Fortress Paper Ltd.

NOTICE OF ANNUAL GENERAL AND SPECIAL MEETING AND MANAGEMENT PROXY CIRCULAR

Time: June 13, 2011, 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 13, 2011

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 Monday, June 13, 2011, at 3:00 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, 2010, 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 a special resolution authorizing and approving the subdivision of the Corporation's issued and outstanding common shares on the basis of three new shares for one old share; and

5. 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., 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) 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 12th day of May, 2011.

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 12, 2011, FOR THE ANNUAL GENERAL AND SPECIAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 13, 2011 (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 12, 2011 (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 20, 2011. 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 9, 2011, 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., 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) 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 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 14,225,231 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)]	2,368,119	16.65%

(1) As at the date hereof, Mr. Wasilenkoff also has options to purchase 322,675 common shares of the Corporation, 141,392 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 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 Securities Held
Chadwick Wasilenkoff British Columbia, Canada	Chief Executive Officer of the Corporation.	Chairman, Chief Executive Officer, and Director	August 1, 2006	Common Shares: 2,368,119 Options: 322,675 Restricted Share Units: 141,392 Deferred Share Units: 114,285
Richard O'C. Whittall(1) (2) (3) British Columbia, Canada	President of Watershed Capital Partners Inc.	Director	April 23, 2007	Deferred Share Units: 8,123
Per Gundersby(3) (4) Hango, Finland	Business consultant	Director	October 14, 2006	Deferred Share Units: 7,344
John Coleman(1) (4) Zurich, Switzerland	Business consultant	Director	February 24, 2009	Deferred Share Units: 5,649
Roland Tornare (2) (3) (4) Charmey, Switzerland	Business consultant	Director	February 24, 2009	Deferred Share Units: 5,569
Pierre Monahan(1) (2) Quebec, Canada	Consultant and corporate director. Previously, Mr. Monahan was the Chief Executive Officer of Alliance Forest Products Inc. and Executive Vice President of Bowater Canada Inc.	Director	August 9, 2010	Common Shares: 1,000 Deferred Share Units: 610

(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 ("**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, 2010 include annual compensation in the form of base salary, annual cash bonus, special bonus incentives, perquisites and benefits package, as well as long-term compensation in the form of stock options ("**Options**"), restricted share units ("**RSUs**") and, in the case of the Chairman and CEO, deferred share units ("**DSUs**"). 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 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 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 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.

Element of Compensation	Summary and Purpose of Element
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 Mill. Perquisites are provided to executives in certain instances, based on individual circumstances. Benefits and perquisites are set at comparable levels to the peer group.

Long-Term Compensation

Element of Compensation	Summary and Purpose of Element
Stock Options	The Corporation believes that this long-term incentive vehicle aligns executives with shareholders by driving growth in the share price and increasing long-term value of the Corporation. Options are intended to help the Corporation attract and motivate an energetic, goal driven management team, and to build long-term employee loyalty and retention. The Corporation issues Options to encourage executives to have equity participation through the acquisition of common shares. Options granted generally vest over one to three year periods.
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 any or all of the following: the operating performance of the Corporation; and other organizational indicators and individual achievements that demonstrate a contribution by the executive to the Corporation.
DSUs	The Corporation believes that DSUs help strengthen the alignment of interests between directors of the Corporation (including the Chairman and CEO) and the Corporation's shareholders. The Corporation issues DSUs to encourage directors to have equity participation through the acquisition of common shares. Approximately 60% of the annual retainer payable to non-executive directors is payable in DSUs. DSUs aid in attracting, retaining and encouraging director commitment and performance through providing such individuals with an opportunity to receive compensation in line with the value of the Corporation's common shares. The Corporation has also issued DSUs to the Chairman and CEO as part of a special one-time performance bonus. See "Chairman and Chief Executive Officer Compensation".

Compensation Risk Management

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;
- Retaining independent compensation advisors to provide advice on the structure and levels of compensation for executives;
- 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;

- Stress-testing the CEO bonus plan;
- Disclosure of executive compensation to stakeholders; and
- Use of discretion in adjusting bonus payments up or down as the Compensation Committee deems appropriate and recommends.

