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

SHORT FORM PROSPECTUS

New Issue

July 3, 2012



Fortress Paper Ltd.

\$60,000,000

7.0% Convertible Unsecured Subordinated Debentures

This short form prospectus qualifies the distribution (the "**Offering**") of \$60,000,000 aggregate principal amount of 7.0% convertible unsecured subordinated debentures (the "**Debentures**") of Fortress Paper Ltd. ("**Fortress**" or the "**Company**") at a price of \$1,000 per Debenture (the "**Offering Price**") pursuant to an underwriting agreement dated June 25, 2012 (the "**Underwriting Agreement**") among Fortress and Raymond James Ltd. and Scotia Capital Inc., as co-lead underwriters (together, the "**Lead Underwriters**"), on their own behalf and on behalf of Canaccord Genuity Corp., Dundee Securities Ltd., RBC Dominion Securities Inc., TD Securities Inc., CIBC World Markets Inc., Cormark Securities Inc. and Acumen Capital Finance Partners Limited (collectively, the "**Underwriters**").

The Debentures will bear interest at an annual rate of 7.0% payable semi-annually in arrears on June 30 and December 31 in each year commencing on December 31, 2012 (each, an "**Interest Payment Date**"). The maturity date of the Debentures will be December 31, 2019 (the "**Maturity Date**"). See "*Details of the Offering*".

Each Debenture will be convertible into Class A voting common shares of Fortress (the "**Common Shares**") at the option of the holder at a conversion price of \$31.00 per Common Share (the "**Conversion Price**"), subject to adjustment in certain events, representing a conversion rate of approximately 32.2581 Common Shares per \$1,000 principal amount of Debentures, at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by Fortress for redemption of the Debentures, except in respect of the eight business days before an Interest Payment Date or the Maturity Date.

The Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "FTP". The TSX has conditionally approved the listing of the Debentures, including the Debentures issuable upon the exercise of the Over-Allotment Option (as defined below), and the Common Shares issuable upon conversion, redemption or repayment thereof on the TSX. Approval of such listing will be subject to the Company fulfilling all of the listing requirements of the TSX. The closing price of the Common Shares on the TSX on June 19, 2012, the trading day on which the Offering was announced, was \$21.48.

	Price to the Public	Underwriters' Fee ⁽¹⁾	Proceeds to the Company ⁽²⁾
Per Debenture.....	\$1,000	\$40	\$960
Total ⁽³⁾	\$60,000,000	\$2,400,000	\$57,600,000

Note:

- (1) Pursuant to the terms and conditions of the Underwriting Agreement, the Company has agreed to pay a cash commission to the Underwriters equal to 4.0% of the gross proceeds of the Offering (the "**Underwriters' Fee**"). See "*Plan of Distribution*".
- (2) Before deducting the expenses of the Offering, estimated to be approximately \$475,000, which will be paid from the proceeds of the Offering.
- (3) Fortress has granted to the Underwriters an option (the "**Over-Allotment Option**") to purchase up to an additional 15% of the aggregate principal amount of the Debentures issued at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Offering to the closing of the Over-Allotment Option) on the same terms and conditions as the Offering, exercisable in whole or in part at the sole discretion of the Underwriters at any time up until 30 days after closing of the Offering, for the purpose of covering the Underwriters' over-allocation position. Debentures issuable

upon the exercise of the Over-Allotment Option will be issued on the later of closing of the Offering and between three and five business days following the exercise of such option. If the Over-Allotment Option is exercised in full, the total price to the public will be \$69,000,000, the total Underwriters' Fee will be \$2,760,000 and the total proceeds to the Company, before deducting the expenses of the Offering, will be \$66,240,000. See "Plan of Distribution". This short form prospectus also qualifies for distribution the grant of the Over-Allotment Option and the issuance of Debentures pursuant to the exercise of the Over-Allotment Option. A purchaser who acquires Debentures forming part of the Underwriters' over-allocation position acquires those Debentures under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

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

Underwriters' Position	Maximum Size	Exercise Period	Exercise Price
Over-Allotment Option	9,000 Debentures	Up to and including the 30th day following the closing of the Offering	\$1,000 per Debenture

The Debentures will be direct obligations of Fortress and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to all senior indebtedness of Fortress. The terms and conditions of the Debentures will be governed by a debenture indenture between Fortress and Computershare Trust Company of Canada, as trustee (the "**Debenture Trustee**"), dated as of December 22, 2011 (the "**Base Indenture**"), as supplemented by a supplemental indenture to be dated as of the Closing Date (the "**Supplemental Indenture**"). The Base Indenture as supplemented by the Supplemental Indenture is hereinafter referred to as the "**Indenture**".

The Company may not redeem the Debentures prior to July 1, 2015 (the "**Redemption Date**"). On or after the Redemption Date and prior to the July 1, 2017, the Debentures will be redeemable in whole or in part from time to time at Fortress' option at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume-weighted average trading price of the Common Shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On or after July 1, 2017 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of Fortress at a price equal to the principal amount thereof plus accrued and unpaid interest.

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

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

Subscriptions for Debentures will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. Certificates for the aggregate principal amount of the Debentures will be issued in registered form to CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee and will be deposited with CDS on closing of the Offering. The date of closing of the Offering (the "**Closing Date**") is expected to be on or about July 10, 2012, or such later date as the Company and the Underwriters may agree, but in any event not later than July 31, 2012. The purchaser of Debentures will receive only a customer confirmation from a registered dealer that is a participant in the CDS depository service and from or through whom a beneficial interest in the Debentures is purchased. See "Details of the Offering".

The earnings coverage ratio in respect of the Company's indebtedness for the 12 months ended December 31, 2011 and March 31, 2012 after giving effect to the Offering is less than one-to-one. See "Earnings Coverage Ratio".

An investment in the Debentures and the Common Shares underlying the Debentures is subject to a number of risks. The risk factors identified under the heading "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" in this short form prospectus should be carefully reviewed and evaluated by prospective purchasers 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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SUMMARY

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

Fortress Paper Ltd.

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

Fortress operates internationally in three distinct business segments: dissolving pulp, specialty papers and security paper products. The Company operates its dissolving pulp business at its Fortress Specialty Cellulose Mill in Thurso, Québec which is also in the process of expanding into the renewable energy generation sector with the construction of a cogeneration facility. With the recent purchase of the Fortress Global Cellulose Mill in Lebel-sur-Quévillon, Québec, Fortress plans to convert its NBSK pulp manufacturing facility to significantly expand its dissolving pulp production capacity. The Company's specialty papers business includes non-woven wallpaper base products. The Company's security paper products business includes banknote, passport, visa and other brand protection and security papers and optically variable thin film material ("OTM").

The Offering

Issue:	60,000 7.0% convertible unsecured subordinated debentures.
Amount of Offering:	\$60,000,000.
Price:	\$1,000 per Debenture.
Over-Allotment Option:	Fortress has granted to the Underwriters an over-allotment option to purchase up to 15% of the principal amount of the Debentures issued at a price of \$1,000 per Debenture (plus accrued interest from the initial closing of the Offering to the closing of the Over-Allotment Option) on the same terms and conditions as the Offering, exercisable in whole or in part, at the sole discretion of the Underwriters, at any time up until 30 days after the closing of the Offering for the purposes of covering the Underwriters' over-allocation position. Debentures issuable upon exercise of the Over-Allotment Option will be issued on the later of closing of the Offering and between three and five business days following exercise of such option.
Use of Proceeds:	Fortress intends to use the net proceeds of this Offering, including any net proceeds from the exercise of the Over-Allotment Option, to fund capital expenditures relating to the cogeneration project at the Fortress Specialty Cellulose Mill, to fund capital expenditures relating to the Fortress Global Cellulose Mill, to repay outstanding indebtedness and for working capital and general corporate purposes.

