FORTRESS PAPER LTD

Q2 2013

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2013

FTP LISTED
TORONTO STOCK EXCHANGE TSX

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. ("we", "our", "us", "Fortress" or the "Company") has been prepared based on information available as at August 14, 2013. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three and six month periods ended June 30, 2013 (available on SEDAR at www.sedar.com). This MD&A provides a review of the significant developments that have impacted the Company's performance during the quarter ended June 30, 2013 relative to the previous quarter and prior year comparative quarter. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS"), including IAS 34, Interim Financial Reporting, which as of January 1, 2011 is the required reporting framework for Canadian publicly accountable enterprises.

This MD&A contains certain forward-looking information that reflects the current views and/or expectations of the Company with respect to its expectations, beliefs, assumptions, estimates and forecasts about its business and the industries and markets in which it operates. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: growth and future prospects of our business; market conditions for dissolving pulp and our other products; expected returns on certain business segments; availability of funds for debt allocation; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; benefits that may accrue to the Company as a result of certain acquisitions, dispositions, capital expenditure programs, equipment upgrades and maintenance shut-downs; and the anticipated benefits, cost, timing and completion dates for projects, including the timing of the completion of the cogeneration facility at the Fortress Specialty Cellulose mill and commencement of delivery of power; and the timing and completion of the installation of equipment.

Assumptions underlying the Company's expectations regarding forward-looking information contained in this MD&A include, among others: that the Company will be able to effectively market its products; the ability of the Company to complete the ramp-up of its dissolving pulp production at the Fortress Specialty Cellulose mill to reach maximum capacity; the ability of the Company to realize additional savings and efficiencies at the Fortress Specialty Cellulose mill from its "Operating Excellence" program; that there will be no further delays and disruptions affecting the completion of the Fortress Specialty Cellulose mill cogeneration project and that the Company will be able to commence timely delivery of power therefrom; that dissolving pulp will experience improved and sustained demand in the marketplace at favourable prices; that the Landqart mill will continue operating on a consistent and regular basis in order to produce and deliver on its banknote orders; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; the ability of the Company to obtain financing (if necessary) on acceptable terms; that interest and foreign exchange rates will not vary materially from current levels; that all necessary approvals, arrangements and engineering designs will be obtained, finalized and/or completed in a satisfactory manner in order to support a decision to proceed with the Fortress Global Cellulose mill project; and that our equipment will operate at expected levels.

Persons reading this MD&A are cautioned that statements comprising forward-looking information are only predictions, and that the Company's actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, in respect of the delivery of power at the cogeneration facility, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); dependence on major customers; and other risk factors detailed in our Annual Information Form dated March 28, 2013 available on SEDAR at www.sedar.com and other filings with the 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 update any forward-looking information, except as required by applicable securities law.

Throughout this discussion, reference is also 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 metric to evaluate profitability. Reference is also made to adjusted net (loss) income (calculated as net (loss) income less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the tables titled "Net Income (Loss) to Adjusted Net Loss Reconciliation") and adjusted net income (loss) per share (calculated as adjusted net income (loss) divided by the weighted average number of shares outstanding in the period). EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are not generally accepted earnings measures and should not be considered as an alternative to net income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Company's EBITDA, adjusted net income (loss) and adjusted net income (loss) per share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and adjusted net income (loss) to net income (loss) reported in accordance with IFRS are included in this MD&A.

All references in this MD&A to "dollars" or "$" are to Canadian dollars, "€" are to the Euro currency unit, "CHF" are to Swiss francs and "US$" are to United States dollars.

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

Description of Business

The Company was incorporated on May 30, 2006 under the laws of the Province of British Columbia. During the three and six months ended June 30, 2013, the Company operated internationally in three distinct business segments: the Dissolving Pulp Segment, the Security Paper Products Segment, and the Specialty Papers Segment. The Specialty Papers Segment was sold on April 30, 2013. Accordingly, references in this MD&A to "discontinued operations" refer to the Specialty Papers Segment.

The Company operates its dissolving pulp business at the Fortress Specialty Cellulose mill located in Canada, which is also in the process of expanding into the renewable energy generation sector with the construction of a cogeneration facility. The Company is also seeking to expand its dissolving pulp capacity with the 2012 acquisition of the Fortress Global Cellulose ("FGC") mill located at Lebel-sur-Quévillon, Québec, which the Company is evaluating to convert into a dissolving pulp mill and re-start the cogeneration facility. The Company operates its security paper products business at the Landqart mill located in Switzerland, where it produces banknote, passport, visa and other brand protection and security papers, and at its high security production and research facility located in Canada, where it manufactures optically variable thin film material. The segmentation of the Company's manufacturing operations is based on a number of factors, including production, production processes, and economic characteristics. Fortress' business segments were re-classified in 2012 given changes in the nature of products being produced.

The Company previously operated its specialty papers business at the Dresden mill located in Germany, where it was a leading international producer of specialty non-woven wallpaper base products. On April 30, 2013, the Company completed the sale of the Dresden mill and no longer operates in the specialty papers industry (see "Significant Developments").

Overall Performance

Fortress reported adjusted net loss from continuing operations of $20.6 million, or diluted loss per share of $1.42 for the second quarter of 2013 on sales of $59.9 million. In the first quarter of 2013, the Company reported adjusted net loss from continuing operations of $20.6 million or diluted loss per share of $1.42 on sales of $57.6 million, and for the second quarter of 2012, adjusted net loss from continuing operations of $11.5 million or diluted loss per share of $0.79 on sales of

$43.2 million. Adjusted net loss was impacted by an expense of approximately $3.5 million recorded as a deferred tax accrual.

Fortress reported a net loss from continuing operations of $20.9 million, or diluted loss per share of $1.43 for the second quarter of 2013. In the first quarter of 2013, the Company reported a net loss from continuing operations of $18.8 million or diluted loss per share of $1.30, and for the second quarter of 2012, net income from continuing operations of $6.0 million or diluted income per share of $0.40.

Fortress reported net income, including discontinued operations, of $134.1 million, or diluted earnings per share of $9.23 for the second quarter of 2013. Included in discontinued operations is a $153.3 million gain on the sale of Dresden. In the first quarter of 2013, the Company reported a net loss of $12.4 million or diluted loss per share of $0.85, including discontinued operations. In the second quarter of 2012, the Company reported a net income of $12.3 million or diluted income per share of $0.82, including discontinued operations.

EBITDA loss from continuing operations of the Company was $8.4 million for the three months ended June 30, 2013. For the three months ended March 31, 2013, EBITDA loss was $13.2 million and for the three months ended June 30, 2012, EBITDA loss was $8.2 million.

Excluding corporate costs, combined EBITDA loss including discontinued operations was $2.5 million in the three months ended June 30, 2013. The Specialty Papers Segment contributed $3.4 million EBITDA, while the Dissolving Pulp Segment generated EBITDA loss of $6.4 million. The Security Paper Products Segment generated EBITDA of $0.5 million. Corporate costs contributed $2.4 million to EBITDA loss.

The Fortress Specialty Cellulose mill commenced production of dissolving pulp in early December 2011. Commercial production for accounting purposes, with the equipment operating as intended by management, began on March 18, 2012. After such date all sales and cost of sales have been included in the operating results. Minor improvements in dissolving pulp prices in the prior quarter resulted in slightly higher realized prices in the second quarter as realizations generally lag the spot market by several months. Cost of sales also improved more significantly after the ten day planned maintenance shut-down in April. Excluding the ten day planned maintenance shut-down costs of approximately $2.6 million, production costs per tonne have improved significantly compared to the previous quarter.

Improvement at the Security Paper Products Segment has continued from the first quarter to the second quarter 2013. The mill experienced a second consecutive quarter with sales, volumes and revenues significantly higher relative to any comparative period in 2012 and 2011. The mill continues to seek to improve efficiencies and profitability. EBITDA for the Security Paper Products Segment for the quarter ended June 30, 2013 was $6.8 million higher when compared to the second quarter of 2012, and $2.6 million higher compared to the previous quarter. However, less than favourable conditions, including impacts on our business as a result of the strength of the Swiss franc against the Euro, overcapacity in the banknote paper industry and increased competition for orders, continue to adversely impact the results of the Security Paper Products Segment.

The Specialty Papers Segment, which has been discontinued, had a strong month of April. See “Significant Developments” for an update on the sale of the Dresden mill.

Management’s Outlook

Dissolving Pulp Segment

Dissolving pulp markets weakened during the second quarter of 2013 compared to the first quarter due to continued excess supply. The market price of dissolving pulp in China, as reported by China Chemical Fibers & Textiles Consultancy Group (CCF), a leading professional data analysis company relied upon in the dissolving pulp industry, dropped in the second quarter of 2013 to US$889 per air dried metric tonne (ADMT) from an average of US$912 per ADMT in the first quarter of 2013. Management believes that the current depressed dissolving pulp prices are indicative of unusual market conditions and are not sustainable, as the global industry has been experiencing mill shut-downs and mills swinging capacity to produce paper pulps. We expect that dissolving pulp prices will recover as the excess supply is reduced or redirected.

