Q3 2014

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2014

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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 November 13, 2014. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and the notes thereto for the three and nine month periods ended September 30, 2014 (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 September 30, 2014 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.

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, viscose staple fibre and our other products; expectations surrounding and resulting from China's antidumping duties, Canada's World Trade Organization complaint against China's antidumping duties and the Company's response to the antidumping duties; benefits that may accrue to the Company as a result of certain acquisitions, dispositions, capital expenditure programs, equipment upgrades and maintenance shut-downs; expected operational performance figures, including costs, utilization rates and efficiencies; expected returns on certain business segments; availability of funds for debt allocation; the expected benefits to be derived from the ability to swing production between dissolving pulp and northern bleached hardwood kraft pulp; 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; the securement of new purchase orders for our products; and the anticipated benefits, cost, timing and completion dates for projects.

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 realize significant cost-savings from production improvements, cost reduction initiatives and the cogeneration facility at the Fortress Specialty Cellulose mill; that current depressed dissolving pulp prices are indicative of unusual market conditions and are not sustainable in the medium to long term; that demand for viscose staple fibre will continue to grow which will result in an increased demand for dissolving pulp; that the Company's strategy of diversifying its product mix at the Fortress Specialty Cellulose mill will assist in mitigating the application of the antidumping duties; that the Landqart mill will continue operating on a consistent and regular basis in order to produce and deliver on its banknote orders; that the Landqart mill will be successful in securing new orders; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; that the Company will be able to enter into enforceable supply agreements for dissolving pulp on favourable terms and diversify its customer base; 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; 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, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other factors; fluctuations in the market price for products sold; trade restrictions or import duties imposed by foreign governments; that the Company's continuing efforts to reverse the dissolving pulp antidumping duty will be unsuccessful; 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; foreign exchange fluctuations; availability of financing (as necessary); dependence on major customers; and other risk factors detailed in our Annual Information Form dated March 31, 2014 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”, calculated as net loss less specific items affecting comparability with prior periods (for the full calculation, see reconciliation included in the tables titled “Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations”) and “adjusted net loss per share”, calculated as adjusted net loss divided by the weighted average number of shares outstanding in the period. EBITDA, adjusted net loss and adjusted net loss per share are not generally accepted earnings measures and should not be considered as an alternative to net 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 loss and adjusted net loss per share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of EBITDA and adjusted net loss to net loss reported in accordance with IFRS and, on a segmented basis, operating loss 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, 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 nine months ended September 30, 2014, the Company operated internationally in two distinct business segments: the Dissolving Pulp Segment and the Security Paper Products Segment. The Company previously operated its specialty papers business through 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. Accordingly, references in this MD&A to “discontinued operations” refer to the Specialty Papers Segment.

The Company operates its dissolving pulp business through the Fortress Specialty Cellulose (“FSC”) mill located in Thurso, Québec, Canada. The mill expanded into the renewable energy generation sector in October 2013 with the completion of the cogeneration facility. The Company operates its security paper products business through the Landqart mill located in Switzerland, where it produces banknote, passport, visa and other brand protection and security papers. On September 16, 2014, the Company completed the sale of its wholly owned subsidiary, Fortress Optical Features Ltd. ("Fortress Optical"), of the security paper products business, where it manufactured optically variable thin film material ("OTM") at its high security production and research facility located in Canada. Fortress Optical was no longer considered to be a strategic asset or material to the Security Paper Products Segment and therefore is not included in references in this MD&A to “discontinued operations”. With the sale of Fortress Optical, the Company no longer manufactures OTM. The segmentation of the Company's manufacturing operations is based on a number of factors, including production, production processes, and economic characteristics. Consistent with the Company’s overall strategy, we continue to explore various shareholder enhancing opportunities, including investments in industries external to the Company’s current business segments as well as divestiture transactions.

Overall Performance

EBITDA loss from continuing operations of the Company was $1.5 million for the three months ended September 30, 2014. Excluding Fortress Optical operations which were sold during the quarter, EBITDA loss for the Company was $1.0 million for the three month period ended September 30, 2014. The Dissolving Pulp Segment generated EBITDA loss of $1.2 million and the Security Paper Products Segment generated EBITDA of $1.1 million. Corporate costs contributed

$1.4 million to EBITDA loss. For the three months ended June 30, 2014, EBITDA loss from continuing operations was $6.0 million and for the three months ended September 30, 2013, EBITDA loss from continuing operations was $7.3 million.

