FORTRESS PAPER LTD.

Q1 2009

FOR THE THREE MONTHS ENDED

MARCH 31, 2009

FORTRESS PAPER LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations of Fortress Paper Ltd. ("Fortress" or the "Company") has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the unaudited consolidated financial statements and the notes thereto for the three month period ended March 31, 2009 (available on SEDAR at www.sedar.com). The MD&A provides a review of the significant developments that have impacted the Company's performance during the quarter ended March 31, 2009 relative to the previous quarter and prior year comparative quarter.

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

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

The information in this report is as at May 8, 2009.

All financial references are in Canadian dollars unless otherwise noted.

Highlights

Fortress reported net income of $3.6 million for the first quarter of 2009 on sales of $46.6 million or basic and diluted earnings per share of $0.35. For the first quarter of 2008 the Company reported net income of $4.2 million on sales of $49.8 million or basic and diluted earnings per share of $0.41 and $0.38 respectively. In the fourth quarter of 2008 the Company reported net income of $2.8 million on sales of $46.3 million or basic and diluted earnings per share of $0.27.

Included in net income for the first quarter of 2009 was a foreign exchange gain of $1.0 million. Included in net income for the fourth quarter of 2008 was a foreign exchange loss of $0.1 million and for the first quarter of 2008 a foreign exchange gain of $0.9 million.

EBITDA was $5.0 million or 10.8% of sales for the three months ended March 31, 2009. For the three months ended March 31, 2008 EBITDA was $6.6 million or 13.3% of sales. EBITDA for the fourth quarter of 2008 was $6.0 million or 12.9% of sales.

The decrease in EBITDA relative to the prior year comparative period was primarily due to the product mix change at the Dresden mill and a challenging quarter for specialty papers at the Landqart mill which were a direct result of the global economic slowdown. At the Landqart mill the market for security papers continues to show strength.

Description of Business

The Company was incorporated on May 30, 2006 under the laws of the Province of British Columbia. Fortress Paper Ltd. is an international producer of security and other specialty papers. The Company owns and operates two paper mills, the Landqart mill located in Switzerland and the Dresden mill located in Germany. Fortress' security papers include banknote, passport and visa papers. The security papers produced at the Landqart mill incorporate internationally recognized overt and covert security features which are embedded into the paper and supplemented with customer-specific features. The Landqart mill has leveraged its extensive security papers competence to develop additional commercial applications using its in-house know-how and technology of security features to create innovative paper-based security products. Fortress' specialty papers business includes non-woven wallpaper base products, as well as graphic and technical papers. The Dresden mill produces coated and uncoated wallpaper base for wallpaper manufacturers.

First Quarter 2009 Earnings Review

Three Months Ended March 31, 2009

Selected Financial Information and Statistics

(thousands of dollars, except per unit amounts and shipments, unaudited)	**Q1 2009**	**Q4 2008**	**Q1 2008**
Sales	46,623	46,331	49,789
EBITDA[1]	5,032	5,966	6,643
Operating income	3,765	4,399	5,527
Net income	3,584	2,778	4,189
Shipments (tonnes)	12,723	11,249	15,004

[1]See net income to EBITDA reconciliation.

Operating Results by Business Segment

Landqart Mill

(thousands of dollars, except for shipments, unaudited)	**Q1 2009**	**Q4 2008**	**Q1 2008**
Sales	20,361	23,628	20,725
Operating income	840	1,244	750
Shipments (tonnes)	3,721	4,338	4,603

Dresden Mill

(thousands of dollars, except for shipments, unaudited)	**Q1 2009**	**Q4 2008**	**Q1 2008**
Sales	26,262	22,703	29,064
Operating income	4,034	4,156	5,732
Shipments (tonnes)	9,002	6,911	10,401

Overview

At the Landqart mill the market for security papers continues to show strength; however specialty papers experienced a difficult first quarter as a direct result of the global economic slowdown.

