FORTRESS PAPER LTD.
THIRD QUARTER 2007
MANAGEMENT'S DISCUSSION AND ANALYSIS

This interim Management's Discussion and Analysis ("MD&A) provides a review of the significant developments that have impacted Fortress Paper Ltd.'s (the "Company") performance during the third quarter of 2007 relative to the previous quarter and the audited financial statements for the five months ended December 31, 2006 where relevant. No prior year comparative financial information has been presented because the transfer of the Mills by Mercer International Inc. to the Company occurred effective August 1, 2006. This MD&A should be read in conjunction with the audited financial statements and the notes thereto for the three months ended March 31, 2007 and five months ended December 31, 2006 (available on SEDAR at www.sedar.com).

This interim MD&A contains certain forward-looking statements that reflect the current views and/or expectations of the Company with respect to its performance, business and future events. The reader is cautioned that forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation, those relating to damage to our reputation, competition, maintaining our market position, marketability and price of our products, technology and protection of our intellectual property, dependence on our major customers, fluctuations in the price and supply of raw materials, fluctuations in foreign exchange and other risk factors detailed in our filings with Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. Fortress Paper Ltd. does not undertake any obligations to release publicly any revisions for updating any voluntary forward-looking statements.

Throughout this discussion, reference is made to EBITDA (defined as operating earnings plus amortization and stock compensation), which Fortress Paper Ltd. considers to be an indicative measure of a company's operating performance and a good metric to evaluate profitability. EBITDA is not a generally accepted earnings measure and should not be considered as an alternative to net income or cash flows as determined in accordance with Canadian generally accepted accounting principles (GAAP). As there is no standardized method of calculating EBITDA, Fortress Paper Ltd.'s use of the term may not be directly comparable with similarly titled measures used by other companies. A reconciliation of EBITDA to net income reported in accordance with GAAP is included in this MD&A.

The information in this report is as at November 5, 2007.

All financial references are in thousands of Canadian dollars unless otherwise noted.

Revenue & Earnings Comparison

Selected Quarterly Information

($ thousands, except earnings per share ("EPS") amounts which are in $)

	2007 (unaudited)			
	Q3	**Q2**	**Q1**	**YTD**
Sales	34,065	35,441	38,251	107,757
Operating income	1,406	3,364	2,448	7,218
EBITDA	2,196	4,319	2,841	9,356
Net income	211	1,700	1,094	3,005
Basic EPS (1)	$0.02	$0.40	$0.35	$0.52
Diluted EPS (1)	$0.02	$0.38	$0.20	$0.52
Weighted average shares outstanding Basic	10,049	4,275	3,102	5,834
Weighted average shares outstanding Diluted	10,986	5,212	6,227	6,771
Average Swiss/Canadian exchange rate(1)	0.8720	0.8982	0.9501	0.9072
Average Euro/Canadian exchange rate (1)	1.4370	1.4801	1.5355	1.4847

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

Results of operations for three and nine months ended September 30, 2007

Three Months Ended September 30, 2007

Landqart Overview. During the third quarter the Company completed its scheduled shutdown in order to implement a major capital expenditure upgrade to increase our security paper capacity. While the results of the ugrade to the mill are positive, the results in the third quarter were negatively impacted. The Company's results reflect a higher portion of our sales attributed to specialty papers rather than security papers which traditionally offer higher sales per tonne prices and higher EBITDA margins.

Dresden Overview. During the third quarter the Company completed its scheduled shutdown in order to complete scheduled maintenance and implement a minor capital expenditure upgrade. This successful upgrade increases overall capacity to 40,000 tonnes per annum depending on the product mix. The Dresden mill continues to focus on shifting production to more non-woven wallpaper base which offers higher sales per tonne and higher EBITDA margins.

