



Fortress Paper Ltd.

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING AND MANAGEMENT PROXY CIRCULAR

Time: June 11, 2010, at 3:00 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 11, 2010

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 Friday, June 11, 2010, at 3:00 p.m. (Vancouver time) (the "**Meeting**"), for the following purposes:

1. to receive and consider the financial statements of the Corporation for the financial year ended December 31, 2009, together with the report of the auditors thereon;
2. to fix the number of directors of the Corporation to be elected at six;
3. to elect directors of the Corporation for the ensuing year;
4. to appoint the auditors of the Corporation for the ensuing year and to authorize the directors to fix the remuneration to be paid to the auditors for the ensuing year;
5. to consider and approve an ordinary resolution authorizing and approving all unallocated options issuable pursuant to the Corporation's stock option plan; and
6. to transact such other business as may properly come before the Meeting or any adjournment(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 in the form of proxy and in the management proxy circular accompanying this notice of meeting. A proxy will not be valid unless it is by of Computershare Investor Services Inc., 510 Burrard Street, 3rd Floor, Vancouver, British Columbia V6C 3B9 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or any adjournment(s) thereof. The chairman of the Meeting has the discretion to accept proxies received after that time.

DATED at Vancouver, British Columbia, this 7th day of May, 2010.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ Chadwick Wasilenkoff _____
Chadwick Wasilenkoff
Chairman, Chief Executive Officer 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 7, 2010, FOR THE ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 11, 2010 (THE "MEETING").

This management proxy 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) thereof, at the time and place and for the purposes set forth in the accompanying notice of meeting dated May 7, 2010 (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**"), this Proxy Circular and a financial statement request form will be mailed to beneficial owners of common shares of the Corporation commencing on or about May 18, 2010. 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 7, 2010, 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) 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 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., 510 Burrard Street, 2nd Floor, Vancouver, British Columbia V6C 3B9 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time fixed for the Meeting or any adjournment(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 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 proxyholders 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 other than the appointment of an auditor and the election of directors; (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 adjournments or postponements 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, the Proxy and 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) 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 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 May 7, 2010, there were a total of **10,233,500** common shares of the Corporation outstanding. Each common share entitles the holder thereof to one vote.

The following table lists, to the knowledge of the directors and executive officers of the Corporation, those persons or companies who beneficially own, directly or indirectly, or exercises 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⁾	2,334,700	22.81%

(1) As at the date hereof, Mr. Wasilenkoff also has 322,675 options to purchase common shares of the Corporation on a one-for-one basis and 60,526 Restricted Share Units representing one common share per unit.

ELECTION OF DIRECTORS

At The Meeting, the shareholders will be asked to consider and, if thought advisable, to pass an ordinary resolution fixing the number of Directors to be elected at a maximum of six.

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 Company to serve until the next annual general meeting of the shareholders or until the Director sooner ceases to hold office.

The following table (and notes thereto) states the names of the Nominees, 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 Common Shares Owned
Chadwick Wasilenkoff British Columbia, Canada	Chief Executive Officer of the Corporation.	Chairman, Chief Executive Officer, and Director	August 1, 2006	2,334,700
Per Gundersby ^{(3) (4)} Helsinki, Finland	Business consultant	Director	October 14, 2006	Nil
Armin Martens ^{(1) (2) (3)} Manitoba, Canada	Chief Executive Officer, President and a trustee of Artis Real Estate Investment Trust.	Director	February 23, 2007	22,000
Richard O'C. Whittall ^{(1) (2) (3)} British Columbia, Canada	President of Watershed Capital Partners Inc.	Director	April 23, 2007	Nil
John Coleman ^{(1) (4)} Zurich, Switzerland	Business consultant	Director	February 24, 2009	Nil
Roland Tornare ^{(2) (4)} Charmey, Switzerland	Business consultant	Director	February 24, 2009	Nil

⁽¹⁾ A member of the Compensation Committee

⁽²⁾ A member of the Governance Committee

⁽³⁾ A member of the Audit Committee.

⁽⁴⁾ A member of the 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, the Chief Financial Officer 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 "**NEO**").