At the Dresden mill, the wallpaper base market experienced a decline in orders late in 2008 as a direct result of the financial and economic situation impacting global economies. Orders strengthened throughout the first quarter; however, due to the very small order book that we experienced in early January, we were not able to generate production schedules with run rates as long and efficient as previously experienced. This reduction in efficiency resulted in more down time for cleaning and changing products, more waste, and thus reduced overall margins. As the order book continued to grow during the quarter, so did the underlying efficiencies. Despite the global crisis, profitability remains strong and the order book continues to strengthen. The Dresden mill and the union ratified a new collective bargaining agreement through the end of 2010.

Sales. Sales for the three months ended March 31, 2009 were lower relative to the first quarter of 2008 primarily due to the developments in the global economy. Sales for the three months ended March 31, 2009 were slightly higher when compared to the previous quarter. In contrast, there was an increase in sales at our Dresden mill and a decline in sales at our Landqart mill.

Cost of Products Sold. Cost of products sold were $36.1 million or 77.4% of sales for the three months ended March 31, 2009 compared to $38.2 million or 76.7% in the prior year comparative period. In the fourth quarter of 2008, cost of products sold were $35.0 million or 75.6% of sales.

Selling, General and Administrative. Selling, general and administrative expenses were $5.5 million (first quarter 2008, $4.9 million and fourth quarter 2008, $5.3 million) and were comprised primarily of sales commissions, marketing, corporate and administrative expenses.

Stock-based Compensation. Stock-based compensation expense was $0.2 million during the period ($0.4 million and $0.3 million in the first quarter of 2008 and the fourth quarter of 2008, respectively) reflecting the grant of 982,675 options issued to directors and officers of the Company in fiscal 2007 and 30,000 options issued to an employee in January 2008.

EBITDA. As a result of the foregoing factors, EBITDA was $5.0 million in the first quarter of 2009 compared to $6.6 million in the first quarter of 2008 and $6.0 million in the fourth quarter of 2008.

Net income to EBITDA reconciliation:

(thousands of dollars, unaudited)	**Q1 2009**	**Q4 2008**	**Q1 2008**
Net income	3,584	2,778	4,189
Income tax	1,044	1,353	2,130
Foreign exchange (gain) loss	(1,055)	113	(943)
Interest expense	192	155	151
Amortization	1,067	1,307	740
Stock based compensation	200	260	376
EBITDA	$5,032	$5,966	$6,643

Liquidity and Capital Resources

The Company's objectives when managing capital are to safeguard its assets and maintain a globally competitive cost structure while looking for growth opportunities to provide returns to its shareholders. In addition, the Company works with all relevant stakeholders to ensure the safety of its operations and employees, and remain in compliance with all environmental regulations and enhance the communities in which it operates.

The Company constantly monitors and assesses its financial performance in order to ensure that its net debt levels are prudent, taking into account the anticipated direction of the Company and business cycle. The company continuously monitors the public and private debt markets and the public equity markets in order to assure that its capital structure is appropriately balanced. The Company's results can be materially influenced by changes in the relative value of the Swiss Franc and Euro to the Canadian dollar.

Although there can be no assurances, Fortress believes that cash generated from operations, together with amounts available under its credit facilities and net proceeds from the IPO will be sufficient to meet its debt service requirements, capital expenditure needs and working capital needs for the foreseeable future. Fortress' future operating performance and its ability to service its debt and pay other indebtedness of Fortress will be subject to future economic conditions and the financial success of Fortress' business and other factors, many of which are not within Fortress' control, including changes in market prices for its security and specialty papers and raw material costs.

The Company's capital is comprised of net debt and shareholders' equity:

	March 31, 2009	December 31, 2008
Cash and cash equivalents	$ 19,321	$ 26,187
Less total debt	(29,419)	(30,591)
Net debt	$ (10,098)	$ (4,404)
Shareholders' equity	$ 76,690	$ 72,904

The Company is not subject to any externally imposed capital requirements.

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk include cash and cash equivalents and accounts receivable.

Cash and cash equivalents includes cash on deposit with an original maturity date of 90 days or less. In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. The cash and cash equivalents balance at March 31, 2009 was $19.3 million (December 31, 2008 was $26.2 million). The Company does not have holdings in asset backed commercial paper.

