Underwriters. No certificate evidencing the Offered Shares will be issued to purchasers, except in certain limited circumstances, and registration will be made in the depository services of CDS. A purchaser of Offered Shares will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom a beneficial interest in the Offered Shares is purchased.

An investment in the securities offered under this short form prospectus is speculative and involves a high degree of risk. The risk factors identified under the heading "*Risk Factors*" and "*Cautionary Note Regarding Forward-Looking Statements*" in this short form prospectus should be carefully reviewed and evaluated by prospective subscribers before purchasing the securities being offered under this short form prospectus.

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This short form prospectus contains forward-looking statements within the meaning of applicable Canadian securities laws. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. When used in this document, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to Fortress or its management, are intended to identify forward-looking statements. Examples of such forward-looking statements within this document include statements relating to: the use of proceeds from this Offering; the Company's business strategy; the Company's future growth; the Company's results of operations and performance; the Company's business prospects and opportunities; the anticipated completion of the Fortress Specialty Cellulose Mill conversion project; and realization of the anticipated benefits of acquisitions and projects related thereto and the papermachine number 1 rebuild. In addition, this short form prospectus contains forward-looking statements concerning the anticipated closing of the Offering. The closing of the Offering could be delayed if Fortress is not able to obtain the necessary stock exchange approval or any other approvals required for completion of the time lines it has planned. The Offering will not be completed at all if these approvals are not obtained or, unless waived, any other condition to the closing is not satisfied. Accordingly, there is a risk that the Offering will not be completed within the anticipated time or at all.

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

Persons reading this short form prospectus are cautioned that forward-looking statements or information are only predictions, and that the Company's actual future results or performance are subject to certain risks and uncertainties including, but not limited to: the inability of Fortress to obtain the necessary stock exchange approval or any other approvals required for completion of the Offering within the anticipated time or at all; there may be circumstances that are not known to Fortress at this time where re-allocations of the net proceeds from the Offering may be advisable for business reasons that management believes are in the Company's best interest; general economic, market and business conditions in Canada and the jurisdictions where the Company operates; the Company's ability to raise capital on acceptable terms; incorrect assessments of the value of acquisitions; fluctuations in foreign exchange or interest rates and stock market volatility; damage to the Company's reputation; the ability of the Company to implement its business plan; competition for, among other things, capital and skilled personnel; dependence on the Company's major customers; protection of intellectual property; fluctuations in the price of raw materials; the dependence on key personnel; the Company's competitive position in the industries in which it does business; potential disruptions to production and delivery; actions taken by governmental authorities; the ability to efficiently and effectively manage growth; and other factors referenced under the heading "*Risk Factors*" in the Company's annual information form dated March 31, 2010 and under the heading "*Risk Factors*" herein.

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

GENERAL MATTERS

All references in this short form prospectus to "dollars" or "\$" are to Canadian dollars and "EUR" are to the Euro currency unit unless otherwise noted. The Company's financial statements incorporated herein by reference have been prepared in accordance with Canadian generally accepted accounting principles.

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

ELIGIBILITY FOR INVESTMENT

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

Notwithstanding the foregoing, if the Offered Shares are a "prohibited investment" for a particular tax-free savings account, the holder of the particular tax-free savings account will be subject to penalty taxes under the Tax Act. The Offered Shares would be a "prohibited investment" for a tax-free savings account if the holder of the tax-free savings account has a "significant interest" in, or does not deal at arm's length with the Company. Generally, a holder of the tax-free savings account will not have a significant interest in the Company unless the holder and/or persons not dealing at arm's length with the holder, owns directly or indirectly at any time in the year 10% or more of the issued shares of any class of the capital stock of the Company or of a corporation related to the Company. **Investors are advised to consult their own tax advisors.**

DOCUMENTS INCORPORATED BY REFERENCE

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

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

- (a) the annual information form of the Company dated March 31, 2010, for the year ended December 31, 2009 (the "**Annual Information Form**");
- (b) the audited consolidated financial statements of the Company and notes thereto for the years ended December 31, 2009 and December 31, 2008, together with the auditors' report thereon;
- (c) management's discussion and analysis of financial condition and results of operations for the Company for the financial year ended December 31, 2009;
- (d) the unaudited consolidated financial statements of the Company and notes thereto for the nine month period ended September 30, 2010;

- (e) management's discussion and analysis of financial condition and results of operations for the Company for the nine month period ended September 30, 2010;
- (f) the management information circular of the Company dated May 7, 2010, prepared in connection with the Company's annual general meeting of shareholders held on June 11, 2010;
- (g) the material change report of the Company dated February 15, 2010 announcing the planned rebuild of papermachine number 1 located at its Landqart Mill ("**PM1**");
- (h) the material change report of the Company dated March 1, 2010 announcing the signing by its wholly owned-subsiary of a loan agreement for the planned rebuild of PM1;
- (i) the material change report of the Company dated March 24, 2010 announcing the signing of an asset purchase agreement to acquire the assets of a northern bleached hardwood kraft ("**NBHK**") manufacturing facility located in Thurso, Québec from Fraser Papers Inc. and certain pre-arranged specific financing initiatives to fund the Company's proposed business plan at such facility;
- (j) the material change report of the Company dated April 26, 2010 announcing the signing of a subscription agreement with Solidarity Fund QFL ("**FSTQ**") providing for the subscription of an unsecured convertible debenture of the Company in the principal amount of \$15,000,000;
- (k) the material change report dated May 10, 2010 announcing the completion of the acquisition of a NBHK manufacturing facility located in Thurso, Québec from Fraser Papers Inc. for net proceeds of approximately \$1,200,000, the finalization of \$102,400,000 in project financing with Investissement Québec and the issuance of a \$15,000,000 convertible debenture (the "**Debenture**") to FSTQ;
- (l) the material change report dated May 17, 2010 announcing the signing of an energy supply agreement with Hydro Québec;
- (m) the material change report dated June 11, 2010 announcing senior management and director appointments at Fortress Specialty Cellulose Inc.;
- (n) the material change report dated July 7, 2010 announcing the completion of the Company's previously announced "bought deal" short form prospectus offering of 1,739,000 Common Shares for gross proceeds of \$40,866,500;
- (o) the material change report dated August 9, 2010 announcing the resignation and replacement of a director of the Company;
- (p) the material change report dated October 8, 2010 announcing the entering into of dissolving pulp supply agreements with three producers of viscose fibre (rayon) products located in China and the issuance of 400,000 Common Shares upon the partial conversion by FSTQ of \$8,000,000 principal amount of the Debenture;
- (q) the material change report dated December 8, 2010 announcing the signing of an asset purchase agreement by Fortress Optical Features Ltd., a wholly-owned subsidiary, to acquire the assets of the Bank of Canada's Optical Security Material (OSM) division, for the production of optically variable security material for banknote security threads and the planned construction of a multi-million dollar high security production and research and development facility in Thurso, Québec; and
- (r) the material change report dated January 4, 2011 announcing the completion of its acquisition of the assets of the Bank of Canada's Optical Security Material (OSM) division and the completion of the PM1 rebuild.