Debentures

Maturity:	The maturity date for the Debentures will be December 31, 2019.
Interest:	7.0% per annum payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2012. The first interest payment on December 31, 2012 will include interest accrued from the Closing Date to, but excluding December 31, 2012.
Conversion Privilege:	The Debentures will be convertible into fully paid and non-assessable Common Shares at the option of the holder thereof at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Company for redemption of the Debentures, except in respect of the eight business days before an Interest Payment Date or the Maturity Date, at a conversion price of \$31.00 per Common Share, representing a conversion rate of approximately 32.2581 Common Shares per \$1,000 principal amount of Debentures, subject to adjustment as provided in the

Indenture. Holders converting their Debentures will receive accrued and unpaid interest thereon from the period of the last Interest Payment Date of their Debentures prior to the date of conversion to the date that is one day prior to the date of conversion. See "*Details of the Offering – Conversion Privilege*".

Redemption: The Debentures will not be redeemable before July 1, 2015. On and after July 1, 2015 and prior to July 1, 2017, the Debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price. On or after July 1, 2017 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of Fortress at a price equal to the principal amount thereof plus accrued and unpaid interest. See "*Details of the Offering – Redemption and Purchase*".

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

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

COCCP is the Change of Control Conversion Price;

ECP = the Conversion Price in effect on the date of the Change of Control;

CP = 44.3%;

c = the number of days from and including the date of the Change of Control to but excluding July 1, 2017; and

t = the number of days from and including the Closing Date to but excluding July 1, 2017.

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

Payment upon Redemption or Maturity: On redemption or at maturity, the Company may, at its option, on not more than 60 days and not less than 40 days prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the principal amount of the Debentures, in whole or in part, by issuing and delivering that number of freely tradeable Common Shares obtained by dividing the principal amount of the outstanding Debentures which are to be redeemed or which have matured by 95% of the volume weighted average trading price of the Common Shares on

the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date fixed for redemption or the Maturity Date, as the case may be. Any accrued and unpaid interest thereon will be paid in cash. See "*Details of the Offering – Payment upon Redemption or Maturity*".

Common Share
Interest Payment
Option:

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

Subordination:

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Persons reading this short form prospectus are cautioned that forward-looking statements or information are only predictions, and that the Company's actual future results or performance are subject to certain risks and uncertainties including, but not limited to: the inability of Fortress to obtain the necessary stock exchange approval or any other approvals required for completion of the Offering within the anticipated time or at all; there may be circumstances that are not known to Fortress at this time where re-allocations of the net proceeds from the Offering may be advisable for business reasons that management believes are in the Company's best interest; general economic, market and business conditions in Canada and the jurisdictions where the Company operates; the Company's ability to raise capital on acceptable terms; incorrect assessments of the value of acquisitions; fluctuations in foreign exchange or interest rates and stock market volatility; damage to the Company's reputation; the ability of the Company to implement its business plan; competition for, among other things, capital and skilled personnel; dependence on the Company's major customers; protection of intellectual property; fluctuations in the price of raw materials; the dependence on key personnel; the Company's competitive position in the industries in which it does business; potential disruptions to production and delivery; actions taken by governmental authorities; the ability to efficiently and effectively manage growth; and other factors referenced under the heading "*Risk Factors*" in the Company's annual information form dated March 30, 2012 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 securities law. The Company does not provide any assurances that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Investors are cautioned that forward-looking statements are not guarantees of future performance and accordingly investors are cautioned not to place undue reliance on forward-looking statements due to the inherent uncertainty therein.

GENERAL MATTERS

Neither Fortress nor the Underwriters have authorized anyone to provide you with information other than that contained or incorporated by reference in this short form prospectus, and neither the Company nor the Underwriters take any responsibility for other information that others may give you. Neither Fortress nor the Underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this document may only be accurate as of the date on the front cover of this short form prospectus.

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

Currency Conversion

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

<u>Year Ended</u>	<u>High</u>	<u>Low</u>	<u>\$ per CHF</u>		<u>End Rate</u>
			<u>Average Rate</u>		
December 31, 2011	1.3578	1.0149	1.1187		1.0846
<u>Three Month Period Ended</u>					
March 31, 2012	1.1160	1.0647	1.0871		1.1067

On June 29, 2012, the exchange rate was CHF 1.00 = \$ 1.0745.

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

<u>Year Ended</u>	<u>High</u>	<u>Low</u>	<u>\$ per €</u>		<u>End Rate</u>
			<u>Average Rate</u>		
December 31, 2011	1.4305	1.2847	1.3767		1.3193
<u>Three Month Period Ended</u>					
March 31, 2012	1.3446	1.2890	1.3129		1.3322

On June 29, 2012, the exchange rate was €1.00 = \$ 1.2910.

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

<u>Year Ended</u>	<u>High</u>	<u>Low</u>	<u>\$ per US\$</u>		<u>End Rate</u>
			<u>Average Rate</u>		
December 31, 2011	1.0604	0.9449	0.9891		1.0170
<u>Three Month Period Ended</u>					
March 31, 2012	1.0272	0.9849	1.0011		0.9991

On June 29, 2012, the exchange rate was US\$1.00 = \$ 1.0191.

Presentation of Financial Matters

In February 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises would be required to report under International Financial Reporting Standards ("IFRS") for financial years beginning on or after January 1, 2011.

Fortress adopted IFRS effective for interim and annual periods commencing January 1, 2011. Prior to the adoption of IFRS, Fortress prepared its consolidated financial statements in accordance with Canadian generally accepted accounting policies in effect at that time.

The Company issued its first IFRS annual consolidated financial statements for the year ended December 31, 2011, with comparative consolidated statements of financial position as at December 31, 2010 and January 1, 2010 and consolidated statements of operations, comprehensive (loss), changes in equity and cash flows for the year ended December 31, 2010.

The Company's interim condensed consolidated financial statements for the three month period ended March 31, 2012 incorporated by reference in this short form prospectus have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34—*Interim Financial Reporting*, with comparative information for the applicable 2011 comparative period.