Annual Compensation Review Process

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. In making its compensation decisions, the Compensation Committee considers data from custom compensation surveys conducted by Global Governance Advisors ("**GGA**") based on the Corporation's peer group and the size and scope of the executive roles. Additional analysis and assessment is provided by GGA to ensure the compensation program is fair and competitive. Board input is also solicited and taken into consideration in the Compensation Committee's decision making.

Executive compensation for the Named Executive Officers in 2010 was based on market data and an assessment of corporate and individual performance. GGA supported the Compensation Committee by acting as third party independent advisor. 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 offered. 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.

Independent Advice

The Compensation Committee retained GGA to provide independent compensation advice to the 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.

GGA's services in 2010 included:

- Further development of the Corporation's compensation philosophy;
- Research and advisory services on compensation peer groups;
- A review and design of the compensation structure for the Chairman and CEO due to recent business changes (for example, the acquisition of the Fortress Specialty Cellulose Mill and the

Corporation's entry into the specialty cellulose and bio-energy sectors), which included design alternatives and stress tested recommendations;

- As part of the compensation structure review, conducted a comprehensive competitive compensation review and pay-for-performance analysis of the Chairman and CEO's compensation and performance levels against approved peer groups; and
- Attendance at Compensation Committee and Board meetings.

For its services, the Corporation paid GGA $65,000 in fees in 2010. GGA did not provide any other services to the Corporation or to management in the year.

The Compensation Committee reviews all fees and the terms of consulting services provided by its compensation consultant.

Role of the Compensation Committee and 2010 Work Plan

The role of the Compensation Committee is to discharge the Board's duties related to executive compensation. In 2010, the Committee met 12 times. The Committee meets both independently of management of the Corporation and with management present. In 2010, the Compensation Committee completed the following:

- Renegotiated the Chairman and CEO's employment agreement, recognizing the significant business changes taking place at the Corporation;
- Approved a comprehensive compensation philosophy to enable the Corporation to attract, motivate and retain exceptional executives. The Corporation's peer group was refined as a result of the development of the compensation philosophy and its market positioning for various elements of compensation was defined;
- Reviewed a report prepared by GGA on the structure of the compensation for the Chairman and CEO position due to the acquisition of the Fortress Specialty Cellulose Mill and the Corporation's entry into the specialty cellulose and bio-energy sectors;
- To ensure a strong pay-for-performance culture and the alignment of CEO compensation with performance, engaged GGA to conduct a comprehensive pay-for-performance analysis of the Chairman and CEO's compensation and performance levels against approved peer groups;
- As a result of these two reviews, the Compensation Committee recommended, and the Board approved, a special one-time performance bonus of $13.5 million to the Chairman and CEO. The performance bonus consisted of a combination of cash, DSUs and RSUs, explained in more detail under the heading "Chairman and Chief Executive Officer Compensation"; and
- Negotiated and settled employment agreements with the President and CEO of Fortress Specialty Cellulose Inc. ("**FSC**"), a wholly owned subsidiary of the Corporation (see the heading "President and Chief Executive Officer of Fortress Specialty Cellulose Compensation"), and other executives in connection with the Corporation's entry in the dissolving pulp and bio-energy sectors and the re-start of the Fortress Specialty Cellulose Mill.

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 on 2010 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.

<u>2010 Compensation Decisions</u>

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, 2010 was a successful year for the Corporation. Significant accomplishments include:

- The acquisition of the Fortress Specialty Cellulose Mill and its successful start-up as a producer of northern bleached hardwood kraft ("**NBHK**") pulp on an interim basis;
- Concurrent with the completion of the acquisition of the Fortress Specialty Cellulose Mill, securing a $102.4 million project financing with Investissement Québec and a $15 million convertible debenture with Solidarity Fund QFL;
- The completion of a bought deal offering of common shares by way of short form prospectus for aggregate gross proceeds of approximately $44.7 million;
- Significant advancements in the project of converting the Fortress Specialty Cellulose Mill into a dissolving pulp operation, scheduled for completion in the third quarter of 2011;
- Successfully securing three dissolving pulp supply agreements;
- Substantial completion of the rebuild of paper machine no. 1 ("**PM1**") at Landqart, where production of banknotes and high security papers has commenced;
- Negotiating and entering into an agreement to purchase the assets of the Bank of Canada's Optical Security Material (OSM) division. The acquisition was completed in January 2011 and the Corporation commenced production of optical security products and construction of a new high security production and research and development facility adjacent to the Fortress Specialty Cellulose Mill; 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 $26.1 million for the year ended December 31, 2010 compared to $25.6 million for the year ended December 31, 2009.