Any documents of the type required by National Instrument 44-101 - *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any material change reports (excluding confidential reports), comparative interim financial statements, comparative annual financial statements and the auditor's report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms and business acquisition reports filed by the Company with the securities commissions or similar authorities in Canada subsequent to the date of this short form prospectus and before the termination of the distribution under the Offering, are deemed to be incorporated by reference in this short form prospectus.

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

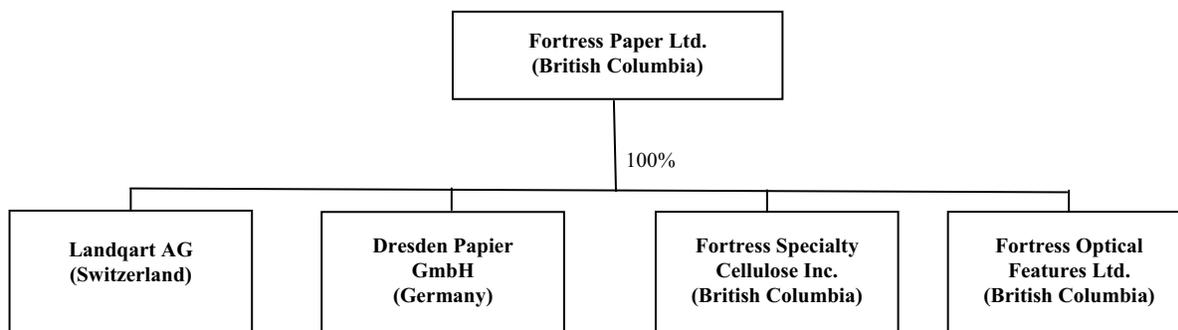
THE COMPANY

General

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

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

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



In this short form prospectus:

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

- "**Landqart Mill**" means the paper mill located in Landqart, Switzerland, owned by Landqart;
- Dresden Papier GmbH will be referred to as "**Dresden**";
- "**Dresden Mill**" means the paper mill located in Heidenau, Germany, owned by Dresden;
- Fortress Specialty Cellulose Inc. will be referred to as "**Fortress Specialty**";
- "**Fortress Specialty Cellulose Mill**" means the NBHK manufacturing facility located at Thurso, Québec, owned by Fortress Specialty; and
- Fortress Optical Features Ltd. will be referred to as "**Fortress Optical**".

The Business

Overview

Fortress is an international producer of security and other specialty papers and, on an interim basis, NBHK pulp. The Company's security papers include banknote, passport, visa and other brand protection and security papers. The Company's specialty papers include non-woven wallpaper base products. Fortress operates two paper mills and a NBHK pulp mill, specifically the Landqart Mill located in Switzerland, the Dresden Mill located in Germany and the Fortress Specialty Cellulose Mill located in Canada. With the recent purchase of the Fortress Specialty Cellulose Mill, Fortress is in the process of converting its NBHK pulp manufacturing facility to expand its business into the specialty pulp sector as well as the renewable energy generation sector.

Landqart

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

Dresden

The Dresden Mill is a leading global supplier of non-woven wallpaper base with an estimated 50% of the world-wide non-woven wallpaper base market. The Dresden Mill is located in Germany in the town of Heidenau, approximately 12 kilometres south of the city of Dresden and produces coated and uncoated wallpaper base for the production of wallpaper. The Company's non-woven wallpaper base contains a certain proportion of synthetic fibres which provide unique characteristics, the most important of which is ease of removal due to its dry-strippability. Other features of non-woven wallpaper base include increased dimensional stability preventing expansion and contraction which occurs in traditional wallpaper base products and results in noticeable seams upon drying.

Fortress Specialty

The Fortress Specialty Cellulose Mill currently produces NBHK, a form of pulp used by paper manufacturers. Fortress Specialty intends to produce NBHK pulp while converting the Fortress Specialty Cellulose Mill to produce dissolving wood pulp, also known as specialty cellulose ("**Dissolving Pulp**"). The conversion is expected to be completed during the third quarter of 2011.

Dissolving Pulp is a chemically refined bleached pulp that has unique properties, including a high level of brightness and uniform molecular-weight distribution. Dissolving Pulps are used in the production of rayon and acetate textile fibres, cellophane, and various chemical additives. Rayon is used in a variety of products including home furnishings, medical and surgical products and packaging materials. Fortress intends to initially focus its sales of

Dissolving Pulp for the rayon industry with a geographic focus on markets in Asia. In addition, Fortress intends to build a biomass-fueled co-generation plant at the Fortress Specialty Cellulose Mill that will produce green electricity.

See the heading "*Recent Developments – Acquisition of Fortress Specialty Cellulose Mill*" and "*Recent Developments – Co-generation Agreement*".

Recent Developments

PM1 Rebuild

In February 2010, the Company announced the signing by Dresden of a loan agreement with GE Capital Bank AG for EUR 18.5 million (which is expected to be increased to EUR 22.2 million) in connection with the rebuild of Landqart's PM1 to produce banknote and high security papers. The loan agreement is for a seven year term, with interest fixed for the first three years at 7.09% per annum beginning after final drawdown which is anticipated to be in early 2011 and is secured by the property, plant and equipment of Landqart. During the drawdown period, interest only payments will be required at 6.20% per annum. The Company has completed the PM1 rebuild materially on budget and is currently producing high security papers.