Compensation Discussion and Analysis

The Corporation's compensation policy with respect to executive officers is designed to provide both short- and long-term rewards that are consistent with individual and corporate performance. The Compensation Committee's goal is to provide sufficient compensation opportunities for executive officers in order to attract, retain and motivate the best possible management team. Compensation for executive officers, including the Chief Executive Officer and Chief Financial Officer, consists of:

- (i) a base salary;
- (ii) annual and special bonus incentives; and
- (iii) equity-based compensation granted on a discretionary basis under the Corporation's stock option plan and 2009 Long Term Incentive Plan.

As set out under "Termination and Change of Control Benefits and Employment Contracts", the majority of NEOs have a written employment agreement.

The Compensation Committee determines each executive officer's base salary with reference to relevant industry norms, experience, past performance and level of responsibility. The Compensation Committee reviews salary levels periodically and may make adjustments, if warranted, as a result of salary increase trends in the marketplace, competitive positioning and an increase in responsibilities assumed by an executive. Annual cash bonus incentives are based upon the Corporation's ability to meet certain financial targets, such as EBITDA, and each executive's individual performance. In addition, the Compensation Committee also relies on Board discussions in their analysis and decision-making process. 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.

The Compensation Committee also considers LTIP grants and stock options to be an important component of executive compensation. The objective of making grants under the LTIP plan and stock option plan 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 options.

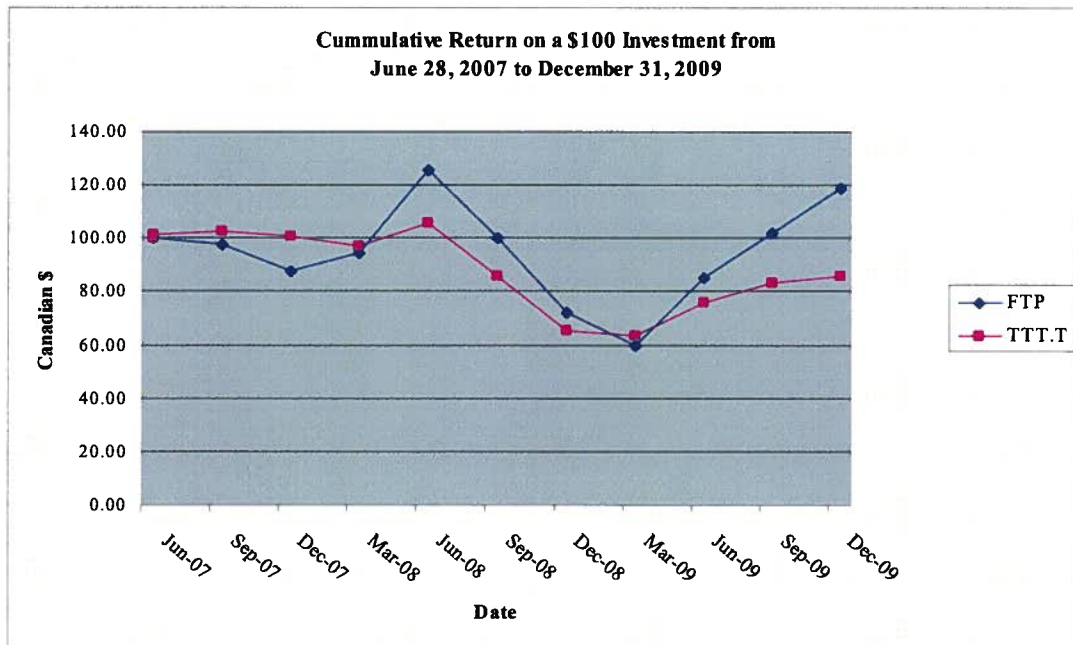
The Compensation Committee has the responsibility of assessing the performance of the Chief Executive Officer and President, evaluating their contribution to the overall success of the Corporation and setting their level of compensation. It is also responsible for reviewing and approving the compensation of other key executive officers including salary, bonus, incentive and other compensation levels.

The foregoing report is submitted by:

Armin Martens
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 percentage change in 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, 2009. 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 Named Executive Officer, his or her annual compensation, consisting of salary, bonus and other annual compensation, and long term compensation, for example stock options granted, for the most recently completed financial year of the Corporation.