In addition to benchmarking the Corporation's senior management compensation to the peer group, GGA also reviewed the Corporation's competitive positioning against the peer group by applying the following performance metrics:

- Total Shareholder Return;
- EBITDA Growth;
- Return on Equity; and
- Return on Capital.

GGA concluded that the Corporation was primarily a top quartile performing company relative to the peer group. Annual bonuses, special bonuses and long-term incentives reflect this top quartile performance.

Chairman and Chief Executive Officer Compensation

The Board and the Chairman and CEO negotiated a new employment agreement for a six year term. The contract includes an increase of base salary to $1 million, eligibility for a discretionary annual bonus and a special one-time performance bonus consisting of a combination of cash, RSUs and DSUs designed to reflect the Chairman and CEO's expanded role due to the successful acquisition of the Fortress Specialty Cellulose Mill and entrance of the Corporation into the dissolving pulp business. The annual discretionary bonus for 2010 was $1.5 million. The special one-time performance bonus in the aggregate amount of $13.5 million consisted of a $3.5 million cash payment made in relation to the achievement of specific performance goals aligned to the successful acquisition and integration of the Fortress Specialty Cellulose Mill. These included:

- Obtaining the financing to purchase the Fortress Specialty Cellulose Mill and required equipment for the conversion project;
- Hiring key management to plan and supervise the conversion of the Fortress Specialty Cellulose Mill;
- Establishing dissolving pulp supply agreements on favourable terms; and
- Successfully re-starting the Fortress Specialty Cellulose Mill to produce NBHK pulp on an interim basis pending completion of the conversion project.

The remaining $10 million of the special one-time performance bonus was granted in various units under the Corporation's 2009 Long Term Incentive Plan ("**LTIP**") each aligned to the long-term success of the Corporation generally:

- $5 million granted in performance-based RSUs that will vest pro rata in annual tranches for the five fiscal periods commencing from January 1, 2010 and ending December 31, 2014, based on a formula that considers the fraction by which the cumulative amount of the consolidated EBITDA of the Corporation approaches $225 million during this period. This is intended to reward the CEO for growing the business for shareholders and will be heavily dependent on the success of the Fortress Specialty Cellulose Mill; and

- $5 million was granted in DSUs that will pay out at such time that the Chairman and CEO leaves the Corporation. This will tie the Chairman and CEO to the long-term performance of the Fortress Specialty Cellulose Mill and the Corporation through the link to share price.

President and Chief Executive Officer of Fortress Specialty Cellulose Compensation

The Board approved an employment agreement between FSC and the President and CEO of FSC in June 2010. The agreement provides for a base salary of $350,000, eligibility for a discretionary annual bonus of up to 50% of his base salary and a special participation bonus designed to tie into the Corporation's performance as a specialty cellulose producer and the executive's role in overseeing the conversion project at the Fortress Specialty Cellulose Mill and the Corporation's subsequent participation in the dissolving pulp industry. The participation bonus will be based on the EBITDA of FSC over a period of five years following completion of the conversion of the Fortress Specialty Cellulose Mill to produce dissolving pulp, up to a maximum of $12 million, and will therefore be primarily dependent on the success of the Fortress Specialty Cellulose Mill. The special participation bonus was designed to provide an employment incentive and to recognize the executive's key role in overseeing the successful start-up, and ongoing conversion and operation of the Fortress Specialty Cellulose Mill.

Concurrent with the entering into of the employment agreement, the President and CEO of FSC also received a grant of 75,000 RSUs, to be vested incrementally upon the achievement of certain performance milestones of FSC, such as the completion of the conversion of the Fortress Specialty Cellulose Mill and construction of a cogeneration facility thereat. In recognition of his role in the successful re-start of the Fortress Specialty Cellulose Mill and in securing dissolving pulp supply agreements on favourable terms, the President and CEO of FSC received an annual discretionary bonus in 2010 of $101,164.

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, as well as advice from its independent compensation advisor. 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 2010, each of the NEOs received an annual bonus and certain of the NEOs received special bonuses in recognition of the achievement by the Corporation of significant milestones in the year and their individual roles relating thereto.