The Company utilizes credit insurance to manage the risk associated with trade receivables. In the past a factoring arrangement was utilized at Dresden mill; however, as of January 1, 2009 this agreement was discontinued. As a cost saving initiative the Company has taken collections in house with expected yearly cost savings of $0.7 million. As a result our trade receivables balance has increased due to the timing difference on collections. We expect the trade receivable balance at Dresden mill to be normalized in the second quarter. Approximately 91% of the outstanding trade receivables are covered under credit insurance. The majority of the balance is with large and financially sound customers. Accounts receivable aged greater than 90 days is $0.6 million and is considered collectable. The Company's trade receivable balance at March 31, 2009 was $25.6 million (December 31, 2008 was $18.1 million).

Operating Activities

Fortress operates in a cyclical industry and its operating cash flows vary accordingly. Fortress' principal operating cash expenditures are for compensation, fibre, chemicals and debt service. Operating activities used cash of $4.5 million in the period ended March 31, 2009. In the prior year comparative period operating activities provided cash of $2.0 million. This change is primarily due to increased trade receivables directly related to the cancellation of a factoring arrangement at the Dresden mill (reference Credit Risk above).

Working capital is subject to cyclical operating needs, the timing of collection of receivables and the payment of payables and expenses. The CHF/CAD and Euro/CAD exchange rates were 1.1058 and 1.6710 respectively as at March 31, 2009 compared to a CHF/CAD rate of 1.1472 and a Euro/CAD rate of 1.7046 as at December 31, 2008.

Investing Activities

Investing activities in the three months ended March 31, 2009 used cash of $1.9 million related to the purchase of plant and equipment at the mills ($1.6 million) and to deferred expenses ($0.3 million). In the period ended March 31, 2008 investing activities used cash of $2.0 million related to the purchase of plant and equipment at the mills.

Financing Activities

Financing activities in the first quarter of 2009 used cash of $0.2 million primarily related to the repayment of debt. In the first quarter of 2008 financing activities used cash of $4.8 million primarily related to the repayment of operating loans and long term debt amounting to $6.6 million partially offset by $1.8 million in additional loans.

Subsequent to the quarter end the Dresden mill received 3 million EUR in additional debt with 4.5% interest.

Related Party Transactions

There were no transactions with related parties during the three month period ended March 31, 2009. In the three months ended March 31, 2008, the Company paid or accrued office and administration expenses of $23 thousand to a Company with a common director.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Foreign Currency

The Company is exposed to foreign exchange risk primarily in Euros and Swiss Francs. The Company's products are sold globally with prices denominated primarily in Euros and Swiss Francs. The majority of the Company's expenditures are denominated in Euros and Swiss Francs. In addition the Company holds financial assets and liabilities in the local operating currencies.

Outstanding Shares

The number of common shares outstanding at March 31, 2009 and the date of this report was 10,233,500. The number of options outstanding at March 31, 2008 and the date of this report was 1,012,675.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are used for, but not limited to, the accounting for doubtful accounts, depreciation and amortization, asset impairments, valuation of equity investment, derivative financial instruments, allocation of purchase price of acquisitions, stock based compensation, pensions and post-retirement obligations, income taxes and contingencies. Actual results could differ from these estimates.

Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section 3064, "Goodwill and Intangible Assets". This section replaces CICA Handbook Section 3062, "Goodwill and Intangible Assets", and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred. The adoption of this new policy did not significantly impact the consolidated financial statements.

Conversion to International financial reporting standards (IFRS)

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company will rely mainly on internal resources to ensure compliance with IFRS. The Company intends to convert to these new standards according to the timetable set for these new rules and has completed the following steps:

- Formally established a transition plan and project implementation team. The project team consists initially of members from Finance. Reporting is done to senior management and to the Audit Committee on a regular basis.

- Completed the first phase of its transition program, which included scoping to identify the significant accounting policy differences and their related areas of impact in terms of systems, procedures and financial statements.

- Commenced the second phase of the transition plan, which involves a completed design and work plan to measure the differences between IFRS and Canadian GAAP, and the impact on the financial statements, disclosures and results of operations.

The Company expects the transition to IFRS to impact financial reporting, accounting policies and business processes. The Company will continue to review all proposed and continuing projects of the International Accounting Standards Board to determine their impact and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion. At this time, the impact on the Company's future financial position and results of operations is not reasonably determinable.