Name and principal position	Year	Salary (\$)	Share-based awards (\$) ⁽⁶⁾	Option-based awards (\$) ⁽⁷⁾	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans ⁽⁴⁾	Long-term incentive plans			
Chadwick Wasilenkoff Chief Executive Officer ⁽¹⁾	2009	\$480,000	\$454,997	Nil	\$380,003	Nil	N/A	Nil	\$1,315,000
	2008	\$370,000	Nil	Nil	\$370,000	Nil	N/A	Nil	\$740,000
Alfonso Ciotola ⁽²⁾ President	2009	\$490,594	\$355,000	Nil	\$209,467	Nil	\$14,034	Nil	\$1,069,095
	2008	\$459,493	Nil	Nil	\$111,223	Nil	\$28,804	Nil	\$570,716
Erich Sulser ⁽³⁾ Chief Operating Officer	2009	\$189,184	\$120,700	\$59,593	\$68,283	Nil	\$12,934	\$51,054 ⁽⁵⁾	\$501,748
	2008	\$171,216	Nil	Nil	\$50,814	Nil	\$52,933	\$47,822	\$269,852
Kurt Loewen Chief Financial Officer	2009	\$150,000	\$113,600	Nil	\$30,000	Nil	N/A	Nil	\$293,600
	2008	\$120,000	Nil	Nil	\$24,000	Nil	N/A	Nil	\$144,000
Danial Buckle Finance Director & Corporate Secretary	2009	\$117,500	\$92,300	\$44,694	\$17,625	Nil	N/A	Nil	\$272,119\$
	2008	\$76,875	Nil	Nil	\$22,500	Nil	N/A	Nil	\$99,375

⁽¹⁾ Total amounts stated solely reflect the annual compensation for the 2009 year. As an inside Director of the Corporation, Mr. Wasilenkoff does not collect any fees relating to his role as a Director.

⁽²⁾ The NEO received his bonus in Euros. The amount reported represents the approximate Canadian Dollar equivalent translated at the average exchange rate for the year being 1.5855 to each Euro based on rates provided by the Bank of Canada.

⁽³⁾ The NEO received his bonus in Swiss Francs. The amount reported represents the approximate Canadian Dollar equivalent translated at the average exchange rate for the year being 1.0505 to each Swiss Franc based on rates provided by the Bank of Canada.

⁽⁴⁾ Amounts represent bonus awarded to the NEO in respect of the financial year.

⁽⁵⁾ Mr. Sulser received \$19,539 in perquisites and a \$31,515 CAD retention fee.

⁽⁶⁾ The closing price of the common shares of the trading day immediately preceding the date of grant was used to determine fair value.

⁽⁷⁾ The Black Scholes valuation methodology was used to determine fair value on the date of grant. Please see the annual audited financial statements for the year ended December 31, 2009 at www.sedar.com for a description of the key assumptions and estimates used in the pricing model.

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

Name	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 (\$)
Chadwick Wasilenkoff Chief Executive Officer	135,350	\$8.00	June 28, 2017			
	87,325	\$8.00	May 1, 2017	\$484,013	60,526	\$574,997
	100,000	\$8.00	October 31, 2017			
Alfonso Ciotola President	100,000	\$8.00	June 28, 2017	\$150,000	50,000	\$475,000
	200,000	\$8.00	October 31, 2017			
Erich Sulser Chief Operating Officer	20,000	\$8.00	June 22, 2019	\$10,001	17,000	\$161,500
Kurt Loewen Chief Financial Officer	32,500	\$8.00	June 28, 2017	\$78,750	16,000	\$152,000
	20,000	\$8.00	May 1, 2017			
Danial Buckle Finance Director & Corporate Secretary	15,000	\$8.00	June 22, 2019	\$7,500	13,000	\$123,500

The table above states the name of each Named Executive Officer, the number of options available for exercise, the option exercise price and the expiration date for each option. As at December 31, 2009, the value of in-the-money unexercised options held by the Named Executive Officers was \$730,263.00.