The Dresden loan, in conjunction with a Dresden factoring agreement for up to EUR 12 million and proceeds from an offering of Common Shares completed in July 2010 were used to finance the rebuild of PM1. See the heading "*– Prospectus Offering*". The base rate for the factoring agreement is three month Euribor plus 2.25%. The rebuild is designed to increase Fortress' banknote and high security papers theoretical production capacity from the current 2,500 tonnes per annum to approximately 10,000 tonnes per annum. PM1 was previously used to manufacture lower margin specialty papers and low to medium security papers. The rebuild is part of the Company's strategy to fully convert the Landqart Mill from a specialty paper mill to a higher margin banknote and security paper producer. The Company expects that the increase in production capacity associated with the rebuild will permit the Company to become a significant competitor in the security paper markets.

Acquisition of Fortress Specialty Cellulose Mill

On April 30, 2010, Fortress completed the acquisition of the Fortress Specialty Cellulose Mill from Fraser Papers Inc. for net proceeds of approximately \$1.2 million. The Company intends to convert this operation into a low cost, Dissolving Pulp operation targeting customers that are primarily in the rayon textile industry. Concurrently, the Company intends to build a biomass-based co-generation plant at the Fortress Specialty Cellulose Mill which will produce green electricity. The acquisition was completed through the Company's wholly-owned subsidiary, Fortress Specialty.

The Company intends to incur capital expenditures of approximately \$153 million to convert the NBHK mill into a high quality specialty cellulose mill and to construct a new co-generation facility. The specialty cellulose mill is planned to have an annual production capacity of more than 200,000 air dried metric tonnes ("**ADMT**"). The Company is in the process of reviewing and evaluating capital expenditures to be incurred in year 2012 relating to the construction of the co-generation facility using new equipment instead of refurbished equipment as previously budgeted and which, based on preliminary estimates, may result in a potential increase in costs in the range of \$20 million to \$25 million. As the review process is at its preliminary stages, there is no assurance that the aggregate costs will be within this range. See the heading "*Risk Factors – Fortress Specialty Cellulose Mill Project*".

Concurrent with the completion of the acquisition, the Company finalized \$102.4 million in project financing with Investissement Québec (the "**IQ Loan**") and a \$15 million convertible debenture financing with FSTQ. In October 2010, FSTQ converted \$8 million of the principal amount of the Debenture into 400,000 Common Shares. The Company also completed an offering of Common Shares in July 2010 for aggregate gross proceeds of approximately \$44.7 million, which were used in part to finance certain capital expenditures relating to the Fortress Specialty Cellulose Mill. See the heading "*– Prospectus Offering*". Additionally, included in the purchased assets was approximately \$9.9 million in credits (black liquor credits) granted under the Canadian government's Pulp and Paper Green Transformation Program. Fortress has also applied for approximately \$15.2 million (which may be increased subject to the aggregate amount of the capital expenditures) in federal credits under the Green

Infrastructure Fund program of the Minister of Transport, Infrastructure & Communities relating to the planned co-generation project. See the heading "*Risk Factors - Additional Funding Requirements*".

Fortress Specialty commenced the production and sale of NBHK pulp in May 2010 and expects to produce approximately 250,000 ADMT of high grade NBHK pulp per annum. In October 2010, Fortress entered into Dissolving Pulp supply agreements with three producers of viscose fibre (rayon) products located in China for delivery of an aggregate of 156,000 ADMT of Dissolving Pulp per annum, representing 78% of the Fortress Specialty Cellulose Mill's planned annual production capacity. The purchase price under the pulp supply agreements is based on a formula that factors in prevailing market prices in China, are for terms between five and ten years, and provide for Fortress commencing the supply of Dissolving Pulp in the third quarter of 2011.

Co-generation Agreement

On May 6, 2010, Fortress Specialty entered into an energy supply agreement (the "**Energy Supply Agreement**") with Hydro Québec for the sale of green electricity to be produced at the Fortress Specialty Cellulose Mill upon completion of the co-generation facility. The Energy Supply Agreement provides for the construction of a facility to provide net 18.8 megawatts of green power to Hydro Québec over a 15 year term with deliveries estimated to commence in the fourth quarter of 2012. The Energy Supply Agreement has received final approval by the Régie de l'énergie in Québec.

Corporate Developments

In June 2010, Peter Vinall was appointed President and Chief Executive Officer of Fortress Specialty and Pierre Monahan was appointed to Fortress Specialty's board of directors. Mr. Monahan joined the Company's board of directors in August 2010 upon the resignation of Armin Martens. In addition, the Company has completed a long term employment agreement with Chadwick Wasilenkoff, the Chief Executive Officer of the Company. See the heading "*Executive and Stock Based Compensation – Employment Agreements – Chadwick Wasilenkoff*".

Prospectus Offering

In July 2010, Fortress completed a public offering by way of short form prospectus (the "**2010 Prospectus**") of 1,739,000 Common Shares and the exercise of an over-allotment option by the underwriters of an additional 161,050 Common Shares, at a price of \$23.50 per share, resulting in aggregate gross proceeds of approximately \$44.7 million. In the 2010 Prospectus, the Company disclosed the following intended use of proceeds: (i) to finance certain capital expenditures relating to the Fortress Specialty Cellulose Mill (approximately \$15 million); (ii) the rebuild of PM1 at its Landqart Mill (approximately \$12 million); and (iii) the balance for working capital. As at January 31, 2011, the Company deployed substantially all the proceeds from such offering in accordance with the disclosure contained in the 2010 Prospectus. See the headings "*– PM1 Rebuild*" and "*– Acquisition of Fortress Specialty Cellulose Mill*".

Acquisition of the Fortress Optical OSM Assets

On January 4, 2011, Fortress, through its wholly-owned subsidiary, Fortress Optical Features Ltd., completed the acquisition of the assets of the Bank of Canada's Optical Security Material (OSM) division (the "**OSM Assets**"), which produces optically variable security material for the security threads contained in Canadian banknotes and various international currency denominations. The purchase price for the OSM Assets was \$750,000 along with Fortress granting to the Bank of Canada a royalty-free license to use the intellectual property comprising the assets for Canadian banknote applications. The OSM Assets will supplement Fortress' existing paper-based high security feature offerings. Fortress intends to market these security features to global banknote producers. The features will complement and are expected to enhance the Landqart Mill's operations. The OSM Assets are expected to be relocated to a new multi-million dollar high security production and research and development facility (the "**Fortress Optical Facility**") which the Company will be building adjacent to the Fortress Specialty Cellulose Mill in Thurso, Québec.