Determination of Long Term Incentive Plan Award

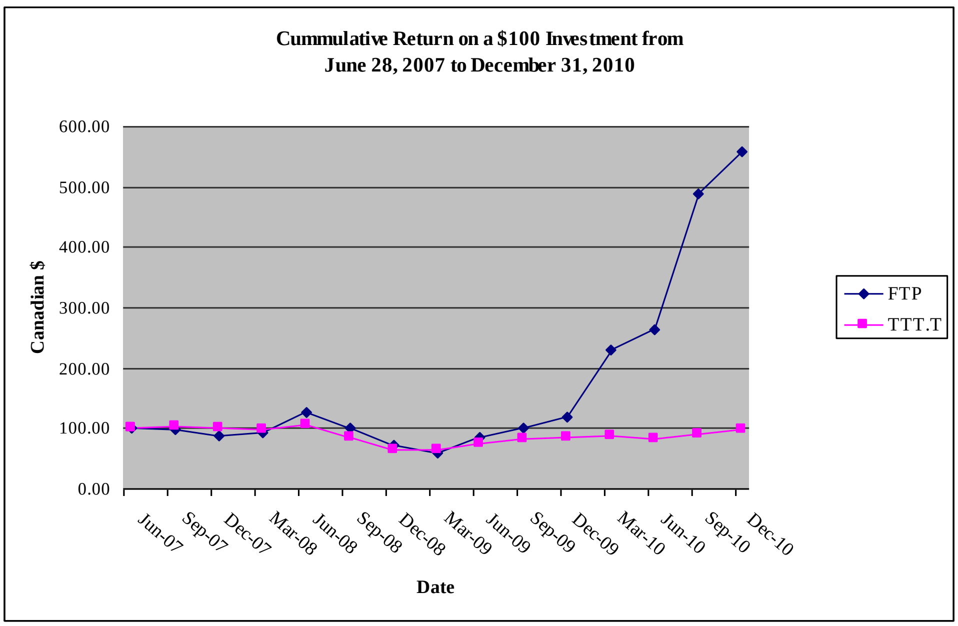
The Compensation Committee also considers making awards under the LTIP and grants of Options under the Corporation's Stock Option Plan (the "**SOP**") to be an important component of executive compensation. The objective of making grants under the LTIP plan and SOP is to encourage executive officers 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 an option holder might receive if the Options were freely-treaded, nor assume that these amounts are the same as those reported for 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, 2010, available on SEDAR at www.sedar.com, for a description of the key assumptions and estimates used in the pricing model.

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, 2010. 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 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 ($)	Share-based awards ($)[5]	Option-based awards ($)[6]	Annual non-equity incentive plan compensation ($) [4]	Pension value ($)	Total compensation ($)
Chadwick Wasilenkoff Chairman and Chief Executive Officer[1]	2010 2009 2008	1,000,000 480,000 370,000	9,999,938[7] 454,997 Nil	Nil Nil Nil	5,000,000[8] 380,003 370,000	N/A N/A N/A	15,999,938 1,315,000 740,000
Peter Vinall President and Chief Executive Officer, FSC[2]	2010	228,846	1,817,250[11]	Nil	101,164[9]	16,019	2,163,279
Kurt Loewen Chief Financial Officer	2010 2009 2008	165,000 150,000 120,000	356,247[12] 113,600 Nil	Nil Nil Nil	91,250[10] 30,000 24,000	N/A N/A N/A	612,497 293,600 144,000
Alfonso Ciotola[3] Chief Executive Officer, Landqart and Managing Director, Dresden	2010 2009 2008	444,881 490,594 459,493	Nil 355,000 Nil	Nil Nil Nil	111,562[9] 209,467 111,223	13,707 14,034 28,804	570,150 1,069,095 599,520
Danial Buckle Finance Director & Corporate Secretary	2010 2009 2008	150,000 117,500 76,875	268,747[13] 92,300 Nil	Nil $44,694 Nil	80,000[10] 17,625 22,500	N/A N/A N/A	498,747 272,119 99,375

(1) As a management director of the Corporation, Mr. Wasilenkoff does not collect any director's fees relating to his role as a director.

(2) Mr. Vinall was hired as President and CEO of FSC on June 3, 2010.

