Fortress Paper Ltd.

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING
AND MANAGEMENT PROXY CIRCULAR

Time: June 7, 2012, at 4:00 p.m. (Vancouver Time)

Place: **1000 - 925 West Georgia Street**
Vancouver, British Columbia
Canada

FORTRESS PAPER LTD.

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 7, 2012

TO: The Shareholders of Fortress Paper Ltd.

NOTICE IS HEREBY GIVEN that the annual general and special meeting of shareholders of Fortress Paper Ltd. (the "**Corporation**") will be held at 1000 - 925 West Georgia Street, Vancouver, British Columbia, Canada, on Thursday, June 7, 2012, at 4:00 p.m. (Vancouver time) (the "**Meeting**"), for the following purposes:

1. to receive the financial statements of the Corporation for the financial year ended December 31, 2011, together with the report of the auditors thereon;

2. to elect directors of the Corporation for the ensuing year;

3. to appoint the auditors of the Corporation for the ensuing year and to authorize the directors to fix their remuneration;

4. to consider and approve an ordinary resolution authorizing and approving all unallocated units issuable pursuant to the Corporation's 2009 Long Term Incentive Plan (the "**LTIP**");

5. to consider and approve an ordinary resolution authorizing and approving previously granted and vested units under the LTIP to again be made available for issuance under the LTIP; and

6. to transact such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

Accompanying this notice of meeting is the management proxy circular, a form of proxy and a financial statement request form.

Registered shareholders who are unable to attend the Meeting are requested to complete, sign, date and return the enclosed form of proxy in accordance with the instructions set out therein and in the management proxy circular accompanying this notice of meeting. A proxy will not be valid unless it is received by Computershare Investor Services Inc., 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or any adjournment(s) or postponement(s) thereof. The chairman of the Meeting has the discretion to accept proxies received after that time.

DATED at Vancouver, British Columbia, this 10th day of May, 2012.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Chadwick Wasilenkoff
Chadwick Wasilenkoff
Chairman, Chief Executive Officer, President and Director

If you are a non-registered shareholder of the Corporation and receive these materials through your broker or through another intermediary, please complete and return the materials in accordance with the instructions provided to you by your broker or by the other intermediary. Failure to do so may result in your shares not being eligible to be voted by proxy at the Meeting.

MANAGEMENT PROXY CIRCULAR

*UNLESS OTHERWISE NOTED, INFORMATION IS PROVIDED AS AT MAY 10, 2012 FOR THE ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 7, 2012 (THE "**MEETING**").*

This management information circular (the "Proxy Circular") is furnished in connection with the solicitation of proxies by management of Fortress Paper Ltd. (the "Corporation") for use at the Meeting and at any adjournment(s) or postponement(s) thereof, at the time and place and for the purposes set forth in the accompanying notice of meeting dated May 10, 2012 (the "Notice of Meeting").

It is expected that the solicitation will be primarily by mail. Proxies may also be solicited personally by officers of the Corporation at nominal cost. The cost of this solicitation will be borne by the Corporation. The Notice of Meeting, form of proxy (the "**Proxy**") together with a financial statement request form and this Proxy Circular will be mailed to beneficial owners of Common Shares of the Corporation commencing on or about May 14, 2012. In this Proxy Circular, except where otherwise indicated, all dollar amounts are expressed in Canadian currency.

RECORD DATE

The board of directors of the Corporation (the "**Board**") has set the close of business on May 4, 2012, as the record date (the "**Record Date**") for determining which shareholders of the Corporation shall be entitled to receive notice of and to vote at the Meeting. Only shareholders of record as of the Record Date are entitled to receive notice of and to vote at the Meeting, unless after the Record Date a shareholder of record transfers his, her or its Common Shares and the transferee (the "**Transferee**"), upon establishing that the Transferee owns such Common Shares, requests in writing, at least ten days prior to the Meeting or at any adjournment(s) or postponement(s) thereof, that the Transferee may have his, her or its name included on the list of shareholders entitled to vote at the Meeting. In such case, the Transferee, upon fulfilling the necessary requirements, will be entitled to vote such shares at the Meeting. Such written request by the Transferee shall be filed with the Corporate Secretary of the Corporation at 2nd Floor, 157 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K2.

APPOINTMENT OF PROXYHOLDERS

The persons named in the accompanying Proxy as proxyholders are management's representatives. A shareholder of the Corporation wishing to appoint some other person or company (that need not be a shareholder of the Corporation) to represent him, her or it at the Meeting may do so either by striking out the printed names and inserting the desired person or company's name in the blank space provided in the Proxy or by completing another Proxy and, in either case, delivering the completed Proxy to the office of Computershare Investor Services Inc., 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or any adjournment(s) or postponement(s), thereof. The chairman of the Meeting has the discretion to accept proxies received after that time.

VOTING OF PROXIES

If the Proxy is completed, signed and delivered to the Corporation, the person(s) named as proxyholders therein shall vote or withhold from voting the Common Shares in respect of which they are appointed as proxyholders at the Meeting in accordance with the instructions of the shareholder of the Corporation appointing them, on any show of hands and/or on any ballot that may be called for, and if the shareholder specifies a choice with respect to any matter to be acted upon at the Meeting, the person(s) appointed as proxyholder shall vote accordingly. The Proxy confers discretionary authority upon the person(s) named therein with respect to: (a) each matter or group of matters identified therein for which a choice is not specified; (b) any amendment to or variation of any matter identified therein; and (c) to transact such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof. As of the date of this Proxy Circular, the Board knows of no such amendments, variations or other matters to come before the Meeting, other than matters referred to in the Notice of Meeting. However, if other matters should properly come before the Meeting, the Proxy will be voted on such matters in accordance with the best judgment of the person(s) voting the Proxy.

If no choice is specified by a shareholder of the Corporation with respect to any matter identified in the Proxy or any amendment or variation to such matter, it is intended that the persons designated by management in the Proxy will vote the shares represented thereby in favour of such matter.

NON-REGISTERED HOLDERS

Only registered shareholders or duly appointed proxyholders are permitted to vote at the Meeting. Most shareholders of the Corporation are "non-registered shareholders" because the shares they own are not registered in their name but are instead registered in the name of the brokerage firm, bank or trust company through which they purchased their shares. More particularly, a person is not a registered shareholder in respect of shares which are held on behalf of that person (the "**Non-Registered Holder**") but which are registered either: (a) in the name of an intermediary (an "**Intermediary**") that the Non-Registered Holder deals with in respect of the shares (Intermediaries include, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered RRSPs, RRIFs, RESPs and similar plans); or (b) in the name of a depository (such as The Canadian Depository for Securities Limited) of which the Intermediary is a participant. In accordance with the requirements of applicable securities laws, the Corporation has distributed copies of the Notice of Meeting, this Proxy Circular and the Proxy together with a financial statement request form (collectively, the "**Meeting Materials**") to the depositories and Intermediaries for onward distribution to Non-Registered Holders.

Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Very often, Intermediaries will use service companies to forward the Meeting Materials to Non-Registered Holders. Generally, Non-Registered Holders who have not waived the right to receive Meeting Materials will either:

(a) be given a Proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature), which is restricted as to the number of shares beneficially owned by the Non-Registered Holder but which is otherwise not completed. Because the Intermediary has already signed the Proxy, this Proxy is not required to be signed by the Non-Registered Holder when submitting the Proxy. In this case, the Non-Registered Holder who wishes to submit the Proxy should otherwise properly complete the Proxy and deliver it to the offices of the Corporation; or

(b) more typically, be given a voting instruction form which is not signed by the Intermediary and which, when properly completed and signed by the Non-Registered Holder and returned to the Intermediary or its service company, will constitute voting instructions (often called a proxy authorization form) which the Intermediary must follow.

In either case, the purpose of this procedure is to permit Non-Registered Holders to direct the voting of the shares which they beneficially own. Should a Non-Registered Holder who receives one of the above forms wish to vote at the Meeting in person, the Non-Registered Holder should strike out the names of the management proxyholders and insert the Non-Registered Holder's name in the blank space provided, or in the case of a proxy authorization form, follow the corresponding instructions on the form. **In either case, Non-Registered Holders should carefully follow the instructions of their Intermediary, including those regarding when and where the Proxy or proxy authorization form is to be delivered.**

REVOCABILITY OF PROXY

Any shareholder of the Corporation returning the enclosed Proxy may revoke the same at any time insofar as it has not been exercised. In addition to revocation in any other manner permitted by law, a Proxy may be revoked by instrument in writing duly executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and delivered either to Computershare Investor Services Inc. or to the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment(s) or postponement(s) thereof, or with the chairperson of the Meeting prior to the commencement of the Meeting. A revocation of a proxy will not affect a matter on which a vote is taken before the revocation.

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Corporation's authorized capital consists of an unlimited number of Class A common shares ("**Common Shares**") without par value and an unlimited number of Class B preferred shares with a par value of $1,000 having the preferences, rights, conditions, restrictions, limitations and prohibitions set forth in the articles of the Corporation (the "**Articles**"). As at the date hereof, there were a total of 14,309,693 Common Shares of the Corporation outstanding. Each Common Share entitles the holder thereof to one vote.

The following table lists, to the knowledge of management of the Corporation, those persons or companies who beneficially own, directly or indirectly, or exercise control or direction over, voting securities of the Corporation carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation as at the date hereof:

Name	Number of Common Shares	Percentage of Common Shares
Chadwick Wasilenkoff(1)	2,389,961	16.7%

(1) As at the date hereof, Mr. Wasilenkoff also has options to purchase 322,675 Common Shares of the Corporation, 119,550 restricted share units representing one Common Share per unit and 114,285 deferred share units representing one Common Share per unit.

ELECTION OF DIRECTORS

The Board is recommending six persons (the "**Nominees**") for election at the Meeting. Each of the six persons whose name appears below is proposed by the Board to be nominated for election as a director of the Corporation to serve until the next annual general meeting of the shareholders or until the director sooner ceases to hold office.

The following table states the names of each Nominee, all offices of the Corporation now held by him, his present principal occupation, the period of time for which he has been a director of the Corporation and the number of Common Shares of the Corporation beneficially owned by him, directly or indirectly, or over which he exercises control or direction, as at the date hereof.