Internal Controls Over Financial Reporting

Based on current securities legislation in Canada, the Chief Executive Officer and the Chief Financial Officer of the Company are required to certify that they have:

- designed the Company's disclosure controls and procedures, or caused them to be designed under their supervision;
- designed the Company's internal control over financial reporting, or caused it to be designed under their supervision; and
- evaluated the effectiveness of the Company's disclosure controls and procedures and the Company's internal control over financial reporting as of March 31, 2009.

During the first quarter of 2009, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting. An evaluation was performed under the supervision and with the participation of the Company's management including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures and the Company's internal control over financial reporting as of March 31, 2009. In addition, independent testing of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 was performed. The Company's management concluded that the Company's disclosure controls and procedures and the Company's internal control over financial reporting were effective as of March 31, 2008.

Management's Outlook

The first quarter of 2009, although challenging, certainly displayed the resilience of the Company's business and ability to continue with strong results despite the global economic crisis. The Company's balance sheet remains strong and we continue to evaluate internal growth initiatives and accretive acquisition opportunities.

The market for security papers continues to show strength and our order book for wallpaper base has recovered to healthy levels. Specialty papers from the Landqart mill continue to experience challenges as a result of the global economic slowdown and will be a specific area where the Company intends to focus on implementing cost saving initiatives.

Risks and Uncertainties

A comprehensive discussion of Risk Factors is included in the Company's 2008 annual information form available on SEDAR at www.sedar.com.

Selected Quarterly Information

(thousands of dollars, except per unit amounts, earnings per share ("EPS"), exchange rates and shares outstanding, unaudited)	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Sales	46,623	46,331	43,744	49,138
Operating income	3,765	4,399	4,993	5,075
EBITDA	5,032	5,966	6,234	6,184
Net income	3,584	2,778	2,312	3,401
Basic EPS	$0.35	$0.27	$0.22	$0.33
Diluted EPS	$0.35	$0.27	$0.22	$0.33
Weighted average shares outstanding Basic (thousands)	10,235	10,235	10,302	10,248
Weighted average shares outstanding Diluted (thousands)	10,235	10,235	10,471	10,423
Average Swiss/Canadian exchange rate(1)	1.0845	1.0470	0.9699	0.9797
Average Euro/Canadian exchange rate (1)	1.6226	1.5960	1.5623	1.5778

(thousands of dollars, except per unit amounts, earnings per share ("EPS"), exchange rates and shares outstanding, unaudited)	Q1 2008	Q4 2007	Q3 2007	Q2 2007
Sales	49,789	37,537	34,065	35,441
Operating income	5,527	3,380	1,406	3,364
EBITDA	6,643	4,255	2,196	4,319
Net income	4,189	2,279	211	1,700
Basic EPS	$0.41	$0.22	$0.02	$0.40
Diluted EPS	$0.38	$0.22	$0.02	$0.38
Weighted average shares outstanding Basic (thousands)	10,203	10,204	10,049	4,275
Weighted average shares outstanding Diluted (thousands)	11,141	11,141	10,986	5,212
Average Swiss/Canadian exchange rate(1)	0.9405	0.8563	0.8720	0.8982
Average Euro/Canadian exchange rate (1)	1.5046	1.4213	1.4370	1.4801

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

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

	As at March 31, 2009	As at December 31, 2008
ASSETS		
Current		
Cash and cash equivalents	$ 19,321	$ 26,187
Trade accounts receivable	25,634	18,108
Other accounts receivable	3,002	3,846
Inventories	31,878	31,968
Prepaid expenses	409	373
	80,244	80,482
Restricted cash	49	49
Deferred expenses	311	–
Property, plant and equipment	43,845	43,536
Employee future benefits *(note 4)*	11,074	11,574
Total assets	$ 135,523	$ 135,641
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 23,509	$ 24,502
Income taxes payable	3,812	5,455
Current portion of long-term debt *(note 5)*	6,590	6,831
	33,911	36,788
Long-term debt *(note 5)*	22,829	23,760
Future income taxes	2,093	2,187
Total liabilities	$ 58,952	$ 62,735
Shareholders' equity *(note 6)*		
Share capital	59,083	59,083
Contributed surplus	2,307	2,107
Retained earnings	15,300	11,716
Total shareholders' equity	76,690	72,906
Total liabilities and shareholders' equity	$ 135,523	$ 135,641