Sales. Sales for the three months ended September 30, 2007 totaled $34.1 million compared to $35.4 million in the prior quarter. The Landqart Mill and the Dresden Mill contributed $13.3 million ($15.7 million in the prior quarter) and $20.8 million ($19.7 million in the prior quarter) of sales revenue, respectively. Total shipments during the period were 12,798 tonnes, comprised of 3,864 tonnes of security and specialty papers from the Landqart Mill and 8,934 tonnes of wallpaper base from the Dresden Mill. This compared to the prior quarter shipments of 12,578 tonnes, comprised of 3,841 tonnes of security and specialty papers from the Landqart Mill and 8,737 tonnes of wallpaper base from the Dresden Mill. The average sales revenue per tonne at the Landqart Mill and Dresden Mill was $3,439 per tonne and $2,325 per tonne, respectively, during the period. In the previous quarter the average sales revenue per tonne at the Landqart Mill and Dresden Mill was $4,096 per tonne and $2,256 per tonne, respectively, during the period.

Cost of Products Sold. Cost of products sold were $28.2 million or 82.7% of sales for the three months ended September 30, 2007, and reflected a $0.2 million over-funded pension adjustment which decreased cost of products sold by the corresponding amount. In the prior quarter cost of products sold were $27.2 million or 76.8%. Other than the planned shut down for capital upgrades over a period of approximately three weeks, the Mills operated at full capacity during the period.

Selling, General and Administrative. Selling, general and administrative expenses were $3.7 million (prior quarter $3.9 million) and were comprised primarily of sales commissions, marketing, corporate and administrative expenses.

Stock-based Compensation. Stock-based compensation expense was $0.1 million during the period ($0.5 million in the prior quarter) reflecting a grant of 442,675 Options issued to directors and officers of the Company in the second quarter.

EBITDA. As a result of the foregoing factors, EBITDA was $2.2 million for the three months ended September 30, 2007 (prior quarter $4.3 million).

Net earnings to EBITDA reconciliation:

	Three Months Ended September 30, 2007 (unaudited)
Net earnings	$211
Income tax	1,077
Other expense	17
Interest expense	101
Amortization	669
Stock based compensation	121
EBITDA	$2,196

Nine Months Ended September 30, 2007

Sales. Sales for the nine months ended September 30, 2007 totaled $107.8 million. The Landqart Mill and the Dresden Mill contributed $46.2 million and $61.5 million of sales revenue, respectively. Total shipments during the period were 38,846 tonnes, comprised of 12,130 tonnes of security and specialty papers from the Landqart Mill and 26,716 tonnes of wallpaper base from the Dresden Mill. The average sales revenue per tonne at the Landqart Mill and Dresden Mill was $3,809 per tonne and $2,304 per tonne, respectively, during the period. Fortress' sales revenue was adversely affected by the appreciating Canadian dollar relative to the Euro and Swiss Franc during the period.

The results reflected Fortress' increased production of non-woven coated wallpaper base and a one-time 380 tonne sale of security papers to a new customer at below manufacturing cost which was committed to by prior management which had a negative impact of approximately $0.4 million on net earnings.

Cost of Products Sold. Cost of products sold were $85.3 million or 79.1% of sales for the nine months ended September 30, 2007, and reflected Fortress' increased production of security papers and non-woven coated wallpaper base as well as a $0.6 million over-funded pension adjustment which decreased cost of products sold by the corresponding amount. The Mills operated at full capacity during the period.

Selling, General and Administrative. Selling, general and administrative expenses were $13.1 million and were comprised primarily of sales commissions, marketing, corporate and administrative expenses.

Stock-based Compensation. Stock-based compensation expense was $0.6 million during the period reflecting a grant of 442,675 Options issued to directors and officers of the Company

EBITDA. As a result of the foregoing factors, EBITDA was $9.4 million for the nine months ended September 30, 2007.

Net earnings to EBITDA reconciliation:

	Nine Months Ended September 30, 2007 (unaudited)
Net income	$3,005
Income tax	2,679
Other income	378
Interest expense	1,156
Amortization	1,517
Stock-based compensation	621
EBITDA	$9,356

Liquidity and Capital Resources

The Company has no exposure to asset backed commercial paper or off balance sheet instruments.

Following the transfer of the Mills by Mercer to the Company, Fortress' principal liquidity requirements were for working capital, debt service and the funding of capital expenditures.