Name, Province and Country of Residence	Present Principal Occupation	Current Position(s) with the Corporation	Director Since	Number of Securities Held
Chadwick Wasilenkoff British Columbia, Canada	President and Chief Executive Officer of the Corporation(1)	Chairman, Chief Executive Officer, President, and Director	August 1, 2006	Common Shares: 2,389,961 Options: 322,675 Restricted Share Units: 119,550 Deferred Share Units: 114,285
Richard O'C. Whittall(2) (3) (4) British Columbia, Canada	President of Watershed Capital Partners Inc.	Director	April 23, 2007	Deferred Share Units: 9,440
Per Gundersby(4) (5) Hango, Finland	Business consultant	Director	October 14, 2006	Deferred Share Units: 8,368

Name, Province and Country of Residence	Present Principal Occupation	Current Position(s) with the Corporation	Director Since	Number of Securities Held
John Coleman[(2) (5) (6)] Zurich, Switzerland	Business consultant	Director	February 24, 2009	Deferred Share Units: 6,569
Roland Tornare [(3) (4) (5) (6)] Charmey, Switzerland	Business consultant	Director	February 24, 2009	Deferred Share Units: 6,489
Pierre Monahan[(2) (3)] Quebec, Canada	Consultant and corporate director	Director	August 9, 2010	Common Shares: 1,000 Deferred Share Units: 1,927

(1) Mr. Wasilenkoff assumed the position of President of the Corporation in March 2012 with the resignation of Mr. Alfonso Ciotola from this position. Mr. Ciotola continues to serves as the CEO of Landqart AG and Managing Director of Dresden Paper GmbH, both of which are wholly owned subsidiaries of the Corporation.
(2) A member of the Compensation Committee.
(3) A member of the Governance Committee.
(4) A member of the Audit Committee.
(5) A member of the Steering Committee.
(6) A member of the Landqart AG Steering Committee.

STATEMENT OF EXECUTIVE COMPENSATION

Pursuant to applicable securities legislation, the Corporation is required to provide a summary of all annual and long-term compensation for services in all capacities to the Corporation and its subsidiaries for the most recently completed financial year in respect of the individuals comprised of the Chief Executive Officer ("**CEO**"), the Chief Financial Officer ("**CFO**") and the other three most highly compensated executive officers of the Corporation whose individual total compensation for the most recently completed financial year exceeds $150,000, and any individual who would have satisfied these criteria but for the fact that the individual was not serving as an officer at the end of the most recently completed financial year (the "**Named Executive Officers**" or "**NEOs**").

Compensation Discussion and Analysis

The goal of the Corporation's executive compensation philosophy is to attract, motivate, retain and reward an energetic, goal driven, highly qualified and experienced management team and to encourage them to meet and exceed performance expectations within a calculated risk framework.

The compensation program is designed to reward each executive based on individual, business and corporate performance and is also designed to incent such executives to drive the annual and long-term business goals of the organization to enhance the sustainable profitability and growth of the Corporation.

The following key principles guide the Corporation's overall compensation philosophy:

- Compensation is designed to align executives to the critical business issues facing the Corporation;
- Compensation is fair and reasonable to shareholders and is set with reference to the local market and similar positions in comparable companies, and benchmarked against an international peer group;
- The compensation design supports and rewards executives for entrepreneurial and innovative efforts and results;
- A substantial portion of total compensation is at-risk and linked to individual efforts, as well as business and corporate performance. This ensures the link between executive pay and business performance;
- An appropriate portion of total compensation is equity-based, aligning the interests of executives with shareholders; and

- Compensation is transparent to the Board, executives and shareholders.

In achieving these principles, the Corporation strives to be flexible and progressive in its business strategies and must meet the challenges of growth, technology, competition and general economic conditions. Therefore, the Corporation's compensation programs aim to:

- Provide for an ongoing review and assessment of compensation practices to ensure that they align with the business strategy and performance;
- Maintain management focus, knowledge, stability and experience needed to execute business strategies in an intensely competitive environment; and
- Encourage capital allocation decisions involving major long-term capital investments and acquisitions which shape and determine future growth and profitability.

Elements of Executive Compensation

The elements of compensation earned by the NEOs for the financial year ended December 31, 2011 include annual compensation in the form of base salary, annual cash bonus, perquisites and benefits package, as well as long-term compensation in the form of restricted share units ("**RSUs**"). This reflects a package consisting of a mix of compensation elements designed to provide executives with a significant "at risk" component of total compensation that reflects their ability to influence business outcomes and performance, and fixed elements that provide security and enable the Corporation to attract and retain key employees.

The following table outlines how each element of compensation aligns with the Corporation's compensation philosophy.

Short-Term Compensation

Element of Compensation	Summary and Purpose of Element
Base Salary	Base salary is the foundation of the compensation program and is intended to compensate competitively relative to the Corporation's peer group. Base salary is a fixed component of the compensation program and is used as the base to determine elements of incentive compensation and benefits. Base salary is positioned at, or slightly below, median against the Corporation's peer group. The desire is for base salary to be high enough to secure talented personnel which, when coupled with performance based compensation, provides for a direct correlation between individual accomplishment and the success of the Corporation as a whole.
Annual Bonus Plan	Annual bonuses are variable components of compensation, designed to reward executives for corporate, business and individual achievements. It is expressed in terms of a percentage of base salary and paid out at the end of the fiscal year based on individual and business performance results. Annual bonuses are discretionary and are designed to reflect the Corporation's annual achievement of the business strategy as well as the individual's achievements. Annual bonus opportunities are positioned at or above median against the peer group, to reflect the Corporation's commitment to pay for performance.
Other Compensation *(Perquisites, Benefits and Pension Plan)*	The Corporation's executive benefits program includes supplementary life, medical, dental and disability insurance. The Corporation's Switzerland-based executives participate in a defined benefit pension plan based on earnings and length of service. Other executives may be eligible to participate in a defined contribution pension plan maintained at the Fortress Specialty Cellulose Inc. ("**FSC**") Mill and Fortress Optical Features facility. Perquisites are provided to executives in certain instances, based on individual circumstances. Benefits and perquisites are set at comparable levels to the Corporation's peer group.

Long-Term Compensation

Element of Compensation	Summary and Purpose of Element
RSUs	The Corporation believes that RSUs promote ownership in the Corporation and serve to align the interests of executives with shareholders. They also help the Corporation motivate and retain the executive team, while providing a full share value unit in the business. Each RSU represents one notional Common Share that can be exchanged for Common Shares of the Corporation issued from treasury once certain performance and/or vesting criteria have been met. RSUs typically vest over three to five years. Some RSUs contain performance-based vesting conditions which are determined based upon the strategic objectives for the growth and business goals of the Corporation and may include the operating performance of the Corporation and other organizational indicators and individual achievements that demonstrate a contribution by the executive to the Corporation.

<u>Compensation Risk Management</u>

The Corporation has taken steps to ensure its executive compensation program does not incent risk outside the Corporation's risk appetite. Some of the risk management initiatives currently employed by the Corporation are as follows:

- Appointing a Compensation Committee comprised of a majority of independent directors to oversee the executive compensation program;
- Setting performance hurdles and milestones for granting and payout of RSUs and special bonuses;
- The use of deferred equity compensation to encourage a focus on long-term corporate performance vs. short-term results;
- Paying out performance related RSUs only when performance results are known;
- Setting caps on incentive programs; and
- Use of discretion in adjusting bonus payments up or down as the Compensation Committee deems appropriate and recommends.

<u>Annual Compensation Review Process</u>

Each year, the Compensation Committee reviews and recommends to the Board for approval the compensation of the Chairman and CEO. The Compensation Committee also reviews and recommends to the Board the compensation of other executives, which includes the Named Executive Officers.

The Compensation Committee follows a process for establishing compensation for its executive team. Board input is also solicited and taken into consideration in the Compensation Committee's decision making.

Executive compensation for the Named Executive Officers in 2011 was based on market data and an assessment of corporate and individual performance. These factors support compensation levels with the aim to ensure the Corporation remains competitive and continues to attract, retain and motivate high caliber leaders.

The Compensation Committee may also rely on other information and considerations in formulating its recommendations to the Board.

Peer Group

The Corporation is an international company, unique in the products and services it offers. Executives are benchmarked to a global peer group of companies from the dissolving pulp, specialty wallpaper and security papers/banknotes sectors as well as companies of similar size from other related industries such as commercial services and supplies, containers and packaging and real estate investment trusts. This approach reflects the global aspect of the Corporation's operations, and the need to attract executives from a global talent pool. It also recognizes that executives can come from multiple industries. Peer group companies include Rayonier Inc., Mondi PLC, Sappi Ltd., Deluxe Corp., Canfor Pulp L.P., De La Rue plc, Buckeye Technologies Inc., Clearwater Paper Corp., Boise Inc., Cascades Inc., Consolidated Graphics, Inc., PH Glatfelter Co., Wausau Paper Corp., Tembec Inc., Mercer International Inc. and Verso Paper Corp.

Role of the Compensation Committee and 2011 Work Plan

The role of the Compensation Committee is to discharge the Board's duties related to executive compensation. In 2011, the Compensation Committee met three times. The Compensation Committee meets both independently of management of the Corporation and with management present.

Role of the Executive Officers

The Chairman and CEO completed a review of the performance of the NEOs and made recommendations to the Compensation Committee in respect of 2011 bonuses and RSU grants for each NEO, which was taken into consideration by the Compensation Committee in completing its review and making recommendations to the Board.

2011 Compensation Decisions

The Corporation's business strategy is to enhance its market position as a leading niche manufacturer of specialty products, to evaluate and execute strategic acquisitions and to improve operating results and margins.

Overall, 2011 was a challenging year for the Corporation. Significant accomplishments included:

- The completion of the acquisition of assets of the Bank of Canada's Optical Security Material (OSM) Division, the commencement of production of optical security products and the completion of the construction of a new high security production and research and development facility adjacent to the FSC Mill;
- The completion of a bought deal offering of Common Shares by way of a short form prospectus for aggregate gross proceeds of approximately $57.5 million;
- The completion of the conversion project and commencement of dissolving pulp production at the FSC Mill;
- The completion of a bought deal offering of 6.50% convertible unsecured subordinated debentures by way of a short form prospectus, resulting in aggregate gross proceeds of approximately $40.25 million; and
- Continued market share growth in the non-woven wallpaper market at the Dresden Mill.

The Corporation considers EBITDA (defined as net income before interest, income taxes, depreciation, amortization, non-operating income and expenses and stock based compensation) as an indicative measure of operating performance and a good metric to evaluate profitability, provided that an appropriate capital budget responsibility is held within a conservative variance. EBITDA was $3.3 million for the year ended December 31, 2011 compared to $26.1 million for the year ended December 31, 2010.

Determination of Base Salary

The Compensation Committee determines each executive's base salary with reference to relevant industry norms, experience, past performance and level of responsibility. In doing so, the Compensation Committee considers the recommendations made by the Chairman and CEO for base salary increases. Salary levels are reviewed periodically and the Compensation Committee may recommend adjustments, if warranted, as a result of salary trends in the marketplace, competitive positioning or an increase in responsibilities assumed by an executive.