The OSM Assets include certain patent applications and intellectual property rights to optical security features, unique security applications and substantially all of the production equipment and machinery currently used at the OSM division. Along with the acquisition, Fortress successfully secured the employment services of many members

of the OSM team which the Company believes will maintain operational continuity, product development and production quality while integrating the OSM Assets into its operations. The Company has also applied for grants and subsidies in the amount of approximately \$700,000 relating to employee training and the establishment of a research centre in respect of the Fortress Optical Facility.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of Fortress as at September 30, 2010 on an actual basis and as adjusted to reflect the net proceeds from this Offering.

Description	Actual as at September 30, 2010 (unaudited)	Pro Forma as at September 30, 2010 after giving effect to the Offering (unaudited)
Debt:		
Long-term Debt	\$ 44,893,000	\$ 44,893,000 ⁽¹⁾
Shareholders Equity (Common Shares – Authorized: unlimited)	\$ 177,806,000 (12,195,080 Common Shares)	\$ 225,396,560 ⁽²⁾ (13,162,080 Common Shares)
Total Capitalization	\$ 222,699,000	\$ 270,289,560

Note:

(1) In October 2010, FSTQ converted \$8 million of the principal amount of the Debenture into 400,000 Common Shares.

(2) Assuming that the Over-Allotment Option is not exercised and after deducting the expenses of the Offering, which are estimated to be approximately \$450,000.

USE OF PROCEEDS

The aggregate net proceeds to be derived by the Company from the Offering are estimated to be approximately \$48 million, not including any proceeds received from the exercise of the Over-Allotment Option and after deducting the estimated expenses of the Offering of approximately \$450,000 and the Underwriters' Fee. Fortress intends to use the net proceeds from the Offering as follows:

To finance certain capital expenditures relating to:

- (i) the Fortress Specialty Cellulose Mill: Approximately \$20 million
- (ii) the Fortress Optical Facility and related expenditures: Approximately \$5 million

Working capital and general corporate purposes: Approximately \$23 million

The proceeds to be used to finance the capital expenditures relating to the Fortress Specialty Cellulose Mill are primarily attributable to timing differences in cash flow resulting from drawdowns pursuant to the terms of the IQ Loan. The proceeds to be used to finance the capital expenditures relating to the Fortress Optical Facility are primarily attributable to the cost of the construction of the building, which the Company estimates to be approximately \$4.5 million, with the balance to be used for related expenditures. The Company expects to complete the construction of the Fortress Optical Facility in the second quarter of 2011. The proceeds to be used for working capital will be utilized for ongoing projects of the Company in the normal course, including, but not limited to, the ramp-up of banknote and high security papers production at the Landqart Mill and Dissolving Pulp production at the Fortress Specialty Cellulose Mill. If the Over-Allotment Option is exercised, the Company intends to use the additional net proceeds for working capital and general corporate purposes. Please see the heading "*Recent Developments*" for more information relating to the Company's Fortress Specialty Cellulose Mill and OSM projects.

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

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Company has agreed to sell and the Underwriters have agreed to purchase, as principals, on or about February 10, 2011, or at such other date as the Company and the Underwriters may agree, but in any event no later than February 17, 2011, the Offered Shares at a price of \$51.75 per Offered Share for total gross consideration of \$50,042,250 payable in cash to the Company against delivery of the Offered Shares, subject to the terms and conditions contained in the Underwriting Agreement. The Offering Price was determined by negotiation between the Company and the Lead Underwriter, on its own behalf and on behalf of the other Underwriters.

Pursuant to the Underwriting Agreement, the Company has agreed to pay a commission to the Underwriters equal to 4.0% of the gross proceeds of the Offering. The Company has also granted the Underwriters the Over-Allotment Option, exercisable in whole or in part not later than 5:00 p.m. (Vancouver time) on the second business day prior to the Closing Date to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option, if exercised in full, would result in the issuance of the Additional Shares and additional proceeds of \$7,506,338, for total gross proceeds of \$57,548,588. This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of Additional Shares pursuant to the exercise of the Over-Allotment Option. Purchasers acquiring Additional Shares pursuant to the Over-Allotment Option acquire such shares under this short form prospectus, regardless of whether the over-allotment is ultimately filled through the exercise of the Over Allotment Option or secondary market purchases.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Company will arrange for an instant deposit of the Offered Shares to or for the account of the Underwriters with CDS on the Closing Date, against payment by the Underwriters to the Company of the aggregate purchase price for the Offered Shares purchased by the Underwriters, less the Underwriters' Fee. No certificate evidencing the Offered Shares will be issued to purchasers, except in certain limited circumstances, and registration will be made in the depository services of CDS. A purchaser of the Offered Shares will receive only a customer confirmation from the registered dealer who is a CDS participant and from or through whom a beneficial interest in the Offered Shares is purchased.

Pursuant to the rules and/or policy statements of certain Canadian securities regulatory authorities, the Underwriters may not, throughout the period of distribution under this short form prospectus, bid for or purchase Common Shares for their own account or for accounts over which they exercise control or direction. The foregoing restriction is subject to certain exceptions. Such exceptions include a bid or purchase permitted under the Universal Market Integrity Rules for Canadian Marketplaces administered by the Investment Industry Regulatory Organization of Canada relating to market stabilization and passive market-making activities and a bid or purchase made for, or on behalf of, a customer where the order was not solicited during the period of distribution. Subject to applicable laws and in connection with the Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Common Shares at levels other than which would otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time.

The Offered Shares have not been and will not be registered under the U.S. Securities Act, or any securities or "blue sky" laws of any of the states of the United States. Accordingly, the Offered Shares may not be offered or sold within the United States except in accordance with an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. The Underwriting Agreement provides that the Underwriters may offer and sell securities to investors located in jurisdictions outside those in which the securities offered hereunder are qualified for distribution pursuant to relevant prospectus or registration exemptions and in accordance with local laws.

The Underwriters have agreed that they will not offer, sell or deliver Offered Shares within the United States, except pursuant to certain transactions that are exempt from registration under the U.S. Securities Act. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Offered Shares in the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares within the United States by any dealer, whether or not participating in the Offering, may violate the registration requirement of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the U.S. Securities Act. Certificates representing any Offered Shares sold in the United States will bear a legend to the effect that the securities represented thereby are not and will not be

registered under the U.S. Securities Act and may only be offered or sold pursuant to certain exemptions from the registration requirements of the U.S. Securities Act.