(3) Mr. Ciotola is also President of the Corporation and received his salary and bonus in Euros. The amount reported represents the approximate Canadian dollar equivalent converted at the average exchange rate for the year end December 31, 2010 being $1.3661 to each Euro based on rates provided by the Bank of Canada.

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

(5) The closing price of the common shares on the date of grant was used to determine fair value.

(6) The Black Scholes valuation methodology was used to determine fair value on the date of grant. See "Compensation Discussion and Analysis - Determination of Long Term Incentive Plan Award" and the Corporation’s audited financial statements for the year ended December 31, 2010, available on SEDAR at www.sedar.com, for a description of the key assumptions and estimates used in the pricing model.

(7) Mr. Wasilenkoff was granted 114,285 DSUs and 114,285 RSUs in respect of the 2010 financial year which are valued at $43.75, based on the market price (as defined in the LTIP) of the Corporation’s common shares on the TSX on the grant date. The RSUs vest in accordance with certain performance based criteria. See "Compensation Discussion and Analysis - Chairman and Chief Executive Officer Compensation".

(8) Represents annual bonus of $1,500,000 pursuant to the terms of Mr. Wasilenkoff’s employment agreement and the cash component of a special one-time performance bonus in the amount of $3,500,000. See "Compensation Discussion and Analysis - Chairman and Chief Executive Officer Compensation".

(9) Represents annual bonus pursuant to the terms of the NEO’s employment agreement.

(10) Represents annual bonus pursuant to the terms of the NEO’s employment agreement and a special bonus in the amount of $50,000.

(11) Mr. Vinall was granted 75,000 RSUs in respect of the 2010 financial year which are valued at $24.23 based on the market price (as defined in the LTIP) of the Corporation’s common shares on the TSX on the grant date. 12,500 of the RSUs vested immediately while the remainder vest in accordance with certain performance based criteria. See "Compensation Discussion and Analysis - President and Chief Executive Officer of Fortress Specialty Cellulose Compensation".

(12) Mr. Loewen was granted a total of 10,546 RSUs in respect of the 2010 financial year, of which 7,000 RSUs were valued at $43.75 and vest on the third anniversary of the grant date and 3,546 RSUs were valued at $14.10 and vest one-third on each of the first, second and third anniversary of the grant date. The value of the RSUs was based on the market price (as defined in the LTIP) of the Corporation’s common shares on the TSX on the grant date.

(13) Mr. Buckle was granted a total of 8,546 RSUs in respect of the 2010 financial year, of which 5,000 RSUs were valued at $43.75 and vest on the third anniversary of the grant date and 3,546 RSUs were valued at $14.10 and vest one-third on each of the first, second and third anniversary of the grant date. The value of the RSUs was based on the market price (as defined in the LTIP) of the Corporation’s common shares on the TSX on the grant date.

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

	Option-based Awards				Share-based Awards	
Name and principal position	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 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	11,848,626	268,922	12,026,192
Alfonso Ciotola Chief Executive Officer, Landqart and Managing Director, Dresden	40,000 200,000	8.00 8.00	June 28, 2017 October 31, 2017	8,812,800	33,334	1,490,696
Kurt Loewen Chief Financial Officer	12,500 20,000	8.00 8.00	June 28, 2017 May 1, 2017	1,193,400	21,213	948,645

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 ($)
Danial Buckle Finance Director & Corporate Secretary	10,000	8.00	June 22, 2019	367,200	17,213	769,765
Peter Vinall President and Chief Executive Officer, FSC	Nil	N/A	N/A	N/A	62,500	2,795,000

The table above states, as at December 31, 2010, 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, 2010, the value of in-the-money unexercised Options held by the Named Executive Officers was $22,222,026 and the value of unvested LTIP units was $18,030,298.

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 and Chief Executive Officer	Nil	650,043	5,000,000
Alfonso Ciotola Chief Executive Officer, Landqart and Managing Director, Dresden	7,640,000(4)	497,480	111,562
Kurt Loewen Chief Financial Officer	Nil	159,190	91,250
Danial Buckle Finance Director & Corporate Secretary	76,550(5)	129,340	80,000
Peter Vinall President and Chief Executive Officer, FSC	Nil	302,875	101,164

(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 bonus received by the NEO for the 2010 year.
(4) The amount relates to Options that were issued on November 1, 2007.
(5) The amount relates to Options that were issued on June 23, 2009.