Determination of Annual Bonus

The NEOs are eligible for annual cash bonuses and potentially supplemental bonuses in cash or through stock-based compensation, taking into consideration financial performance and attainment of corporate, business and individual objectives. Extraordinary corporate events are also considered. All awards are at the discretion of the Board.

From time to time, the Board may declare an additional cash bonus in favour of one or more executive officers in circumstances where it is determined that the executive in question has made an exceptional contribution to the performance of the Corporation in a particular year.

In 2011, certain of the NEOs received an annual bonus and certain of the NEOs received special bonuses in recognition of the achievement by such NEO of significant milestones in the year, in particular the completion of the conversion project at the FSC Mill and the commencement of dissolving pulp production and their individual roles relating thereto. In light of the challenges faced by the Corporation during the year ended December 31, 2011, the CEO declined to receive any bonus payments.

Determination of Long Term Incentive Plan Award

The Compensation Committee also considers making awards under the 2009 Long Term Incentive Plan (the "**LTIP**") and grants of Options under the Corporation's Stock Option Plan (the "**SOP**") to be an important component of executive compensation. The objective of making grants under the LTIP and SOP is to encourage executive officers to acquire an ownership interest in the Corporation over a period of time, thus better aligning the interests of executive officers with the interests of shareholders. When determining possible future LTIP grants and Option grants, the Compensation Committee considers past grants. The Black-Scholes model is used to determine the fair value at grant date of the Options. Option pricing models require the input of subjective assumptions, particularly as to the expected volatility of the stock. Changes in these assumptions can materially affect the fair value estimate and therefore it is management's view that the existing models may not provide a single reliable measure of the fair value of the Corporation's Option grants. The Corporation uses an option-pricing model because there is no market for which Options may be freely traded. Readers are cautioned not to assume that the value derived from the model is the value that a holder of Options might receive if the Options were freely-traded, nor to assume that these amounts are the same as those reported by the executive as income received for tax purposes. For financial statement purposes, the fair value of Options is contributed surplus over the vesting period, whereas for the purpose of this Proxy Circular the fair value is shown in totality on the date of grant. Please see the Corporation's audited financial statements for the year ended December 31, 2011, available on SEDAR at www.sedar.com, for a description of the key assumptions and estimates used in the pricing model.

Compensation Governance

The Corporation has a Compensation Committee, comprised of a majority of independent directors, which is responsible for the development, implementation and monitoring of the Corporation's compensation policy for executive officers and members of the Board. The Compensation Committee is comprised of Pierre Monahan (Chair), Richard O'C. Whittall and John Coleman. The Compensation Committee is able to retain consultants to assist them in the determination of executive compensation decisions if they deem necessary.

The members of the Compensation Committee have direct experience relevant to executive compensation from their broad business experience and are well-versed in executive compensation matters. The Chair of the Compensation Committee has direct experience, as a former executive, of recommending executive compensation structures and individual pay decisions. The members similarly bring a wide range of skills and experience that helps them make decisions in respect of the Corporation's compensation policies and practices and assess performance on both an individual and an organizational level. These skills and experiences include, but are not limited to:

- Industry knowledge;
- Operational experience;
- Financial knowledge; and
- International business experience.

The Compensation Committee is responsible for making recommendations to the Board on the following items:

- Directors' compensation, including the adequacy and form of compensation and models used so that director compensation appropriately reflects the responsibilities and risks of being a director and/or member of a committee.
- Executive compensation policy, including the relative balance of fixed and variable elements of compensation for executive officers and other terms and conditions of employment of executive officers.
- Supplemental or deferred compensation and direct incentive compensation arrangements for executive officers.
- Value awards made to an executive officer under a performance-based plan, allowing adjustment for actual performance.

The Compensation Committee has the authority and access to the resources that is necessary to discharge its duties and responsibilities, including the authority to select, retain, terminate and approve the fees and other retention terms of special counsel or other experts or consultants. If such fees and expenses exceed or are expected to exceed $100,000, the Compensation Committee must obtain the approval of the full Board.

In 2010 the Compensation Committee retained Global Governance Advisors ("**GGA**") to provide independent compensation advice to the Compensation Committee and to the Board. GGA is an internationally recognized, independent advisory firm that provides counsel to boards of directors on matters relating to executive compensation and governance.

Executive Compensation – Related Fees

Fees for GGA's services are set forth in the table below:

Year	**Executive Compensation Related Fees ($)**	**All Other Fees ($)**
2011	Nil	115,659[1]
2010	88,474	Nil

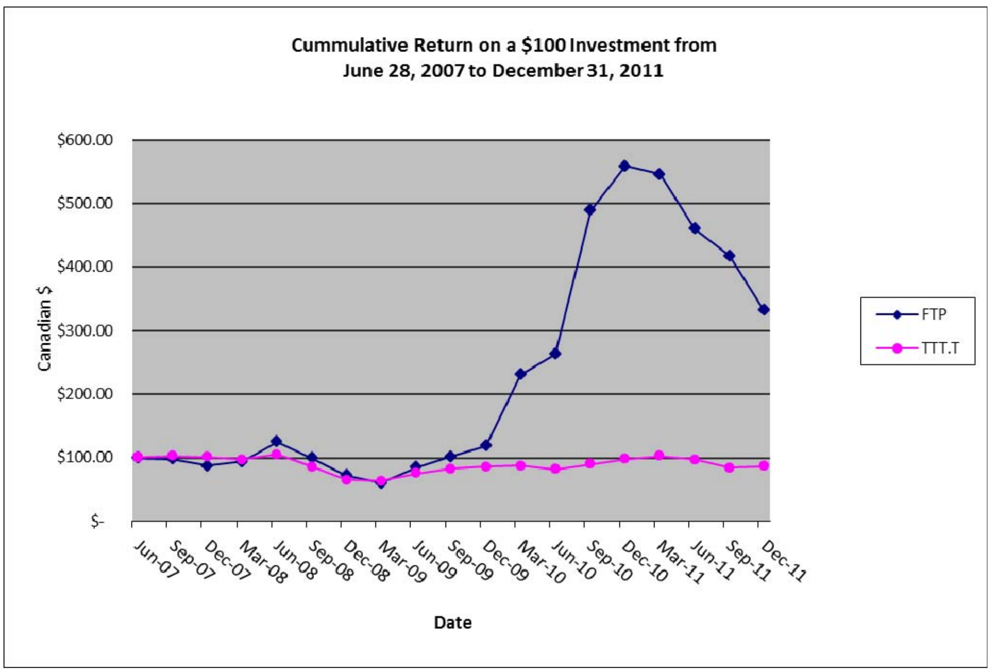
(1) This amount represents fees related to the review by GGA of the Corporation's proxy circular and formulation of the compensation and discussion and analysis contained therein.

The foregoing report is submitted by:

Pierre Monahan (Chair)
Richard O'C. Whittall
John Coleman

Performance Graph

The Corporation's Common Shares commenced trading on the Toronto Stock Exchange (the "**TSX**") under the symbol "FTP" on June 28, 2007. The following graph compares the Corporation's cumulative total shareholder return on its Common Shares with the cumulative total return on the S&P/TSX Composite Index for the period from June 28, 2007 to December 31, 2011. The graph illustrates the cumulative return on a $100 investment in the Corporation's Common Shares made on June 28, 2007 as compared with the cumulative return on a $100 investment in the S&P\TSX Composite Total Return Index (assuming the reinvestment of dividends). The performance of the Common Shares as set out in the graph below does not necessarily indicate future price performance. Executive compensation has generally followed the trend in shareholder returns, although market conditions in the 2008 financial year resulted in a disconnect between financial performance and share performance.



Summary Compensation Table for Named Executive Officers

The following table (and notes thereto) states the name of each NEO, his annual compensation, consisting of salary, bonus and other annual compensation, and long term compensation, for example Options and LTIP awards granted, for the most recently completed financial year of the Corporation.

Name and principal position	Year	Salary ($)	Share-based awards ($)[(1)]	Option-based awards ($)	Non-equity incentive Plan compensation ($)		Pension value ($)	All Other Compensation	Total compensation ($)
					Annual Incentive Plans[(2)]	Long-Term Incentive plans			
Chadwick Wasilenkoff[(3)] Chairman and Chief Executive Officer	2011 2010 2009	1,000,000 1,000,000 480,000	Nil 9,999,938 454,997	Nil Nil Nil	Nil 5,000,000 380,003	Nil	N/A N/A N/A	N/A	1,000,000 15,999,938 1,315,000
Alfonso Ciotola[(4)] Chief Executive Officer, Landqart and Managing Director, Dresden	2011 2010 2009	440,129 444,881 490,594	Nil Nil 355,000	Nil Nil Nil	Nil 111,562 209,467	Nil	15,767 13,707 14,034	N/A	455,896 570,150 1,069,095
Peter Vinall[(5)] President and Chief Executive Officer, FSC	2011 2010	350,000 228,846	Nil 1,817,25 0	Nil Nil	Nil 101,164	Nil	15,615 16,019	N/A	365,165 2,163,279
Kurt Loewen Chief Financial Officer	2011 2010 2009	180,000 165,000 150,000	49,997[(6)] 356,247 113,600	Nil Nil Nil	67,500 91,250 30,000	Nil	N/A N/A N/A	N/A	297,497 612,497 293,600
Roger Boileau[(7)] Vice President, Fiber Procurement, FSC	2011 2010	210,638 24,750	Nil Nil	Nil Nil	74,953 10,000	Nil	11,369 1,733	N/A	296,960 36,483

(1) The closing price of the Common Shares on the date of grant was used to determine fair value.
(2) Amounts represent cash bonus awarded to the NEO in respect of the financial year.
(3) As a management director of the Corporation, Mr. Wasilenkoff does not collect any director fees relating to his role as a director of the Corporation.
(4) Mr. Ciotola received his salary in Euros. The amount reported represents the approximate Canadian dollar equivalent, converted at the average exchange rate for the year end December 31, 2011, being $1.3767 to each Euro based on rates provided by the Bank of Canada.
(5) Mr. Vinall was hired as President and CEO of FSC on June 3, 2010.
(6) Mr. Loewen was granted a total of 1,064 RSUs in respect of the 2011 financial year which were valued at $46.99 and vest one third on each of the first, second and third anniversary of the grant date.
(7) Mr. Boileau was appointed as Vice, President Fiber Procurement, FSC in November 10, 2010.