The Company is encouraged by the FSC mill results in the quarter ended September 30, 2014. EBITDA for the Dissolving Pulp Segment for the quarter ended September 30, 2014 was $3.0 million higher when compared to the second quarter of 2014, and $5.4 million higher compared to the third quarter of 2013. The Company sold 37,592 air dried metric tonnes ("ADMT") of dissolving pulp and 17,607 ADMT of northern bleached hardwood kraft pulp ("NBHK") in the third quarter of 2014. Although the dissolving pulp market conditions continue to be challenging, production efficiencies and cash costs have improved during the quarter and relative to comparative periods. The Dissolving Pulp Segment continues to be affected by the antidumping duty imposed by China's Ministry of Commerce ("MOFCOM") in April 2014.

The Landqart mill continues to implement new initiatives to improve efficiencies and profitability. EBITDA for the Security Paper Products Segment for the quarter ended September 30, 2014 was $1.5 million higher when compared to the second quarter of 2014, and $0.5 million lower compared to the third quarter of 2013. Less than favourable conditions, including the strength of the Swiss franc against the Euro and strong competition for orders putting pressure on pricing, continue to impact the results of the Security Paper Products Segment. The Landqart mill achieved 2,436 tonnes of security paper sales in the third quarter of 2014, compared to 1,921 tonnes of security paper sales in the second quarter of 2014.

Management's Outlook

Dissolving Pulp Segment

The dissolving pulp production volumes and production costs at the FSC mill improved significantly in the current quarter, a reflection of management's ongoing initiatives to reduce cash costs and increase production efficiencies. Despite these improvements, results at the FSC mill continue to be impacted by the current dissolving pulp market and the MOFCOM decision.

Management continues to focus on cost reductions, power generation and product development to improve margins. The Company anticipates additional cost savings following the annual maintenance shutdown that occurred in October 2014. The FSC mill has restarted following its annual maintenance shutdown and, as part of its scheduled ramp-up, initially produced paper pulp for approximately one week and has converted back to producing dissolving pulp exclusively, subject to market conditions. The initiative to further reduce operational costs focused primarily on the following areas: reducing oil consumption, increasing power generation, labour cost reduction, chemical cost optimization and productivity stabilization.

In May 2014, the Company announced that the FSC mill was awarded a power supply agreement by Hydro Québec for an additional 5.2MW of power (for a total of 24MW) to be produced at the cogeneration facility, which is expected to result in significant incremental cost savings per year. A "step change" in the mills cost structure due to this increased power generation was expected in the fourth quarter of 2014; however, while performing a routine gearbox inspection during the annual maintenance shutdown in October, a crack on a gear in the turbine used in the cogeneration facility was discovered. The FSC mill has informed the part's manufacturer of the damage and made a claim under its warranty. As a consequence of the crack, the FSC mill is expected to begin delivering additional power under the new power supply agreement in the second quarter of 2015. Until such time, the cogeneration facility is operating but is planned to run at 80% of its original target (approximately 15 MW) until the gear can be replaced, which is expected in the second quarter of 2015.

In the third quarter of 2014, the FSC mill's production costs, including the positive impact of the cogeneration facility and amortization of some of the shutdown costs, averaged $757 per ADMT of dissolving pulp produced, which is in line with the FSC mill's objectives. As the cogeneration facility is optimized and other initiatives are implemented, the mill is expected to ultimately achieve run-rate production costs of $725 per ADMT of dissolving pulp produced by the end of 2015.

MOFCOM announced its decision on the final antidumping duty for Canadian, American and Brazilian companies on April 4, 2014. The final duty applicable to certain product specifications of dissolving pulp previously produced at the

FSC mill is at 13%. With the final duty and its specifications now established, the Company has made improvements in re-establishing a more normalized sales cycle with new and existing customers and remains focused on continued progress to reduce costs and finished goods inventory levels at the mill. The Company's new sales and distribution strategy launched earlier in 2014 is to target 100% dissolving pulp production in 2015, including mitigating the application of the MOFCOM antidumping duty by diversifying product mix, including production for end uses other than viscose, improving quality and strengthening customer relationships. In addition, management continues to investigate customer mix, and geographical diversification of its sales.