The obligations of the Underwriters under the Underwriting Agreement are several and not joint and several and may be terminated at any time in their sole discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement. The Company has agreed to indemnify the Underwriters against certain liabilities upon customary terms.

The Underwriters propose to offer the Offered Shares initially at the Offering Price. Without affecting the firm obligation of the Underwriters to purchase the Offered Shares from the Company at the Offering Price, after the Underwriters have made reasonable efforts to sell all of the Offered Shares at such price, the Underwriters may subsequently reduce the Offering Price to investors from time to time in order to sell any of the Offered Shares remaining unsold. In the event the Offering Price is reduced, the compensation received by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Company for the Offered Shares. Any such reduction will not affect the proceeds received by the Company.

The TSX has conditionally approved the listing of the Offered Shares on the TSX (including the Additional Shares issuable pursuant to the exercise of the Over-Allotment Option). Approval of such listing will be subject to the Company fulfilling all of the listing requirements of the TSX on or before April 26, 2011.

The Company and its key management and directors have agreed not to issue, agree to issue, or announce an intention to issue, or dispose of in any way, any Common Shares or any securities convertible into, exchangeable for or otherwise exercisable into Common Shares for a period of 90 days following closing of the Offering (the "**Standstill Period**") without the prior written consent of the Underwriters, not to be unreasonably withheld or delayed, other than: (i) the Common Shares offered pursuant to this short form prospectus; or (ii) in connection with the exchange, transfer, conversion or exercise of rights of existing outstanding securities or existing commitments to issue securities. Notwithstanding the foregoing, certain insiders of the Company as a group will be permitted to sell, within the Standstill Period, not more than 30,000 Common Shares or securities exchangeable or convertible into Common Shares previously granted pursuant to the Company's 2009 long term incentive plan (the "**LTIP**"), pursuant to the Company's automatic share disposition plan, or in connection with any withholding tax obligations.

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

The authorized capital of the Company consists of an unlimited number of Common Shares without par value and an unlimited number of Class B preferred shares with a par value of \$1,000 (the "**Preferred Shares**"), of which 12,683,588 Common Shares and no Preferred Shares are issued and outstanding as of the date hereof.

Holders of Common Shares are entitled to: (a) receive notice of and attend any meetings of the Company's shareholders and are entitled to one vote for each Common Share held, except meetings at which only holders of a specified class are entitled to vote; (b) the right to receive, subject to the prior rights and privileges attaching to any other class of the Company's shares, including without limitation the rights of the holders of Preferred Shares, any dividend declared by the Company; and (c) the right to receive subject to the prior rights and privileges attaching to any other class of the Company's shares, including without limitation the holders of Preferred Shares, the Company's remaining property and assets upon dissolution. Subject to the provisions of the BCA, Fortress may by special resolution fix, from time to time before the issue thereof, the designation, rights, privileges, restrictions and conditions attaching to each series of its Common Shares including, without limiting the generality of the foregoing, any voting rights, the rate or amount of dividends or the method of calculating dividends, the dates of payment thereof, the terms and conditions of redemption, purchase and conversion if any, and any sinking fund or other provisions. No special right or restriction attached to any issued shares shall be prejudiced or interfered with unless all shareholders holding shares of each class whose special right or restriction is so prejudiced or interfered with consent thereto in writing, or unless a resolution consenting thereto is passed at a separate class meeting of the holders of the shares of each such class by the majority required to pass a special resolution, or such greater majority as may be specified by the special rights attached to the class of shares of the issued shares of such class.

PRIOR SALES

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

Date	Price per Security (\$)	Number and Type of Securities	Reason for Issuance
March 19, 2010	14.10	4,255 Deferred Share Units ⁽¹⁾	Director Fees
March 19, 2010	14.10	11,169 Restricted Share Units ⁽¹⁾	Executive and Employee Bonus
April 16, 2010	24.28	1,312 Deferred Share Units ⁽¹⁾	Director Fees
April 30, 2010	15,000,000 principal amount	Unsecured Convertible Debenture ⁽²⁾	Financing in connection with the acquisition and conversion of the Fortress Specialty Cellulose Mill
June 3, 2010	23.26	62,500 Restricted Share Units ⁽¹⁾	Executive Performance Incentive
June 3, 2010	23.26	12,500 Common Shares	Executive Signing Incentive
July 7, 2010	23.50	1,739,000 Common Shares	Public Offering
July 16, 2010	23.50	161,050 Common Shares	Exercise of Over-allotment Option in connection with Public Offering
July 16, 2010	21.60	1,289 Deferred Share Units ⁽¹⁾	Director Fees
August 28, 2010	29.85	49,030 Common Shares	Vesting of RSU Awards
October 7, 2010	20.00	400,000 Common Shares ⁽³⁾	Partial Conversion of Debenture
October 15, 2010	42.20	340 Deferred Share Units ⁽¹⁾	Director Fees
November 4, 2010	43.75	22,000 Restricted Share Units ⁽¹⁾⁽⁵⁾	Executive and Employee Bonus
November 4, 2010	43.75	114,285 Deferred Share Units ⁽⁴⁾⁽⁵⁾ 114,285 Restricted Share Units ⁽⁴⁾⁽⁵⁾	Executive Bonus Compensation
November 10, 2010	8.00	20,000 Common Shares	Exercise of Options Granted April 5, 2007
December 2, 2010	8.00	50,000 Common Shares	Exercise of Options Granted April 5, 2007
December 16, 2010	43.49	3,508 Common Shares	Vesting of RSU Awards
December 21, 2010	8.00	10,000 Common Shares	Exercise of Options Granted April 5, 2007
December 24, 2010	8.00	5,000 Common Shares	Exercise of Options Granted June 23, 2009
January 21, 2011	48.81	1,953 Deferred Share Units ⁽¹⁾	Director Fees

Note:

- (1) Issued under the LTIP and representing a right to receive one Common Share upon satisfaction of the vesting and other conditions set forth in the LTIP.
- (2) On April 30, 2010, Fortress issued the Debenture to FSTQ, which matures in five years and bears interest at a rate of 7.0% per annum. The Debenture is convertible, in whole or in part, at the option of the holder into Common Shares at any time at a conversion price equal to \$20.00 per Common Share. Accordingly, the Debenture is convertible into a maximum of 750,000 Common Shares. See heading "*The Company - Recent Developments - Acquisition of Fortress Specialty Cellulose Mill*".
- (3) Partial conversion by FSTQ of \$8,000,000 principal amount of the Debenture.
- (4) Issued to the Chief Executive Officer pursuant to the terms and vesting conditions set forth in his employment agreement. See the heading "*Executive and Stock Based Compensation - Employment Agreements - Chadwick Wasilenkoff*".
- (5) These securities were granted by the board of directors of the Company on November 4, 2010 and were issued on January 21, 2011.