On June 28, 2007, the Company completed its initial public offering (“IPO”) of 5,000,000 Common shares at an offering price of $8.00 per share for total gross proceeds of $40.0 million. Net of issuance costs the Company received $35.2 million. At the same time IPO proceeds were used to repay the CHF 6.4 million Stendal Note (CAD 5.6 million).

On July 19, 2007, pursuant to an underwriting agreement between the Company and the Underwriters dated June 20, 2007, entered into in connections with the initial public offering of the Company, the Underwriters exercised their option to purchase an additional 750,000 Common shares of the Company issued at a price of $8.00 per shares, bringing the total gross proceeds from the initial public offering of Fortress Paper Ltd. to $46.0 million. The Company received $40.6 million, net of $5.4 million issuance costs.

EBITDA amounted to $2.2 million in the three months ended September 30, 2007, $9.4 million in the nine months ended September 30, 2007.

Although there can be no assurances, Fortress believes that cash generated from operations, together with amounts available under its credit facilities and net proceeds from the IPO will be sufficient to meet its debt service requirements, capital expenditure needs and working capital needs for the foreseeable future. Fortress' future operating performance and its ability to service the Convertible Note 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 security and specialty papers and raw material costs.

Operating Activities

Fortress operates in a cyclical industry and its operating cash flows vary accordingly. Fortress' principal operating cash expenditures are for compensation, fibre, chemicals and debt service. Operating activities in the nine months ended September 30, 2007 provided cash of $2.6 million. Operating activities used cash of $0.7 million in the third quarter compared to cash generation of $2.2 million in the previous quarter. Working capital is subject to cyclical operating needs, the timing of collection of receivables and the payment of payables and expenses.

Investing Activities

Investing activities in the nine months ended September 30, 2007 used cash of $9.8 million related to the purchase of plant and equipment at the Mills of $12.2 million and the net release of restricted cash of $2.4 million. During the same period, the Company received 3,500,000 shares of a private company for licensing of LQard Canadian rights. $Nil value has been recorded for this investment.

In the third quarter investing activities, which consisted primarily of additions to plant and equipment consumed $8.8 million compared to $2.8 million in the prior quarter.

Financing Activities

Financing activities in the nine months ended September 30, 2007 provided cash of $40.4 million primarily related to the $40.6 million initial public offering funds received net of issuance costs and a $0.8 million private placement which were partially offset by the net decrease in debt and note payable of $1.0 million.

In the third quarter financing activities provided cash of $11.6 million related to $5.4 million from the exercise of the Underwriters option (see "Liquidity and Capital Resources") net of issue costs and net increase in debt by $6.2 million. In the prior quarter financing activities provided cash of $30.9 million, the result of the net $35.2 million funds received from the initial public offering which were partially offset by the net decrease of debt of $4.3 million

Capital Structure

		(unaudited)	
	Number of Shares	**Share Capital**	**Contributed Surplus**
Private placements	2,250,000	$ 9,000	$ —
Convertible debt	—	—	600
Stock compensation	750,000	3,000	—
Performance based compensation	—	—	5,000
Balance, December 31, 2006	3,000,000	$ 12,000	$ 5,600
Private placements	203,500	814	—
Performance based compensation	1,250,000	5,000	(5,000)
Initial public offering	5,750,000	46,000	—
Share issue costs	—	(5,399)	—
Stock compensation	—	—	621
Balance, September 30, 2007	10,203,500	$ 58,415	$ 1,221

Number of Common shares outstanding at November 5, 2007 was 10,203,500 (see "Liquidity and Capital Resources")

Share capital reorganization

Effective June 20, 2007, the Company consolidated its outstanding common shares on the basis of one new common share for every two existing common shares. The impact of the share capital consolidation has been reflected in the consolidated financial statements and the accompanying notes.

Subsequent Events

On November 1, 2007, the Company granted stock options to purchase up to 540,000 common shares of the company to directors and an officer of the Company. Each option is exercisable to acquire one common share, at a price of $8.00.

Changes in Accounting Policies and Estimates

Presentation

Certain comparative figures have been reclassified to conform to the current financial statement presentation.