MARKET AND INDUSTRY DATA

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

ELIGIBILITY FOR INVESTMENT

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

Notwithstanding the foregoing, if the Debentures or Common Shares are a "prohibited investment" for a particular TFSA, RRSP or RRIF, the holder of the particular TFSA, RRSP or RRIF will be subject to penalty taxes under the Tax Act. The Debentures would be a "prohibited investment" for a TFSA, RRSP or RRIF if the holder of the TFSA, RRSP or RRIF has a "significant interest" in, or does not deal at arm's length with the Company. Generally, a holder of the TFSA, RRSP or RRIF 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 Corporate Secretary of Fortress at 2nd Floor, 157 Chadwick Court, North Vancouver, B.C., V7M 3K2, telephone (604) 904-2328, and are also available electronically through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com. The filings of the Company through 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 30, 2012, for the year ended December 31, 2011 (the "**Annual Information Form**");
- (b) the audited consolidated financial statements of the Company and notes thereto for the years ended December 31, 2011 and December 31, 2010, together with the auditor's 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, 2011;
- (d) the unaudited condensed consolidated financial statements of the Company and notes thereto for the three month period ended March 31, 2012;
- (e) management's discussion and analysis of financial condition and results of operations for the Company for the three month period ended March 31, 2012;
- (f) the management information circular of the Company dated May 10, 2012, prepared in connection with the Company's annual general and special meeting of shareholders held on June 7, 2012;
- (g) the material change report of the Company dated February 10, 2012 with respect to the signing by the Company of an asset purchase agreement for the buildings, equipment and other ancillary property and a non-operating cogeneration facility relating to the non-operating pulp mill located at Lebel-sur-Quévillon, Québec;
- (h) the material change report of the Company dated April 10, 2012 with respect to certain changes to management of the Company;
- (i) the material change report of the Company dated May 14, 2012 with respect to the entering into by Landqart of an asset purchase agreement with a Swiss utility company for the sale of its hydropower assets and associated real estate and a long term power purchase agreement;
- (j) the material change report of the Company dated June 15, 2012 with respect to Landqart having had a material banknote order reinstated;
- (k) the material change report of the Company dated June 15, 2012 with respect to the ramp up of production of dissolving pulp at the Fortress Specialty Cellulose Mill; and
- (l) the material change report of the Company dated June 21, 2012 with respect to the completion of its acquisition of the Fortress Global Cellulose Mill.

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

Any statement contained in this short form prospectus or in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained in this short form prospectus or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference into this short form prospectus modifies or supersedes that statement. The modifying or superseding statement need not state that

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

Neither the Company nor the Underwriters have provided or otherwise authorized any other person to provide investors with information other than that contained or incorporated by reference in this short form prospectus, and neither the Company nor the Underwriters take any responsibility for other information that others may give you. If an investor is provided with different or inconsistent information, he or she should not rely on it.

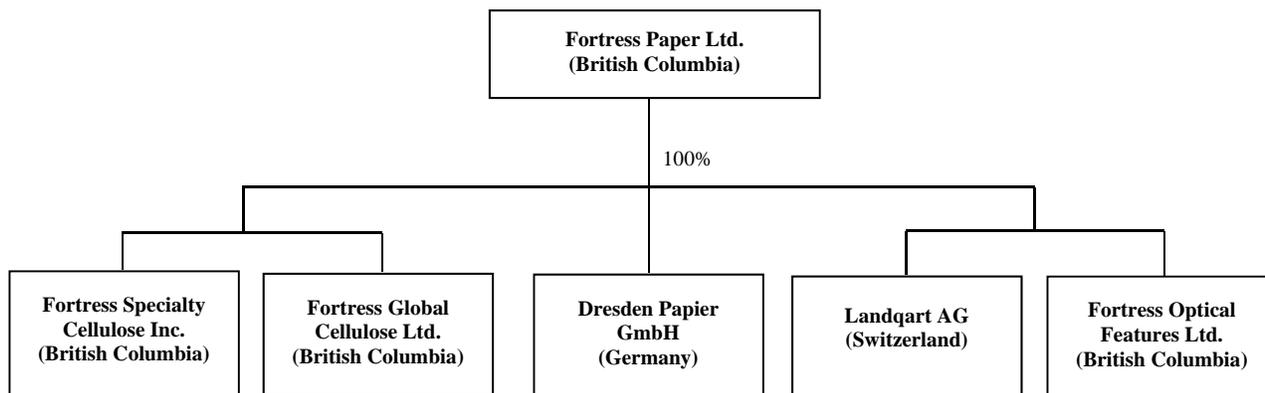
THE COMPANY

General

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

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

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



In this short form prospectus:

- the terms "**the Company**" or "**Fortress**" will refer to the consolidated operations of the Company and its subsidiaries unless otherwise specifically noted or the context requires otherwise;
- Landqart AG will be referred to as "**Landqart**";
- "**Landqart Mill**" means the paper mill located in Landqart, Switzerland, owned by Landqart;
- Dresden Papier GmbH will be referred to as "**Dresden**";
- "**Dresden Mill**" means the paper mill located in Heidenau, Germany, owned by Dresden;
- Fortress Global Cellulose Ltd. will be referred to as "**Fortress Global**";

- "**Fortress Global Cellulose Mill**" means the non-operating northern bleached softwood kraft ("**NBSK**") pulp mill located at Lebel-sur-Quévillon, Québec, owned by Fortress Global;
- Fortress Specialty Cellulose Inc. will be referred to as "**Fortress Specialty**";
- "**Fortress Specialty Cellulose Mill**" means the dissolving pulp manufacturing facility located at Thurso, Québec, owned by Fortress Specialty; and
- Fortress Optical Features Ltd. will be referred to as "**Fortress Optical**".

Recent Developments

Acquisition of Fortress Global Cellulose Mill

Effective June 13, 2012, Fortress completed the acquisition, through its wholly owned subsidiary, Fortress Global, of the Fortress Global Cellulose Mill from Domtar Inc., pursuant to which Fortress Global acquired the buildings, equipment and other ancillary property relating to the mill, including a 30 megawatt non-operating cogeneration facility. 9109-3294 Québec Inc., a wholly owned subsidiary of the Québec Ministère du Développement économique, de l'Innovation et de l'Exportation ("**9109**"), acquired the lands relating to the mill. The Company paid a nominal cash amount and agreed to make contributions pursuant to a trust agreement in escalating tranches over the next five years of an aggregate of \$7.5 million and an additional contingent amount of \$2.5 million only in the event of a permanent closing of the Fortress Global Cellulose Mill in respect of environmental remediation costs. The Company intends to invest estimated capital expenditures of approximately \$222 million over the next two to three years to convert this operation into a low cost, high quality dissolving pulp operation initially targeting viscose fibre products, and to restart the cogeneration facility which will produce green energy and result in material net energy savings (income). The Company has also identified certain modifications to the cogeneration facility that are expected to increase the power to 34 megawatts.

The Fortress Global Cellulose Mill is planned to have an annual production capacity of viscose grade dissolving pulp of approximately 250,000 air dried metric tonnes ("**ADMT**").

Concurrent with the completion of the acquisition, the Company finalized a \$132.4 million project financing loan with Investissement Québec ("**IQ**"), comprised of two tranches. The first tranche of \$102.4 million has a term of 10 years and the second tranche of \$30 million has a term of three years. The loan is secured by the capital assets of Fortress Global and accrues interest at a fixed rate of 5.0% per annum for the first five years, followed by a rate not to exceed 5.5% per annum for the remaining five years. Equity compensation in the form of 715,000 share purchase warrants of the Company (the "**IQ Warrants**"), exercisable at a price of \$21.52 per Common Share on the earlier of December 31, 2014 and the date on which the loan has been fully disbursed, and expiring on December 31, 2017, was also provided to IQ in connection with the loan. The Company also issued an unsecured convertible debenture in the aggregate principal amount of \$25 million (the "**FSTQ Debenture**") to Fonds de Solidarité FTQ, which matures in five years and bears interest at a rate of 7% per annum. The FSTQ Debenture is convertible, in whole or in part, into Common Shares at a conversion price of \$32.28. In addition, Fortress Global has entered into an incentive and support agreement with the City of Lebel-sur-Quévillon for, among other things, a mutually beneficial, long term municipal tax arrangement in support of the Fortress Global Cellulose Mill, which will assist in revitalizing the Northern Québec region.