On October 15, 2014, the Government of Canada requested World Trade Organization ("WTO") consultations with China concerning its imposition of antidumping duties on Canadian exports of dissolving pulp, which Canada believes violate WTO rules. The Government of Canada has stated it is seeking consultations as a first step under WTO rules to reach a settlement. China has 30 days to engage in talks with Canada, unless the parties agree to another timeline. If dialogue is unsuccessful, Canada could seek the establishment of a WTO panel and subsequent dispute settlement procedures. See "*Significant Developments – Canada Requests WTO Consultation with China in Respect of Dissolving Pulp Duties*".

The viscose staple fibre ("VSF") and rayon filament markets, which are key drivers in dissolving pulp demand, reached a bottom in the second quarter of 2014, and since such time capacity utilization has improved. The third quarter of 2014 saw dissolving pulp reach its lowest prices since May 2009; however these prices have subsequently stabilized. Management believes that, going forward, dissolving pulp prices will stabilize around current levels and start to improve in 2015 due to the following, among other factors:

- The MOFCOM dumping duty has resulted in some producers moving away from viscose grade dissolving pulp production to produce fluff pulp, which is expected to continue for the short to medium term.
- High cost cotton linter pulp mills are reducing production due to the current pricing environment and environmental challenges.
- High cost Chinese domestic dissolving pulp producers are reducing or shifting production to other products.
- The MOFCOM duty is expected to cause delays or abandonment of certain new dissolving pulp projects that had been announced over the past few years, which is expected to impact the supply and demand balance going forward.
- In response to market conditions, certain VSF producers are taking actions, including taking downtime at their production facilities, which may reduce supply and improve VSF pricing.
- While cotton futures prices weakened significantly in recent months, the VSF price and utilization rates have improved.
- Despite current overcapacity, demand for VSF is expected to continue to grow, primarily as a result of medium to long term reductions in cotton supply, such that additional viscose capacity coming on-line in China will be fully absorbed, leading to an overall increase in demand for dissolving pulp.

As management expects the dissolving pulp market to remain depressed in the near term, the focus continues to be on ongoing cost reduction initiatives underway to position the mill further down the cost curve.

The final duty imposed by MOFCOM on dissolving pulp imports from all other unnamed current or future Canadian dissolving pulp producers, which would include the Fortress Global Cellulose ("FGC") mill located in Lebel-sur-Quévillon, Québec, upon conversion to a dissolving pulp producer exporting into China, is 23.7%. This duty materially impacts the economic viability of converting the FGC mill to a dissolving pulp mill. For accounting purposes, the net book value of the FGC assets were impaired to nil in the fourth quarter of 2013 as a result of the MOFCOM interim duty and uncertainty relating to its final determination. As a result, all ongoing care and maintenance costs incurred in 2014 are expensed in selling, general and administrative ("SG&A"). The Company is continuing the process of exploring strategic alternatives for the FGC mill to mitigate the financial risk, including divestitures, joint ventures and partnership opportunities. The Company will be comparing the FGC mill investment opportunity to other strategic options for shareholder value creation. Due to changing economics and market conditions, there is no assurance that a definitive investment or divesture transaction will be concluded or that the FGC mill project will proceed as previously planned.

Security Paper Products Segment

The Landqart mill continues to have a strong order book consisting of a mix of new and repeat orders. The outlook for further opportunities is positive despite an ongoing competitive market for banknote tenders. Key performance indicators, such as waste rates and operational efficiencies, have improved in the first nine months of 2014 relative to the prior year. Results reflect the foregoing, combined with an improved product mix compared to the prior year. The decrease in cotton prices during the quarter, specifically prices for cotton linters and cotton combers, is expected to have a positive effect on raw material input costs for future production. However, product mix, which also has an impact on the financial results of the segment, will vary.