Viscose producers in China have decreased operating rates to manage inventory and stabilize prices. Viscose staple fibre prices reached their lowest level in many months in the second quarter of 2013. Viscose staple fibre demand in China is generally tied to demand for dissolving pulp. Operating rates and prices have since improved in July. Cotton prices remained relatively stable in China during the second quarter of 2013 and well above viscose staple fibre prices. However, when compared to 2011, cotton prices still remain low which could lead to possible reductions in cotton crop plantations in 2013/14. Cotton reserve management, particularly in China, may affect future cotton pricing.

The Fortress Specialty Cellulose mill completed a ten day planned maintenance shut-down during the quarter which has resulted in improved production rates and digester throughput. Finished goods inventory levels at the end of the second quarter were minimal.

The cogeneration project start-up was delayed due to unexpected mechanical failure of the high pressure water pump and the back-up pump. The repaired pump was reinstalled and re-started mid July and operated for 20 days before being shut-down due to pump failure. The back-up high pressure water pump was then installed on August 5, 2013 and its operation was again unsustainable due to inadequate repairs. The Company has placed an order with another supplier for a high pressure water pump which is expected to arrive in approximately four weeks for installation. Despite these set backs, the Company completed all major testing of equipment during the operating period. The facility successfully completed 18 and 24 MWH output testing. The Company anticipates completing the final 100 hour test as soon as the new pump is installed and tested. Fortress expects that the cogeneration facility will be delivering power to the Hydro Québec grid at the contractual rate shortly thereafter.

Although depressed dissolving pulp prices continue to impact Fortress Specialty Cellulose mill results, we expect to realize significant benefits from production improvements, cost reduction initiatives and the cogeneration facility prior to the end of fiscal 2013.

The Company is currently in the process of exploring strategic options for the FGC mill project to mitigate the financial risk, including alternative financing structures, joint ventures and partnership opportunities. While the project economics continue to be attractive, the Company will be comparing the FGC mill investment opportunity to other strategic options for shareholder value creation. The Company is currently in discussions with prospective equity investors for the project and is in the process of discussing potential revised terms for its project financing to provide greater flexibility. Due to changing economics and market conditions, there is no assurance that definitive investment arrangements will be concluded or that the FGC mill project will proceed to completion as previously planned. The Company intends to report its decision regarding the strategic direction of the FGC mill in the third quarter.

In February 2013, China's Ministry of Commerce ("MOFCOM") announced the commencement of an anti-dumping investigation on the importing of cellulose pulp originating from Canada, the United States and Brazil, after receiving a petition from certain manufacturers in China. The announcement included Fortress Specialty Cellulose Ltd. ("Fortress Specialty") as one of the Canadian producers that is subject to the investigation. Fortress Specialty registered with MOFCOM the same month and has submitted its responses to MOFCOM. MOFCOM was expected to make a preliminary determination of the dumping margin on a company-by-company basis within 6 to 9 months after initiation. However, given recent progress at the fifth round of the China-U.S. Strategic and Economic Dialogue, it is rumoured that any preliminary determination will be delayed. Although the Company is actively defending itself against the investigation and believes the allegations contained in the petition are without merit, there is no assurance that the timing of the preliminary determination will not occur within the expected timeframe or that a preliminary dumping duty may not be imposed.

The investigation is scheduled to conclude within 12 to 18 months from initiation, upon which, depending on the findings, an order may be issued by MOFCOM and final dumping duties may be imposed. The Company is unable to determine at this time whether such investigation is likely to result in the imposition of tariffs. If anti-dumping tariffs are imposed upon us in the future, we may experience reduced revenues and margins in our dissolving pulp business that is subject to such tariffs or the terms of any international dispute settlement arising therefrom. These tariffs or settlement terms may have a material adverse effect on our business, financial results and financial condition. The Company is in the process of developing a plan to refocus its targeted dissolving pulp markets in order to mitigate the risks associated with any potential duties or tariffs imposed in China.

Security Paper Products Segment

The Security Paper Products Segment continues to be impacted by overcapacity in the banknote paper sector with consequent pressure on pricing. The Landqart mill has a strong order book but does have some available capacity to take advantage of new sales opportunities. Landqart has received a contract extension on one of its important orders and has completed a second order for Durasafe®, its new composite paper-polymer-paper substrate. Estimated volumes produced to date have been significantly higher than in 2012 and are expected to continue to be so for the remainder of 2013, however, management continues efforts to improve operational performance.

Significant Developments

Sale of the Dresden Mill

On April 30, 2013, the Company sold all of the shares of its wholly owned subsidiary, Dresden Papier GmbH (the "Dresden mill"), which represented the entire specialty papers segment of the Company, for an aggregate purchase price of €160 million (approximately $213 million) subject to working capital and other adjustments, to Glatfelter Gernsbach GmbH & Co. KG, a subsidiary of P.H. Glatfelter Co. The transaction excluded cash and long-term debt associated with the Dresden mill. Concurrent with the sale, the associated long term debt was repaid and the factored accounts receivable of the Dresden mill were repurchased. An early prepayment penalty of $1.2 million was recorded on the retirement of the Dresden mill long term debt.

Based on the book values of the net assets disposed of, the related sales proceeds, and the effect of foreign exchange, the gain on the sale of the Dresden mill was $153.3 million, as summarized below. Adjustments to the purchase price are still being finalized and are currently based on management's best estimate, which could be subject to change in the future.

(thousands of dollars, unaudited)	**April 30, 2013**
Book value of net assets disposed of:	
Restricted cash	531
Accounts receivable	26,832
Inventories	12,992
Prepaid expenses	210
Property, plant and equipment	31,553
Accounts payable and accrued liabilities	(16,723)
Income taxes payable	(3,932)
Deferred income tax liability	(373)
Net assets disposed of	51,090
Sale proceeds:	
Cash	212,240
Less: purchase price adjustments	(2,640)
Less: directly attributable costs	(2,416)
Total net proceeds	207,184
Profit on disposal before recycling of cumulative translation adjustment	156,094
Cumulative translation adjustment	(2,820)
Gain on disposal	153,274

With the sale of the Dresden mill, the Company no longer operates in the Specialty Papers (wallpaper base) industry.

Normal Course Issuer Bid

The Company announced on August 14, 2013 that it intends to commence a normal course issuer bid to acquire outstanding common shares, 6.5% convertible unsecured subordinated debentures and 7.0% convertible unsecured subordinated debentures of the Company up to an aggregate maximum amount of $15 million, subject to receipt of TSX approval.

Selected Quarterly Information

(thousands of dollars, except per share amounts, exchange rates and shares outstanding, unaudited)	**Q2 2013**	**Q1 2013**	**Q4 2012**	**Q3 2012**
Sales from continuing operations	59,883	57,559	58,748	38,256
Net (loss) income from continuing operations	(20,851)	(18,814)	(9,784)	(23,963)
Net (loss) income [(1)]	134,125	(12,373)	(4,227)	(19,060)
Basic net (loss) income per share from continuing operations	($1.43)	($1.30)	($0.68)	($1.67)
Diluted net (loss) income per share from continuing operations	($1.43)	($1.30)	($0.68)	($1.67)
Basic net (loss) income per share [(1)]	$9.23	($0.85)	($0.29)	($1.32)
Diluted net (loss) income[(1)]	$9.23	($0.85)	($0.29)	($1.32)
Weighted average shares outstanding - Basic (thousands)	14,536	14,502	14,492	14,394
Weighted average shares outstanding - Diluted (thousands)	14,536	14,502	14,492	14,394
Average Swiss/Canadian exchange rate[(2)]	1.0862	1.0837	1.0645	1.0340
Average Euro/Canadian exchange rate [(2)]	1.3367	1.3312	1.2857	1.2445
Average US dollar/Canadian exchange rate [(2)]	1.0231	1.0083	0.9913	0.9953

(thousands of dollars, except per share amounts, exchange rates and shares outstanding, unaudited)	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**
Sales from continuing operations	43,208	23,711	14,644	48,218
Net (loss) income from continuing operations	6,005	(14,206)	(14,340)	(11,039)
Net (loss) income [(1)]	12,289	(10,670)	(9,171)	(7,237)
Basic net (loss) income per share from continuing operations	$0.42	($0.99)	($1.00)	($0.77)
Diluted net (loss) income per share from continuing operations	$0.40	($0.99)	($1.00)	($0.77)
Basic net (loss) income per share[(1)]	$0.86	($0.75)	($0.64)	($0.51)
Diluted net (loss) income[(1)]	$0.82	($0.75)	($0.64)	($0.51)
Weighted average shares outstanding - Basic (thousands)	14,322	14,306	14,298	14,260
Weighted average shares outstanding - Diluted (thousands)	15,032	14,306	14,298	14,260
Average Swiss/Canadian exchange rate[(2)]	1.0784	1.0871	1.1216	1.1911
Average Euro/Canadian exchange rate [(2)]	1.2956	1.3129	1.3790	1.3843
Average US dollar/Canadian exchange rate [(2)]	1.0105	1.0011	1.0232	0.9807

(1) Including discontinued operations
(2) Source – Bank of Canada (average noon rate for the period).