TRADING PRICE AND VOLUME

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

Period	High (\$)	Low (\$)	Volume
2010			
January	11.29	9.53	140,074
February	13.88	11.25	444,642
March	20.00	13.40	2,096,901
April	26.00	18.70	1,401,028
May	24.77	19.68	602,104
June	24.75	21.01	383,919
July	27.54	20.01	344,033
August	30.99	26.80	1,327,011
September	40.34	30.00	1,055,989
October	48.49	37.00	1,785,950
November	46.82	39.18	891,549
December	48.94	41.01	550,430
2011			
January	57.86	42.00	867,339
February ⁽¹⁾	60.45	57.20	159,585

Note:

(1) The monthly price range and trading volume presented is for the period from February 1, 2011 to February 2, 2011.

RISK FACTORS

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

Market Price of Common Shares

The trading price of the Company's securities has been and may continue to be subject to significant fluctuations which may be based on factors unrelated to Fortress' financial performance or prospects. These factors include macroeconomic developments in North America and globally and market perceptions of the attractiveness of particular industries. Other factors unrelated to the performance of Fortress that may have an effect on the price of the securities of Fortress include the following: the extent of analytical coverage available to investors concerning the business of Fortress may be limited if investment banks with research capabilities do not follow Fortress' securities; lessening in trading volume and general market interest in Fortress securities may affect an investor's ability to trade significant numbers of securities of Fortress; and a substantial decline in the price of the securities of Fortress that persists for a significant period of time could cause Fortress' securities that are listed on an exchange to be delisted from such exchange, further reducing market liquidity. If an active market for the securities of Fortress does not continue, the liquidity of an investor's investment may be limited and the price of the securities of Fortress may decline below the Offering Price. If such a market does not develop, investors may lose their entire investment in the Offered Shares.

Future Sales

If Fortress' shareholders sell substantial amounts of Common Shares following the Offering, the market price of the Offered Shares could decrease. A decline in the market prices of Fortress' securities could impair the Company's ability to raise additional capital through the sale of securities should it desire to do so. Upon the completion of the Offering, Fortress will have outstanding 13,795,638 Common Shares (assuming the Over-Allotment Option is exercised in full and there is no exercise of Fortress' outstanding stock options, additional issuances under the LTIP or any further conversion of the Debenture). Fortress has agreed not to issue any additional Common Shares for a period of 90 days following the closing of the Offering, subject to certain exceptions. See heading "Plan of Distribution".

Use of Net Proceeds

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

Fortress Specialty Cellulose Mill Project

The Company's plans to convert the Fortress Specialty Cellulose Mill into a dissolving pulp operation and build a co-generation facility thereat is subject to customary risks and uncertainties inherent for large capital projects which could result in the project not completing on schedule, as budgeted or at all. Delays in receiving any operating permits or any required amendments to such permits could result in construction delays, operational deficiencies or funding shortfalls. The Fortress Specialty Cellulose Mill could experience operating difficulties or delays during the period when production of Dissolving Pulp and, subsequently, "green" energy is being ramped up. The project may not achieve the Company's planned production, quality or cost projections in respect of the Dissolving Pulp operation, or the power generation or the level required under the Energy Supply Agreement. Cost overruns, equipment breakdowns, damage during shipment of equipment or failures to perform to design specifications, delays in the generation and sales of surplus energy, including contracted amounts, could have a material adverse effect on the Fortress Specialty Cellulose Mill's results of operations and financial performance.

Pulp Markets

The pulp business is highly cyclical in nature and may result in periods of supply and demand imbalance, which in turn affects product prices. Pulp markets are highly competitive and are sensitive to cyclical changes in the global economy, industry capacity and foreign exchange rates, all of which can have a significant influence on selling prices and the Company's operating results. The length and magnitude of industry cycles have varied over time but generally reflect changes in macro economic conditions and levels of industry capacity.

Industry capacity can fluctuate as changing industry conditions can influence producers, including the Company, to idle production capacity or permanently close mills. In addition, to avoid substantial cash costs in idling or closing a mill, some producers, including the Company, may choose to operate at a loss, sometimes even a cash loss, which can prolong weak pricing environments due to oversupply. Oversupply of the Company's products can also result from producers introducing new capacity in response to favorable pricing trends.

Demand for pulp has historically been determined by the level of economic growth and has been closely tied to overall business activity. From 2006 to mid-2008, pulp prices steadily improved. However, a global economic crisis in the latter half of 2008 resulted in a sharp decline of pulp prices. Although pulp prices began to increase in the second half of 2009 and continued through mid-2010, there may be renewed pulp price deterioration in the future. The Company cannot predict the impact of sustained economic weakness on the demand and prices for its products.

PM1 Rebuild

There is no certainty that the PM1 rebuild will achieve the Company's planned production or quality projections at the Landqart Mill. The rebuilt PM1 has only recently been started and a failure to achieve optimal production and quality levels, as well as other operational deficiencies, may result in delays in the production and sales of banknotes and high security papers, which in turn could have a material adverse effect on Landqart's results of operations and financial performance, thereby affecting the Company's consolidated financial results.

Fortress Specialty Environmental Liabilities

Under the terms of the agreement to acquire the assets of the Fortress Specialty Cellulose Mill, the Company assumed responsibility for all existing environmental liabilities and no indemnity was obtained from the vendor. The Company has undertaken limited independent investigation of potential environmental liabilities. Although the

Company is not aware of any potential material environmental liabilities, it is possible that the Company may incur significant costs in the future should any such liability be established.