Subsequent event *(note 12)*

(See accompanying notes)

Approved by the Board of Directors:

"Chadwick Wasilenkoff" — Director

"Richard Whittall" — Director

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Sales	$ 46,623	$ 49,789
Costs and expenses		
Cost of products sold	36,063	38,200
Amortization	1,067	740
Selling, general and administration	5,528	4,946
Stock-based compensation *(note 7)*	200	376
Operating income	3,765	5,527
Other income (expense)		
Interest, net	(192)	(151)
Foreign exchange gain	1,055	943
Net income before income taxes	4,628	6,319
Income tax expense	(1,044)	(2,130)
Net income and comprehensive income	$ 3,584	$ 4,189
Earnings per share		
Basic	$ 0.35	$ 0.41
Diluted	$ 0.35	$ 0.38
Weighted average number of shares outstanding		
Basic	10,233,500	10,203,491
Diluted	10,233,500	11,140,991

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Retained earnings (deficit)		
Balance — beginning of period	$ 11,716	$ (222)
Earnings	3,584	4,189
Balance — end of period	$ 15,300	$ 3,967
Accumulated other comprehensive earnings		
Balance — beginning and end of period	$ –	$ –

(See accompanying notes)

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities		
Net income	$ 3,584	$ 4,189
Items not affecting cash:		
Amortization	1,067	740
Future income taxes	(94)	491
Foreign exchange (gain) loss on long term debt	(1,066)	4,013
Foreign exchange (gain) loss on operating loan	–	256
Foreign exchange (gain) loss on cash and cash equivalents	236	(1,779)
Stock based compensation	200	376
	3,927	8,286
Change in non-cash working capital items		
Trade accounts receivable	(6,682)	(5,865)
Inventory	90	(1,131)
Prepaid expenses	(36)	50
Other assets	500	2,363
Accounts payable and accrued liabilities	(641)	(3,785)
Income taxes payable	(1,643)	2,092
	(4,485)	2,010
Cash flows from financing activities		
Repayment of long-term debt	(187)	(424)
Proceeds from long-term debt	81	1,759
Repayment of operating loans	–	(6,110)
Shares repurchased	–	(1)
Payment on capital leases	(79)	–
	(185)	(4,776)
Cash flows from investing activities		
Additions to property, plant and equipment	(1,649)	(2,033)
Deferred expenses	(311)	
Restricted cash	–	(3)
	(1,960)	(2,036)
Decrease in cash position	(6,630)	(4,802)
Foreign exchange gain (loss) on cash and cash equivalents	(236)	1,779
Cash and cash equivalents, beginning of period	26,187	45,307
Cash and cash equivalents, end of period	$ 19,321	$ 42,284

Supplementary cash flow information *(note 11)*

(See accompanying notes)

1. NATURE OF OPERATIONS

Fortress Paper Ltd. (the "Company") was incorporated on May 30, 2006 under the laws of the Province of British Columbia. From the date of incorporation to July 31, 2006 the Company was inactive. The Company's fiscal year end is December 31.

These unaudited interim financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the consolidated financial statements and notes as at and for the year ended December 31, 2008 (available on SEDAR at www.sedar.com). These unaudited interim financial statements follow the same accounting policies and methods of their application as December 31, 2008 consolidated financial statements except as disclosed in Note 2.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants' new Handbook Section 3064, "Goodwill and Intangible Assets". This section replaces CICA Handbook Section 3062, "Goodwill and Intangible Assets", and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred. The adoption of this new policy did not significantly impact the consolidated financial statements.