Landqart Update

In May 2012, Landqart completed the sale of its hydropower assets and associated real estate to a Swiss utility company for proceeds of CHF18 million. In order to maintain the supply of its operational power requirements, Landqart concurrently entered into a long term power purchase agreement at competitive rates.

6.5% Debenture Offering

In December 2011, Fortress completed a public offering by way of short form prospectus of an aggregate principal amount of \$40.25 million 6.5% convertible unsecured subordinated debentures (the "**6.5% Debentures**"), which included the exercise in full of the underwriters' over-allotment option.

The Business

Overview

Fortress operates internationally in three distinct business segments: dissolving pulp, specialty papers and security paper products. The Company operates its dissolving pulp business at the Fortress Specialty Cellulose Mill located in Canada, where it has commenced production of dissolving pulp after successfully completing the conversion of the mill from a NBHK pulp to a dissolving pulp operation. The Fortress Specialty Cellulose Mill is also in the process of expanding into the renewable energy generation sector with the construction of a cogeneration facility. With the recent acquisition of the Fortress Global Cellulose Mill, Fortress plans to convert the NBSK manufacturing facility into a dissolving pulp operation to increase its dissolving pulp production capacity to approximately 450,000 ADMT per annum. Fortress intends to produce a limited amount of NBSK pulp at the Fortress Global Cellulose Mill while reconfiguring the mill. The Company operates its specialty papers business at the Dresden Mill located in Germany, where it produces specialty non-woven wallpaper base products. The Company operates its security paper products business at the Landqart Mill located in Switzerland, where it produces banknote, passport, visa and other brand protection and security papers, and at its Fortress Optical facility located in Canada, where it manufactures OTM.

Dissolving Pulp (Fortress Specialty and Fortress Global)

In December 2011, the Company completed the conversion of the Fortress Specialty Cellulose Mill from a producer of NBHK and specialty pulp, and commenced the production of dissolving pulp, also known as specialty cellulose.

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

On June 13, 2012, Fortress acquired the Fortress Global Cellulose Mill. See "*Recent Developments – Acquisition of Fortress Global Cellulose Mill*".

Specialty Papers (Dresden)

The Dresden Mill is a leading global supplier of non-woven wallpaper base with an estimated market share of approximately 50% of the world-wide non-woven wallpaper base market in 2011. 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 non-woven wallpaper base for the wall coverings industry. Traditional simplex and duplex wallpaper base contains only pulp layers whereas the Company's non-woven wallpaper base contains a certain proportion of synthetic fibres which provide unique characteristics, the most important of which is ease of removal due to its dry-stripability. Other features of non-woven wallpaper base include increased dimensional stability preventing expansion and contraction which occurs in traditional wallpaper base products and results in noticeable seams upon drying. In addition, the non-woven wallpaper base allows for the paste to be applied directly to the wall instead of to the wallpaper itself.

While overall global demand for wallpaper base was generally stable in 2011, certain markets such as China have experienced increased volumes. The wallpaper market is expected to benefit from recovery in residential construction and renovations markets, as well as replacement of other types of wall coverings. Factors expected to spur growth of non-woven wallpaper in mature markets include continued substitution of traditional paper-based wallpaper products and the introduction of new non-woven products.

Growth is expected to come from markets such as Russia and China which experienced increased sales volumes in 2011, as well as from new markets which are beginning to adopt non-woven wallpaper products, including Japan,

Korea, Brazil and Chile. By expanding and refining its production of non-woven wallpaper base, the Dresden Mill is well positioned to meet the changing market demand.

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

Security Paper Products (Landqart and Fortress Optical)

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

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

The Dissolving Pulp Market

Industry Background

Wood pulp is the principal component used in the production of paper, paperboard, tissue and related products. Generally, wood pulp is produced using either a mechanical or a chemical process. Mechanical pulps are produced by using mechanical force to separate the individual wood fibres from each other. Chemical pulps are the result of a process in which lignin, the component of wood that binds individual fibres, is dissolved by chemical reaction and removed from the resulting mixture.

Pulps can be bleached to increase brightness, or left unbleached.

The primary types of chemical paper grade pulp are northern bleached softwood kraft, northern bleached hardwood kraft, southern bleached softwood kraft, southern bleached hardwood kraft and bleached eucalyptus kraft (eucalyptus is considered hardwood).

Dissolving Pulp

Dissolving pulp is a specific variation of chemical pulp in which hemi-celluloses in addition to lignin are removed from the wood. Dissolving pulp has unique properties, including a high level of purity and uniform molecular-weight distribution. Dissolving pulp is used in a wide variety of applications including the production of rayon textile fibres, acetate products, cellophanes, and various chemical additives. It is also used by pharmaceutical companies and the food industry as a binder, release and viscosity control agent. Rayon, as the single largest

application of dissolving pulp, is used in a variety of end products including home furnishings, medical and surgical products and packaging materials. Rayon is considered to be a substitute for cotton with positive characteristics such as biodegradability. The supply of cotton has remained flat (despite current volatility) and the price has increased over recent years despite increasing demand for textile fibres. The Company believes this dynamic will favourably affect the demand of dissolving pulp in the future. Dissolving pulp is categorized into either rayon grades of dissolving pulp or specialty grades of dissolving pulp. Specialty grades of dissolving pulp are distinguished from rayon grades of pulp based on their levels of cellulose purity, as well as their brightness and viscosity.

Production of Dissolving Pulp

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

Market for Dissolving Pulp

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

Demand for pulp and dissolving pulps has historically been determined by the level of economic growth and has been closely tied to overall business activity. From 2006 to mid-2008, pulp prices steadily improved. However, a global economic crisis in the latter half of 2008 resulted in a sharp decline of pulp prices. Dissolving pulp prices recovered quickly commencing in the second half of 2009 and continued through mid-2011, spurred by the scarcity of cotton and rapid growth of VSF production capacity in China. As the global economy slowed in late 2011, dissolving pulp prices weakened substantially, dropping to approximately US\$1,100 per tonne. Stronger than expected demand for textiles in early 2012 saw dissolving pulp prices rebound to approximately US\$1,200 per tonne in the first quarter, followed by reduced demand in the second quarter with dissolving pulp prices retreating to between US\$1,000 and US\$1,100 per tonne. In 2011, demand for dissolving pulp was approximately 5.3 million ADMT. This is expected to increase, particularly in Asian markets, as the demand for textile fibres increases with the continued growth of the global population and expanding middle classes in emerging economies. Demand is also expected to be driven by the development of new applications for dissolving pulp and an increased focus on environmental awareness in regard to which the Company believes that viscose products have a significant advantage over cotton and oil based textiles. The Company believes that favourable long-term market conditions exist to allow for additional dissolving pulp capacity to enter the market.

The Company intends to initially focus its sales of dissolving pulp for the rayon industry with a geographic focus primarily on Asia, which is the largest market for dissolving pulp accounting for approximately 70% of worldwide demand in 2011. The Company's strategy is to expand its dissolving pulp segment by exploiting unique opportunities to create low relative production cost operations at competitive capital conversion costs and through strategic acquisitions.