Effects of Increased Indebtedness

The Company may incur additional indebtedness as amounts are drawn down from its project financing as the Fortress Specialty Cellulose Mill project and OSM project progress. Increased debt levels may have important consequences for the Company, including, but not limited to the following:

- (i) its ability to obtain additional financing to fund future operations or meet its working capital needs or any such financing may not be available on terms favorable to the Company or at all;
- (ii) a certain amount of the Company's operating cash flow will be dedicated to the payment of principal and interest on its indebtedness, thereby diminishing funds that would otherwise be available for its operations and for other purposes;
- (iii) a substantial decrease in net operating cash flows or increase in the Company's expenses could make it more difficult for it to meet its debt service requirements, which could force the Company to modify its operations; and
- (iv) a leveraged capital structure which may place the Company at a competitive disadvantage by hindering its ability to adjust rapidly to changing market conditions or by making it vulnerable to a downturn in its business or the economy in general, as well as other risks associated with an increased leverage.

The Company's ability to meet future debt service and other obligations may depend in significant part on the success of the Fortress Specialty Cellulose Mill project, the PM1 rebuild, the OSM project and the extent to which the Company can successfully implement its business and growth strategy. There can be no assurance that the Fortress Specialty Cellulose Mill project, the PM1 rebuild or OSM project will be successful or that the Company will be able to implement its strategy fully, that sales of products manufactured from such projects would not be delayed or achieved or that the anticipated results of Fortress' strategy will be realized. The project financing facility for the Fortress Specialty Cellulose Mill is secured by a charge against all of the assets of Fortress Specialty and, in the event of default under the facility, the lender has no recourse against the Company.

Forest and Timber Tenures

Although raw materials, pulp logs and wood chips are available for the Fortress Specialty Cellulose Mill from a number of suppliers and the Company has entered into several short-term wood fibre supply agreements, the Company cannot predict what fluctuations it may encounter in the future as it continues production at the Fortress Specialty Cellulose Mill and there can be no assurance that current wood fibre arrangements can be extended or replaced upon completion of their terms. Further, the Company has entered into, and certain of its suppliers may enter or may already have entered into, timber supply and forest management agreements (commonly known as "CAAFs") with the Ministry of Natural Resources and Wildlife (Québec) (the "MNRW") for the supply of fibre. Each CAAF has a term of 25 years and is subject to review and renewal every five years at the discretion of the MNRW. On April 1, 2010, the Québec Government proclaimed the *Sustainable Forest Development Act* (the "SFDA"), which will come into effect on April 1, 2013. Pursuant to the SFDA, all previously granted CAAFs will be cancelled and former CAAF holders will be entitled to a timber supply guarantee pursuant to the terms of the SFDA and in amounts to be determined by the MNRW, provided they meet certain conditions. The MNRW also has the discretion to reduce the volume to which a CAAF holder was entitled under the previous regime. The aggregate amount of such reduced timber volumes is expected to be made available to market to eligible purchasers by way of auction. Accordingly, there is no assurance that the Company will be able to maintain its wood fibre supply allocation pursuant to the CAAF, the availability of, and price for, wood fibre as provided in the Company's current CAAF and from any subsequent fibre supply arrangements under the SFDA are subject to change and the annual allowable timber volume may fluctuate. An insufficient supply or increased demand for wood fibre or raw materials could materially adversely affect the business, financial condition, results of operations and cash flows of the Fortress Specialty Cellulose Mill.

Volatility of Market Price of Common Shares

The market price of the Common Shares may be volatile. The volatility may affect the ability of holders to sell the Common Shares at an advantageous price. Market price fluctuations in the Common Shares may be due to the Company's operating results failing to meet the expectations of securities analysts or investors in any quarter, downward revision in securities analysts' estimates, governmental regulatory action, adverse change in general market conditions or economic trends, acquisitions, dispositions or other material public announcements by the Company or its competitors, along with a variety of additional factors, including, without limitation, those set forth under the heading "*Cautionary Note Regarding Forward-Looking Statements*". In addition, the market price for securities in the stock markets, including the TSX, recently experienced significant price and trading fluctuations. These fluctuations have resulted in volatility in the market prices of securities that often has been unrelated or disproportionate to changes in operating performance. These broad market fluctuations may adversely affect the market prices of the Common Shares.

Additional Funding Requirements

Despite the net proceeds of the Offering expected to be received by the Company, the Company may need additional financing in connection with its plan for converting the Fortress Specialty Cellulose Mill and building a co-generation facility thereat and the OSM project. A portion of this additional financing is anticipated to be approximately \$15.2 million in federal credits under the Green Infrastructure Fund Program. However, there can be no assurance that the Company will be able to obtain the federal credits or necessary financing in a timely manner or on acceptable terms, if at all. The implementation of the Company's business plan at the Fortress Specialty Cellulose Mill and the OSM project will require a substantial amount of capital and the amounts raised by the Company through the financing initiatives described herein, if completed, may not be sufficient to fund such business plan. The Company will accordingly have further capital requirements if it implements its business plan in respect of the Fortress Specialty Cellulose Mill and the OSM project or takes advantage of further opportunities for acquisitions.

Fortress Optical OSM Project

The Company's plans to re-locate the OSM Assets to a multi-million dollar high security production and research and development facility to be constructed by the Company is subject to customary risks and uncertainties inherent for large capital projects which could result in the project not completing in a timely manner, as budgeted or at all. The project may be subject to construction delays, operational deficiencies or funding shortfalls.

There is no certainty that Fortress' planned utilization of the OSM Assets will achieve the Company's planned production, quality or cost projections in respect of the optically variable security material. The re-location of the OSM Assets will involve dismantling and re-assembling highly technical and sensitive equipment and there can be no assurance that such equipment will operate upon re-location as anticipated or at all. Cost overruns, equipment breakdowns or failures to perform to design specifications, delays in the production and sales of optically variable security material and the loss of key employees could have a material adverse effect on Fortress Optical's results of operations and financial performance, thereby affecting the Company's consolidated financial results.