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

Name	Option-based awards – Value vested during the year (\$) ⁽¹⁾	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$) ⁽²⁾
Chadwick Wasilenkoff Chief Executive Officer	\$191,419	Nil	\$380,033
Alfonso Ciotola ⁽³⁾ President	\$68,000	Nil	\$209,467
Erich Sulser ⁽⁴⁾ Chief Operating Officer	Nil	Nil	\$68,283
Kurt Loewen Chief Financial Officer	\$35,700	Nil	\$30,000
Danial Buckle Finance Director & Corporate Secretary	Nil	Nil	\$17,625

(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 bonus received by the NEO for the 2009 year.

(3) The NEO received his bonus in Euros. The amount reported represents the approximate Canadian Dollar equivalent translated at the average exchange rate for the year being 1.5855 to each Euro based on rates provided by the Bank of Canada.

(4) The NEO received his bonus in Swiss Francs. The amount reported represents the approximate Canadian Dollar equivalent translated at the average exchange rate for the year being 1.0505 to each Swiss Franc based on rates provided by the Bank of Canada.

During the most recently completed financial year, the Named Executive Officers did not exercise any options under the Corporation's stock option plan in respect of the common shares of the Corporation.

During the most recently completed financial year there were 157,626 restricted share unit awards granted to key employees under the Corporation's 2009 Long Term Incentive Plan, described below under the heading "Securities Authorized for Issuance under Equity Compensation Plans – Long Term Incentive Plan". As at December 31, 2009, there were 157,626 units outstanding under the 2009 Long Term Incentive Plan. The fair value of restricted share awards is determined based upon the number of shares granted and the quoted price of the Corporation's stock on the date of grant. Restricted shares generally vest over three years. The Corporation recognizes the expense on a straight-line basis over the vesting period.

Pension Plan Benefits - Defined Benefit Plan for Named Executive Officers

The Company 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 2009 financial year being 1.0505 to each Swiss Franc based on rates provided by the Bank of Canada.

Name	Number of years credited service (#)	Annual benefits payable (\$)		Accrued obligation at start of year (\$)	Compensatory Change (\$) ⁽¹⁾	Non-compensatory Change (\$)	Accrued obligation at year end (\$)
		At year end	At age 65				
Erich Sulser Chief Financial Officer	4.3	26,292	72,863	362,924	12,934	16,563	392,421
Alfonso Ciotola Chief Operating Officer	2.8	5,424	15,354	52,360	14,034	14,558	80,952

(1) Please refer to note 13 of the Corporation's audited financial statements for the year ended December 31, 2009 filed on www.sedar.com for valuation methods and actuarial assumptions.

Termination and Change of Control Benefits and Employment Contracts

Chadwick Wasilenkoff

Mr. Wasilenkoff entered into an employment agreement with the Corporation dated April 5, 2007, pursuant to which Mr. Wasilenkoff agreed to serve as the Chairman, Chief Executive Officer and President of the Corporation. On August 28, 2009 Mr. Wasilenkoff resigned as President of the Company. Pursuant to the employment agreement and subject to an annual review, Mr. Wasilenkoff will receive: (i) an annual base salary of \$480,000; (ii) an annual discretionary bonus; (iii) equity compensation pursuant to long-term incentive programs including the Corporation's stock option plan and 2009 Long Term Incentive Plan; and (iv) certain perquisites. If Mr. Wasilenkoff's employment is terminated for any reason other than for cause or he resigns, he will be entitled to a severance payment equal to two times the sum of his then base salary plus the higher of: (i) his current annual bonus; and (ii) the highest variable pay and incentive bonus received during the three fiscal years ending prior to his termination. This amount is payable in substantially equal installments over a twelve-month period, unless: (i) a change of control (as defined in the agreement) occurs following such termination, in which case the unpaid portion of such severance amount is payable in full immediately following such change of control; or (ii) if such termination occurs in contemplation of, at the time of, or within 18 months after a change of control, the severance amount is payable in a lump sum cash payment immediately following such termination. 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. Wasilenkoff's services if a change of control took place on December 31, 2009, the Corporation would have been required to make a payment to Mr. Wasilenkoff in the aggregate amount of \$1,440,000 pursuant to the terms of his employment agreement.

Dr. Alfonso Ciotola

Dr. Ciotola entered into an employment agreement with Landqart Ag ("**Landqart**") dated March 1, 2007, as amended, 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. On August 28, 2009 Mr. Ciotola was appointed President of the Corporation and subsequently resigned as Chief Operating Officer. The agreement provides for a net annual salary of Euro 242,000, 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 salary for 2009 was \$261,747 Euro. Dr. Ciotola is also entitled to receive an annual discretionary bonus.