Outstanding Share-based Awards and Option-based Awards for Named Executive Officers

Name and principal position	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested ($)	Market or payout value of vested share-based awards not paid out or distributed ($)
Chadwick Wasilenkoff Chairman and Chief Executive Officer	135,350 87,325 100,000	8.00 8.00 8.00	June 28, 2017 May 1, 2017 October 31, 2017	5,998,528	235,503	6,262,025	N/A
Alfonso Ciotola Chief Executive Officer, Landqart and Managing Director, Dresden	199,800	8.00	October 31, 2017	3,714,282	16,668	443,202	N/A
Peter Vinall President and Chief Executive Officer, FSC	Nil	N/A	N/A	N/A	62,500	1,661,875	N/A

Name and principal position	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested ($)	Market or payout value of vested share-based awards not paid out or distributed ($)
Kurt Loewen Chief Financial Officer	16,250	8.00	May 1, 2017	302,088	15,762	419,112	N/A
Roger Boileau Vice President, Fiber Procurement, FSC	Nil	N/A	N/A	N/A	Nil	N/A	N/A

The table above states, as at December 31, 2011, the number of Options available for exercise, the Option exercise price, the expiration date for each Option, the number of LTIP units that that were unvested and the market value thereof, for each NEO named therein. As at December 31, 2011, the value of in-the-money unexercised Options held by the Named Executive Officers was $10,014,898 and the value of unvested LTIP units was $8,786,213.

Incentive Plan Awards – Value Vested or Earned During the Year for Named Executive Officers

Name and principal position	Option-based awards – Value vested during the year ($)[(1)]	Share-based awards – Value vested during the year ($)[(2)]	Non-equity incentive plan compensation – Value earned during the year ($)[(3)]
Chadwick Wasilenkoff Chairman President and Chief Executive Officer	Nil	1,165,605	Nil
Alfonso Ciotola Chief Executive Officer, Landqart and Managing Director, Dresden	Nil	426,826	Nil
Peter Vinall President and Chief Executive Officer, FSC	Nil	Nil	Nil
Kurt Loewen Chief Financial Officer	Nil	194,212	67,500
Roger Boileau Vice President, Fiber Procurement, FSC	N/A	N/A	74,953

(1) The amount represents the aggregate dollar value that would have been realized if the Options had been exercised on the vesting date, based on the difference between the closing price of the Common Shares on the TSX and the exercise price on such vesting date.
(2) The amount represents the aggregate dollar value of LTIP units that vested throughout the year.
(3) The amount represents cash bonus received by the NEO for the 2011 year.

During the most recently completed financial year, the Named Executive Officers exercised Options to purchase 56,450 Common Shares of the Corporation under the SOP.

During the most recently completed financial year there were 17,128 RSUs awarded to key employees under the LTIP, described below under the heading "Securities Authorized for Issuance under Equity Compensation Plans – Long Term Incentive Plan". As at December 31, 2011, there were 262,664 RSUs outstanding under the LTIP. The fair value of restricted unit awards is determined based upon the number of shares underlying such units and the closing price of the Corporation's stock as quoted on the TSX on the date of grant. RSUs generally vest over three to five years, however the fair value of each tranche is measured at the date of grant.

Pension Plan Benefits - Defined Benefit Plan for Named Executive Officers

The Corporation maintains a defined benefit pension plan in Switzerland providing pension benefits based on earnings and length of service. The amounts reported in the table below represent the approximate Canadian

Dollar equivalent translated at the average exchange rate for the 2011 financial year, as reported by the Bank of Canada, being $1.1187 to each Swiss Franc.

Name and principal position	Number of years credited service (#)	Annual benefits payable ($)		Opening present value of defined benefit obligation ($)	Compensatory Change ($)(1)	Non-compensatory Change ($)	Closing present value of defined benefit ($)
		At year end	At age 65				
Alfonso Ciotola Chief Executive Officer, Landqart and Managing Director, Dresden	4.8	10,240	16,364	118,922	15,767	18,145	152,834

(1) Please refer to note 12 of the Corporation's audited financial statements for the year ended December 31, 2011 filed on www.sedar.com for valuation methods and actuarial assumptions.

Pension Plan Benefits - Defined Contribution Plan for Named Executive Officers

The Corporation maintains a defined contribution plan at the FSC Mill providing pension benefits based on earnings and length of service. The plan provides that an employee may contribute up to 8% of his or her salary and the employer will contribute 50% of the employee’s contribution plus 3% to a maximum of 7% of the employee’s salary.

Name and principal position	Accumulated value at start of year ($)	Compensatory ($)	Accumulated value at year end ($)
Peter Vinall President and Chief Executive Officer, FSC	35,260	15,615	73,695
Roger Boileau Vice President, Fiber Procurement, FSC	3,733	11,369	31,953

Termination and Change of Control Benefits and Employment Contracts

Chadwick Wasilenkoff

Pursuant to Mr. Wasilenkoff's employment agreement, if Mr. Wasilenkoff's employment is terminated for any reason other than for cause or he resigns for good reason, his employment is terminated as a result of a change of control or within 18 months after a change of control or a new employment agreement is not entered into before the end of the term, he will be entitled to a severance payment equal to two times the sum of his base salary plus the highest annual bonus received from the Corporation during the term prior to such termination. In addition, all unvested rights in any Options and any other equity awards will vest in full and become immediately exercisable. Assuming a discontinuance of Mr. Wasilenkoff's services if a change of control took place on December 31, 2011, Mr. Wasilenkoff would have received a cash payment of $5.0 million and Common Shares valued at an aggregate of $12,260,553, assuming the vesting of all LTIP units and the exercise of all Options on such date.

Dr. Alfonso Ciotola

Dr. Ciotola entered into an amended employment agreement with Landqart AG ("**Landqart**"), pursuant to which Dr. Ciotola agreed to serve as the Chief Executive Officer of the Landqart Mill, Managing Director of Dresden Papier GmbH ("**Dresden**") and Chief Operating Officer of the Corporation. In August 2009, Mr. Ciotola was appointed President of the Corporation and subsequently resigned as Chief Operating Officer. In March 2012, Mr. Ciotola resigned as President of the Corporation. The agreement provides for a net annual salary of €$261,747, subject to an annual review. The employment agreement provides that on each anniversary date of the agreement, Dr. Ciotola's base annual salary shall increase by 4%. Dr. Ciotola's net salary for 2011 was €$283,105. Dr. Ciotola is also entitled to receive an annual discretionary bonus.

Peter Vinall

Pursuant to Mr. Vinall's employment agreement, if Mr. Vinall's employment is terminated for any reason other than for cause or he resigns, he will be entitled to a severance payment equal to the sum of his base salary plus the average of his annual bonus for the previous two fiscal years. This amount is payable in substantially equal installments over a twelve-month period, unless a change of control (as defined in the agreement) occurs following such termination, in which case the unpaid portion of such severance amount will be payable in full immediately following such change of control. In addition, (i) 50% of Mr. Vinall's unvested RSUs shall vest in full and become immediately exercisable; and (ii) FSC shall pay the participation bonus that Mr. Vinall would be entitled to for the applicable period equal to the *pro rata* accrual thereof to the termination date. Assuming a discontinuance of Mr. Vinall's services if a change of control took place on December 31, 2011, Mr. Vinall would have received a cash payment of $400,582 and Common Shares valued at an aggregate of $1,661,875, assuming the vesting of all LTIP units and the exercise of all Options on such date.

Kurt Loewen

Mr. Loewen, the CFO of the Corporation, has entered into an amended employment agreement with the Corporation, pursuant to which Mr. Loewen will receive: (i) an annual base salary of $165,000 in 2010, $180,000 in 2011 and $200,000 in 2012, subject to an annual review; (ii) an annual discretionary bonus of up to 25% of his base salary; (iii) equity compensation of $50,000 per year payable in LTIP units or in cash, subject to an annual review; and (iv) certain perquisites. If Mr. Loewen's employment is terminated upon a change in control, other than for cause, in contemplation of, at the time of, or within 18 months after a change of control, Mr. Loewen will be entitled to a lump sum cash payment immediately following such termination equal to his then current annual base salary and previous year's annual bonus. If Mr. Loewen's employment is terminated for any reason other than for cause or in connection with a change of control, or as a result of significant modifications of Mr. Loewen's duties and responsibilities, he will be entitled to nine months compensation calculated on the basis of his base salary and bonus. In addition, all unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable. Assuming a discontinuance of Mr. Loewen's services if a change of control took place on December 31, 2011, Mr. Loewen would have received a cash payment of $260,000 and Common Shares valued at an aggregate of $721,199, assuming the vesting of all LTIP units and the exercise of all Options on such date.

Roger Boileau

Mr. Boileau, the Vice-President Special Projects of FSC, has entered into an employment agreement dated November 10, 2010 with FSC pursuant to which Mr. Boileau will receive: (i) an annual base salary of $195,000 subject to an annual review; (ii) an annual discretionary bonus of up to 25% of his base salary; (iii) an additional bonus of up to $60,000 per year for a five year period based on the successful completion of the Corporation's previously announced acquisition of the Lebel-sur Quevillon pulp mill from Domtar Inc. (the "**LSQ Bonus**"); and (iv) certain perquisites. In lieu of the LSQ Bonus which might otherwise be payable to Mr. Boileau for the 2012 calendar year, Mr. Boileau and FSC have agreed that Mr. Boileau will receive 5,000 RSUs, with all such RSUs vesting three years after the award date. If Mr. Boileau's employment is terminated for any reason other than for cause or as a result of significant modifications of Mr. Boileau's duties and responsibilities, he will be entitled to six months compensation calculated on the basis of his base salary and bonus.

Compensation of Directors

Pursuant to the Corporation's Amended Directors' Compensation Policy, the Corporation's non-executive directors are paid a quarterly retainer of $6,500. In addition, non-executive directors are paid the sum of $4,500 for each two-day scheduled Board meeting attended in person and $1,500 for each unscheduled Board meeting attended.

The Audit Committee chair receives a retainer of $10,000 per year and the Compensation Committee chair, Corporate Governance Committee chair and Steering Committee chair each receive retainers of $5,000 per year. Each committee member will receive a $2,000 annual retainer for each committee he or she sits on. Non-executive directors are also paid the sum of $1,000 for each committee meeting. Committee members of the Landqart Steering Committee receive a $4,000 annual retainer and $1,500 for each meeting.

Non-executive directors will receive grants of deferred share units pursuant to the LTIP in an amount equal to $16,000 per calendar year, subject to availability under the LTIP, failing which non-executive directors will be paid an additional quarterly retainer of $4,000.

Deferred Share Units

Under the Corporation's LTIP, a "DSU" is a right granted to a non-employee director to receive one Common Share of the Corporation, from treasury, on a deferred basis. See "Securities Authorized for Issuance under Equity Compensation Plans – Long Term Incentive Plan".

Pursuant to the provisions of the LTIP, directors may elect to receive DSU's in lieu of fees. The number of DSUs is calculated by dividing the amount of fees by the immediate preceded five-day weighted average closing price of the Common Shares of the Corporation on the grant date which shall be the 10th business day following each financial quarter end.