Stock-based compensation

The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of each stock option at the date of the initial public offering ("IPO date") or grant date for options granted post IPO date. 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 amount is reallocated from contributed surplus to share capital.

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, depreciation and amortization, asset impairments, derivative financial instruments, allocation of purchase price of acquisitions, stock based compensation, pensions and post-retirement obligations, income taxes and contingencies. Actual results could differ from these estimates.

Management Outlook

The market for security papers remains strong with the driving forces continuing to be innovation to stay ahead of counterfeiters, quality of the end products, and the confidence in and reputation of suppliers. The wallpaper base market's trend of displacing traditional paper-based products with the improved non-woven wallpaper bases continues to be a major factor in the industry with positive implications for Fortress Paper Ltd.

Risks and Uncertainties

A comprehensive discussion of Risk Factors was included in the Company's prospectus filing on June 20, 2007 (available on SEDAR at www.sedar.com).

FORTRESS PAPER LTD.
CONSOLIDATED BALANCE SHEETS
(Canadian dollars, amounts in thousands - unaudited)

	As at September 30, 2007	As at December 31, 2006
ASSETS		
Current		
Cash and cash equivalents	$40,593	$7,320
Trade accounts receivable	14,706	13,620
Other accounts receivable	2,837	1,729
Inventories	19,475	18,721
Prepaid expenses	295	249
	77,906	41,639
Restricted cash	529	2,972
Property, plant and equipment	27,339	16,426
Other assets *(note 3)*	7,730	8,236
Total assets	$113,504	$69,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Operating loans *(note 4)*	$4,686	$4,253
Accounts payable and accrued liabilities	19,573	18,777
Income taxes payable	3,003	584
Other current liabilities *(note 5)*	1,916	5,494
Current portion of long-term debt *(note 4)*	4,290	3,595
	33,468	32,703
Long-term debt *(note 4)*	20,658	22,102
Future income taxes	2,243	2,374
Total liabilities	$56,369	$57,179
Shareholders' equity *(note 6)*		
Share capital	58,415	12,000
Contributed surplus	1,221	5,600
Deficit	(2,501)	(5,506)
Total shareholders' equity	57,135	12,094
Total liabilities and shareholders' equity	$113,504	$69,273

(Signed) *Chadwick Wasilenkoff*

Chadwick Wasilenkoff
Director

(Signed) *Richard Whittall*

Richard Whittall
Director

FORTRESS PAPER LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME, DEFICIT
(Canadian dollars, amounts in thousands - unaudited)

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Sales	$ 34,065	$ 107,757
Costs and expenses		
Cost of products sold	(28,162)	(85,343)
Amortization	(669)	(1,517)
Selling, general and administration	(3,707)	(13,058)
Stock-based compensation *(note 7)*	(121)	(621)
Operating income	1,406	7,218
Other (income) expense		
Interest, net	(101)	(1,156)
Other (income) expense, net	(28)	2
Foreign exchange loss (gain)	11	(380)
Net Income (loss) before income taxes	1,288	5,684
Income tax expense	(1,077)	(2,679)
Net income and comprehensive income	$ 211	$ 3,005
Earning per share		
Basic and diluted	$ 0.02	$ 0.52
Weighted average number of shares outstanding		
Basic	10,048,609	5,833,978
Diluted	10,986,109	6,771,478

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Deficit		
Balance — beginning of period	$ (2,712)	$ (5,506)
Earnings	211	3,005
Balance — end of period	$ (2,501)	$ (2,501)

FORTRESS PAPER LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Canadian dollars, amounts in thousands - unaudited)