A significant milestone was recently achieved when Durasafe® was confirmed as the substrate of the ninth series of the Swiss franc by the Swiss National Bank ("SNB") in May 2014. Durasafe® is the innovative new composite paper-polymer-paper banknote substrate developed by the Landqart mill.

During the third quarter of 2014, Landqart received four new orders and is actively promoting and receiving interest in Durasafe®. Total production at the Landqart mill continues to exceed forecasted volumes and the mill is projected to achieve greater than 90% utilization for the 2014 fiscal year. Management anticipates that the strong order book should result in improved financial performance in 2015.

Improved performance at the Landqart mill in the third quarter was largely driven by an increased production efficiency rate and a reduced waste rate on paper machine no. 1. Although the waste rate on paper machine no. 2 was better than targeted, it continues to work towards its production efficiency target rate. In order to further enhance performance, Landqart has implemented production improvement projects at the mill with a target completion date before the end of the fourth quarter in 2014.

Significant Developments

Deferral on Investissement Quebec Loan

The Company has reached an agreement in principle with Investissement Québec ("IQ"), pursuant to which the Company has been, and will continue to be, granted a temporary deferral on its principal and interest payments under its $102.4 million project financing loan with IQ (the "IQ Loan") relating to its FSC mill, subject to the discretion of IQ to revoke such deferral. As part of this deferral during the third quarter, the Company received, without penalty, a deferral of approximately $5.1 million in principal and interest payments which were payable in the fourth quarter of 2014. The purpose of these deferrals is to provide the Company with greater financial flexibility and increased working capital. At this time, an agreement in principle has been reached with IQ on a longer term solution, but this agreement remains subject to Provincial Government approval. The arrangement reflects the Company’s positive ongoing partnership with IQ during this transitory period in the dissolving pulp industry.

Canada Requests WTO Consultation with China in Respect of Dissolving Pulp Duties

On October 15, 2014, the Government of Canada requested WTO consultations with China concerning its imposition of antidumping duties on Canadian exports of dissolving pulp, which Canada believes violate WTO rules. The Government of Canada has stated it is seeking consultations as a first step under WTO rules to reach a settlement. China has 30 days to engage in talks with Canada, unless the parties agree to another timeline. If dialogue is unsuccessful, Canada could seek the establishment of a WTO panel and subsequent dispute settlement procedures.

Sale of Fortress Optical Features Ltd.

On September 16, 2014, the Company announced that it had successfully completed the sale of Fortress Optical to Nanotech Security Corp. ("Nanotech"), subject to a working capital adjustment and earn-out. The sale proceeds was comprised of $7.0 million cash, a $3.0 million secured note, and 5 million common shares of Nanotech of which 2 million of the shares are subject to a four month hold period and 3 million of the shares are being held in escrow to be released to the Company upon the achievement of four differing business milestones by Fortress Optical and/or Nanotech over a five year period. The transaction excluded cash and certain accounts receivable of Fortress Optical.

Based on the book values of the net assets disposed of, the related sales proceeds and management’s estimate of the fair value of the common shares of Nanotech on the date of the sale, as well as the fair value of the contingent consideration, the gain on the disposal of Fortress Optical is $9.2 million. Fortress Optical is not considered material to the Security Paper Products Segment and therefore is not included in references in this MD&A to “discontinued operations”.

Update on FGC Mill

The Company has entered into an agreement with IQ which entitles the Company to receive a non-refundable aggregate payment in the amount of $0.8 million for the purposes of reimbursing certain eligible care and maintenance expenditures incurred by the FGC mill between March and October 2014.

The Company continues to explore strategic alternatives for the FGC mill, including divestitures, joint ventures and partnership opportunities. Depending on the outcome of the WTO consultations with China, the Company's economic assessment of the FGC mill may change materially. The Company will closely monitor the WTO developments and will re-evaluate the FGC mill investment opportunity in the context of other available options with the objective to maximize value for all shareholders.