Fluctuations in quarterly results reflect significant transactions and developments within the Company. In the fourth quarter of 2011, the Dissolving Pulp Segment was re-defined as the Fortress Specialty Cellulose mill transitioned from a northern bleached hardwood kraft pulp producer to a dissolving pulp producer. Results were impacted by the mill being in either shutdown or ramp-up mode for much of the fourth quarter of 2011 with production of dissolving pulp commencing in December 2011. Start-up continued through the first quarter of 2012 with all dissolving pulp revenue and costs for production from December 2011 through March 18, 2012 being capitalized in property, plant and equipment for accounting purposes. Throughout the remainder of 2012, the Dissolving Pulp Segment continued ramping up and improving production rates albeit at a slower pace than first anticipated. In the third quarter of 2012, the Fortress Specialty Cellulose mill had its annual extended maintenance shutdown, as well as an unplanned outage due to a temporary recovery boiler issue which both contributed to lower shipments and production during the quarter. During the fourth quarter of 2012, the Dissolving Pulp Segment saw stable production with the highest volumes of dissolving pulp produced during a quarter to date. As such, sales were higher, but continued deterioration in dissolving pulp prices impacted earnings to overshadow improved production. The first quarter of 2013 was characterized by production challenges and the lowest realized dissolving prices experienced to date, which contributed to disappointing results from the Dissolving Pulp Segment. Results improved in the second quarter of 2013 compared to the prior quarter after the planned ten day maintenance shut-down.

Included in the second quarter of 2013 results is the realized gain on the sale of the Specialty Papers Segment. Discontinued operations also incorporate the results of this segment through to the completion of the sale on April 30, 2013.

Product mix, high raw material costs, pricing pressure, a strong Swiss currency, and less than optimal production efficiency at the Landqart mill contributed to a disappointing and difficult 2011 year for the Security Paper Products Segment which materially impacted the Company's quarterly results throughout 2011 and 2012. Net income for the second quarter of 2012 was significantly impacted by the sale of the hydropower assets and associated real estate at the Landqart mill to a Swiss utility company for proceeds of CHF18 million. An increase in volume sold in both the first and second quarters of 2013 have contributed to improving metrics, higher sales and better results for the Security Paper Products Segment. In addition the results were impacted by a $1.9 million realized gain from the sale of non-core assets in the first quarter of 2013 and $0.8 million realized loss from the sale of non-core assets in the second quarter of 2013.

Second Quarter 2013 Earnings Review

Three Months Ended June 30

Overview

Fortress reported an adjusted net loss from continuing operations of $20.6 million, or diluted loss per share of $1.42 for the second quarter of 2013 on sales of $59.9 million. In the first quarter of 2013, the Company reported an adjusted net loss of $20.6 million or diluted loss per share of $1.42 on sales of $57.6 million, and for the second quarter of 2012, an adjusted net loss of $11.5 million or diluted loss per share of $0.79 on sales of $43.2 million.

Cost of products sold from continuing operations was $58.3 million for the three months ended June 30, 2013 compared to $60.9 million for the three months ended March 31, 2013. In the second quarter of 2012, cost of products sold was $44.7 million.

Sales and cost of products sold in the second quarter are slightly improved compared to the previous quarter; however, the improved operating results were offset somewhat by a loss on the sale of a non-core asset and lower income tax recovery. The Company also realized a gain on the sale of Dresden of $153.3 million during the quarter.

Selling, general and administrative ("SG&A") expenses for continuing operations were $9.9 million for the second quarter of 2013 compared to $9.8 million for the first quarter of 2013. The prior year comparative period SG&A was $6.7 million. SG&A was elevated compared to the prior year comparative period, primarily as a result of increased corporate activity, compensation expenses related to the successful sale of Dresden and higher commissions in the Security Paper Products Segment as a result of increased sales in the segment.

Stock-based compensation expense was $0.7 million during the period compared to $0.9 million in the first quarter of 2013. The prior year comparative period stock-based compensation was $0.5 million. Stock compensation was higher in the first two quarters of 2013 relative to the prior period comparatives primarily as a result of stock option awards that vested for new and departing executives.

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	Q2 2013	Q1 2013	Q2 2012
Sales from continuing operations	59,883	57,559	43,208
EBITDA from continuing operations[1]	(8,356)	(13,162)	(8,163)
EBITDA[2] [3]	(4,934)	(2,627)	2,175
Net income (loss) from continuing operations	(20,851)	(18,814)	6,005
Net income (loss) [3]	134,125	(12,373)	12,289
Adjusted net loss from continuing operations [4]	(20,632)	(20,618)	(11,499)
Paper shipments (tonnes) [5]	1,953	2,179	767
Pulp shipments (ADMT)	38,006	39,147	35,679

(1) See Net (Loss) Income to EBITDA Reconciliation for Continuing Operations.
(2) See Net Income (Loss) to EBITDA Reconciliation including Discontinued Operations.
(3) Including discontinued operations.
(4) See Net (Loss) Income to Adjusted Net Loss Reconciliation for Continuing Operations.
(5) From continuing operations.

Net (Loss) Income to Adjusted Net Loss Reconciliation for Continuing Operations:

(thousands of dollars, except per share amounts, unaudited)	Q2 2013	Q1 2013	Q2 2012
Net (loss) income	(20,851)	(18,814)	6,005
Foreign exchange (gain) loss	(534)	56	1,793
Gain (loss) on sale of property, plant and equipment	753	(1,860)	(19,297)
Adjusted net loss	(20,632)	(20,618)	(11,499)
Basic net income (loss) per share	(1.43)	(1.30)	0.42
Diluted net income (loss) per share	(1.43)	(1.30)	0.40
Adjusted net loss per share, basic and diluted	(1.42)	(1.42)	(0.79)

Net Income (Loss) to EBITDA Reconciliation for Continuing Operations:

(thousands of dollars, unaudited)	Q2 2013	Q1 2013	Q2 2012
Net (loss) income	(20,851)	(18,814)	6,005
Income tax	3,392	(1,815)	(3,129)
Foreign exchange (gain) loss	(534)	56	1,793
Net finance expense	3,944	4,009	1,844
Amortization	4,281	4,334	4,122
Gain (loss) on sale of property, plant and equipment	753	(1,860)	(19,297)
Stock based compensation	659	928	499
EBITDA	(8,356)	(13,162)	(8,163)

Net Income (Loss) to EBITDA Reconciliation Including Discontinued Operations:

(thousands of dollars, unaudited)	Q2 2013	Q1 2013	Q2 2012
Net income (loss)	134,125	(12,373)	12,289
Income tax	3,951	1,144	(324)
Foreign exchange (gain) loss	(534)	81	1,816
Net finance expense	5,105	4,373	2,277
Amortization	4,281	5,080	4,920
Gain on disposal of business	(153,274)	-	-
Gain (loss) on sale of property, plant and equipment	753	(1,860)	(19,297)
Stock based compensation	659	928	499
EBITDA	(4,934)	(2,627)	2,175

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	Q2 2013	Q1 2013	Q2 2012
Sales	29,343	28,886	35,096
Operating loss	(8,828)	(11,026)	(2,811)
Shipments (ADMT)	38,006	39,147	35,679

Early in the second quarter of 2013, the Fortress Specialty Cellulose mill had its planned ten day maintenance shut-down. The maintenance shut-down negatively impacted results by approximately $2.6 million, but production and costs improved significantly thereafter. Sales also improved as slightly higher dissolving pulp prices were realized. In the second quarter of 2012, the Fortress Specialty Cellulose mill realized significantly higher dissolving pulp prices.

In the first quarter of 2013, the Fortress Specialty Cellulose mill experienced production challenges related to the digester and evaporator that stalled progress experienced in the previous quarter. Compounding the impact on results were the lowest realized sales prices to date due to weakening market prices of dissolving pulp in China. Although depressed dissolving pulp prices continues to impact Fortress Specialty Cellulose mill results, we expect to realize significant benefits from production improvements, cost reduction initiatives and the cogeneration facility by the end of the fiscal year 2013.

Security Paper Products Segment

(thousands of dollars, except for shipments, unaudited)	Q2 2013	Q1 2013	Q2 2012
Sales	30,540	28,673	8,112
Operating loss	(1,392)	(4,122)	(8,204)
Shipments (tonnes)	1,953	2,179	767

Results in the first two quarters of 2013 at the Landqart mill reflect higher sales volume. Compared to the first quarter of 2013, the second quarter had slightly better product mix. Security paper production includes banknotes which result in varying degrees of costs and margin depending on the complexity of the features included. Despite the higher sales, less than favourable conditions that adversely impacted results in the prior year, such as the strength of the Swiss franc against the Euro, overcapacity in the banknote paper industry and increased competition for orders, continue to adversely impact results.