3. NEW ACCOUNTING PRONOUNCEMENTS

In 2007, the Canadian Accounting Standards Board announced that Canadian generally accepted accounting principles ("Canadian GAAP") will cease to exist for all publicly accountable enterprises targeted for fiscal years commencing January 1, 2011. From that date onward, publicly traded companies and certain other publicly accountable enterprises will be required to report under International Financial Reporting Standards ("IFRS"). The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

In January 2009, the CICA issued three new standards which may affect the financial disclosures and results of operations of the Company for interim and annual periods beginning January 1, 2011 with earlier adoption permitted. CICA Handbook Section 1582, "Business Combinations", is effective for business combinations taking place after this section is adopted. CICA Handbook Section 1601, "Consolidated Financial Statements", and CICA Handbook Section 1602, "Non-controlling Interests", must be adopted at the same time as Section 1582. These Sections replace the former CICA Handbook Section 1581, "Business Combinations" and CICA Handbook Section 1600, "Consolidated Financial Statements", and establish a new Section for accounting for non-controlling interests in a subsidiary. The Company is still considering the impact of these new standards and when they will be adopted.

4. EMPLOYEE FUTURE BENEFITS

Defined benefit pension expenses of $399 were recorded for the three months ended March 31, 2009. Defined benefit pension expenses of $124 were recorded for the three months ended March 31, 2008.

(unaudited, Canadian dollars, amounts in thousands except share and per share data)

5. LONG-TERM DEBT AND OPERATING LOANS

Long-term debt

	March 31, 2009	December 31, 2008
Credit agreement with bank maturing 2009 and 2013; interest at 2.65% secured by current assets (EUR 962 and 962)	$ 1,608	$ 1,640
Credit agreement with bank maturing 2010, and 2011; interest at 2.75%, 2.3% and 3.8% secured by mortgage (CHF 3,850 and 3,950)	4,258	4,532
Credit agreement with bank maturing 2012; interest at 4.8% unsecured (CHF 6,280 and 6,280)	6,944	7,204
Credit agreement with bank maturing 2009, 2011, 2013 and 2018; interest up to 3.1% and 5.9% secured by fixed assets (CHF 14,318 and 14,244)	15,833	16,340
Capital leases; interest at 4.7% (CHF 12 and 19)	13	21
Capital leases; interest at 4.0% (EUR 457 and 501)	763	854
	29,419	30,591
Less: Current portion	(6,590)	(6,831)
	$ 22,829	$ 23,760

Operating loans

During the quarter ended March 31, 2008 the Company fully repaid and closed its operating loans.

(unaudited, Canadian dollars, amounts in thousands except share and per share data)

6. SHAREHOLDERS' EQUITY

(a) **Authorized:**

Unlimited number of common shares without par value
Unlimited number of preferred shares with par value $1,000

(b) **Issued and fully paid — common shares**:

	Number of Shares	Share Capital	Contributed Surplus
Balance, December 31, 2007	10,203,500	$ 58,428	$ 1,508
Stock compensation	—	—	1,388
Share repurchase	(75,000)	(473)	(189)
Shares issued on redemption of Convertible Note	105,000	1,128	(600)
Balance, December 31, 2008	10,233,500	$ 59,083	$ 2,107
Stock compensation	—	—	200
Balance, March 31, 2009	10,233,500	$ 59,083	$ 2,307

7. STOCK OPTIONS

During 2006 the Company adopted a stock incentive plan. The exercise price of options granted under the Stock Option Plan shall be as determined by the Board of Directors when such options are granted, subject to any limitations imposed by any relevant stock exchange or regulatory authority. The maximum number of options that may be granted must not exceed 10% of the common shares outstanding at the time of the grant.

On April 5, 2007 and May 2, 2007 two tranches of options were granted for 320,350 and 122,325 shares, respectively to directors and officers of the Company with an exercise price equivalent to the IPO price with an expiry 10 years from the IPO date (June 28, 2007). On November 1, 2007 a further two tranches of options were granted for 240,000 and 300,000 shares to directors of the Company with expiry 10 years from the grant date. On January 1, 2008 options were granted for 30,000 shares to an employee of the Company.

The stock options have various vesting dates which range from one to three years from the IPO or grant dates.