EXECUTIVE AND STOCK BASED COMPENSATION

Employment Agreements

Chadwick Wasilenkoff

The Company entered into an amended employment agreement with Mr. Wasilenkoff, the Chairman and Chief Executive Officer of the Company, dated January 21, 2011, pursuant to which Mr. Wasilenkoff will receive: (i) an annual base salary of \$1 million per annum; (ii) a one time bonus of 114,285 restricted share units ("**RSUs**") and 114,285 deferred share units ("**DSUs**") in accordance with the Company's LTIP; (iii) an annual discretionary bonus, if any; and (iv) certain perquisites. The RSUs are eligible to vest *pro rata* in annual tranches for the five fiscal periods commencing from January 1, 2010 and ending December 31, 2014, based on a formula that considers the fraction by which the cumulative amount of the consolidated EBITDA of the Company approaches \$225,000,000 during this period. The term of the agreement is six years. If Mr. Wasilenkoff's employment is terminated for any

reason other than for cause or he resigns for good reason, his employment is terminated as a result of a change of control or within 18 months after a change of control or a new employment agreement is not entered into before the end of the term, he will be entitled to a severance payment equal to two times the sum of his base salary plus the highest annual bonus received from the Company during the term prior to such termination.

In 2010, Mr. Wasilenkoff was granted the RSUs and DSUs described above, and received a cash payment of \$5 million, as a special one time performance bonus in recognition of the successful acquisition of the Fortress Specialty Cellulose Mill and the value to the Company created thereby, as well as the increase in shareholder value.

Kurt Loewen

The Company entered into an amended employment agreement with Mr. Loewen, the Chief Financial Officer of the Company, dated January 1, 2010, pursuant to which Mr. Loewen will receive: (i) an annual base salary of \$165,000 in 2010, \$180,000 in 2011 and \$200,000 in 2012, subject to an annual review; (ii) an annual discretionary bonus of up to 25% of his base salary; (iii) equity compensation of \$50,000 per year payable in restricted or performance share units pursuant to the LTIP or in cash, subject to an annual review; and (iv) certain perquisites. If Mr. Loewen's employment is terminated upon a change in control, other than for cause, in contemplation of, at the time of, or within 18 months after a change of control, Mr. Loewen will be entitled to a lump sum cash payment immediately following such termination equal to his then current annual base salary and last year's annual bonus. If Mr. Loewen's employment is terminated for any reason other than for cause or in connection with a change of control, or as a result of significant modifications of Mr. Loewen's duties and responsibilities, he will be entitled to nine months compensation calculated on the basis of his base salary and bonus. In addition, all unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable.

Peter Vinall

Mr. Vinall entered into an employment agreement with Fortress Specialty dated June 3, 2010, pursuant to which Mr. Vinall agreed to serve as the President and Chief Executive Officer of Fortress Specialty and, subject to annual review, will receive: (i) an annual base salary of \$350,000; (ii) an annual discretionary bonus up to 50% of his base salary; (iii) a participation bonus based on the EBITDA of Fortress Specialty following completion of the conversion of the Fortress Specialty Cellulose Mill to produce dissolving pulp, over a period of five years, up to a maximum of \$12,000,000; and (iv) certain perquisites. Concurrent with the entering into of the employment agreement Mr. Vinall received a grant of 75,000 RSUs under the LTIP, to be vested incrementally upon the achievement of certain milestones of Fortress Specialty, such as the completion of the conversion of the Fortress Specialty Cellulose Mill and construction of a co-generation facility thereat. If Mr. Vinall's employment is terminated for any reason other than for cause or he resigns, he will be entitled to a severance payment equal to the sum of his base salary plus the average of his annual bonus for the previous two fiscal years. This amount is payable in substantially equal installments over a twelve-month period, unless a change of control (as defined in the agreement) occurs following such termination, in which case the unpaid portion of such severance amount is payable in full immediately following such change of control. In addition, (i) 50% of Mr. Vinall's unvested RSUs shall vest in full and become immediately exercisable; and (ii) Fortress Specialty shall pay the participation bonus that Mr. Vinall would be entitled to for the applicable period equal to the *pro rata* accrual thereof to the termination date.

Automatic Share Disposition Plan

On December 10, 2010, Fortress announced the adoption of an automatic share disposition plan (the "**ASDP**") to enable its directors and senior executive officers to satisfy their tax liabilities resulting from the receipt of equity compensation or to diversify their investments and meet investment planning goals by selling, on an automatic basis through an independent third party securities broker (the "**Broker**"), certain of their Common Shares, including Common Shares issuable upon the vesting of units under the LTIP and the exercise of stock options. Sales of Common Shares under the ASDP will be made in the open market through the facilities of the TSX by the Broker in accordance with a predetermined quarterly sales schedule which are expected to commence in March 2011, and could include circumstances when participants would ordinarily not be permitted to sell their Common Shares due to restrictions under Canadian securities laws or trading blackouts imposed under the Company's insider trading policy. The ASDP is designed to constitute an "automatic plan" for the purposes of applicable Canadian securities

legislation and guidance, and as such, participants will be subject to meaningful restrictions on their ability to modify or terminate their participation in the ASDP.

Executive officers of Fortress may only participate in the ASDP if they meet minimum share ownership requirements of three times their base salary or, in the case of the President or Chief Executive Officer of the Company or any of its subsidiaries, five times their base salary.

AUDITORS, TRANSFER AGENT AND REGISTRAR

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

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

INTERESTS OF EXPERTS

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

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

PURCHASERS' STATUTORY RIGHTS

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

AUDITORS' CONSENT

We have read the short form prospectus dated February 3, 2011 relating to the issue and sale of 967,000 common shares of Fortress Paper Ltd. (the "**Company**"). We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned short form prospectus of our report to the shareholders of the Company on the consolidated balance sheets of the Company as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive income, retained earnings (deficit) and cash flows for the years then ended. Our report is dated February 15, 2010.

Vancouver, B.C., Canada
February 3, 2011

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

CERTIFICATE OF THE COMPANY

February 3, 2011

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

/s/ Chadwick Wasilenkoff

Chadwick Wasilenkoff
Chief Executive Officer

/s/ Kurt Loewen

Kurt Loewen
Chief Financial Officer

On behalf of the Board of Directors
of the Company

/s/ Richard O'C. Whittall

Richard O'C. Whittall
Director

/s/ Pierre Monahan

Pierre Monahan
Director

CERTIFICATE OF THE UNDERWRITERS

February 3, 2011

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

Raymond James Ltd.

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

Dundee Securities Corporation

By: /s/ David G. Anderson
 David G. Anderson

RBC Dominion Securities Inc.

By: /s/ Riadh Zine
 Riadh Zine

Cormark Securities Inc.

By: /s/ Marc Murnaghan
 Marc Murnaghan

TD Securities Inc.

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

Acumen Capital Finance Partners Limited

By: /s/ B. Kelly Hughes
 B. Kelly Hughes