During the most recently completed financial year, the Named Executive Officers exercised Options to purchase 85,000 common shares of the Corporation under the SOP.

During the most recently completed financial year there were 222,454 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, 2010, there were 315,042 units outstanding under the LTIP. 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. 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 2010 financial year, as reported by the Bank of Canada, being $0.9896 to each Swiss Franc.

Name and principal position	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				
Alfonso Ciotola Chief Executive Officer, Landqart and Managing Director, Dresden	3.8	7,048	14,773	76,259	13,707	15,232	105,198

(1) Please refer to note 13 of the Corporation's audited financial statements for the year ended December 31, 2010 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 Fortress Specialty Cellulose 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	Accrued value at start of year ($)	Compensatory ($)	Non-compensatory ($)	Accrued value at year end ($)
Peter Vinall President and Chief Executive Officer, FSC	N/A	16,019	19,241	32,260

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, 2010, Mr. Wasilenkoff would have received a cash payment of $5.0 million and common shares valued at an aggregate of $23,874,818 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. 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 net salary for 2010 was Euro 272,217. 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 is payable in full immediately following such change of control. In addition, (i) 50% of Mr. Vinall's unvested RSUs shall vest in full and become immediately exercisable; and (ii) 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, 2010, Mr. Vinall would have received a cash payment of $451,164 and common shares valued at an aggregate of $1,397,500 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 last year's annual bonus. If Mr. Loewen's employment is terminated for any reason other than for cause or in connection with a change of control, or as a result of significant modifications of Mr. Loewen's duties and responsibilities, he will be entitled to nine months compensation calculated on the basis of his base salary and bonus. In addition, all unvested rights in any stock options and any other equity awards will vest in full and become immediately exercisable. Assuming a discontinuance of Mr. Loewen's services if a change of control took place on December 31, 2010, Mr. Loewen would have received a cash payment of $195,000 and common shares valued at an aggregate of $2,142,045 assuming the vesting of all LTIP units and the exercise of all Options on such date.

Danial Buckle

Mr. Buckle, the Finance Director and Corporate Secretary of the Corporation, has entered into an amended employment agreement with the Corporation, pursuant to which Mr. Buckle will receive: (i) an annual base salary of $150,000 in 2010, $165,000 in 2011 and $180,000 in 2012, subject to an annual review; (ii) an annual discretionary bonus of up to 20% 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. Buckle'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. Buckle will be entitled to a lump sum cash payment immediately following such termination equal to his then current annual base salary and last year's annual bonus. If Mr. Buckle'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. Buckle'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. Buckle's services if a change of control took place on December 31, 2010, Mr. Buckle would have received a cash payment of $167,625 and common shares valued at an aggregate of $1,136,965 assuming the vesting of all LTIP units and the exercise of all Options on such date.

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 chairs of the Compensation Committee chair, Corporate Governance Committee chair and Steering Committee each receive retainers of $5,000 per year. Committee members will each receive a $2,000 yearly retainer for each committee he or she sits on. Non-executive directors are also paid the sum of $1,000 for each committee 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.

Under the Corporation's previous Director's Compensation Policy, independent directors were paid an annual retainer of $2,000 and the sum of $1,000 in respect of each meeting of the independent Board.

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 DSU's shall be calculated by dividing the amount of fees by the 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	64,500	40,425	N/A	N/A	N/A	N/A	104,925
Per Gundersby	75,000	15,961	N/A	N/A	N/A	N/A	90,961
John Coleman	62,000	28,145	N/A	N/A	N/A	N/A	90,145
Roland Tornare	56,600	25,688	N/A	N/A	N/A	N/A	82,288
Pierre Monahan (1)	24,750	22,179	N/A	N/A	N/A	N/A	46,929
Armin Martens (2)	9,000	36,973	N/A	N/A	N/A	N/A	45,973

(1) Pierre Monahan was appointed as a director of the Corporation in August 2010.
(2) Armin Martens resigned as Director of the Corporation in August 2010.

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, no directors hold any 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, 2010.

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	7,977	356,731
Per Gundersby	7,178	321,000
John Coleman	5,576	249,359
Roland Tornare	5,496	245,781
Pierre Monahan	464	20,750

During the most recently completed financial year there were 4,894 DSUs awarded to non-management directors and 114,285 DSUs were awarded to the Chairman and CEO as part of a special one-time performance bonus. See "Compensation Discussion and Analysis – Chairman and Chief Executive Officer Compensation". As at December 31, 2010, there were 140,976 DSUs outstanding.