The DSUs may only be redeemed upon a director ceasing to act as a director of the Corporation. DSUs may be redeemed in cash or Common Shares or a combination of both. The value of DSUs redeemed for cash is equal to the market price (as defined in the LTIP) of the Corporation’s Common Shares on the TSX on the trading day immediately following the redemption date.

The following table states the name of each non-management director and the fees earned for the most recently completed financial year.

Name	Fees earned ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($)	Pension value ($)	All other compensation ($)	Total ($)
Richard O'C. Whittall	39,750	41,899	N/A	N/A	N/A	N/A	81,649
Per Gundersby	25,000	40,911	N/A	N/A	N/A	N/A	65,911
John Coleman	35,250	28,888	N/A	N/A	N/A	N/A	64,138
Roland Tornare	39,750	28,888	N/A	N/A	N/A	N/A	68,638
Pierre Monahan	33,250	41,899	N/A	N/A	N/A	N/A	75,149

Under the Corporation's Amended Travel and Entertainment Policy, both management and non-management directors are entitled to reimbursement of travel and other expenses incurred in the conduct of the Corporation's business.

Outstanding Share-Based Awards and Option-Based Awards for Directors

Currently, non-management directors hold no option-based awards.

The table below states the name of each director, the number of share-based awards and the value of the awards if the directors were to have retired on December 31, 2011.

Name	Share-based Awards	
	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested ($)
Richard O'C. Whittall	9,196	244,522
Per Gundersby	8,368	222,505
John Coleman	6,447	171,426
Roland Tornare	6,367	169,299
Pierre Monahan	1,683	44,751

In respect to the most recently completed financial year, there were 5,370 DSUs awarded to non-management directors. As at December 31, 2011, there were 142,873 DSUs outstanding.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Equity Compensation Plan Information

The following table sets out information relating to the SOP and LTIP as at December 31, 2011.

Equity compensation plans approved by securityholders	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Stock Option Plan	566,725	$8.00	458,097
Long Term Incentive Plan	405,537	N/A	
Total	972,262		458,097

Long Term Incentive Plan

On March 3, 2009, the Board approved the LTIP, which was subsequently approved by the shareholders of the Corporation on April 30, 2009. The purpose of the LTIP is to align the interests of Eligible Persons (as defined below) with those of the Corporation and its shareholders and to assist in attracting, retaining and motivating key employees of the Corporation by making a significant portion of the incentive compensation of participating employees directly dependent upon the achievement of key strategic, financial and operational objectives that are critical to ongoing growth and increasing the long-term value of the Corporation.

The LTIP is available to directors and certain officers and employees, as determined by the Board (the "**Eligible Persons**"). The aggregate number of Common Shares of the Corporation issuable under the LTIP, together with shares reserved for issuance under all of the Corporation's other security-based compensation arrangements, shall not exceed ten percent of the Corporation's issued and outstanding Common Shares. The total number of Common Shares issuable to any participant under the LTIP, at any time, together with any other security-based compensation arrangements of the Corporation, shall not exceed five percent of the issued and outstanding Common Shares of the Corporation. The total number of Common Shares issued to insiders within any one-year period and issuable at any given time under the LTIP, together with any other security-based compensation arrangement of the Corporation, shall not exceed ten percent of the issued and outstanding Common Shares of the Corporation. The total number of Common Shares issuable to non-executive directors under the LTIP shall not exceed one percent of the issued and outstanding Common Shares of the Corporation. Except as otherwise determined by the Board, neither awards nor any rights under any such awards shall be assignable or transferable other than pursuant to a will or by the laws of descent and distribution.

The Board may at any time, in its sole discretion and without the approval of shareholders, amend, suspend, terminate or discontinue the LTIP and may amend the terms and conditions of any grants thereunder, subject to (a) any required approval of any applicable regulatory authority or the TSX, and (b) approval of shareholders of the Corporation, provided that shareholder approval shall not be required for the following amendments and the Board may make changes, which may include but are not limited to: (i) amendments of a 'housekeeping nature'; (ii) any amendment for the purpose of curing any ambiguity, error or omission in the LTIP or to correct or supplement any provision of the LTIP that is inconsistent with any other provision of the LTIP; (iii) any amendments which are necessary to comply with applicable law or stock exchange requirements; (iv) amendments respecting administration and eligibility for participation under the LTIP; (v) changes to terms and conditions on which awards may be or have been granted pursuant to the LTIP including changes to the vesting provisions and terms of any awards; (vi) amendments which alter, extend or accelerate the terms of vesting applicable to any award; and (vii) changes to the termination provisions of an award or the LTIP which do not entail an extension beyond the original fixed term. If the LTIP is terminated, prior awards shall remain outstanding and in effect in accordance with their applicable terms and conditions. The Board may waive any conditions or rights under, or amend any terms of, any awards, provided that no such amendment or alteration shall be made which would impair the rights of any participant, without such participant's consent, unless the Board determines that such amendment or alteration either: (i) is required or advisable in order to conform to any law, regulation or accounting standard; or (ii) is not reasonably likely to diminish the benefits provided under such award.

The following types of awards are available under the LTIP. Such awards may be granted alone or in addition to, in tandem with, or in substitution for any other award or any award granted under any other security-based compensation agreement of the Corporation or any Subsidiary.

Restricted Share Units

RSUs are rights awarded to participants to receive a payment in Common Shares, and are subject to such restrictions that the Board may establish in the applicable award agreement. Each RSU shall represent one Common Share, and the RSUs shall vest and become payable by the issuance of Common Shares on the third anniversary of their grant date at the end of the restriction period if all applicable restrictions have lapsed.

As soon as practicable after each vesting date of an award of RSUs, the Corporation shall issue from the treasury to the participant or, if applicable, the participant’s estate, a number of Common Shares equal to the number of RSUs credited to the participant’s account that become payable on the vesting date. As of the vesting date, the RSUs in respect of which such shares are issued shall be cancelled.

In the event of a change of control, all restrictions upon any RSUs shall lapse immediately, and all such RSUs shall become fully vested in a participant. Upon the death of a participant, any RSUs granted to the participant, which, prior to the participant’s death have not yet vested, will immediately vest in the participant’s estate.

In the event of a participant’s termination by the Corporation or a subsidiary thereof for cause or without cause, or in the event of a participant’s voluntary termination by the participant, any RSUs granted to the participant under the LTIP will immediately terminate without payment as of the termination date of such units. In the event of a participant’s termination due to retirement or in connection with a disability, all RSUs will continue to vest in accordance with the terms of such RSUs and the applicable restriction period. Likewise, in the case of directors, if a participant ceases to be a director for any reason, any RSUs granted to the participant under the LTIP that have not yet vested will continue to vest in accordance with the terms of such RSUs and the applicable restriction period. Upon termination of a participant’s employment, the participant’s eligibility to receive further grants of awards of RSUs under the LTIP shall cease as of the termination date of such units.

Performance Share Units

Performance Share Units ("**PSUs**") are rights awarded to participants to receive a payment in Common Shares. Each PSU shall represent one Common Share, and shall vest and become payable to the extent that all performance criteria established by the Board, which may include criteria based on the participant’s personal performance and / or financial performance of the Corporation and its subsidiaries, set forth in the award agreement are satisfied for the performance cycle, a three-year period, as specified in the award agreement, the determination of which satisfaction shall be made by the Board on the determination date. An award agreement may provide the Board with the right to revise such performance criteria and the award amounts if unforeseen events occur that will make the application of the performance criteria unfair unless a revision is made.

After the determination date for the applicable award, and within ninety-five days after the last day of such award’s performance cycle, the Corporation shall issue from the treasury to the participant or, if applicable, the participant’s estate, a number of Common Shares equal to the number of PSUs that have vested. As of the vesting date, the PSUs in respect of which such shares are issued shall be cancelled.

In the event of a change of control, or upon the death of a participant, all PSUs granted to a participant shall become fully vested in such participant, or if applicable, the participant’s estate, without regard to the attainment of any performance criteria.

In the event of a participant’s termination by the Corporation or a subsidiary for cause or without cause, all PSUs granted to the participant under the LTIP will immediately terminate without payment. In the event of a participant’s termination due to retirement or in connection with a disability, the Board shall determine, in its sole discretion, the number of the participant's PSUs that will vest will be based on the extent to which the applicable performance criteria have been satisfied in that portion of the performance cycle that has lapsed. Upon termination of a participant’s employment, the participant’s eligibility to receive further grants of awards of PSUs under the LTIP shall cease as of the termination date.

Deferred Share Units

Deferred share units ("**DSUs**") are rights, available to directors in lieu of fees, to receive on a deferred basis a payment in either Common Shares or cash. After the effective date the participant ceases to be a director, the participant shall be entitled to receive either that number of Common Shares equal to the number of DSUs credited to the participant’s account, such Common Shares to be issued from the treasury, or a cash payment in an amount equal to the number of DSUs credited to the participant’s account multiplied by the volume weighted average trading price of a Common Share for the preceding five days to the date upon which the participant ceases to be a director, net of applicable withholdings. If no such shares traded in this period, the average of the closing bid and ask prices during this period shall be used instead of the closing price. Further, in the event that this value would be determined with reference to a period commencing at a fiscal quarter-end of the Corporation and ending prior to the public disclosure of interim financial statements for the quarter (or annual financial statements in the case of the fourth quarter), the cash payment of the value of the DSUs will be made to the participant with reference to the five trading days immediately following the public disclosure of the interim financial statements for that quarter (or annual financial statements in the case of the fourth quarter).

Each director may elect to receive any or all of his or her fees in DSUs. The number of DSUs to be credited to the participant’s account shall be calculated by dividing the amount of fees selected by a director by the volume weighted average trading price of a Common Share for the preceding five trading days to the grant date, provided that, if no such shares traded in this period, the average of the closing bid and ask prices during this period shall be used instead of the closing price. Further, in the event that this value would be determined with reference to a period commencing at a fiscal quarter-end of the Corporation and ending prior to the public disclosure of interim financial statements for the quarter (or annual financial statements in the case of the fourth quarter), the cash payment of the value of the DSUs will be made to the participant with reference to the five trading days immediately following the public disclosure of the interim financial statements for that quarter (or annual financial statements in the case of the fourth quarter). The grant date shall be the 10th business day following each financial quarter end. If, as a result of the foregoing calculation, a participant shall become entitled to a fractional DSU, the participant shall only be credited with a full number of DSUs (rounded down) and no payment or other adjustment will be made with respect to the fractional DSU.

Upon the death of a participant, the participant's estate shall be entitled to receive, within 120 days after the participant's death and at the sole discretion of the Board, a cash payment or Common Shares, net of applicable withholdings, that would have otherwise been payable to the participant upon such participant ceasing to be director.