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Cash flows from (used by) operating activities		
Net income	$211	$3,005
Items not affecting cash:		
Amortization	669	1,517
Future income taxes	17	(132)
Unrealised foreign exchange gain on debt	(723)	(2,455)
Stock based compensation	121	621
	295	2,556
Change in non-cash working capital items		
Accounts receivable	(2,662)	(2,194)
Inventories	(845)	(754)
Prepaid expenses	106	(46)
Other assets	(62)	506
Accounts payable and other	2,428	2,545
	(740)	2,613
Cash flows from (used by) financing activities		
Issuance of common shares, net of issue costs *(note 6)*	5,381	41,415
Repayment of long-term debt	(220)	(7,114)
Proceeds from long-term debt	5,975	8,225
Proceeds from operating loans	431	889
Repayment of note payable	-	(2,999)
	11,567	40,416
Cash flows from (used by) investing activities		
Additions to property, plant and equipment	(8,253)	(12,199)
Restricted cash	(529)	2,443
	(8,782)	(9,756)
Increase in cash position	2,045	33,273
Cash and cash equivalents, beginning of period	38,548	7,320
Cash and cash equivalents, end of period	40,593	40,593
Supplemental information		
Interest paid	452	1,517
Income taxes paid	-	-

Non cash items

During the 9 month period ended September 30, 2007, the Company received 3,500,000 shares of a private company for licensing of LQard Canadian rights. $Nil value has been recorded for this investment.

Non cash property, plant and equipment purchases included in accounts payable were $231.

(See accompanying notes)

1. THE COMPANY AND BASIS OF PRESENTATION

Fortress Paper Ltd. (the "Company") was incorporated on May 30, 2006 under the laws of the Province of British Columbia. From the date of incorporation to July 31, 2006 the Company was inactive. As a result prior year comparative information is largely unavailable and non-informative. The Company's fiscal year end is December 31.

The Company was initially established as a wholly owned subsidiary of Mercer International Inc. ("Mercer"). As part of its strategy to focus exclusively on its pulp business, Mercer determined in 2006 to sell certain of its non-core paper assets. In connection with the transaction, on August 1, 2006, Mercer indirectly transferred two paper mills, Landqart in Switzerland and Dresden Papier in Germany, to the Company in consideration for a secured convertible note, in the principal amount of $7,500 and preferred shares with a redemption value of $7,500. On August 1, 2006, certain private equity investors subscribed for $8,000 of Shares of the Company. Upon receipt of the initial subscription proceeds, the Company utilized $7,500 of such proceeds to redeem all of the preferred shares and shares owned by Mercer and reorganized the Board and management of the Company.

The Company completed its initial public offering on June 28, 2007 by the issuance of 5,000,000 Common shares at an offering price of $8.00 per share for total proceeds of $40,000. The shares commenced trading on the Toronto Stock Exchange under the symbol "FTP". On July 19, 2007, pursuant to an underwriting agreement between the Company and the Underwriters dated June 20, 2007, in connection with the initial public offering of the Company, the Underwriters exercised their option to purchase an additional 750,000 Common shares of the Company issued at a price of $8.00 per shares, bringing the total gross proceeds from the initial public offering of Fortress Paper Ltd. to $46,000.

These unaudited interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and notes as at and for the three months ended March 31, 2007 and five months ended December 31, 2006 included in Fortress Paper Ltd.'s June 20, 2007 prospectus filing (available on SEDAR at www.sedar.com). These unaudited interim financial statements follow the same accounting policies and methods of their application as December 31, 2006 and March 31, 2007 consolidated financial statements except as disclosed in note 2.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Stock-based compensation

The Company has a stock option plan as described in note 7. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of each stock option at the date of the initial public offering ("IPO date") or grant date for options granted post IPO date. 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.

(figures are in thousands of Canadian dollars except where indicated - unaudited)

3. OTHER ASSETS

	September 30, 2007	December 31, 2006
Employee future benefits	$7,730	$7,953
Deferred share issuance costs	-	283
	$7,730	$8,236