Selected Quarterly Information

(thousands of dollars, except per share amounts, exchange rates and shares outstanding, unaudited)	Q3 2014	Q2 2014	Q1 2014	Q4 2013
Sales from continuing operations	80,374	67,262	53,856	37,183
Net loss from continuing operations	(5,869)	(20,108)	(23,421)	(54,731)
Net loss [(1)]	(6,074)	(20,766)	(23,421)	(54,731)
Basic net loss per share from continuing operations	(0.40)	(1.38)	(1.61)	(3.76)
Diluted net loss per share from continuing operations	(0.40)	(1.38)	(1.61)	(3.76)
Basic net loss per share [(1)]	(0.42)	(1.42)	(1.61)	(3.76)
Diluted net loss per share[(1)]	(0.42)	(1.42)	(1.61)	(3.76)
Weighted average shares outstanding - Basic (thousands)	14,629	14,591	14,586	14,574
Weighted average shares outstanding - Diluted (thousands)	14,629	14,591	14,586	14,574
Average Swiss/Canadian exchange rate[(2)]	1.1905	1.2268	1.2358	1.1626
Average Euro/Canadian exchange rate [(2)]	1.4421	1.4955	1.5117	1.4291
Average US dollar/Canadian exchange rate [(2)]	1.0890	1.0905	1.1033	1.0494

(1) Including discontinued operations

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

(thousands of dollars, except per share amounts, exchange rates and shares outstanding, unaudited)	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Sales from continuing operations	53,160	59,883	57,559	58,747
Net loss from continuing operations	(13,427)	(20,851)	(18,814)	(9,914)
Net income (loss) [(1)]	(12,436)	134,125	(12,373)	(4,226)
Basic net loss per share from continuing operations	(0.92)	($1.43)	($1.30)	($0.68)
Diluted net loss per share from continuing operations	(0.92)	($1.43)	($1.30)	($0.68)
Basic net loss per share[(1)]	(0.85)	$9.23	($0.85)	($0.29)
Diluted net income (loss) per share[(1)]	(0.85)	$9.23	($0.85)	($0.29)
Weighted average shares outstanding - Basic (thousands)	14,561	14,536	14,502	14,492
Weighted average shares outstanding - Diluted (thousands)	14,561	14,536	14,502	14,492
Average Swiss/Canadian exchange rate[(2)]	1.1147	1.0862	1.0837	1.0645
Average Euro/Canadian exchange rate [(2)]	1.3759	1.3367	1.3312	1.2857
Average US dollar/Canadian exchange rate [(2)]	1.0386	1.0231	1.0083	0.9913

(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. Throughout 2012, production rates improved in the Dissolving Pulp Segment as the ramp-up at the FSC mill continued, albeit at a slower pace than first anticipated and without operating at the intended fully ramped up rate or designed efficiency levels. During the fourth quarter of 2012, the Dissolving Pulp Segment saw stable production with the highest volumes of dissolving pulp produced during any quarter up to that date. As such, sales were higher, but continued deterioration in dissolving pulp prices impacted earnings, which overshadowed improved production. The first quarter of 2013 was characterized by production challenges and declining dissolving pulp prices, which contributed to disappointing results from the Dissolving Pulp Segment. Operating results improved in the second quarter of 2013 compared to the prior quarter after the planned ten day maintenance shut-down. Net loss from continuing operations was negatively impacted by a large deferred income tax expense that was accounted for in the second quarter. The third quarter of 2013 was characterized by continued depressed dissolving pulp prices, trial runs of NBHK pulp, and higher inventory levels. Dissolving pulp sales activity was suspended entirely in the fourth quarter of 2013 as a result of the challenges caused by the announcement of the MOFCOM interim duty. As a consequence of the duty, the FGC mill assets were impaired by $32.9 million in addition to a $3.7 million inventory write-down at the FSC mill. The FSC mill produced NBHK pulp for approximately one month in the fourth quarter and initiated market downtime mid-December for approximately ten weeks. The first quarter of 2014 was impacted by the market downtime and a difficult March ramp-up. The FSC mill produced NBHK through to late April when production was switched to dissolving pulp and continued through the end of the second quarter of 2014. The second quarter of 2014 saw production and costing improvements as a result of management initiatives to increase production efficiencies. During the third quarter of 2014, the FSC mill produced dissolving pulp through to September when production switched to NBHK for a three week period. The quarter continued to see production and costing improvements as reflected in the results; however, results continued to be impacted by poor market conditions and the impact of the final MOFCOM determination.