As of at the date hereof, there are 432,497 issued and outstanding units under the LTIP, representing 3.02% of the total issued and outstanding Common Shares.

Stock Option Plan

The Board has adopted the SOP for the Corporation's directors, officers, employees, insiders and service providers. The SOP provides that Options may be granted to eligible persons on terms determined within the limitations set out in the SOP. The maximum number of Common Shares to be reserved for issuance at any one time under the SOP and any other employee incentive plan is 10% of the issued and outstanding Common Shares of the Corporation. As at the date hereof, there are 566,725 issued and outstanding Options, representing 3.96% of the total issued and outstanding Common Shares. Under the terms of the SOP, the maximum number of Common Shares which, together with any other Common Shares subject to a security-based compensation arrangement with a participant may be: (i) reserved for issuance to participants who are insiders shall not exceed 10% of the number of Common Shares then outstanding; (ii) issued to participants who are insiders within a one-year period shall not exceed 10% of the number of Common Shares then outstanding; (iii) issued to any one participant who is an insider and the associates of such participant within a one-year period shall not exceed 5% of the number of Common Shares then outstanding; and (iv) reserved for issuance to any one participant shall not exceed 5% of the number of Common Shares then outstanding. The exercise price for an Option granted under the SOP may not be less than the closing price of the shares on the TSX on the trading day immediately preceding the date of grant. Options granted may be subject to vesting requirements.

The SOP allows Option holders to exchange their Options (the "**Exchanged Options**") for a right (the "**Substituted Right**") to acquire Common Shares, from time to time, at any time, and permits the Corporation to require the Option holder to exchange its Options for a Substituted Right under certain circumstances. The Substituted Right will entitle the holder to acquire Common Shares on exercise in accordance with the following formula:

$$\text{Number of Common Shares} = \text{Number of Common Shares under the Exchanged Options} \times \frac{(\text{Current Price} - \text{Exercise Price})}{\text{Current Price}}$$

"Current Price" means the closing price of the Common Shares immediately prior to exercise or exchange of the Options and "Exercise Price" means the exercise price of the Exchanged Options.

Options will be granted for a period which may not exceed ten years from the date of grant but will expire within 90 days of a participant ceasing to be a director, officer, employee, insider or service provider of the Corporation, unless that participant ceases to be a director, officer, employee, insider or service provider of the Corporation for cause, in which case no option held by such participant shall be exercisable. No rights under the SOP and no Option awarded pursuant to the provisions of the SOP are assignable or transferable by any participant other than pursuant to a will or by the laws of descent and distribution. The Board may from time to time in its absolute discretion amend, modify and change the provisions of an Option or the SOP without obtaining approval of shareholders to: (i) make amendments of a "housekeeping" nature; (ii) change vesting provisions of an Option or the SOP; (iii) change the termination provisions of an option or the SOP which does not entail an extension beyond the original expiry date of the Option or the SOP; (iv) change the termination provisions of an Option or the SOP which does entail an extension beyond the original expiry date of the Option or the SOP for a participant who is not an insider; (v) reduce the exercise price of an Option for a participant who is not an insider; (vi) remove or change any restriction or condition attached to a Common Share; (vii) implement a cashless exercise feature, payable in cash or securities, provided that such feature provides for a full deduction of the number of Common Shares from the number of Common Shares reserved under the SOP; and (viii) make any other amendments of a non-material nature which are approved by the TSX.

All other amendments, modifications or changes shall only be effective upon such amendment, modification or change being approved by the shareholders of the Corporation. Any amendment, modification or change of any provision of the SOP shall be subject to approval, if required, by any regulatory body having jurisdiction.

The SOP is administered by the Corporation's Compensation Committee. The SOP is subject to the rules and policies of the TSX, including the requirement for shareholder approval of all unallocated Options every three years following institution.

Automatic Share Disposition Plan

In December 2010, the Corporation adopted an automatic share disposition plan (the "**ASDP**") to allow its directors and senior executive officers the opportunity to satisfy their tax liabilities resulting from the receipt of equity compensation or to diversify their investments and meet investment planning goals by selling, on an automatic basis through an independent third party securities broker (the "**Broker**"), certain of their common shares, including Common Shares issuable upon the vesting of units under the LTIP and the exercise of Options. Sales of Common Shares under the ASDP are made in the open market through the facilities of the TSX by the Broker in accordance with a pre-determined quarterly sales schedule, and could include circumstances when participants would ordinarily not be permitted to sell their common shares due to restrictions under Canadian securities laws or trading blackouts imposed under the Corporation's insider trading policy. Participants are subject to meaningful restrictions on their ability to modify or terminate their participation in the ASDP.

Participation in the ASDP by executive officers is limited to instances where they meet the minimum share ownership requirements of three times their base salary or, in the case of the Chairman and CEO of the Corporation or any of its subsidiaries, five times his base salary.

Employee Share Purchase Plan

In August 2011, the Corporation adopted an employee share purchase plan (the "**ESPP**") to encourage share ownership and provide its employees with financial assistance to purchase Common Shares through earnings, contributions by the Corporation, and dividend reinvestment. Any employee who has completed six full months of employment with the Corporation or any of its subsidiaries is eligible to participate in the ESPP. This may include an employee who is on leave of absence, but, unless authorized by the Board, does not include officers or directors of the Corporation, contract or probationary employees, part-time employees, temporary full-time employees, or temporary part-time employees.

A participant will make personal contributions to the ESPP of not more than 10%, in whole percentages, of his or her Earnings (as such term is defined in the ESPP) up to a maximum aggregate personal contribution per calendar year of $10,000 or the equivalent in local currency for non-Canadian resident participants, as may be determined by the Board from time to time. Accordingly, the Corporation will contribute to the ESPP an amount equal to $0.15 for every $1.00 contributed by a participant for any pay period (to a maximum of $1,500 annually). A participant may make four withdrawals from his or her account in any calendar year.

An administrative agent will use all funds received by it from contributions to purchase the Corporation’s Common Shares and will make such purchases from time to time at its discretion. The administrative agent will purchase such Common Shares on the open market through the facilities of the TSX. The Corporation may amend or suspend at any time, and from time to time, all or any of the provisions of the ESPP at its sole and complete discretion, except that no such amendment shall, in the opinion of the Corporation, operate so as to deprive a participant of any Shares credited to a participant's account(s) prior to the date hereof.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at the date of this Proxy Circular, no individual who is or was a director, executive officer or employee of the Corporation or any of its subsidiaries, any proposed nominee for election as a director of the Corporation or any associate of such director or officer, is or was, at the end of the most recently completed financial year, indebted to the Corporation or any of its subsidiaries since the beginning of the most recently completed financial year of the Corporation, or is or has been indebted to another entity that is or has been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries during that period.

MANAGEMENT CONTRACTS

To the best of the knowledge of the directors and officers of the Corporation, management functions of the Corporation are not, to any substantial degree, performed by a person other than the directors and senior officers of the Corporation.

AUDIT COMMITTEE

For information regarding the Corporation's Audit Committee, please refer to the Corporation's Annual Information Form for the year ended December 31, 2011 under the heading "Directors and Executive Officers – Audit Committee", available on SEDAR at www.sedar.com.

CORPORATE GOVERNANCE

Board of Directors

The directors are responsible for managing and supervising the management of the business and affairs of the Corporation. Each year, the Board must review the relationship that each director has with the Corporation in order to satisfy themselves that the relevant independence criteria have been met.

Other than interests arising from shareholdings in the Corporation, Messrs. Gundersby, Whittall, Tornare and Coleman are independent directors within the meaning set out in National Instrument 52-110 – Audit Committees ("**NI 52-110**") in that they are free from any interest which could reasonably interfere with their exercise of independent judgment as directors of the Corporation. Mr. Monahan is not considered to be an independent director as a result of remuneration received in the 2010 for services performed by Gestion Pierre Monahan Inc., a company of which Mr. Monahan is the principal, prior to his appointment to the Board. The Corporation relied upon an exemption from Mr. Monahan's independence requirement under section 3.5 of NI 52-110 that applies to audit committee members who are appointed in order to fill a vacancy on the committee that results from the resignation of another member. Mr. Monahan resigned from the Audit Committee in May 2011 and was replaced by Mr. Tornare, who is independent. Mr. Wasilenkoff is an employee and executive officer of the Corporation and therefore not independent.

In order to facilitate its exercise of independent judgment in carrying out its responsibilities, the Board may establish informal committees on an as needed basis consisting solely of independent directors to consider certain matters to be considered by the Board. The Board, or any committee, may also seek advice from outside advisors. The Board also follows a practice whereby any director who has an interest in a matter the Board is considering will either abstain from voting on the matter or exit the Board meeting.

The following directors of the Corporation hold directorships in other reporting issuers as set out below:

Name of Director	Name of Other Reporting Issuer
Richard O'C. Whittall	Canadian General Investment Canadian World Fund Ltd. GVIC Communications Corp. Newstrike Capital Inc. Calyx Bio-Ventures Inc.
Pierre Monahan	Valener Inc. Gaz Metro Inc. Uniboard Inc.

The independent directors do hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. However, in order to facilitate open and candid discussion among independent directors, communication among the independent directors also occurs on an informal and ongoing basis as such need arises.

The Board does not have a Chairman independent of management. Mr. Wasilenkoff, the Chairman of the Board, is also the Corporation's President and CEO. The Board believes that this structure best reflects the entrepreneurial leadership of the Corporation. The Board is satisfied that the autonomy of the Board and its ability to function independently of management are protected through measures such as the Audit Committee, the Compensation Committee and the Corporate Governance Committee being composed of all or a majority of independent directors. In addition, in order to provide leadership for its independent directors, the independent members of the Board meet separately from the non-independent members and the Board encourages its independent members to seek the advice of financial, legal or other consultants when necessary.

Board committees assist in the effective functioning of the Board. All Board committees are currently comprised of either all or a majority of independent directors, which ensures that the views of independent directors are effectively represented. The Board has five committees: the Compensation Committee, the Corporate Governance Committee, the Corporate Steering Committee, the Landqart Steering Committee and the Audit Committee. Special committees may be formed time to time as required to review particular matters or transactions.

The Compensation Committee is responsible for the development, implementation and monitoring of the Corporation's compensation policy for executive officers and members of the Board.

The following are the members of the Compensation Committee:

Pierre Monahan (Chair)
Richard O'C. Whittall
John Coleman

The Corporate Governance Committee's overall responsibility is for ensuring that the Corporation meets applicable legal, regulatory and (self regulatory) business principles and 'codes of best practice' of corporate behavior and conduct.