4. LONG-TERM DEBT AND OPERATING LOANS

Long-term debt

	September 30, 2007	December 31, 2006
Convertible debt due 2011; interest at prime + 2%	$7,500	$7,500
Credit agreement with bank maturing 2009 and 2013; interest at 2.65% secured by current assets (EUR 1,539 and EUR 1,731)	2,180	2,663
Credit agreement with bank secured by mortgage maturing 2007, 2009, and 2011; interest at 4.8%, 3.8% and 4.0% (CHF 4,450 and CHF 4,750)	3,798	4,538
Credit agreement with bank unsecured maturing 2012; interest at Libor + 2.0% (CHF 7,350 and CHF 1,632)	6,273	1,559
Credit agreement with bank secured by fixed assets maturing 2011, 2015 and 2019; interest up to Libor + 2.5% (CHF 5,721 and 2,372)	4,882	2,265
Note payable to Stendal Pulp unsecured maturing 2011; interest at Eurobor +3.0% ($nil and CHF 6,400)	-	6,115
Capital leases; interest at 4.5% (CHF 908 and 1,735)	775	1,657
	25,408	26,297
Less: Convertible debt allocated to contributed surplus, net of accretion	(460)	(600)
Less: Current portion	(4,290)	(3,595)
	$20,658	$22,102

Operating loans

At September 30, 2007, the Company has approximately $6,529 in operating lines of credit available, of which $4,686 was drawn down. The loans are secured by inventory and accounts receivable. Interest is payable at rates from 5.25% to 6.0%.

At December 31, 2006, the Company had approximately $7,188 in operating lines of credit available secured by inventory and accounts receivable, of which $4,253 was drawn down. Interest is payable at rates from 5.25% to 5.5%.

(figures are in thousands of Canadian dollars except where indicated - unaudited)

5. OTHER CURRENT LIABILITIES

	September 30, 2007	December 31, 2006
Promissory note to Mercer Darlehen (EUR 1,950)	$ —	$ 2,999
Miscellaneous	1,916	2,495
	$ 1,916	$ 5,494

The promissory note bearing interest at 4% was due and repaid January 28, 2007.

6. SHAREHOLDERS' EQUITY

(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**:

	Number of Shares	Share Capital	Contributed Surplus
Private placements	2,250,000	$ 9,000	$ —
Convertible debt	—	—	600
Stock compensation	750,000	3,000	—
Performance based compensation	—	—	5,000
Balance, December 31, 2006	3,000,000	$ 12,000	$ 5,600
Private placements	203,500	814	—
Performance based compensation	1,250,000	5,000	(5,000)
Initial public offering	5,750,000	46,000	—
Share issue costs	—	(5,399)	—
Stock compensation	—	—	621
Balance, September 30, 2007	10,203,500	$ 58,415	$ 1,221

Share capital reorganization

Effective June 20, 2007, the Company consolidated its outstanding common shares on the basis of one new common share for every two existing common shares. The impact of the share capital consolidation has been reflected in these consolidated financial statements and the accompanying notes.

Private Placements

On July 19, 2007, pursuant to an underwriting agreement between the Company and the Underwriters dated June 20, 2007, entered into in connections with the initial public offering of the Company, the Underwriters exercised their option to purchase an additional 750,000 Common shares of the Company issued at a price of $8.00 per shares, bringing the total gross proceeds from the initial public offering of Fortress Paper Ltd. to $46,000.

On June 28, 2007, the Company completed its initial public offering of 5,000,000 Common shares at an offering price of $8.00 per share for total proceeds of $40,000.

On February 22, 2007 the Company raised $400 by the issuance of 100,000 shares through a private placement.

On February 6, 2007 the Company raised $414 by the issuance of 103,500 shares through a private placement.

On November 20, 2006 the Company raised $1,000 by the issuance of 250,000 shares through a private placement.

On August 1, 2006 the Company completed its initial private placement of $8,000 by the issuance of 2,000,000 shares.

7. STOCK OPTIONS

Performance options and share awards

In the 5 month period ended December 31, 2006, the Company recognized stock based compensation of $7,999 for the grant or contingent grant of 1,000,000 options and 1,000,000 restricted shares. Stock compensation was determined at $4.00 per option and restricted share, equivalent to the private placement share price, less the exercise price. On August 1, 2006 the Company granted a total of 1,000,000 stock options with an exercise price of $0.002 per option to a director of the Company. Upon the close of the initial private placement 750,000 options became vested and were exercised for $1.50. The remaining 250,000 options vested and were exercised on April 25, the date that the Company entered into a licensing agreement, on terms approved by the Company, with an entity which is at arm's length to both the Company and Landqart, for the licensing of the LQard security card technology.