In the second quarter of 2012, the Landqart sales volume and results were adversely impacted by delays in the implementation of a significant banknote order which was reinstated late in the same quarter.

The Company continues to assess other strategic options at the Landqart mill, including the sale of non-core assets. In the second and first quarters of 2013, non-core land sales resulted in proceeds of $0.2 million and a realized loss of $0.8 million and proceeds of $3.6 million and a realized gain of $1.9 million, respectively. The loss and gain are not included in EBITDA or operational income.

Fortress Optical Features Ltd. ("Fortress Optical") generated sales of $0.8 million in the second quarter of 2013 and $0.5 million in the first quarter of 2013. In the second quarter of 2012, $0.5 million of sales revenue were generated. Fortress Optical began operations in 2011. Fortress Optical produces security material for security threads used in banknotes at the Fortress Optical Facility.

Discontinued Operations: Specialty Papers Segment

(thousands of dollars, except for shipments, unaudited)	**Q2 2013**	**Q1 2013**	**Q2 2012**
Sales	15,628	42,102	40,814
Operating income	3,422	9,789	9,540
Shipments (tonnes)	6,055	16,008	15,789

The Dresden mill results for the month of April are reflected above. The Dresden mill was sold on April 30, 2013.

Six Months Ended June 30

Selected Financial Information and Statistics for the Six Months Ended:

(thousands of dollars, except for shipments, unaudited)	**June 30, 2013**	**June 30, 2012**
Sales from continuing operations	117,442	66,920
EBITDA from continuing operations(1)	(21,518)	(19,494)
EBITDA(2) (3)	(7,561)	190
Net income (loss) from continuing operations	(39,665)	(8,199)
Net income (loss) (3)	121,752	1,619
Adjusted net loss from continuing operations (4)	(41,250)	(26,933)
Paper shipments (tonnes) (5)	4,132	1,762
Pulp shipments (ADMT)	77,272	71,361

(1) See Net Loss to EBITDA Reconciliation for Continuing Operations.
(2) See Net Income to EBITDA Reconciliation including Discontinued Operations.
(3) Including discontinued operations.
(4) See Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations.
(5) From continuing operations.

Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations:

(thousands of dollars, except per share amounts, unaudited)	**June 30, 2013**	**June 30, 2012**
Net loss	(39,665)	(8,199)
Foreign exchange loss (gain)	(478)	563
Gain (loss) on sale of property, plant and equipment	(1,107)	(19,297)
Adjusted net (loss) income	(41,250)	(26,933)
Basic and diluted net (loss) per share	(2.73)	(0.57)
Adjusted net (loss) per share, basic and diluted	(2.84)	(1.88)

Net Loss to EBITDA Reconciliation for Continuing Operations:
(thousands of dollars, unaudited)

	June 30, 2013	June 30, 2012
Net loss	(39,665)	(8,199)
Income tax	1,577	(4,270)
Foreign exchange (gain) loss	(478)	563
Net finance expense	7,953	3549
Amortization	8,615	7,250
Gain (loss) on sale of property, plant and equipment	(1,107)	(19,297)
Stock based compensation	1,587	910
EBITDA	(21,518)	(19,494)

Net Income to EBITDA Reconciliation Including Discontinued Operations:
(thousands of dollars, unaudited)

	June 30, 2013	June 30, 2012
Net income	121,752	1,619
Income tax	5,095	319
Foreign exchange (gain) loss	(453)	603
Net finance expense	9,479	7,119
Amortization	9,360	8,917
Gain on disposal of business	(153,274)	-
Gain (loss) on sale of property, plant and equipment	(1,107)	(19,297)
Stock based compensation	1,587	910
EBITDA	(7,561)	190

Overview

EBITDA loss for the Company from continuing operations was $21.5 million for the six months ended June 30, 2013 on sales of $117.4 million compared to $19.5 million in the six months ended June 30, 2012 on sales of $66.9 million. The Fortress Specialty Cellulose mill experienced some challenges in first six months of 2013 including depressed dissolving pulp prices, operational issues and some escalation in costs and timing delays on the cogeneration facility. Despite the challenges, after the planned ten day maintenance shut-down in April, the mill did exit the period with improved production rates and costs. The Security Paper Products Segment continues to improve key performance metrics and is operating much more efficiently than in the prior year particularly due to the increased sales volumes.

The Security Paper Products Segment generated a significant improvement in the first six months of 2013 ($1.6 million EBITDA loss) compared to the prior year ($11.4 million EBITDA loss). The Dissolving Pulp Segment generated an EBITDA loss of approximately $15.2 million in the first six months of 2013 compared to $4.2 million EBITDA loss in the prior year comparative period. Corporate costs contributed EBITDA loss of $4.8 million and $3.8 million in the six months ended June 30, 2013 and 2012, respectively.

Adjusted net loss for the six month period ended June 30, 2013 was $41.3 million or $2.84 per share basic. Adjusted net loss for the prior comparative period was $26.9 million or $1.88 per share basic.

Cost of products sold was $119.2 million for the six months ended June 30, 2013 compared to $71.4 million in the six months ended June 30, 2012. In the prior year comparative period, cost of products sold as well as sales were impacted downward as a result of the capitalization of sales and cost of sales at the Fortress Specialty Cellulose mill for the period from January 1, 2012 through March 18, 2012. Both sales and cost of sales for the six months ended June 30, 2013 increased as a result of the increased volume in the Security Paper Products Segment attributable in part to the reinstatement of a significant banknote order late in the prior year comparative period.

SG&A was elevated compared to the prior comparative periods, primarily as a result of increased corporate activity, bonus accruals related to the successful sale of Dresden and higher commissions in the Security Paper Products segment as a result of increased sales in the segment. SG&A was $19.7 million compared to $15.0 million in the periods ended June 30, 2013 and 2012, respectively.

Stock based compensation was $1.6 million in the six months ended June 30, 2013 compared to $0.9 million in the previous comparative period. The increase was primarily as a result of awards that vested in relation to new and departing executives.

Foreign exchange gains and losses relate primarily to translation losses or gains on foreign denominated debt.

Operating Results by Business Segment

Dissolving Pulp Segment

	Six Months Ended	
(thousands of dollars, except for shipments, unaudited)	**June 30, 2013**	**June 30, 2012**
Sales	58,229	45,533
Operating loss	(19,854)	(7,513)
Shipments (tonnes)	77,272	71,361

Results for the first six months of 2013 at the Fortress Specialty Cellulose mill were impacted by production challenges related to the digester and evaporator and a planned ten day maintenance shut-down. Compounding the impact on results were the lowest realized sales prices to date due to weakening market prices of dissolving pulp in China.

Results for the period ended June 30, 2012 reflect a continued ramp up period of dissolving pulp production. Commercial production for accounting purposes, with the equipment operating as intended by management, began on March 18, 2012. After such date all sales and cost of sale have been included in operating results.

Security Paper Products Segment

	Six Months Ended	
(thousands of dollars, except for shipments, unaudited)	**June 30, 2013**	**June 30, 2012**
Sales	59,213	21,387
Operating loss	(5,514)	(15,442)
Shipments (tonnes)	4,132	1,762

The six month period ended June 30, 2013 shows a significant improvement compared to the prior year comparative period. Both volume shipped and sales have increased materially resulting in longer production runs, and therefore, more efficient operations. Results for the six months ended June 30, 2012 were adversely affected by a significant banknote order that was delayed and was only reinstated towards the end of June.

Discontinued Operations: Specialty Papers Segment

	Six Months Ended	
(thousands of dollars, except for shipments, unaudited)	**June 30, 2013**	**June 30, 2012**
Sales	57,730	78,472
Operating income	13,211	18,189
Shipments (tonnes)	22,062	30,084

Results for the six month period ended June 30, 2013 reflect the Dresden mill results to its sale date of April 30, 2013.

Selected Cash Flow Items

	Q2 2013	Q1 2013	Six Months Ended June 30, 2013	Q2 2012	Six Months Ended June 30, 2012
Cash (used by) provided before working capital changes	(4,907)	(5,612)	(10,519)	918	(3,318)
Non-cash working capital change	7,076	1,628	8,704	4,421	19,430
Cash provided (used by) operating activities	2,169	(3,984)	(1,815)	5,339	16,112
Cash (used) provided by financing activities	(73,051)	15,183	(57,868)	34,285	53,020
Cash generated (used) by investing activities	174,380	(13,294)	161,086	(4,089)	(49,236)
Change in cash position	103,498	(2,095)	101,403	35,535	19,896
Foreign exchange gain (loss) on cash and cash equivalents	2,981	282	3,263	(212)	(710)

Operating Activities

Fortress operates in a cyclical industry and its operating cash flows vary accordingly. Fortress' principal operating cash expenditures are for compensation and raw materials. Operating activities used cash of $1.8 million and provided cash of $16.1 million in the six months ended June 30, 2013 and 2012, respectively. Working capital is subject to cyclical operating needs, the timing of collection of receivables and the payment of payables and expenses.