Erich Sulser

Mr. Sulser entered into an employment agreement with Landqart dated September 2, 2005, as amended, pursuant to which Mr. Sulser agreed to serve as the Chief Financial Officer of Landqart and the Corporation. On August 28, 2009 Mr. Sulser was appointed Chief Operating Officer of the Corporation and subsequently resigned as Chief Financial Officer of the Corporation. The agreement provides for an annual salary of CHF174,000. In addition, Mr. Sulser is also entitled to an annual discretionary bonus of up to a maximum of CHF65,000 based on Landqart's and Dresden's annual performance.

Kurt Loewen

Mr. Loewen has entered into an employment agreement with the Corporation dated April 5, 2007, pursuant to which Mr. Loewen agreed to serve as the Controller and Secretary of the Corporation. Pursuant to the employment agreement, Mr. Loewen will receive: (i) an annual base salary of \$96,000 subject to an annual review; (ii) an annual bonus; (iii) equity compensation pursuant to long-term incentive programs including the Corporation's stock option plan and Long Term Incentive Plan; and (iv) certain perquisites. If Mr. Loewen's employment is terminated upon a change in control (as defined in the agreement), other than for cause, in contemplation of, at the time of, or within 18 months after a change of control (as defined in the agreement), Mr. Loewen will be entitled to a lump sum cash payment immediately following such termination equal to his then current base salary and last year's annual bonus. In addition, all unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable. On August 28, 2009 Mr. Loewen was appointed Chief Financial Officer of the Corporation and subsequently resigned as Controller and Secretary. Assuming a discontinuance of Mr. Loewen's services if a change of control took place on December 31,

2009, the Corporation would have been required to make a payment to Mr. Loewen in the aggregate amount of \$180,000 pursuant to the terms of his employment agreement.

Compensation of Directors

In February 2009, the Board approved an Amended Directors' Compensation Policy which applies to the period beginning October 1, 2008. All Directors' fees are stated in Canadian dollars. The Corporation's "outside" Directors are paid a quarterly retainer of \$6,000. In addition, outside Directors are paid the sum of \$1,000 for each Board Meeting attended.

The Audit Committee Chairperson, Compensation Committee Chairperson, Corporate Governance Chairperson and Steering Committee Chairperson each receive retainers of \$8,000, \$4,000, \$4,000 and \$4,000 per year, respectively. Committee members will each receive a \$2,000 yearly retainer for each Committee he or she sits on. Outside Directors are also paid the sum of \$1,000 for each Committee Meeting and Independent Board Meetings attended.

The following table (and notes thereto) states the names of each Director and the fees earned for the most recently completed financial year of the Corporation.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Richard Whittall	\$54,000	\$42,600	N/A	N/A	N/A	N/A	\$96,600
Armin Martens	\$58,000	\$42,600	N/A	N/A	N/A	N/A	\$100,600
Per Gundersby	\$43,000	\$42,600	N/A	N/A	N/A	N/A	\$85,600
John Coleman ⁽¹⁾	\$41,500	\$28,400	N/A	N/A	N/A	N/A	\$69,900
Roland Tornare ⁽²⁾	\$41,500	\$28,400	N/A	N/A	N/A	N/A	\$69,900

(1) John Coleman was appointed as a Director of the Corporation on February 24, 2009.

(2) Roland Tornare was appointed as a Director of the Corporation on February 24, 2009.

In April 2008, the Board approved an Amended Travel and Entertainment Policy. Under the Amended Travel and Entertainment Policy, both inside and outside 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

During 2009, options for 307,500 shares, held by directors and officers of the Corporation, were cancelled. Currently, no directors hold any option based awards.

Deferred Share Units

Under the Corporation's 2009 Long Term Incentive Plan a Deferred Share Unit ("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".

Under the provisions of the plan, directors may elect to receive DSU's in lieu of fees. The number of DSU's shall be calculated by dividing the amount of fees by the market 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 value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Corporation's common shares, if any, as if they had been reinvested in additional DSUs on each payment date.