Incentive Plan Awards – Value Vested or Earned During the Year for Directors

Name	Option-based awards – Value vested during the year ($)	Share-based awards – Value vested during the year ($)	Non-equity incentive plan compensation – Value earned during the year ($)
Armin Martens	N/A	243,111	N/A

Mr. Martens resigned from the Board on August 8, 2010. Upon his resignation, all DSU's earned by Mr. Martens vested immediately. In accordance with the LTIP, Mr. Martens was paid a lump sum of $243,110.83 minus applicable taxes in respect of his DSUs and no common shares were issued.

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, 2010.

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 Long Term Incentive Plan	 655,175 456,018	 $8.00 N/A	157,166
Total	1,111,193		157,166

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 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, neither awards nor any rights under any such awards shall be assignable or transferable.

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) 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 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.

As of December 31, 2010 there were 456,018 issued and outstanding units under the LTIP, representing 35.95% of the total amount issuable under the LTIP and the SOP.

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 of December 31, 2010 there were 655,175 issued and outstanding Options, representing 51.66% of the total amount issuable under the SOP and the LTIP. 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.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

As at December 31, 2010, 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, 2010 under the heading "Directors and Executive Officers – Audit Committee", available on SEDAR at www.sedar.com.

Mr. Tornare joined the Audit Committee in May 2011 to replace Mr. Monahan upon his resignation from the committee. Mr. Tornare is "independent" and "financially literate" within the meaning of National Instrument 52-110 - *Audit Committees* ("NI 52-110"). Mr. Tornare was employed by the Swiss National Bank (the "SNB") since 1967 where he worked in the security and internal audit department before joining the banknote issue department. During his employment with the SNB, Mr. Tornare assumed a variety of positions, and in 1995 was appointed executive director of the banknote issue department and branches until his retirement at the end of June 2008. In his position as executive director, Mr. Tornare managed the development and issuance of the last two banknote series for Switzerland. Mr. Tornare has also been a member of the European Banknote Conference for 23 years and has chaired its policy committee and advisory group for 5 years. For over 25 years, Mr. Tornare has advised numerous central banks on a variety of matters and is currently an independent advisor for several central banks in the development of new banknote series and cash organizations. Mr. Tornare received a Swiss Federal Diploma in Banking and a Diploma from the Swiss Business and Management School.

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 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 was appointed a director of the Corporation in August 2010 to fill the vacancy created by the resignation of Armin Martens. 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. Burcon NutraScience Corporation Realm Energy International Corp. GVIC Communications Corp. Newstrike Capital Inc. Calyx Bio-Ventures Inc.
Pierre Monahan	Valener Inc. Gaz Metro Inc. AXA Canada 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 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 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 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 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 (Chair)
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	Unscheduled Board Meetings	Independent Board Meetings	Compensation Committee Meetings	Corporate Governance Committee Meetings	Steering Committee Meetings	Audit Committee Meetings
Chadwick Wasilenkoff	4/4	5/5					
Per Gundersby	4/4	5/5	5/5			5/5	4/4
Richard O'C. Whittall	4/4	5/5	5/5	12/12	3/3		4/4
John Coleman	4/4	5/5	5/5	11/12		5/5	
Roland Tornare [(1)]	4/4	5/5	5/5		3/3	5/5	
Pierre Monahan [(1)(2)]	1/1	1/1		1/1	1/1		1/1
Armin Martens [(2)]	3/3	5/5	4/4	11/11	2/2		3/3

(1) Mr. Monahan resigned from the Audit Committee in May 2011 and was replaced by Mr. Tornare.
(2) Mr. Monahan joined the Board in August 2010 filling the vacancy resulting from Mr. Martens' resignation and assumed Mr. Martens' committee positions.

The table below summarizes the number of Board and committee meetings held during Fiscal 2010.

Meeting Type	Totals
Board of Directors	9
Independent Board of Directors Meetings	5
Compensation Committee	12
Corporate Governance Committee	3
Steering Committee	5
Audit Committee	4
Total number of meetings held	**38**

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 behaviour.

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 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.