Financing Activities

During the first six months of 2013, financing activities used cash of $57.9 million. During the period, Dresden entered into two credit facilities in the aggregate amount of €15 million with Commerzbank AG. The new facilities were comprised of a €5 million tranche and a €10 million tranche which were repaid, together with all other outstanding Dresden indebtedness, as a condition of and concurrently with the closing of the sale of the Dresden mill. A penalty of $1.2 million was paid in connection with the early repayment of all the Dresden indebtedness.

During the six month period ended June 30, 2012, financing activities generated $53.0 million. In June 2012, Fortress completed a $25 million convertible debenture financing with Fonds de Solidarité (F.T.Q.) as part of the financing initiatives related to the FGC mill conversion project. Proceeds received from option exercises during the period were $0.1 million. Cash was generated by drawing on the final principal installments excluding holdbacks on Company's loan agreement with Investissement Québec in respect of the Fortress Specialty project. In March 2012, the Company entered into a new €25 million credit facility with Commerzbank. The new facility was used primarily to repay the balance of an existing loan agreement with GE Capital Bank AG that was used to finance the rebuild of papermachine no.1 at the Landqart mill. A penalty of $2.6 million was paid in connection with the early repayment of the GE indebtedness. Payments on indebtedness (apart from the GE repayment) and debt interest during the period used cash of $1.0 million and $3.0 million, respectively.

Investing Activities

Investing activities in the first six months of 2013 and 2012 provided cash of $161.1 million and used cash of $49.2 million, respectively. The sale of Dresden resulted in cash proceeds of $212.2 million which were offset by $42.4 million in additions to property, plant and equipment primarily at the Fortress Specialty Cellulose mill and $11.8 million in restricted cash. Restricted cash provides security for banknote contracts in the Security Paper Products Segment. Non-core asset sales at the Landqart mill provided cash of $3.8 million.

Investing activities for the six months ended June 30, 2012 used cash of $49.2 million and relate primarily to the purchase of equipment and other capital expenditures at our mills. Cash used in investing activities for the period ended June 30, 2012 was positively impacted by the $19.4 million the sale of non-core hydropower assets at Landqart.

Liquidity and Capital Resources

As at June 30, 2013, the Company has made aggregate expenditures of approximately $239.6 million, including $6.5 million in accounts payable, on the conversion of Fortress Specialty Cellulose mill into a dissolving pulp mill and the construction of a new cogeneration facility. As at the date of this MD&A, aggregate expenditures on the Fortress Specialty Cellulose mill project were approximately $241.0 million, including $4.8 million in accounts payable. In the latter part of the first quarter of 2012, management reassessed the cogeneration project and identified certain deficiencies in a previous estimate from an engineering firm as well as scope of work adjustments necessary in order to commence delivery of power early in 2013. Additional costs were incurred as a result of repairs required to the recovery boiler during the third quarter of 2012. Subsequent to the 2012 year end, the Company announced that commissioning and start-up activities relating to the cogeneration project at the Fortress Specialty Cellulose mill had incurred delays as a result of various factors, including unforeseen piping related delays, reduced manpower availability, minor scope of work adjustments and, most recently, pump complications. As a result of these and other previously reported issues, the current budgeted capital expenditures, as at the date of this MD&A, is estimated at $241.0 million for the completion of the Fortress Specialty Cellulose mill project as a whole.

Although there can be no assurances, Fortress believes that current cash (including proceeds from the divestiture of Dresden), cash generated from operations, tax credits, proceeds from the divestiture of non-core assets, proceeds from the offering of convertible unsecured subordinated debentures completed in July 2012, together with amounts available under its existing or new credit facilities should be sufficient to meet its debt service, capital expenditure and short term working capital requirements. Fortress' future operating performance and its ability to finance capital expenditures, service its debt and pay other indebtedness will be subject to future economic conditions, the financial success of Fortress' business, the successful ramp-up of its dissolving pulp production at the Fortress Specialty Cellulose mill to full planned capacity combined with the cost benefits expected to be derived from the cogeneration facility once it is fully operational and other factors, some of which are not within Fortress' control, including but not limited to changes in market prices for its products, raw materials costs and foreign currency exchange rates and the results of the MOFCOM investigation. Although the ramp-up of dissolving pulp production to planned capacity at the Fortress Specialty Cellulose mill is anticipated to provide significant cash flow and liquidity, Fortress may determine, in its sole discretion, that market or financial conditions may warrant that it seek additional sources of capital on terms satisfactory to Fortress, including but not limited to additional debt or equity financing, in order to fund capital expenditures, provide additional working capital, enhance liquidity or for other general corporate purposes. See "Risks and Uncertainties" in the Company's Management's Discussion and Analysis for the year ended December 31, 2012, available on SEDAR at www.sedar.com.

At June 30, 2013, the Company had cash of $136.2 million, aggregate indebtedness of $227.2 million and net working capital of $154.7 million.

Commitments

As at June 30, 2013 the Company has:

- committed to purchase $4.4 million in property, plant, and equipment; and,
- performance bonds in the amounts of €6.9 million and CHF 0.1 million.

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 relevant stakeholders to ensure the safety of its operations and employees, and remain in compliance with applicable environmental regulations and enhance the communities in which it operates.

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

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

(thousands of dollars, unaudited)	**June 30, 2013**	**December 31, 2012**
Cash and cash equivalents	136,157	31,491
Less total debt	227,174	255,901
Net (debt) cash	(91,017)	(224,410)
Shareholders' equity	364,108	229,669

The Company has certain financial covenants stipulating maximum net debt to capitalization ratios and minimum current ratios. Debt obligations are owed by various entities within the organization with individual loan agreements specifying the entities within the group of companies that are to be included in the covenant calculations.

The Company ensures it remains in compliance with all of its existing debt covenants in order to facilitate future access to capital. Management reviews past results and forecasts to monitor their compliance. The Company was in compliance with all externally imposed capital requirements for the quarter ended June 30, 2013.

Outstanding Shares

The number of common shares outstanding at June 30, 2013 and the date of this report were 14,561,417. The number of options outstanding at June 30, 2013 and the date of this report were 650,725. At June 30, 2013 and the date of this report there were 246,365 outstanding restricted share units, respectively. At June 30, 2013 and the date of this report there were 146,178 and 158,130 deferred share units outstanding, respectively.

Related Party Transactions

Related party transactions consist of remuneration of directors and other key management personnel with whom we have entered in employment agreements. Further information is contained in our Management Information Circular dated May 3, 2013, which is available on SEDAR at www.sedar.com.

Contingencies

Provisions for liabilities relating to legal actions and claims require judgments using management's best estimates regarding projected outcomes and the range of loss, based on such factors as historical experiences and recommendations of legal counsel. Actual results may vary from estimates and the differences are recorded when known. In respect of a dispute which arose in the fourth quarter of 2011 relating to a faulty input which was provided by a third party supplier of the Landqart mill, the Company expected that any amounts under dispute would be reimbursed to the Company by the supplier. The net impact to the mill is therefore expected to be nil. Satisfactory payment terms with the supplier were agreed and the entire amount was recovered.

Critical Accounting Estimates

For a review of significant management judgments affecting financial results and critical accounting estimates, see the Management's Discussion and Analysis for the year ended December 31, 2012, available on SEDAR.

New Accounting Pronouncements

On January 1, 2013 the Company adopted new and amended accounting standards as disclosed in Note 3 to the unaudited condensed consolidated interim financial statements.

Risks and Uncertainties

A comprehensive discussion of risk factors is included in the Company's 2012 Annual Information Form dated March 28, 2013, available on SEDAR at www.sedar.com. Those as well as risks detailed in the Management's Discussion and Analysis for the year ended December 31, 2012, also available on SEDAR, may impact the business of the Company.

Disclosure Controls and Internal Controls over Financial Reporting

During the quarter ended June 30, 2013, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

FORTRESS PAPER LTD.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, amounts in thousands, unaudited)

	Note	June 30, 2013 $	December 31, 2012 $
ASSETS			
Current			
Cash and cash equivalents		136,157	31,491
Restricted cash		14,164	2,600
Trade accounts receivable		19,236	13,835
Other accounts receivable	4	10,198	28,403
Inventories		31,588	53,064
Prepaid expenses	7	8,944	8,334
		220,287	137,727
Property, plant and equipment		435,834	440,227
Employee future benefits		1,409	–
Total assets		657,530	577,954
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		54,795	79,806
Income taxes payable		659	3,123
Current portion of long-term debt	7	10,150	7,761
		65,604	90,690
Long-term debt	7	217,024	248,140
Provisions and other long term liabilities		5,251	5,528
Deferred income taxes		5,543	2,154
Employee future benefits	3	–	1,773
Total liabilities		293,422	348,285
Shareholders' equity			
Share capital	8	179,056	178,052
Contributed surplus		26,881	26,078
Accumulated other comprehensive income	3	10,131	2,152
Retained earnings	3	148,040	23,387
Total shareholders' equity		364,108	229,669
Total liabilities and shareholders' equity		657,530	577,954

(See accompanying notes)

Approved by the Board of Directors:

"Chadwick Wasilenkoff" — Director

"Anil Wirasekara" — Director

FORTRESS PAPER LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Canadian dollars, amounts in thousands, unaudited)

	Note	Three Months Ended June 30, 2013 $	Three Months Ended June 30, 2012 $	Six Months Ended June 30, 2013 $	Six Months Ended June 30, 2012 $
Sales		59,883	43,208	117,442	66,920
Costs and expenses					
Cost of products sold		(58,311)	(44,711)	(119,236)	(71,443)
Amortization		(4,281)	(4,122)	(8,615)	(7,250)
Selling, general and administration		(9,928)	(6,660)	(19,724)	(14,971)
Stock-based compensation		(659)	(499)	(1,587)	(910)
Operating loss		(13,296)	(12,784)	(31,720)	(27,654)
Other income (expense)					
Finance expense		(4,004)	(1,851)	(8,037)	(3,563)
Finance income		60	7	84	14
(Loss) gain on sale of property, plant and equipment	6	(753)	19,297	1,107	19,297
Foreign exchange gain (loss)		534	(1,793)	478	(563)
Net (loss) income from continuing operations before income taxes		(17,459)	2,876	(38,088)	(12,469)
Income tax (expense) recovery		(3,392)	3,129	(1,577)	4,270
Net (loss) income from continuing operations		(20,851)	6,005	(39,665)	(8,199)
Net income from discontinued operations	5	154,976	6,284	161,417	9,818
Net income		134,125	12,289	121,752	1,619
(Loss) earnings per share from continuing operations		(1.43)	0.42	(2.73)	(0.57)
Diluted (loss) earnings per share from continuing operations		(1.43)	0.40	(2.73)	(0.57)
Earnings per share		9.23	0.86	8.39	0.11
Diluted earnings per share	10	9.23	0.82	8.39	0.11
Weighted average number of shares outstanding					
Basic		14,536,451	14,322,303	14,519,283	14,314,069
Diluted	10	14,536,451	15,032,413	14,519,283	14,314,069

(See accompanying notes)

FORTRESS PAPER LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Canadian dollars, amounts in thousands, unaudited)

	Three Months Ended June 30, 2013 $	Three Months Ended June 30, 2012 $	Six Months Ended June 30, 2013 $	Six Months Ended June 30, 2012 $
Net income	134,125	12,289	121,752	1,619
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Exchange differences on translation of foreign operations	8,860	(1,608)	7,979	(806)
	8,860	(1,608)	7,979	(806)
Items that will not be reclassified to net income				
Actuarial gain (loss) recognized on employee future benefits (net of taxes of ($324), $193, ($580) and ($50))	1,619	(961)	2,901	250
Total other comprehensive income (loss)	10,479	(2,569)	10,880	(556)
Total comprehensive income	144,604	9,720	132,632	1,063

(See accompanying notes)

FORTRESS PAPER LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, amounts in thousands, unaudited)

	Note	Six Months Ended June 30, 2013 $	Six Months Ended June 30, 2012 $
Share Capital	8		
Balance at beginning of period		178,052	175,200
Restricted share units vested		635	461
Deferred share units vested		369	–
Options exercised		–	198
Balance at end of period		179,056	175,859
Contributed Surplus			
Balance at beginning of period		26,078	13,010
Stock based compensation		1,586	909
Early vesting of restricted share units on sale of division		221	
Restricted share units vested		(635)	(461)
Deferred share units vested		(369)	–
Options exercised		–	(54)
Issuance of convertible note		–	1,793
Warrants		–	4,620
Balance at end of period		26,881	19,817
Retained Earnings			
Balance at beginning of period, as reported		23,039	40,741
Effect of retroactive adoption of new accounting pronouncement	3	348	340
Balance at beginning of period, restated		23,387	41,081
Net income		121,752	1,619
Defined benefit plan actuarial gain, net of tax		2,901	250
Balance at end of period		148,040	42,950
Accumulated Other Comprehensive Income			
Balance at beginning of period		2,152	2,688
Cumulative translation adjustment on foreign operations		7,979	(806)
Balance at end of period		10,131	1,882
Total equity		364,108	240,508

(See accompanying notes)

FORTRESS PAPER LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars, amounts in thousands, unaudited)

	Note	Six Months Ended June 30, 2013 $	Six Months Ended June 30, 2012 $
Cash flows from (used by) operating activities			
Net income for the period		121,752	1,619
Adjustments:			
Gain on disposal of business	5	(153,274)	–
Loss (gain) on sale of property, plant and equipment	6	(1,107)	(19,297)
Amortization		9,361	8,916
Income tax expense		5,139	318
Income taxes paid		(2,720)	(3,658)
Foreign exchange gain		(674)	755
Finance expense		9,418	7,120
Stock-based compensation		1,586	909
		(10,519)	(3,318)
Change in non-cash working capital items			
Accounts receivable		6,170	6,101
Inventories		9,086	18,148
Prepaid expenses		(815)	(329)
Accounts payable and accrued liabilities and other		(5,737)	(4,490)
		(1,815)	16,112
Cash flows from (used by) financing activities			
Repayment of long-term debt		(51,052)	(27,157)
Proceeds from long-term debt		19,860	85,219
Options exercised		–	144
Repurchase of factored accounts receivable	5	(18,006)	–
Long-term debt prepayment penalty	5	(1,166)	(2,615)
Payment of long-term debt interest		(7,504)	(2,571)
		(57,868)	53,020
Cash flows from (used by) investing activities			
Additions to property, plant and equipment		(42,415)	(55,796)
Proceeds from sale of business	5	212,240	–
Adjustments and costs associated with sale of business	5	(771)	–
Startup costs capitalized		–	(8,585)
Proceeds from sale of property, plant and equipment	6	3,802	19,414
Proceeds from Green Transformation program		–	1,000
Restricted cash		(11,770)	(5,269)
		161,086	(49,236)
Increase (decrease) in cash position		101,403	19,896
Foreign exchange gain (loss) on cash and cash equivalents		3,263	(710)
Cash and cash equivalents, beginning of year		31,491	22,897
Cash and cash equivalents, end of period		136,157	42,083
Supplementary cash flow information	13		

(See accompanying notes)

1. NATURE OF OPERATIONS

Fortress Paper Ltd. (the "Company" or "Fortress") was incorporated on May 30, 2006 under the laws of the Province of British Columbia. The address of the Company's registered office is 157 Chadwick Court – 2nd floor, North Vancouver, British Columbia, Canada V7M 3K2. From the date of incorporation to July 31, 2006, the Company was inactive. The Company's fiscal year-end is December 31. Fortress Paper operates internationally in three distinct business segments: dissolving pulp, specialty papers and security paper products. As of April 30, 2013, the entire specialty papers segment was sold by the Company (*Note 5).* The Company operates its dissolving pulp business at the Fortress Specialty Cellulose Mill located in Canada, which is also in the process of expanding into the renewable energy generation sector with the construction of a cogeneration facility. Fortress Specialty Cellulose was converted into a dissolving pulp mill with ramp up production starting in December of 2011. Commercial production at Fortress Specialty Cellulose for accounting purposes, with the equipment operating as intended by management, began on March 18, 2012. Fortress Specialty Cellulose is still considered to be in ramp up mode working towards full capacity and operating efficiencies. The Company is also seeking to expand its dissolving pulp capacity with the acquisition of the Fortress Global Cellulose Mill located at Lebel-sur-Quévillon, Québec, which the Company intends to convert into a dissolving pulp mill and re-start the cogeneration facility. Up to April 30, 2013, the Company operated its specialty papers business at the Dresden Mill located in Germany, where it was a leading international producer of specialty non-woven wallpaper base products (*Note 5)*. The Company operates its security paper products business at the Landqart Mill located in Switzerland, where it produces banknote, passport, visa and other brand protection and security papers, and at its Fortress Optical Facility located in Canada, where it manufactures optically variable thin film material.

2. BASIS OF PRESENTATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. The policies applied in these condensed interim consolidated financial statements are based on International Financial Reporting Standards ("IFRS") issued and outstanding as of August 13, 2013, the date the Board of Directors approved the statements.

These unaudited interim financial statements do not include all of the disclosures required by IFRS 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, 2012 (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, 2012 consolidated financial statements, with the exception of the changes noted in Note 3 below.

3. NEW ACCOUNTING PRONOUNCEMENTS

IAS 1 – Presentation of Financial Statements

The Company has adopted the amendments to IAS 1 effective January 1, 2013. These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income (loss) or comprehensive income (loss).

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

IAS 19 – Employee Benefits

IAS 19, *Employee Benefits* (Revised 2011), amends certain accounting requirements for defined benefit plans and termination benefits.