The following are the members of the Corporate Governance Committee:

Pierre Monahan (Chair)
Richard O'C. Whittall
Roland Tornare

The Steering Committee was appointed by the Board to discharge the Board's responsibilities relating the rebuilding of PM1 at Landqart. The Steering Committee provided oversight and guidance to the management of the Corporation and evaluated, considered and recommended to the Board for approval of the final budget and timeline for the rebuilding of PM1. In January 2011, the Corporation announced the completion of the PM1 rebuild materially on budget and it is currently producing banknote and high security papers.

The following were the members of the Steering Committee:

Per Gundersby (Chair)
Roland Tornare
John Coleman

The Landqart Steering Committee was appointed by the Board in February 2012. The Landqart Steering Committee was formed to discharge the Board’s responsibility for overseeing the review, evaluation, assessment and formulation of a plan for improvement of the current business and operations of Landqart. The Landqart Steering Committee is responsible for identifying any significant issues that may have an impact on the financial or operating performance of the Landqart Mill, considering and developing plans for improving the operational efficiency of the mill and to recommend to the Board an improvement proposal together with a budget and timeline.

The following are the members of the Landqart Steering Committee:

Roland Tornare
John Coleman

The Audit Committee is appointed by the Board to assist in monitoring: (1) the integrity of the financial statements of the Corporation; (2) the compliance by the Corporation with the legal and regulatory requirements; and (3) the independent performance of the Corporation's external auditors, which external auditors shall report directly to the Audit Committee.

The following are the members of the Audit Committee:

Richard O'C. Whittall (Chair)
Roland Tornare
Per Gundersby

The following table sets forth the number of Board and committee meetings held and attendance by directors for the most recently completed financial year.

Director	Scheduled Board Meetings	Compensation Committee Meetings	Corporate Governance Committee Meetings	Steering Committee Meetings	Audit Committee Meetings
Chadwick Wasilenkoff	4/4				
Per Gundersby	4/4			1/1	4/4
Richard O’C. Whittall	4/4	3/3	3/3		4/4
John Coleman	4/4	3/3		1/1	
Roland Tornare	4/4		3/3	1/1	3/3[(1)]
Pierre Monahan	4/4	3/3	3/3		1/1[(1)]

(1) Mr. Monahan resigned from the Audit Committee in May 2011 and was replaced by Mr. Tornare.

The table below summarizes the number of Board and committee meetings held during 2011.

Meeting Type	Totals
Board of Directors	4
Compensation Committee	3
Corporate Governance Committee	3
Steering Committee	1
Audit Committee	4
Total number of meetings held	**15**

The Corporation's current Board mandate, which is reviewed on an annual basis, is attached hereto as Appendix "A". The Board has not developed written descriptions for the CEO or the chairs of each committee of the Board. The CEO's responsibilities are described in his employment agreement. The chairs of each committee of the Board follow the charter for the respective committee.

Orientation and Continuing Education

The Corporation does not have a formal process of orientation and education for new members of the Board. The current directors are experienced in boardroom procedure and corporate governance and generally have a good understanding of the business. As necessary, new members of the Board are provided with information about the Corporation, the role of the Board, the Board's committees, the Board's directors and the Corporation's industry. In addition, the Corporation provides continuing education for its directors as such need arises.

Ethical Business Conduct

The Corporation adopted a Code of Business Conduct and Ethics (the "**Code**") in May 2007, which is available under the Corporation's profile at www.sedar.com. The Code sets out the principles that should guide the behavior of the Corporation's directors, officers and employees. The Code addresses issues such as the following:

(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;

(b) protection and proper use of corporate assets and opportunities;

(c) fair dealing with the Corporation's security holders, customers, suppliers, competitors and employees;

(d) compliance with laws, rules and regulations; and

(e) reporting of any illegal or unethical behavior.

The Board is responsible for monitoring compliance with the Code. One tool used for monitoring compliance is the Corporation's Whistleblower Policy. Any person can report complaints or concerns, which may be on an anonymous basis, through the procedures of the Whistleblower Policy.

To ensure directors of the Corporation exercise independent judgment in considering transactions, agreements or decisions in respect of which a director or executive officer has declared a material personal interest (in accordance with relevant corporate law requirements), the Board follows a practice whereby any such Board member must be absent during any Board discussion pertaining thereto and not cast a vote on any such matter.

Significant contracts that may be deemed to be in conflict are also reviewed and approved by the Corporation's Audit Committee.

In addition, the Board must comply with conflict of interest provisions in Canadian corporate law and relevant securities regulatory instruments in order to ensure that directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest.

Nomination of Directors

Although the Corporation does not have a nominating committee to propose new Board nominees, the Corporate Governance Committee is responsible for advising the Board with respect to the filling of vacancies on the Board and making recommendations as to nominees for the Board and uses an informal consultative process.

The Corporate Governance Committee analyzes the needs of the Board when vacancies arise and identifies and proposes new nominees who have the necessary competencies and characteristics to meet such needs. New candidates are introduced to the Board by members of the Corporate Governance Committee.

In order to foster an objective nomination process, the independent members of the Board are encouraged to recommend nominees for the Board.

Compensation

The Compensation Committee is appointed by the Board to, among other things, discharge the Board's responsibilities relating to compensation of the Corporation's directors and officers. The Compensation Committee periodically reviews the adequacy and form of compensation to ensure it realistically reflects the responsibilities and risks involved in being an effective director or officer and that the compensation allows the Corporation to attract qualified candidates. Such review includes an examination of publicly available data as well as independent compensation surveys.

The Compensation Committee annually reviews and approves corporate goals and objectives relevant to the compensation of the CEO, evaluates the CEO's performance in light of those goals and objectives and sets the CEO's compensation level based on this evaluation. The Compensation Committee meets without the presence of other executive officers when approving the CEO's compensation.

The Compensation Committee is comprised of a majority of independent directors. In order to ensure an objective process for determining compensation, the Compensation Committee reviews independent materials such as pay survey data and industry reports. The Compensation Committee benchmarks against other companies using peer group studies compiled for the Compensation Committee. In addition, the Compensation Committee may consult with outside independent compensation advisory firms if it deems advisable.

Assessments

The Board is responsible for keeping management informed of its evaluation of the performance of the Corporation and its senior officers in achieving and carrying out the Board's established goals and policies, and is also responsible for advising management of any remedial action or changes which it may consider necessary. Additionally, directors are expected to devote the time and attention to the Corporation's business and affairs as necessary to discharge their duties as directors effectively.

The Board does not have a formal process to monitor the effectiveness of the Board, its committees and individual members, but rather relies on an informal review process. In order to gauge performance, the Board considers the following:

(a) input from directors, where appropriate;

(b) attendance of directors at meetings of the Board and any committee;

(c) the charter of each committee; and

(d) the competencies and skills each individual director is expected to bring to the Board and each committee.

APPOINTMENT OF AUDITORS

Management of the Corporation will recommend at the Meeting that shareholders appoint PricewaterhouseCoopers LLP, Chartered Accountants as auditors of the Corporation until the next annual meeting of shareholders and to authorize the directors to fix their remuneration. PricewaterhouseCoopers LLP were first appointed as auditors of the Corporation on October 24, 2006.

PARTICULARS OF MATTERS TO BE ACTED UPON

Unallocated Units Resolution

Pursuant to the policies of the TSX, all unallocated options, rights, or other entitlements under a security based compensation arrangement, which does not have a fixed maximum number of securities issuable must be approved by the listed issuer's security holders every three years after the institution of the arrangement.

The LTIP was approved by the shareholders of the Corporation at the Corporation's annual general and special meeting on April 30, 2009. As the three-year terms prescribed by the TSX expired on April 30, 2012, an ordinary resolution (the "**Unallocated Units Resolution**") will be placed before the shareholders to approve the unallocated units. This approval will be effective for three years from the date of the Meeting. If approval is not obtained at the Meeting, units which have not been allocated as of April 30, 2012 and shares underlying units which are outstanding as of April 30, 2012 and are subsequently cancelled or terminated will not be available for a new grant of units under the LTIP. Previously allocated units will be unaffected by the approval or disapproval of the resolution. A description of the LTIP is provided under the heading "Securities Authorized for Issuance under Equity Compensation Plans – Long Term Incentive Plan".

As at the date of this Proxy Circular, a total of 566,725 Options are currently outstanding (representing approximately 3.96% of the outstanding Common Shares as of the date hereof), and a total of 432,497 LTIP units are outstanding (representing approximately 3.02% of the outstanding Common Shares as of the date hereof). As there were an aggregate 140,643 units which were granted and exercised, there remain an aggregate 291,104 unallocated awards (representing approximately 2.03% of the outstanding Common Shares as of the date hereof) that may be issued under the LTIP and the SOP, together, and to which the Unallocated Units Resolution relates. If the Exercised Units Resolution (as hereinafter defined) is passed, there will be 431,747 unallocated awards (representing approximately 3.02% of the issued and outstanding Common Shares as of the date hereof) available under the LTIP and the SOP, together.

The following is the text of Unallocated Units Resolution to be considered at the Meeting:

"**BE IT RESOLVED THAT**:

1. All unallocated units as of April 30, 2012 under the 2009 Long-Term Incentive Plan of the Corporation, as may be amended from time to time, are hereby approved and authorized and the Corporation is authorized to continue granting units under the plan until June 7, 2015, which is the date that is three years from the date where shareholder approval is being sought; and

2. Any director or officer of the Corporation be and is hereby authorized to take all such further actions and to execute and deliver all such further instrument and documents, in the name and on behalf of the Corporation, as may be necessary, proper or advisable in order to carry out and give full effect to the foregoing."

The board of directors has determined that passing the Unallocated Units Resolution is in the best interests of the Corporation and its shareholders and recommends that the shareholders vote **IN FAVOUR** of the Unallocated Units Resolution. In order to be approved, the Unallocated Units Resolution must be passed by a majority of the votes cast at the Meeting. **In the absence of a contrary instruction, the persons designated by management of the Corporation in the enclosed form of proxy intend to vote FOR the Unallocated Units Resolution.**

Exercise Units Resolutions

Since the adoption of the LTIP by the shareholders of the Corporation on April 30, 2009, the Corporation has made awards of 140,643 units under the LTIP which have vested into Common Shares (the "**Exercised Units**") thereby reducing the number of units available for issuance under the LTIP by an equivalent amount. The Board believes it is in the best interests of the Corporation that Common Shares issued pursuant to the Exercised Units be once again available for grants of units under the LTIP and, accordingly, that the maximum number of Common Shares available under the LTIP and the SOP remains at 10% of the issued and outstanding Common Shares in order to be able to continue to provide share-based incentives to eligible individuals under the LTIP in appropriate circumstances.