During the past fiscal year the Compensation Committee retained GGA to assist in determining compensation for Mr. Wasilenkoff, Mr. Vinall and other executives, including the NEOs, following the Corporation's acquisition of the Fortress Specialty Cellulose Mill and its entry into the specialty cellulose and bio-energy sectors. See "Statement of Executive Compensation".

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.

PARTICULAR MATTERS TO BE ACTED UPON

Subdivision of Common Shares

Shareholders are being asked to consider and, if thought advisable, approve a special resolution, the form of which is set out below, to subdivide the Corporation's common shares at a ratio of 3 shares for 1 share, effective at the close of business in Vancouver, British Columbia, on such date as shall be publicly announced by the Corporation (the "**Subdivision Effective Date**") as soon as practicable following the Meeting. To be effective, the resolution approving the subdivision must be approved by at least two-thirds of the votes cast by the holders of common shares who vote in respect of the resolution, in person or represented at the meeting by proxy, in accordance with the provisions of Section 54(3) of the *Business Corporations Act* (British Columbia).

The proposed change will triple the number of common shares that are outstanding and is expected to initially reduce the price per share at which the common shares trade proportionately to the subdivision ratio. Management and the Board believe that the proposed share subdivision is in the best interests of the Corporation and its shareholders. The subdivision is expected to increase the liquidity of the common shares by facilitating more active trading in the Corporation's shares. The subdivision of the common shares will not change a shareholder's proportionate ownership in the Corporation or the rights of holders of common shares. Each common share outstanding after the subdivision will be entitled to one vote and will be fully paid and non-assessable. As a result of the subdivision, there will be certain consequential amendments to outstanding options to acquire common shares and LTIP units to preserve proportionately the rights of holders of such securities.

The common shares are listed on the TSX. The Corporation has received conditional approval to have the common shares resulting from the subdivision listed on the TSX. Approval of such listing will be subject to the Corporation fulfilling all of the listing requirements of the TSX.

Shareholders of record on the Subdivision Effective Date will be entitled to receive the common shares resulting from the subdivision. Pursuant to the rules of the TSX, it is expected that the common shares will begin trading on the TSX on a subdivided basis on or about two trading days before the Subdivision Effective Date.

Certificates for the additional common shares resulting from the subdivision will be mailed to registered shareholders after the Subdivision Effective Date. Shareholders should retain their existing share certificates and not send them to the Corporation or its transfer agent.

Certain Canadian Federal Income Tax Considerations

The following discussion is limited to Canadian federal income tax considerations and should not be considered to be legal or tax advice to any particular holder of shares of the Corporation. Holders of shares are advised to consult with their own tax advisers. The following summary applies only to shareholders who, for Canadian federal income tax purposes, hold their common shares as capital property.

For Canadian federal income tax purposes, the proposed subdivision of common shares will not result in taxable income or in any gain or loss to the shareholders. In computing any gain or loss on a subsequent disposition of the common shares, the adjusted cost base of a common share for a shareholder after the subdivision will be reduced to one-third of the adjusted cost base of a common share immediately preceding the subdivision.

Special Resolution

The complete text of the special resolution to be considered at the meeting for approval, confirmation and adoption with or without variation, is substantially as follows:

"**BE IT RESOLVED** as a special resolution of the Corporation that:

1. Pursuant to Section 54 (1) of the *Business Corporations Act* (British Columbia), and the Articles of the Corporation, the Corporation be and is hereby authorized and approved to subdivide the issued and outstanding common shares of the Corporation on a three-for-one basis;

2. Any one director or officer of the Corporation be and is hereby authorized to sign all such documents and to do all such acts and things as such director or officer determines, in his or her discretion, to be necessary or advisable in order to properly implement and give effect to the foregoing; and

3. The Board may, in its discretion, without further approval of the shareholders, revoke this special resolution at any time prior to giving effect to the foregoing."

The Board recommends that shareholders vote **IN FAVOUR** of the special resolution. Unless otherwise directed, it is the intention of the persons designated in the accompanying form of proxy to vote **FOR** the special resolution. In order to be effective, the special resolution must be passed by a majority of not less than two thirds of the votes cast at the Meeting.

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 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, 2010, 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 12th day of May, 2011.

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.

<u>BOARD OF DIRECTORS' MANDATE</u>

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.