The revised standard requires that the net defined benefit liability (asset) be recognized on the statement of financial position excluding any deferral of actuarial gains and losses and past service costs as previously allowed. Past service costs are recognized in net income when incurred. Expected returns on plan assets are no longer included in post-employment benefits' expense; rather, post-employment benefits' expense includes the net interest on the net defined benefit liability (asset) calculated using a discount rate based on market yields on high quality bonds. Adjustments consisting of actuarial gains and losses, the actual return on plan assets (excluding the net interest component) and any change in the asset ceiling are recognized in other comprehensive income. The Company also continues to recognize interest expense (income) on the net post-employment benefits liability (asset) in finance expense (income) in the condensed consolidated statement of operations.

IAS 19 (Revised 2011) also clarifies that benefits are classified as long-term if payments are not expected to be made within the next 12 months. The standard also requires termination benefits to be recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit or recognizes restructuring costs. Termination benefits that require future services are recognized over the period the future services will be provided.

The Company adopted these amendments retrospectively and has adjusted its opening equity as at January 1, 2012 to recognize an amended employee future benefits liability according to the new standard. The employee future benefits' finance expense and employee benefit expense for the comparable period have been adjusted to reflect the accounting changes for defined benefit plans. There were no changes to the Company for other long-term employment benefits or termination benefits as a result of adopting the amended standard. The adjustments for each financial statement line item are presented in the tables below.

Adjustments to the statement of financial position	December 31, 2012 $	January 1, 2012 $
Equity before accounting change	229,330	231,639
Decrease in employee future benefits liability	407	408
Increase in deferred income tax liability	(68)	(68)
Equity after accounting change	229,669	231,979

Adjustments to the statement of operations	Three Months Ended June 30, 2012 $	Six Months Ended June 30, 2012 $
Net income before accounting change	12,462	1,968
Increase in finance expense	(38)	(76)
Increase in selling, general and administrative expense	(168)	(342)
Decrease in deferred income tax expense	33	69
Net loss after accounting change	12,289	1,619

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

Adjustments to comprehensive income	Three Months Ended June 30, 2012 $	Six Months Ended June 30, 2012 $
Comprehensive income before accounting change	9,597	909
Increase in net loss	(171)	(348)
Increase in actuarial gain	294	499
Increase in exchange differences on translation of foreign operations	–	3
Comprehensive income after accounting change	9,720	1,063

New and Revised Standards Adopted with no Material Effect on Statements

During 2011, the International Accounting Standards Board ("IASB") issued a number of new and revised accounting standards which are effective for annual periods beginning on or after January 1, 2013. The following new and revised accounting standards were adopted by the Company effective January 1, 2013 and did not have a material impact on the amounts recorded in the financial statements of the Company:

- IFRS 10 – *Consolidated Financial Statements*;
- IFRS 11 – *Joint Arrangements*;
- IFRS 12 – *Disclosure of Interests in Other Entities*;
- IFRS 13 – *Fair Value Measurement*; and
- IAS 28 (revised) – *Investments in Associates and Joint Ventures*.

Further details of these new or revised accounting standards can be found in the consolidated financial statements and notes as at and for the year ended December 31, 2012.

IFRS 9 – Financial Instruments

In 2011, the IASB also amended IFRS 9 – *Financial Instruments*, which is effective for annual periods beginning on or after January 1, 2015. The Company is still in the process of assessing the full impact of this standard. Further details on this standard can be found in the consolidated financial statements and notes as at and for the year ended December 31, 2012.

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

4. OTHER ACCOUNTS RECEIVABLE

	June 30, 2013 $	December 31, 2012 $
Receivable from lender	–	4,052
Investment and other tax credits	–	468
Value added tax	4,232	6,668
Holdbacks receivable	–	6,690
Receivable from supplier	–	6,241
Government grant	1,920	1,194
Income tax receivable	1,407	–
Other	2,639	3,090
	10,198	28,403

5. DISPOSAL OF BUSINESS

On April 30, 2013, the Company sold all of the shares of its wholly owned subsidiary, Dresden Papier GmbH (the "Dresden Mill"), which represented the entire specialty papers segment of the Company, for an aggregate purchase price of EUR 160,000 subject to working capital and other adjustments. The transaction excluded cash and long-term debt associated with the Dresden Mill. Prior to the sale, the long term debt associated with Dresden was repaid by the Company and the factored accounts receivable of the Dresden Mill were repurchased. An early prepayment penalty of $1,166 was recorded on the retirement of the Dresden Mill long term debt.

Based on the book values of the net assets disposed of, the related sales proceeds, and the effect of foreign exchange, the gain on disposal of Dresden Mill is $153,274, as summarized below. The final net working capital adjustment is still being negotiated and is currently based on management's best estimate, which could be subject to change in the future.

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

	April 30, 2013 $
Book value of net assets disposed of:	
Restricted cash	531
Accounts receivable	26,832
Inventories	12,992
Prepaid expenses	210
Property, plant and equipment	31,553
Accounts payable and accrued liabilities	(16,723)
Income taxes payable	(3,932)
Deferred income tax liability	(373)
Net assets disposed of	51,090
Sale proceeds:	
Cash	212,240
Less: purchase price adjustments	(2,640)
Less: directly attributable costs	(2,416)
Total net proceeds	207,184
Profit on disposal before recycling of cumulative translation adjustment	156,094
Cumulative translation adjustment	(2,820)
Gain on disposal	153,274

The Dresden Mill represents the entire wallpaper segment of the Company. The results for the three and six months ended June 30, 2013 and June 30, 2012 have been reclassified in the statement of operations as discontinued operations. The results of the discontinued operations are as follows:

	Three Months Ended June 30, 2013 $	Three Months Ended June 30, 2012 $	Six Months Ended June 30, 2013 $	Six Months Ended June 30, 2012 $
Income before income taxes and gain on disposal	2,261	9,089	11,661	14,406
Income taxes	(559)	(2,805)	(3,518)	(4,588)
Gain on disposal	153,274	–	153,274	–
Net income from discontinued operations	154,976	6,284	161,417	9,818
Cash flows from operating activities	4,225	3,537	8,494	9,475
Cash flows from financing activities	(67,086)	(376)	(49,231)	2,914
Cash flows from investing activities	(1,278)	311	(3,438)	(610)
Increase in cash	(64,139)	3,472	(44,175)	11,779

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

6. PROPERTY, PLANT AND EQUIPMENT

During the three months ended June 30, 2013, the Company sold non-core assets at the Landqart mill for $217. The carrying amount of the assets sold was $970 with a resulting loss on the sale of $753. During the three months ended March 31, 2013, the Company sold non-core land at the Landqart mill for $3,583. The carrying amount of the assets sold was $1,723 with a resulting gain on the sale of $1,860.

7. LONG-TERM DEBT

	Note	June 30, 2013 $	December 31, 2012 $
Credit facilities with lenders			
EUR 96, interest at 2.7%, maturing 2013, secured by certain current assets		–	126
EUR 21,250, interest at 3.8%, maturing 2017, secured by certain property, plant and equipment		–	29,305
CHF 1,165, interest at 4.9%, maturing 2015, secured by certain property, plant and equipment		1,297	2,445
CHF 5,310, maturing 2020, unsecured		5,054	4,849
EUR 15,000, floating interest, maturing 2018		–	–
$104,636, interest up to 5.5%, maturing 2020, secured by certain assets		104,797	104,523
Undrawn credit facility	7(a)	–	–
Unsecured convertible debentures			
$40,250, interest at 6.5%, maturing 2016		35,268	34,695
$25,000, interest at 7%, maturing 2017		22,767	22,548
$69,000, interest at 7%, maturing 2019		57,991	57,410
		227,174	255,901
Less: Current portion		(10,150)	(7,761)
Long-term debt		217,024	248,140

	June 30, 2013 $	December 31, 2012 $
Principal value of debt	246,509	277,165
Unamortized borrowing costs and amounts allocated to equity for convertible debentures	(19,335)	(21,264)
Net amount recorded in liabilities	227,174	255,901

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

Borrowings under the above agreements require maintenance of certain financial and non-financial covenants. The Company has been in compliance with all covenants for all periods presented.

At June 30, 2013, the fair value of the long-term debt, measured at its amortized cost of $227,174, was $178,447. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

(a) The credit agreement is a facility for up to $132,400, granted to Fortress Global Cellulose to support the conversion to dissolving pulp expenditure program and is secured by the assets of Fortress Global Cellulose. The loan is repayable ten years after the first draw on the facility. At June 30, 2013, $nil has been drawn on this facility.

Borrowing costs of $7,006 have been deferred and recorded as a prepaid expense until the loan is drawn upon. Included in the borrowing costs of the loan are 715,000 warrants which have been provided to the lender. The warrants have an exercise price of $21.52 and are exercisable from December 31, 2014 to December 31, 2017, when they expire *(note 8)*.

8. SHARE CAPITAL

Authorized

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

Issued and fully paid — common shares

	Note	Number of Shares	Share Capital $
Balance, December 31, 2011		14,303,594	175,200
Restricted Share Units vested	9	115,481	2,013
Options exercised	9	76,000	839
Balance, December 31, 2012		14,495,075	178,052
Restricted Share Units vested	9	41,894	635
Deferred Share Units vested	9	24,448	369
Balance, June 30, 2013		14,561,417	179,056

On June 20, 2012 the Company issued 715,000 warrants to a lender. The warrants have an exercise price of $21.52 and are exercisable from December 31, 2014 to December 31, 2017, when they expire. All 715,000 warrants were outstanding as at June 30, 2013.