Accordingly, an ordinary resolution (the "**Exercised Units Resolution**") will be placed before the shareholders to approve the renewed availability of the Exercised Units for issuance pursuant to the terms of the LTIP. The following is the text of the Exercised Units Resolution to be considered at the Meeting:

"BE IT RESOLVED THAT:

1. Those common shares that have been issued, as of the date hereof, pursuant to the vesting of units granted under the Corporation's 2009 Long-Term Incentive Plan are approved to be available for new grants of units in accordance with the terms of the plan;

2. Any director or officer of the Corporation be and is hereby authorized to take such further actions and to execute and deliver all such further instruments and documents, in the name of and on behalf of the Corporation, as may be necessary, proper or advisable in order to carry out and give effect to the foregoing."

The board of directors has determined that passing the Exercised Units Resolution is in the best interests of the Corporation and its shareholders and recommends that the shareholders vote **IN FAVOUR** of the Exercised Units Resolution. In order to be approved, the foregoing resolution must be passed by a majority of the votes cast at the Meeting. **In the absence of a contrary instruction, the persons designated by management of the Corporation in the enclosed form of proxy intend to vote FOR the Exercised Units Resolution**.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Except as otherwise disclosed herein, no director, executive officer or proposed nominee for election as a director of the Corporation, or any of their associates or affiliates, has any material interest, direct or indirect, by way of beneficial ownership of Common Shares of the Corporation or otherwise, in any matter to be acted upon at the Meeting, other than the election of directors or the appointment of auditors of the Corporation other than in respect of their participation in the LTIP.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Except as otherwise disclosed herein, no insider of the Corporation, nor the proposed nominees for election as directors of the Corporation, nor any associate or affiliate of such insider or proposed nominees, has any material interest, direct or indirect, in any transaction since the beginning of the last financial year of the Corporation, or in any proposed transaction which has materially affected or will materially affect the Corporation or any of its subsidiaries.

REGISTRAR AND TRANSFER AGENT

The registrar and transfer agent of the Corporation is Computershare Investor Services Inc., 510 Burrard Street, 3rd Floor, Vancouver, British Columbia V6C 3B9.

OTHER BUSINESS

Management of the Corporation knows of no other matters to come before the Meeting other than as referred to in the Notice of Meeting. However, if any other matter(s) which are not known to management of the Corporation shall properly come before the Meeting, the Proxy given pursuant to the solicitation by management of the Corporation will be voted on such matter(s) in accordance with the best judgment of the person(s) voting the Proxy.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Shareholders may contact the Corporation to request copies of the Corporation's financial statements and management's discussion and analysis ("**MD&A**") by sending a written request to 2nd Floor, 157 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K2, Attention: Corporate Secretary. Financial information is provided in the Corporation's comparative financial statements and MD&A for its fiscal year ended December 31, 2011, which are also available on SEDAR.

APPROVAL OF PROXY CIRCULAR

The undersigned hereby certifies that the contents and the sending of this Proxy Circular have been approved by the directors of the Corporation.

DATED at Vancouver, British Columbia, Canada, this 10th day of May, 2012.

BY ORDER OF THE BOARD OF DIRECTORS OF FORTRESS PAPER LTD.

/s/ Chadwick Wasilenkoff

Chadwick Wasilenkoff
Chairman, Chief Executive Officer, President and Director

APPENDIX A

FORTRESS PAPER LTD.

BOARD OF DIRECTORS' MANDATE

1. PURPOSE

1.1 The Board of Directors (the "Board") of Fortress Paper Ltd. (the "Company") wishes to formalize the guidelines pursuant to which the Board governs the business of the Company. The guidelines are intended to be flexible and are intended to provide parameters and direction to the Board in conjunction with its obligations and mandate to oversee and direct the affairs of the Company.

1.2 The Board is responsible for the overall stewardship of the Company and for managing and supervising the management of the Company. The Board does not conduct day-to-day management of the Company; that is the responsibility of the Officers. The Board shall at all times act in the best interests of the Company.

2. RESPONSIBILITIES

2.1 In discharging its responsibility, among other things, the Board should:

(i) require management to develop and maintain a strategic planning process which takes into account, among other things, the opportunities and risks of the Company's business and to bring its strategic and operating plans to the Board for review and approval on an annual basis or such other basis as may be required by the Board;

(ii) approve all capital plans and establish priorities in the allocation of funds for major capital projects on an annual basis or such other basis as may be required by the Board;

(iii) identify the principal risks of the Company's business and require management to implement appropriate procedures and systems to manage such risks;

(iv) plan for senior management succession, including the appointment of and monitoring of senior management's performance;

(v) require senior management to develop and maintain a strategy to communicate effectively with its security holders, investment analysts and the public generally and to accommodate and address feedback from security holders;

(vi) require management to maintain internal control and management information systems and, through Board committees or otherwise, to monitor these systems as it considers fit;

(vii) require senior management to implement systems to ensure the Company operates within applicable laws and regulations;

(viii) review actual results achieved by the Company against the objectives contained in the Company's plans and implement or cause to be implemented corrective action where indicated;

(ix) arrange for the operating results of the Company to be presented by management to the Board on a regular basis;

(x) require that the Board be kept reasonably informed of the Company's activities and performance and take appropriate action to correct inadequate performance;

(xi) authorize the issuance of equity and debt securities of the Company;

(xii) approve all public disclosure by the Company including press releases, financial results, management's discussion and analysis, material change reports, registration statements, prospectuses and other public continuous disclosure documents, other than: (a) press releases and public disclosure in the ordinary course of the Company's operations which do not include any earnings announcements, which may be approved by the Company's Chief Executive Officer, President and Chief Financial Officer, in consultation with the Company's legal counsel; and (b) press releases resulting from emergency or urgent situations which may be approved by the Company's Chief Executive Officer, President and Chief Financial Officer, in consultation with the Company's legal counsel;

(xiii) review and consider all reports and recommendations of the Compensation and Corporate Governance Committee and approve all compensation of Officers (including the Chief Executive Officer) and Directors;

(xiv) require that proper procedures are established for the protection of shareholder value;

(xv) ensure policies and procedures are in place to ensure the Company's compliance with applicable law, including timely disclosure of relevant corporate information and regulatory reporting; and

(xvii) to the extent feasible, satisfy itself as to the integrity of the Chief Executive Officer and other executive officers and that the Chief Executive Officer and other executive officers create a culture of integrity throughout the Company.

2.2 The Board will give direction and guidance to management and will also keep management informed of its evaluation of the performance of the Company and of its senior Officers in achieving and carrying out the Board's established goals and policies, and in advising management of any remedial action or changes which it may consider to be necessary.

3. ORGANIZATION OF THE BOARD

3.1 The composition of the Board shall comply with applicable corporate and securities laws.

3.2 Each year the Board shall review the relationship that each member of the Board has with the Company in order to satisfy itself that the relevant independence criteria have been met.

3.3 The Board members are expected to devote the time and attention to the Company's business and affairs necessary to discharge their duties as members of the Board effectively, which includes, but is not limited to, attendance at Board meetings and the review of any materials prepared in connection with such meetings. Subject to this requirement, the Board members shall not be subject to any restrictions with respect to their activities outside of their relationship with the Company, including their services as directors of other corporations or charitable organizations so long as such is in accordance with all of the Company's other policies and charters.

3.4 The Board may:

(i) appoint one or more committees of the Board, however designated, and delegate to any such committee any of the powers of the Board except those which pertain to items which, under the

Business Corporations Act (British Columbia) (the "Act"), a committee of the Board has no authority to exercise;

(ii) appoint a Chairman of the Board and prescribe his or her powers and duties;

(iii) appoint a Lead Director of the Board and prescribe his or her powers and duties;

(iv) appoint a Chief Executive Officer and prescribe his or her powers and duties;

(v) appoint a President and prescribe his or her powers and duties; and

(vi) in conjunction with the Chief Executive Officer, appoint the Officers of the Company and prescribe their powers and duties.

3.5 The Board may appoint a day or days in any month or months for regular meetings of the Board at a place and hour to be named. A copy of any resolution of the Board fixing the place and time of such regular meetings shall be sent to each member of the Board forthwith after being passed, but no other notice shall be required for any such regular meetings except where the Act requires the purpose thereof or the business to be transacted thereat to be specified.

3.6 In the event of a change of the status or credentials underlying a Board member's appointment to the Board, the member so affected should, on his or her own initiative, discuss the change with the Chairman so that there is an opportunity for the Board to review the continued appropriateness of Board membership under his or her new circumstances. Each case will be dealt with on its own merits, but as a rule, a member of the Board is expected to tender his or her resignation if there is a change in his or her credentials and circumstances.

3.7 Unless specified otherwise, the following procedural rules apply to committees of the Board:

(i) The Board may appoint one or more committees of the Board, however designated, and delegate to any such committee any of the powers of the Board except those which pertain to items which, under the Act, a committee of the Board has no authority to exercise;

(ii) The powers of a committee of the Board may be exercised by a meeting at which a quorum is present or by resolution in writing signed by all members of such committee who would have been entitled to vote on that resolution at a meeting of the committee. Meetings of any such committee may be held at any place in or outside Canada;

(iii) The Board may from time to time appoint such advisory bodies as it may deem advisable; and

(iv) Each committee and advisory body shall have the power to fix its quorum at not less than a majority of its members, to elect its chairman, and to regulate its procedure.

3.8 The Board currently consists of six directors. The Board shall have a minimum of three (3) and a maximum of twenty (20) directors, the number of directors within that range to be fixed by resolution of the Board from time to time. The size of the Board should enable its members to effectively and responsibly discharge their responsibilities to the Company.

3.9 Except as set out in the Articles of the Company, Board members shall be elected at the annual meeting of shareholders of the Company each year and shall serve until their successors are duly elected.

4. RESOURCES, MEETING AND REPORTS

The Board shall have adequate resources to discharge its responsibilities. The Chairman shall be empowered to engage advisors as may be appropriate from time to time to advise the Chairman on the Board with respect to duties and responsibilities.

The Board shall meet not less than four times per year.

The meetings of the Board shall ordinarily include the Chief Executive Officer (if not a Director) and shall periodically include other senior officers as may be appropriate and as may be desirable to enable the Board to become familiar with the Company's management team and affairs.

The Chairman shall act as, or appoint a Secretary, who shall keep minutes of its meetings in which shall be recorded all actions taken by the Board. Such minutes shall be made available to the Directors and shall be approved by the Board for entry in the records of the Company.

Each Director is expected to be diligent in preparing for and attending meetings of the Board and any Committee of which he or she is a member. A Director who is unable to attend a Board or Committee meeting may participate by teleconference.

Members of the Board shall have the right, for the purposes of discharging their respective powers and responsibilities, to inspect the relevant records of the Company and its subsidiaries.

Members of the Board, subject to approval of the Chairs of the Governance and Compensation Committees, may retain separate counsel to deal with issues relating to their responsibilities as members of the Board.