DETAILS OF THE OFFERING

The Offering consists of 60,000 Debentures at a price of \$1,000 per Debenture. The Debentures will be issued under the Indenture (as herein defined). The following description of the Debentures is a summary of their material attributes and characteristics, is subject to the detailed provisions of the Indenture and is qualified in its entirety by

reference to the Indenture. The Debentures offered hereunder are of a separate series to the 6.5% Debentures issued by the Company under the Base Indenture.

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

General

The aggregate principal amount of the Debentures authorized for issue immediately will be limited to the aggregate principal amount of \$60,000,000 (\$69,000,000 in the event the Over-Allotment Option is exercised in full). However, the Company may, from time to time, without the consent of holders of the Debentures, issue additional Debentures of the same series or of a different series under the Indenture. Any reference in this section to "debentures" is a reference to all debentures outstanding from time to time under the Indenture, as it may be further supplemented from time to time.

The Debentures will be dated as at the Closing Date and will be issuable only in denominations of \$1,000 and integral multiples thereof. The maturity date for the Debentures will be December 31, 2019.

The Debentures will bear interest from the date of issue at 7.0% per annum, which will be payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2012. The first interest payment will include interest accrued from the closing of this Offering to, but excluding, December 31, 2012.

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

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

Conversion Privilege

The Debentures will be convertible at the holder's option into fully paid and non-assessable Common Shares at any time prior to the close of business on the earlier of the Maturity Date and the business day immediately preceding the date specified by the Company for redemption of the Debentures, except in respect of the eight business days before an Interest Payment Date or the Maturity Date, at a conversion price of \$31.00 per Common Share, representing a conversion rate of approximately 32.2581 Common Shares for each \$1,000 principal amount of Debentures. No adjustment will be made for dividends on Common Shares issuable upon conversion. No adjustment will be made for interest accrued since the then most recently completed Interest Payment Date on Debentures surrendered for conversion; however, holders converting their Debentures on an Interest Payment Date will receive all interest which has accrued prior to that Interest Payment Date and which has not been paid. Holders converting their Debentures shall become holders of record of Common Shares on the business day immediately after the conversion date and such Common Shares will be delivered to such holders as soon as practicable after the conversion date.

Subject to the provisions thereof and the requirements of the TSX, the Indenture will provide for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Common Shares; (b) the distribution of Common Shares to holders of all or substantially all of the outstanding Common Shares by way of dividend or otherwise other than an issue of securities to holders of Common Shares who have elected to receive dividends in securities of the Company in lieu of receiving cash dividends paid in the ordinary

course; (c) the payment of a cash dividend to the holders of all or substantially all of the outstanding Common Shares, provided that the adjusted Conversion Price is not less than \$21.52, which represents the volume weighted average trading price of the Common Shares on the TSX for the five consecutive trading days prior to and including June 19, 2012, the date the Offering was announced, less the maximum permitted discount pursuant to TSX policies; (d) the issuance of options, rights or warrants to all or substantially all holders of Common Shares entitling them to acquire Common Shares or other securities convertible into Common Shares at less than 95% of the then current market price (as defined below) of the Common Shares; and (e) the distribution to all holders of Common Shares of any securities or assets (other than securities in respect of which the adjustment provisions described above apply or cash dividends in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (b), (d) or (e) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date, as the case may be. The Company will not be required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the Conversion Price by at least 1%.

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

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

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

Redemption and Purchase

The Debentures will not be redeemable before July 1, 2015 (except in the event of certain circumstances described under "*Change of Control of the Company*"). On and after July 1, 2015 and prior to July 1, 2017, the Debentures may be redeemed in whole or in part from time to time at the option of the Company on not more than 60 days and not less than 30 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the Common Shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the Conversion Price. On or after July 1, 2017 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part from time to time at the option of Fortress at a price equal to the principal amount thereof plus accrued and unpaid interest.

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

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

Payment upon Redemption or Maturity

On redemption or at maturity, the Company will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the aggregate principal amount of the outstanding Debentures which are to be redeemed or which have matured, together with accrued and unpaid interest thereon. The Company may, at its option, on not more than 60 and not less than 40 days prior notice and subject to

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

Subordination

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

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

Change of Control of the Company

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

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

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

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

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

COCCP is the Change of Control Conversion Price;

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

CP = 44.3%;

c = the number of days from and including the Effective Date to but excluding July 1, 2017; and

t = the number of days from and including the Closing Date to but excluding July 1, 2017.

Interest Payment Option

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

The Indenture will set forth the procedures to be followed by the Company and the Debenture Trustee in order to effect the Common Share Interest Payment Election. If a Common Share Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Common Shares (plus any amount received by the Debenture Trustee from the Company) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Company in respect of the Interest Obligation.

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

Events of Default

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if any one or more of the following described events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures, whether at maturity, upon redemption, by declaration or otherwise; or (iii) certain events of bankruptcy, insolvency or reorganization of the Company under bankruptcy or insolvency laws. If an Event of Default has

occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon request of holders of not less than 25% of the aggregate principal amount of the Debentures, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of a majority of the principal amount of Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms as such holders shall prescribe.

Offers for Debentures

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

Modification

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

Book-Entry System

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

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

Beneficial interests in Debentures will be represented solely through the book-entry only system and such interests will be evidenced by customer confirmations of purchase from the registered dealer from which the applicable Debentures are purchased in accordance with the practices and procedures of that registered dealer. In addition, registration of interests in and transfers of the Debentures will be made only through the depository service of CDS. As indirect holders of Debentures, investors should be aware that they (subject to the situations described below) may not: (a) have Debentures registered in their name; (b) have physical certificates representing their interest in the Debentures; (c) be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) be able to pledge Debentures as security.

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

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

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

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

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at March 31, 2012: (i) before giving effect to the Offering; (ii) after giving effect to the Offering (assuming the Over-Allotment Option is not exercised); and (iii) after giving effect to the conversion of the Debentures issued under the Offering.

Description	Authorized	Outstanding as at March 31, 2012 before giving effect to the Offering (unaudited)	Outstanding as at March 31, 2012 after giving effect to the Offering (unaudited) ⁽¹⁾	Outstanding as at March 31, 2012 after giving effect to the conversion of the Debentures (unaudited)
<i>(in thousands of \$, except share amounts)</i>				
Debentures	-	-	\$ 60,000 ⁽²⁾	-
Long-term Debt	-	\$ 161,061 ⁽³⁾	\$ 161,061	\$ 161,061
Current Debt	-	\$ 19,284	\$ 17,484 ⁽⁴⁾	\$ 17,484
Common Shares	Unlimited	\$ 175,358 (14,309,693 Common Shares)	\$ 175,358 (14,309,693 Common Shares)	\$ 235,358 (16,245,176 Common Shares) ⁽⁵⁾

Notes:

- (1) Not including the exercise of the Over-Allotment Option.
- (2) The Debentures contain both a debt and equity element under IFRS, the components of which will be classified separately. The debt component is estimated to be \$49.6 million and the equity component is estimated to be \$7.5 million before taxes. The remaining balance is allocated to expected borrowing costs. See "*Earnings Coverage Ratio*".
- (3) The 6.5% Debentures issued in the aggregate amount of \$40.3 million contain both a debt and equity element under IFRS, the components of which are classified separately. The present value of the debt component at March 31, 2012 is estimated to be \$33.6 million and the equity component is estimated to be \$4.5 million before taxes.
- (4) Fortress intends to use net proceeds of the Offering to repay approximately \$0.8 million of a loan facility between Landqart and Canton Bank Glarus (the "**Canton Loan**") and approximately \$1.0 million of a loan facility between Landqart and UBS entered into in 2008 (the "**UBS Loan**"), which represents the current portion of long-term debt. See "*Use of Proceeds*".
- (5) Assumes conversion of all Debentures (not including those issued under the Over-Allotment Option) into Common Shares.