Stock options

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. The maximum number of options that may be granted must not exceed 10% of the common shares outstanding at the time of the grant.

On April 5, 2007 and May 2, 2007 two tranches of options were granted for 320,350 and 122,325 shares, respectively. These options were granted to directors and officers of the Company with an exercise price equivalent to the IPO price with expiry 10 years from the IPO date (June 20, 2007).

Consistent with the Company’s stock option plans these options vest as follows:

1/3 on IPO date June 20, 2007
1/3 1 year from IPO date
1/3 2 years from IPO date

The estimated fair value for the 442,675 options granted during the period was $1,456. Prorating the total amount based on the vesting schedule $621 has been expensed as stock-based compensation in the statement of operations with a corresponding amount recorded as contributed surplus in shareholders’ equity.

(figures are in thousands of Canadian dollars except where indicated - unaudited)

The fair value of the options, being $3.29 per option, has been estimated at the grant dates using the Black-Scholes option pricing model. Option pricing models require 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 stock options. Assumptions used in the pricing model are as follows:

Risk-free interest rate	4%
Expected life of options	5 years
Annualized volatility	40%
Dividend rate	Nil

Stock option transactions and the number of stock options outstanding are summarised as follows for the period ended September 30, 2007:

	Number of options	Exercise Price
Granted April 5, 2007	320,350	$ 8.00
Granted May 2, 2007	122,325	8.00
As at September 30, 2007	442,675	$ 8.00

8. RELATED PARTY TRANSACTIONS

In the nine month period ended September 30, 2007, the Company, in the normal course of business, has paid or accrued office and administration expenses of $68 to a company with a common director.

In the five month period ended December 31, 2006, the Company, in the normal course of business, had paid or accrued office and administration expenses of $39 to a company with a common director.

(figures are in thousands of Canadian dollars except where indicated - unaudited)

9. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations by mill is based on a number of factors, including production, production processes, and economic characteristics. No single customer accounted for 10% or more of the Company's total sales.

	Nine Months Ended September 30, 2007			
	Dresden Papier (Germany)	Landqart (Switzerland)	Corporate (Canada)	Fortress Paper Consolidated
Sales	$ 61,548	46,209	—	$ 107,757
Operating earnings (loss)	$ 7,058	1,854	(1,694)	$ 7,218
Amortization	$ 915	602	—	$ 1,517
Stock-based compensation	$ —	—	621	$ 621
Property, plant and equipment	$ 10,582	16,757	—	$ 27,339
Capital expenditures	$ 2,580	9,850	—	$ 12,430
Sales by geographic area	%	%		%
Germany	50.6	11.9		34.0
Switzerland	—	29.5		12.7
Other Western Europe	24.5	32.8		28.1
Eastern Europe	23.0	14.0		19.1
Other	1.9	11.8		6.1
Total	100.0	100.0	—	100.0

	Three Months Ended September 30, 2007			
	Dresden Papier (Germany)	Landqart (Switzerland)	Corporate (Canada)	Fortress Paper Consolidated
Sales	$ 20,776	13,289	—	$ 34,065
Operating earnings (loss)	$ 2,652	(508)	(738)	$ 1,406
Amortization	$ 370	299	—	$ 669
Stock-based compensation	$ —	—	121	$ 121
Property, plant and equipment	$ 10,582	16,757	—	$ 27,339
Capital expenditures	$ 1,688	4,188	—	$ 5,869
Sales by geographic area	%	%		%
Germany	49.7	11.4		34.8
Switzerland	—	34.3		13.4
Other Western Europe	25.1	26.7		25.7
Eastern Europe	23.4	15.3		20.2
Other	1.8	12.3		5.9
Total	100.0	100.0	—	100.0

10. EMPLOYEE FUTURE BENEFITS

No pension expense has been recorded due to the overfunded pension.

11 SUBSEQEUNT EVENTS

On November 1, 2007, the Company granted stock options to purchase up to 540,000 common shares of the company to directors and an officer of the Company. Each option is exercisable to acquire one common share, at a price of $8.00.