The weighted average fair value of the options, being $3.09 per option, has been estimated at the grant dates using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options. Assumptions used in the pricing model are as follows:

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

(unaudited, Canadian dollars, amounts in thousands except share and per share data)

Stock option transactions and the number of stock options outstanding are summarised as follows:

	Number of options	Exercise Price
Granted April 5, 2007	320,350	$ 8.00
Granted May 2, 2007	122,325	8.00
Granted November 1, 2007	540,000	8.00
Balance, December 31, 2007	982,675	$ 8.00
Granted January 1, 2008	30,000	$ 8.00
Balance, December 31, 2008 and March 31, 2009	1,012,675	$ 8.00

As at March 31, 2009, 535,117 stock options were exercisable (December 31, 2008 – 535,117). No stock options were exercised during the quarter ended March 31, 2009, or during the year ended December 31, 2008.

8. RELATED PARTY TRANSACTIONS

There were no transactions with related parties during the three month period ended March 31, 2009. In the three months ended March 31, 2008, the Company has paid or accrued office and administration expenses of $23 to a Company with a common director.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

9. FINANCIAL INSTRUMENTS

The Company has committed to buying a total of USD 750 over various dates between April, 2009 and June, 2009 at EUR/USD foreign exchange rates ranging from 1.4588 and 1.4644. The Company has unrealized gains of $88 as at March 31, 2009 related to foreign exchange rate contracts as a result of recording these forward contracts at market value.

(unaudited, Canadian dollars, amounts in thousands except share and per share data)

10. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations by mill is based on a number of factors, including production, production processes, and economic characteristics. The Landqart mill produces specialty and security papers while the Dresden mill produces non-woven wallpaper base products. During the period ended March 31, 2009, the Company earned revenue from two customers each representing approximately 12% of sales. No single customer accounted for 10% or more of the Company's total sales for the three months ended March 31, 2008.

	Three months ended March 31, 2009			
	Dresden Mill (Germany)	**Landqart Mill** (Switzerland)	**Corporate** (Canada)	**Fortress Paper Consolidated**
Sales	$ 26,262	20,361	—	$ 46,623
Operating earnings (loss)	$ 4,034	840	(1,109)	$ 3,765
Amortization	$ (589)	(478)	—	$ (1,067)
Stock-based compensation[1]	$ —	—	(200)	$ (200)
Capital expenditures	$ 966	409	—	$ 1,375
Property, plant and equipment	$ 17,027	26,817	—	$ 43,844
Sales by geographic area	**%**	**%**		**%**
Germany	45.3	10.5		30.1
Switzerland	—	23.2		10.1
Other Western Europe	31.1	50.5		39.6
Eastern Europe	22.1	5.5		14.9
Other	1.5	10.3		5.3
Total	100.0	100.0	—	100.0

[1]Stock-based compensation is included in operating earnings (loss)

	Three months ended March 31, 2008			
	Dresden Mill (Germany)	**Landqart Mill** (Switzerland)	**Corporate** (Canada)	**Fortress Paper Consolidated**
Sales	$ 29,064	20,725	—	$ 49,789
Operating earnings (loss)	$ 5,732	750	(955)	$ 5,527
Amortization	$ (383)	(357)	—	$ (740)
Stock-based compensation[2]	$ —	—	(376)	$ (376)
Capital expenditures	$ 358	2,022	—	$ 2,380
Property, plant and equipment	$ 10,840	21,786	—	$ 32,266
Sales by geographic area	**%**	**%**		**%**
Germany	52.8	7.4		33.8
Switzerland	—	20.9		8.8
Other Western Europe	23.3	44.7		32.3
Eastern Europe	20.4	13.6		17.5
Other	3.5	13.4		7.6
Total	100.0	100.0	—	100.0

[2]Stock-based compensation is included in operating earnings (loss)

(unaudited, Canadian dollars, amounts in thousands except share and per share data)

11. SUPPLEMENTARY CASH FLOW INFORMATION

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Interest paid	$ 219	$ 381
Income taxes paid	$ 2,624	$ 49

Non cash items

Non cash property, plant and equipment purchases included in accounts payable decreased by $352 for the three months ended March 31, 2009 and increased by $231 for the three months ended March 31, 2008.

12. SUBSEQUENT EVENT

In April 2009 the Dresden mill received 3,000 EUR in debt financing with an interest rate of 4.5%.