USE OF PROCEEDS

The aggregate net proceeds to be derived by the Company from the Offering are estimated to be approximately \$57,125,000, not including any proceeds received from the exercise of the Over-Allotment Option and after deducting the estimated expenses of the Offering of approximately \$475,000 and the Underwriters' Fee. Fortress intends to use the net proceeds from the Offering as follows:

To finance capital expenditures relating to the cogeneration project at the Fortress Specialty Cellulose Mill:	Approximately \$ 35,000,000
To finance capital expenditures relating to the Fortress Global Cellulose Mill conversion and upgrade project:	Approximately \$ 15,000,000
To repay outstanding indebtedness:	Approximately \$ 1,800,000
Working capital and general corporate purposes:	Approximately \$ 5,325,000

The proceeds to be used to finance capital expenditures relating to the cogeneration project at the Fortress Specialty Cellulose Mill include costs resulting from project scope changes and the use of new equipment instead of refurbished equipment. The proceeds to be used to finance capital expenditures relating to the Fortress Global Cellulose Mill represent \$15 million of the \$40 million commitment by the Company to fund the conversion and upgrade project. The proceeds to be used to repay outstanding indebtedness will be primarily applied towards payments on the Canton Loan in the aggregate amount of CHF785,000 (approximately \$0.8 million) and the UBS Loan in the amount of CHF900,000 (approximately \$1.0 million). See "*Consolidated Capitalization*". The proceeds of the UBS Loan were used primarily in connection with development costs relating to the Company's Durasafe® product. The proceeds of the Canton Loan were used primarily for the rebuilding of paper machine number 2 at Landqart. The proceeds to be used for working capital will be utilized for ongoing projects of the Company in the normal course. If the Over-Allotment Option is exercised, the Company intends to use the additional net proceeds for working capital and general corporate purposes. See "*Recent Developments*" for more information relating to the Company's Fortress Global Cellulose Mill.

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

PLAN OF DISTRIBUTION

Pursuant to the Underwriting Agreement, the Company has agreed to issue and sell 60,000 Debentures to the Underwriters, and the Underwriters have severally agreed to purchase, as principals, such Debentures on the Closing Date or on such other date as may be agreed among the parties to the Underwriting Agreement. Delivery of the Debentures is conditional upon payment on closing of the Offering of \$1,000 per Debenture by the Underwriters to the Company. The Underwriting Agreement provides that the Company will pay to the Underwriters a fee of \$40 per Debenture issued and sold by the Company, for an aggregate fee payable by the Company of \$2,400,000.

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

Fortress has granted to the Underwriters the Over-Allotment Option to purchase up to 9,000 Debentures at a price of \$1,000 per Debenture, on the same terms and conditions as the Offering, exercisable in whole or in part, in the sole discretion of the Lead Underwriters, on behalf of the Underwriters, at any time up until 30 days after the closing of the Offering. If the Over-Allotment Option is exercised in full, the price to the public, Underwriters' Fee and net proceeds to Fortress (before deducting expenses of the Offering) will be \$69,000,000, \$2,760,000 and \$66,240,000, respectively (excluding accrued interest paid in respect of such Debentures). This short form prospectus qualifies for distribution the Debentures as well as the grant of the Over-Allotment Option and the issuance of the Debentures pursuant to the exercise of the Over-Allotment Option.

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

Fortress has been advised by the Underwriters that, in connection with this Offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Debentures or Common Shares at levels other than

those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

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

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

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

The TSX has conditionally approved the listing of the Debentures, including the Debentures issuable upon the exercise of the Over-Allotment Option, and the Common Shares issuable on the conversion, redemption or maturity of the Debentures on the TSX. Listing will be subject to Fortress fulfilling all of the listing requirements of the TSX.

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

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

Except as permitted in the Underwriting Agreement and as expressly permitted by applicable laws of the United States, the Underwriters will not offer or sell the Securities within the United States. The Underwriting Agreement permits the Underwriters to offer and resell the Securities that they have acquired pursuant to the Underwriting Agreement to qualified institutional buyers (as defined in Rule 144A under the U.S. Securities Act ("**Rule 144A**")), in the United States, provided such offers and sales are made in transactions exempt from the registration requirements of the U.S. Securities Act in accordance with Rule 144A. The Underwriting Agreement also provides that the Underwriters will offer and sell the Securities outside the United States only in accordance with Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Securities within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the U.S. Securities Act.

The Closing Date is expected to be on or about July 10, 2012, or such later date as the Company and the Underwriters may agree, but not later than July 31, 2012.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

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

Holders Resident in Canada

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

Taxation of Interest on Debentures

A Resident Holder of Debentures that is a company, partnership, unit trust or any trust of which a company or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Debentures that accrues to it to the end of the particular taxation year or that has become receivable by or is received by the Resident Holder before the end of that taxation year, except to the extent that such interest was included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder, including an individual, will be required to include in computing income for a taxation year all interest on the Debentures that is received or receivable by the Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), except to the extent that the interest was included in the Resident Holder's income for a preceding taxation year. In addition, if at any time a Debenture should become an "investment contract" (as defined in the Tax Act) in relation to a Resident Holder, such Resident Holder will be required to include in computing income for a taxation year any interest that

accrues to the Resident Holder on the Debenture up to any "anniversary day" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Resident Holder's income for that year or a preceding year.

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

Exercise of Conversion Privilege

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

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

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

Disposition of Debentures

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

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

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

Disposition of Common Shares

A disposition or a deemed disposition of a Common Share by a Resident Holder (except to the Company) will generally result in the Resident Holder realizing a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition of the Common Share are greater (or less) than the aggregate of the Resident Holder's

adjusted cost base thereof and any reasonable costs of disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Taxation of Capital Gains and Capital Losses*".

Taxation of Capital Gains and Capital Losses

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

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

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

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

Receipt of Dividends on Common Shares

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

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

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

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

Holders Not Resident in Canada

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

insurer who carries on an insurance business in Canada and elsewhere or an authorized foreign bank (as defined in the Tax Act).

Taxation of Interest on Debentures

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

Exercise of Conversion Privilege

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

Disposition of Debentures and Common Shares

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

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

Receipt of Dividends on Common Shares

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

EARNINGS COVERAGE RATIOS

The following earnings coverage calculations are calculated on a consolidated basis for the twelve months ended December 31, 2011 and the twelve months ended March 31, 2012, and are derived from audited financial information in the case of the period ended December 31, 2011 and unaudited financial information in the case of the period ended March 31, 2012. The Company's interest requirements, after giving effect to the issue of the securities to be distributed under the short form prospectus (not including the exercise of the Over-Allotment Option), would have amounted to approximately \$8,216,000 and \$9,327,000 for the 12 months ended December 31, 2011 and March 31, 2012, respectively. The Company's net income (loss) before interest and income tax for the 12 months then ended would have been approximately \$(11,568,000) and \$(13,357,000), respectively, resulting in earnings coverage ratios of approximately (1.41) and (1.43) for the respective periods.