The DSUs may only be redeemed upon a director's retirement from the Corporation.

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, 2009.

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 (\$)
Per Gundersby	6,000	\$57,000
Richard Whittall	6,000	\$57,000
Armin Martens	6,000	\$57,000
John Coleman	4,000	\$38,000
Roland Tornare	4,000	\$38,000

During the most recently completed financial year there were 26,000 DSUs awarded to non-employee directors. As at December 31, 2009, there were 26,000 DSUs outstanding.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Equity Compensation Plan Information

The following table sets out information relating to the Corporation's Option Plan and Long Term Incentive Plan as at December 31, 2009.

Plan Category	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)
Equity compensation plans approved by securityholders			
Stock Option Plan	740,175	\$8.00	99,549
Long Term Incentive Plan	183,626	N/A	
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	923,801		99,549

Long Term Incentive Plan

On March 3, 2009, the board of directors of the Corporation approved a new 2009 Long-Term Incentive Plan (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 herein) 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 Employees"). 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 issuable to insiders within any one-year period and 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 of directors, neither awards nor any rights under any such awards shall be assignable or transferable.

The board of directors 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 of directors 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) an amendment which is 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 of directors 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 of directors 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.

As of December 31, 2009 there were 183,626 issued and outstanding units under the LTIP, representing 1.79% of the total amount issuable under this plan.

Stock Option Plan

The Board has adopted a stock option plan (the "**Option Plan**") for the Corporation's directors, officers, employees, insiders and service providers. The Option Plan provides that options to purchase common shares may be granted to eligible persons on terms determined within the limitations set out in the Option Plan. The maximum number of common shares to be reserved for issuance at any one time under the Option Plan and any other employee incentive plan is 10% of the issued and outstanding common shares of the Corporation. As of December 31, 2009 there were 740,175 issued and outstanding options, representing 72.3% of the total amount issuable under the plan. Under the terms of the Option Plan, 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 Option Plan 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 Option Plan 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 Plan and no Option awarded pursuant to the provisions of the Plan 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 Plan without obtaining approval of shareholders to:

- (a) make amendments of a "housekeeping" nature;
- (b) change vesting provisions of an option or the Option Plan;
- (c) change the termination provisions of an option or the Option Plan which does not entail an extension beyond the original expiry date of the option or the Option Plan;
- (d) change the termination provisions of an option or the Option Plan which does entail an extension beyond the original expiry date of the option or the Option Plan for a Participant who is not an insider;
- (e) reduce the exercise price of an option for a participant who is not an insider;
- (f) remove or change any restriction or condition attached to a common share;
- (g) 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 Option Plan; and
- (h) 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 Option Plan shall be subject to approval, if required, by any regulatory body having jurisdiction.

The Option Plan is administered by the Corporation's Compensation Committee. The Option Plan 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.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at December 31, 2009, 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 ("AIF") for the year ended December 31, 2009 under the heading "Directors and Executive Officers – Audit Committee". The AIF is 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, Martens, Whittall, Tornare and Coleman are independent directors within the meaning set out in Multilateral Instrument 52-110 – "*Audit Committees*" in that they are free from any interest which could reasonably interfere with their exercise of independent judgment as directors of the Corporation. 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
Armin Martens	Artis Real Estate Investment Trust All in West! Capital Corporation
Richard O'C. Whittall	Canadian General Investment Canadian World Fund Ltd. Burcon NutraScience Corporation Realm Energy International Corp. Winwell Ventures Inc. GVIC Communications Corp. Newstrike Capital Inc. Calyx Bio-Ventures 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 Chief Executive Officer. 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 and each committee being chaired by an independent director. In addition, in order to provide leadership for its independent directors, the Board encourages its independent members to discuss matters separate from the non-independent Board members and 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 only of independent directors, which ensures that the views of independent directors are effectively represented. The Board has four committees: the Compensation Committee, the Corporate Governance Committee, the Steering Committee and the Audit Committee. Special committees may be formed time to time as required to review particular matters or transactions.