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

9. STOCK-BASED COMPENSATION

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.

At the Company's annual general meeting held April 30, 2009, shareholders approved a long-term incentive plan which provides for the grant of restricted share units, performance share units and deferred share units to key employees and directors of the Company. The aggregate number of shares issuable under the long-term incentive plan in respect of awards, together with shares reserved for issuance under all of the Company's other security-based compensation arrangements, shall not exceed ten percent of the Company's issued and outstanding shares.

Stock Options

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

	Number of options	Weighted Average Exercise Price $
Balance, December 31, 2011	566,725	8.00
Exercised	(76,000)	8.00
Granted	300,000	15.41
Cancellation	(100,000)	8.00
Balance, December 31, 2012	690,725	11.22
Forfeited	(40,000)	15.41
Balance, June 30, 2013	650,725	10.96

During the six months ended June 30, 2013, 40,000 unvested options were forfeited when an employee left the Company.

As at June 30, 2013, 650,725 stock options were exercisable (December 31, 2012: 590,725). The stock options issued have various vesting dates that range from immediately to five years from the grant dates.

Deferred Share Unit Awards

A Deferred Share Unit ("DSU") is a right granted to a non-employee director to receive one common share of the Company, from treasury, on a deferred basis. The value of the DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company. The Company recognizes the expense at the time of grant.

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

DSU transactions and the number of DSUs outstanding are summarized as follows:

	Number of DSUs	Expense recognized $
Balance, December 31, 2011	142,873	5,642
Granted	6,797	163
Balance, December 31, 2012	149,670	5,805
Granted	20,956	202
Vested	(24,448)	−
Balance, June 30, 2013	146,178	6,007

Restricted Share Unit Awards

A Restricted Share Unit ("RSU") is a right granted to a key employee to receive one common share of the Company, from treasury, on a time vested basis. The fair value of restricted share awards is determined based upon the number of shares granted and the quoted price of the Company's stock on the date of grant. Restricted shares generally vest over three to five years.

RSU transactions and the number of RSUs outstanding are summarized as follows:

	Number of RSUs
Balance, December 31, 2011	262,664
Granted	60,869
Vested	(115,481)
Forfeited	(6,850)
Balance, December 31, 2012	201,202
Granted	87,057
Vested	(41,894)
Balance, June 30, 2013	246,365

10. EARNINGS PER SHARE

The weighted average diluted number of shares is based on continuing operations. The weighted average diluted number of shares for comparative periods in 2012 differs from numbers previously reported due to items no longer being dilutive when based solely on continuing operations.

11. COMMITMENTS

As at June 30, 2013, the Company has committed to purchase $4,414 in property, plant, and equipment.

As at June 30, 2013, the Company has performance bonds in the amounts of EUR 6,862 and CHF 51.

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

12. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations is based on a number of factors, including production and economic characteristics. Fortress' business segments were re-classified in 2012 given changes in the nature of products being produced. The Landqart mill and Fortress Optical Features produce security papers and products. The Dresden mill produces non-woven wallpaper base products. The entire wallpaper division has been classified as discontinued operations *(Note 5).* Fortress Specialty Cellulose produces dissolving pulp products. For the six months ended June 30, 2012, the Dissolving Pulp segment operating results up to March 18, 2012 were capitalized to property, plant and equipment during the startup period for dissolving pulp.

	Three months ended June 30, 2013			
	Security	Pulp	Corporate	Continuing Operations
	$	$	$	$
Sales	30,540	29,343	–	59,883
Operating loss	(1,392)	(8,828)	(3,076)	(13,296)
Amortization[1]	(1,932)	(2,349)	–	(4,281)
Stock-based compensation[1]	–	–	(659)	(659)
Capital expenditures	584	13,957	–	14,541
Total assets	138,826	383,064	135,640	657,530

Sales by geographic area	%
Europe	4.6
Asia	79.9
Other	15.5
Total	100.0

[1]Stock-based compensation and amortization are included in operating loss.

	Three months ended June 30, 2013		
	Discontinued Operations (Wallpaper)	Continuing Operations	Fortress Paper Consolidated
	$	$	$
Sales	15,628	59,883	75,511
Operating income (loss)	3,422	(13,296)	(9,874)
Amortization[1]	–	(4,281)	(4,281)
Stock-based compensation[1]	–	(659)	(659)
Capital expenditures	1,507	14,541	16,048
Total assets	–	657,530	657,530

Sales by geographic area	%	%	%
Europe	97.9	4.6	23.9
Asia	1.2	79.9	63.6
Other	0.9	15.5	12.5
Total	100.0	100.0	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

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

	Three months ended June 30, 2012			
	Security	**Pulp**	**Corporate**	**Continuing Operations**
	$	**$**	**$**	**$**
Sales	8,112	35,096	–	43,208
Operating income (loss)	(8,204)	(2,816)	(1,764)	(12,784)
Amortization[1]	(1,970)	(2,152)	–	(4,122)
Stock-based compensation[1]	–	–	(499)	(499)
Capital expenditures	226	21,724	–	21,950
Total assets	137,463	296,373	32,193	466,029

Sales by geographic area	**%**
Europe	12.5
Asia	81.2
Other	6.3
Total	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

	Three months ended June 30, 2012		
	Discontinued Operations (Wallpaper)	**Continuing Operations**	**Fortress Paper Consolidated**
	$	**$**	**$**
Sales	40,814	43,208	84,022
Operating income (loss)	9,540	(12,784)	(3,244)
Amortization[1]	(798)	(4,122)	(4,920)
Stock-based compensation[1]	–	(499)	(499)
Capital expenditures	33	21,950	21,983
Total assets	63,086	466,029	529,115

Sales by geographic area	**%**	**%**	**%**
Europe	97.3	12.5	53.7
Asia	–	81.2	41.8
Other	2.7	6.3	4.5
Total	100.0	100.0	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

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

	Six months ended June 30, 2013			
	Security	**Pulp**	**Corporate**	**Continuing Operations**
	$	**$**	**$**	**$**
Sales	59,213	58,229	–	117,442
Operating income (loss)	(5,514)	(19,854)	(6,352)	(31,720)
Amortization[1]	(3,917)	(4,698)	–	(8,615)
Stock-based compensation[1]	–	–	(1,587)	(1,587)
Capital expenditures	1,003	32,977	–	33,980
Total assets	138,826	383,064	135,640	657,530

Sales by geographic area	**%**
Europe	3.1
Asia	85.0
Other	11.9
Total	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

	Six months ended June 30, 2013		
	Discontinued Operations (Wallpaper)	**Continuing Operations**	**Fortress Paper Consolidated**
	$	**$**	**$**
Sales	57,730	117,442	175,172
Operating income (loss)	13,211	(31,720)	(18,509)
Amortization[1]	(745)	(8,615)	(9,360)
Stock-based compensation[1]	–	(1,587)	(1,587)
Capital expenditures	3,652	33,979	37,631
Total assets	–	657,530	657,530

Sales by geographic area	**%**	**%**	**%**
Europe	96.6	3.1	33.9
Asia	3.1	85.0	58.0
Other	0.3	11.9	8.1
Total	100.0	100.0	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

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

	Six months ended June 30, 2012			
	Security	Pulp	Corporate	Continuing Operations
	$	$	$	$
Sales	21,387	45,533	–	66,920
Operating income (loss)	(15,442)	(7,513)	(4,699)	(27,654)
Amortization[1]	(3,910)	(3,340)	–	(7,250)
Stock-based compensation[1]	–	–	(910)	(910)
Capital expenditures	824	42,202	–	43,026
Total assets	137,463	296,373	32,193	466,029

Sales by geographic area	%
Europe	16.6
Asia	68.0
Other	15.4
Total	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

	Six months ended June 30, 2012		
	Discontinued Operations (Wallpaper)	Continuing Operations	Fortress Paper Consolidated
	$	$	$
Sales	78,472	66,920	145,392
Operating income (loss)	18,189	(27,654)	(9,465)
Amortization[1]	(1,667)	(7,250)	(8,917)
Stock-based compensation[1]	–	(910)	(910)
Capital expenditures	1,258	43,026	44,284
Total assets	63,086	466,029	529,115

Sales by geographic area	%	%	%
Europe	97.1	16.6	60.0
Asia	–	68.0	31.3
Other	2.9	15.4	8.7
Total	100.0	100.0	100.0

[1]Stock-based compensation and amortization are included in operating income (loss).

13. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash items

Non cash property, plant and equipment purchases included in accounts payable decreased by $9,165 for the three months ended June 30, 2013 and decreased by $3,449 for the three months ended June 30, 2012.

Non cash property, plant and equipment purchases included in accounts payable decreased by $6,463 for the six months ended June 30, 2013 and decreased by $26,123 for the six months ended June 30, 2012.