The earnings coverage ratio for the 12 month periods ended December 31, 2011 and March 31, 2012, after giving effect to the issuance of the Debentures, are less than one-to-one. The Company would have required a net income (before interest and income taxes) of approximately \$8,216,000 for the 12 months ended December 31,

2011 and approximately \$9,327,000 for the 12 months ended March 31, 2012 in order to have achieved a ratio of one-to-one in such period.

	For the 12 months ended	
	December 31, 2011	March 31, 2012
	<i>(in thousands of \$, except ratios)</i>	
Interest	8,216	9,327 ⁽²⁾
Denominator for Earnings Coverage Ratio	<u>8,216</u>	<u>9,327</u>
Net Income/(Loss)	(19,230)	(21,381) ⁽²⁾
Net Interest Expense ⁽¹⁾	3,723	4,943 ⁽²⁾
Income Taxes /(Recoveries)	<u>3,939</u>	<u>3,081</u>
Numerator for Earnings Coverage Ratio	(11,568)	(13,357)
Earnings Coverage Ratio	(1.41)	(1.43)

Notes:

(1) Net of interest income.

(2) Adjusted for a one-time pre-payment penalty of \$2.6 million incurred in the period ended March 31, 2012 in connection with an early repayment of Dresden indebtedness. See note 5 to the unaudited condensed consolidated financial statements for the three month period ended March 31, 2012.

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

PRIOR SALES

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

Date	Price per Security (\$)	Number and Type of Securities	Reason for Issuance
July 15, 2011	37.47	684 Deferred Share Units ⁽¹⁾	Director Fees
August 29, 2011	25.61	49,030 Common Shares	Vesting of Restricted Share Units
October 17, 2011	40.27	609 Deferred Share Units ⁽¹⁾	Director Fees
October 25, 2011	8.00	6,100 Common Shares	Exercise of Options
November 2, 2011	8.00	2,100 Common Shares	Exercise of Options
December 16, 2011	26.50	3,508 Common Shares	Vesting of RSU Awards
December 22, 2011	1,000.00	40,250 6.5% Debentures ⁽²⁾	Issuance Pursuant to Short-Form Prospectus
January 1, 2012	26.59	9,402 Restricted Share Units ⁽¹⁾	Executive and Employee Bonus
January 16, 2012	30.39	3,473 Deferred Share Units ⁽¹⁾	Director Fees
March 7, 2012	31.46	1,668 Common Shares	Vesting of RSU Awards
March 18, 2012	29.75	708 Common Shares	Vesting of RSU Awards
March 19, 2012	29.96	3,723 Common Shares	Vesting of RSU Awards
March 22, 2012	31.46	24,302 Restricted Share Units ⁽¹⁾	Executive and Employee Bonus
April 13, 2012	26.65	2,000 Restricted Share Units ⁽¹⁾	Executive and Employee Bonus
April 16, 2012	26.54	732 Deferred Share Units ⁽¹⁾	Director Fees
May 16, 2012	8.00	18,000 Common Shares	Exercise of Options
May 24, 2012	25.75	1,165 Restricted Share Units ⁽¹⁾	Executive and Employee Bonus

Date	Price per Security (\$)	Number and Type of Securities	Reason for Issuance
June 4, 2012	17.12	12,500 Common Shares	Vesting of RSU Awards
June 20, 2012	25,000,000.00	1 FSTQ Debenture ⁽³⁾	Issuance in connection with the acquisition of the Fortress Global Cellulose Mill
June 20, 2012	Nil	715,000 IQ Warrants ⁽³⁾	Issuance in connection with the acquisition of the Fortress Global Cellulose Mill

Notes:

- (1) Issued under the Company's LTIP and representing a right to receive one Common Share upon satisfaction of the vesting and other conditions set forth in the LTIP.
- (2) Each \$1,000 principal amount of 6.5% Debenture is convertible into approximately 26.6667 Common Shares at the option of the holder.
- (3) See "Recent Developments – Acquisition of Fortress Global Cellulose Mill".

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 on the TSX:

Period	High (\$)	Low (\$)	Volume
2011			
June	37.22	28.25	1,317,200
July	38.50	30.51	1,176,756
August	31.51	24.00	1,098,241
September	35.00	27.64	1,008,644
October	45.23	28.27	1,434,174
November	38.25	29.00	702,537
December	32.67	24.84	966,916
2012			
January	40.12	26.40	1,177,684
February	39.00	36.01	978,360
March	37.55	27.00	2,029,044
April	28.62	23.50	1,185,884
May	26.82	17.40	2,444,127
June ⁽¹⁾	23.96	16.57	1,416,865

Note:

- (1) The monthly price range and trading volume presented is for the period from June 1, 2012 to June 29, 2012.

The 6.5% Debentures are listed and posted for trading on the TSX under the symbol "FTP.DB". The following table sets forth, for the periods indicated, the reported high and low sales prices and aggregate volume of trading of the 6.5% Debentures on the TSX:

Period	High (\$)	Low (\$)	Volume ⁽¹⁾
2011			
December ⁽²⁾	102.00	100.50	15,660
2012			
January	123.90	101.66	100,960
February	124.99	116.72	25,670
March	120.00	103.11	46,370
April	107.00	98.87	38,200
May	103.50	97.00	67,950
June ⁽³⁾	105.50	96.09	43,160

Notes:

- (1) Based on \$100 principal amounts as quoted on the TSX.
- (2) The monthly price range and trading volume since the initial listing of the 6.5% Debentures on December 22, 2011 to December 31, 2011.
- (3) The monthly price range and trading volume presented is for the period from June 1, 2012 to June 29, 2012.

RISK FACTORS

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

Risks Related to the Offering

Market for Securities

There is currently no market through which the Debentures may be sold and purchasers may not be able to resell the Debentures purchased under the short form prospectus, which may affect the pricing of the Debentures in the secondary market, the transparency and availability of trading prices, the liquidity of the Debentures, and the extent of issuer regulation. No assurance can be given that an active or liquid trading market for the Debentures will develop or be sustained. If an active or liquid market for the Debentures fails to develop or be sustained, the prices at which the Debentures trade may be adversely affected. Whether or not the Debentures will trade at lower prices depends on many factors, including the liquidity of the Debentures, prevailing interest rates and the markets for similar securities, the market price of the Common Shares, general economic conditions and the Company's financial condition, historic financial performance and future prospects. Further, the holders of the Common Shares may suffer dilution if the Company decides to redeem outstanding Debentures for Common Shares or to repay outstanding principal amounts thereunder at maturity of the Debentures by issuing additional Common Shares.

Existing and Prior Ranking Indebtedness

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

Repayment of the Debentures

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

Redemption on a Change of Control

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

Absence of Covenant Protection

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

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Company, on or after July 1, 2015 and prior to the Maturity Date at any time and from time to time, at the redemption prices set forth in this short form prospectus, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option will be exercised if the Company is able to refinance at a lower interest rate or it is otherwise in the interest of the Company to redeem the Debentures. Fortress may determine to redeem outstanding Debentures for Common Shares or repay outstanding principal amounts of the Debentures at maturity by issuing additional Common Shares. Accordingly, holders of Common Shares may suffer dilution.