The Corporation's 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:

Armin Martens
Richard O'C. Whittall
John Coleman

The Corporation's Corporate Governance Committee 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:

Armin Martens
Richard Whittall
Roland Tornare

The Steering Committee was appointed by the Board to discharge the Board's responsibilities relating the rebuilding of the PM1 paper machine at Landqart. The Steering Committee provides oversight and guidance to the management of the Corporation and evaluates, considers and recommends to the Board for approval of the final budget and timeline for the rebuilding of PM1.

The following are the members of the Steering Committee:

Per Gundersby
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:

Armin Martens
Richard Whittall
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	Board Meetings	Independent Board Meetings	Compensation Committee Meetings	Corporate Governance Committee Meetings	Steering Committee Meetings ⁽¹⁾	Audit Committee Meetings
Chadwick Wasilenkoff	5/5	N/A	N/A	N/A	N/A	N/A
Per Gundersby	5/5	4/4	N/A	N/A	1/1	4/4
Richard Whittall	4/5	3/4	4/5	2/3	N/A	4/4
Armin Martens	5/5	4/4	5/5	3/3	N/A	4/4
John Coleman ⁽²⁾	5/5	4/4	4/5	N/A	1/1	N/A
Roland Tornare	5/5	4/4	N/A	3/3	1/1	N/A

(1) The Steering Committee was formed on September 1, 2009 for the purpose of overseeing the proposed rebuilding of paper machine PM1 for the Corporation.

The table below summarizes the number of Board and committee meetings held during Fiscal 2009.

Meeting Type	Totals
Board of Directors	5
Independent Board	4
Compensation Committee	5
Corporate Governance Committee	3
Steering Committee	1
Audit Committee	4
Total number of meetings held	22

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 Chief Executive Officer or the chairs of each committee of the Board. The Chief Executive Officer'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 a 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 Chief Executive Officer, evaluates the Chief Executive Officer's performance in light of those goals and objectives and sets the Chief Executive Officer's compensation level based on this evaluation. The Compensation Committee meets without the presence of other executive officers when approving the Chief Executive Officer's compensation.

The Compensation Committee is composed entirely 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. In addition, the Compensation Committee benchmarks against other companies using peer group studies compiled for the Committee.

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 Pricewaterhouse- Coopers 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.

PARTICULAR MATTERS TO BE ACTED UPON

Approval of Unallocated Options under the Corporation's Stock Option Plan

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. In the case of the Option Plan, it was last approved by shareholders in 2007, at the time it was instituted. A description of the Option Plan is provided under the heading "Securities Authorized for Issuance under Equity Compensation Plans – Stock Option Plan". As the three-year term prescribed by the TSX expires in 2010, an ordinary resolution (the "**Options Resolution**") will be placed before the shareholders to approve the unallocated options. This approval will be effective for three years from the date of the Meeting. If approval is not obtained at the Meeting, options which have not been allocated as of April 5, 2010 and shares underlying options which are outstanding as of April 5, 2010 and are subsequently exercised, surrendered, expired or terminated will not be available for a new grant of options. Previously allocated options will be unaffected by the approval or disapproval of the resolution.

As at the date of this Proxy Circular, options to purchase a total of 740,175 common shares are outstanding, representing approximately 7.2% of the issued and outstanding common shares. Additionally, there are securities outstanding under other security-based compensation arrangements representing approximately 2.0% of the issued and outstanding common shares. As a result, there are 82,813 unallocated options available under the Option Plan.

The following is the text of the ordinary resolution to be considered at the Meeting:

"BE IT RESOLVED THAT:

1. All unallocated stock options under the Stock Option Plan of the Corporation, as amended from time to time, are hereby approved and authorized and the Corporation is authorized to continue granting options under the Plan until June 11, 2013, 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 has determined that passing the Options Resolution is in the best interests of the Corporation and recommends that the shareholders vote **IN FAVOUR** of the Options Resolution. In order to be approved, the Options 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 Options 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.

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 MD&A by sending a written request to 2nd Floor, 157 Chadwick Court, North Vancouver, British Columbia, Canada V7M 3K2, Attention: Secretary. Financial information is provided in the Corporation's comparative financial statements and MD&A for its fiscal year ended

December 31, 2009, 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 7th day of March, 2010.

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

/s/ Chadwick Wasilenkoff _____

Chadwick Wasilenkoff

Chairman, Chief Executive Officer, 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;
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- (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;
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- (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.