Credit Risk

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

Tax Laws

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

Investment Eligibility

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

Use of Net Proceeds

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

Risks Related to the Company

Fortress Global Cellulose Mill Project

The Company's plans to convert the Fortress Global Cellulose Mill into a dissolving pulp operation and restart a cogeneration facility is subject to customary risks and uncertainties inherent for large capital projects which could result in the project not completing on schedule or as budgeted. 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 Global 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 expected level of power generation from the cogeneration facility. Cost overruns, equipment breakdowns or failures to perform to design specifications, delays in the generation and sales of surplus energy, could have a material adverse effect on the Fortress Global Cellulose Mill's results of operations and financial performance. Although the Company has received assurances and commitments from the Québec Government and Hydro Québec, the Company has not yet entered into a long term power supply agreement or a power purchase (cogeneration) agreement with Hydro Québec in respect of the Fortress Global Cellulose Mill and the failure to enter into such agreements on terms satisfactory to Fortress, or at all, will have a material adverse effect on the mill's operations and financial performance.

In addition, pursuant to the terms of the acquisition of the Fortress Global Cellulose Mill, Fortress Global is limited to using the acquired assets to produce up to a maximum of 100,000 ADMT of market NBSK pulp at the mill and is restricted from producing paper grade pulp for a period of 10 years. These restrictions may represent a possible reduction in the re-sale value of the mill and a limitation on the ability to operate the mill as a NBSK or paper grade pulp producer.

Effects of Increased Indebtedness

The Company may incur additional indebtedness as amounts are drawn down from its project financing as the Fortress Global Cellulose Mill 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 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 Global Cellulose Mill project and the Fortress Specialty Cellulose Mill and the extent to which the Company can successfully implement its business and growth strategy. There can be no assurance that the Fortress Global Cellulose Mill project or the Fortress Specialty Cellulose Mill will be successful or that the Company will be able to implement its strategy fully or that the anticipated results of its strategy will be realized. The IQ project financing facility for the Fortress Global Cellulose Mill is secured by a charge against all of the assets of Fortress Global. The Company has guaranteed the principal amount of the second tranche of the IQ loan. See "*Recent Developments – Acquisition of Fortress Global Cellulose Mill*".

Environmental Liabilities

Under the terms of the agreement to acquire the assets of the Fortress Global Cellulose Mill, the Company assumed no responsibility for any existing environmental liabilities relating to the lands. However, Fortress Global is required to make contributions pursuant to a trust agreement of an aggregate of \$7.5 million over the next five years and an additional contingent amount of \$2.5 million in the event of a permanent closure of the Fortress Global Cellulose Mill, in respect of environmental remediation costs. The failure by Fortress Global to make such contributions would result in defaults under the security agreements over its assets, which would have a material adverse effect on the continuation of the Fortress Global Cellulose Mill project. Although the Company intends to operate the Fortress Global Cellulose Mill in accordance with applicable environmental laws, there is no assurance that the Company will not incur additional costs and expenses relating to environmental matters in respect of the assets acquired or in the future as a result of its operations.

In connection with the sale by Landqart of its hydropower assets, Landqart continues to be responsible for a period of 10 years for certain costs relating to historical environmental contamination. See "*Recent Developments – Landqart Update*". Although the Company believes that the Landqart Mill has identified and provided for expenditures relating to known environmental matters, including the costs of environmental remediation, it is possible that the Company may incur significant costs in the future for any remediation during such 10 year period relating to the sold hydropower assets.

Forest and Timber Tenures

On April 1, 2010, the Québec Government proclaimed the *Sustainable Forest Development Act* (the "**SFDA**") which will officially replace the *Forest Act* (Québec) on April 1, 2013 and will significantly modify the current Québec Crown wood allocation regime. Pursuant to the SFDA, all previously granted timber supply and forest management agreements (commonly known as "**CAAFs**") under the *Forest Act* (Québec) will be cancelled and former CAAF holders will be entitled, under the new regime, to a timber supply guarantee, provided they meet certain conditions as set forth in the SFDA. The guaranteed annual volumes of timber under such guarantee will be determined by the Ministry of Natural Resources and Wildlife (Québec) ("**MNRW**") and the MNRW will have the discretion to reduce the volume to which a former CAAF holder was entitled under the previous regime. The percentage by which the volume will be reduced may vary among former CAAF holders depending on the species or groups of species concerned, the volumes of timber to which the former CAAF holder would have been entitled to on April 1, 2013 if the CAAF had not been cancelled and the regions from which the timber is sourced. This reduction of volumes of timber allocated to former CAAF holders will be made available to the "Timber Marketing Board", which will be given the responsibility to market the timber to eligible purchasers by way of public auction. Based on comfort letters received from the MNRW, the Company expects to receive a CAAF allocation in respect of the Forest Global Cellulose Mill. Accordingly, any CAAF obtained by the Company at the Fortress Global Cellulose Mill will be subject to risks and uncertainties relating to the new regime under the SFDA and, once a CAAF is obtained, there is no assurance that Fortress Global will be able to maintain its wood fibre supply allocation and the availability of, and price for, wood fibre provided for in such CAAF as of April 1, 2013. Although Fortress Global believes it can secure the necessary fibre required at the Fortress Global Cellulose Mill, there is no assurance that it will be able to obtain any required fibre supply, by way of public auction or otherwise, in the event that timber volumes granted to it under a CAAF are reduced. An insufficient supply or increased cost or demand for wood fibre or raw materials could materially adversely affect the business, financial condition, results of operations and cash flows of the Fortress Global Cellulose Mill.

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 Global Cellulose Mill and restarting a cogeneration facility thereat, which may not be available in a timely manner or on acceptable terms, if at all. The implementation of the Company's business plan at the Fortress Global Cellulose Mill 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 at the Fortress Global Cellulose Mill or takes advantage of further opportunities for acquisitions.

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.

AUDITOR'S CONSENT

We have read the short form prospectus of Fortress Paper Ltd. (the "**Company**") dated July 3, 2012 relating to the issue and sale of \$60,000,000 aggregate principal amount of 7.0% convertible unsecured subordinated debentures of 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 statements of financial position of the Company as at December 31, 2011 and 2010 and the consolidated statements of operations, comprehensive income (loss), changes in equity and the consolidated statements of cash flows for the years then ended and the opening statement of financial position as at January 1, 2010. Our report is dated March 2, 2012.

Vancouver, B.C., Canada
July 3, 2012

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants

CERTIFICATE OF THE UNDERWRITERS

July 3, 2012

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.

SCOTIA CAPITAL INC.

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

By: /s/ Andrew McLenan
Andrew McLenan

**CANACCORD
GENUITY CORP.**

**DUNDEE
SECURITIES LTD.**

**RBC DOMINION
SECURITIES INC.**

TD SECURITIES INC.

By: /s/ David Rentz
David Rentz

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

By: /s/ David Bustos
David Bustos

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

**CIBC WORLD
MARKETS INC.**

By: /s/ Kathy Butler
Kathy Butler

**CORMARK
SECURITIES INC.**

By: /s/ Jeff Kennedy
Jeff Kennedy

**ACUMEN CAPITAL
FINANCE PARTNERS
LIMITED**

By: /s/ Kelly Hughes
Kelly Hughes