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 2012 year for the Security Paper Products Segment, which materially impacted the Company's quarterly results throughout the year. An increase in volume sold during 2013 contributed to improving metrics, higher sales and better results for the Security Paper Products Segment. The first quarter of 2013 was impacted by a realized gain of $1.9 million on the sale of non-core assets and included in the fourth quarter of 2013 was a $1.3 million legal provision. The first three quarters of 2014 continued with strong volumes and a slightly favourable product mix resulting in improved results. The sale of Fortress Optical in the third quarter of 2014 resulted in a realized gain of $9.2 million. See "*Significant Developments – Sale of Fortress Optical Features Ltd.*"

Third Quarter 2014 Earnings Review

Three Months Ended September 30

Overview

EBITDA loss from continuing operations of the Company was $1.5 million for the three months ended September 30, 2014. Excluding Fortress Optical operations which were sold during the quarter, EBITDA loss for the Company was $1.0 million for the three month period ended September 30, 2014. The Dissolving Pulp Segment generated EBITDA loss of $1.2 million and the Security Paper Products Segment generated EBITDA of $1.1 million. Corporate costs contributed $1.4 million to EBITDA loss. For the three months ended June 30, 2014, EBITDA loss was $6.0 million and for the three months ended September 30, 2013, EBITDA loss from continuing operations was $7.3 million. The Company's quarterly trend EBITDA has improved steadily over the last three quarters.

Fortress reported an adjusted net loss from continuing operations of $5.7 million, or diluted adjusted net loss per share from continuing operations of $0.39 for the third quarter of 2014 on sales of $80.4 million. In the second quarter of 2014, the Company reported an adjusted net loss from continuing operations of $18.4 million or diluted adjusted net loss per share from continuing operations of $1.26 on sales of $67.3 million, and for the third quarter of 2013, an adjusted net loss from continuing operations of $15.6 million or diluted adjusted net loss per share from continuing operations of $1.07 on sales of $53.2 million.

Fortress reported net loss from continuing operations of $5.9 million, or diluted net loss per share from continuing operations of $0.40 for the third quarter of 2014. In the second quarter of 2014, the Company reported net loss from continuing operations of $20.1 million or diluted net loss per share from continuing operations of $1.38, and for the third quarter of 2013, net loss from continuing operations of $13.4 million or diluted net loss per share from continuing operations of $0.92.

Manufacturing and distribution costs from continuing operations were $70.0 million or 87.1% of sales for the three months ended September 30, 2014, compared to $61.6 million or 91.6% of sales for the three months ended June 30, 2014. In the third quarter of 2013, manufacturing, product, freight and other distribution costs from continuing operations were $49.5 million or 93.2% of sales. The increased costs are representative of the increased tonnage sold, partially offset by improved production cost per tonne through increased efficiencies and cost reduction strategies at each mill.

SG&A expenses were $11.8 million for the third quarter of 2014, compared to $11.6 million for the second quarter of 2014. The prior year comparative period SG&A from continuing operations was $12.2 million. SG&A was elevated in the prior year comparative period, primarily as a result of increased corporate activity, and compensation expenses related to the successful sale of Dresden.

Stock-based compensation expense was $0.2 million during the third quarter of 2014, compared to $(0.4) million in the second quarter of 2014. The prior year comparative period stock-based compensation expense was $0.6 million. Stock based compensation expense in the three months ended June 30, 2014 was impacted by a reversal of stock based compensation relating to a change in estimate for certain financial performance based compensation awards.

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	Q3 2014	Q2 2014	Q3 2013
Sales from continuing operations	80,374	67,262	53,160
EBITDA loss from continuing operations[1]	(1,478)	(5,994)	(7,290)
EBITDA loss [2] [3]	(1,478)	(5,994)	(7,290)
Net loss from continuing operations	(5,869)	(20,108)	(13,427)
Net loss [3] [4]	(6,074)	(20,766)	(12,436)
Adjusted net loss from continuing operations [5]	(5,731)	(18,438)	(15,573)
Paper shipments (tonnes) [6]	2,436	1,921	1,856
Pulp shipments (ADMT)	55,199	43,343	31,258

(1) See Net Loss to EBITDA Reconciliation for Continuing Operations.
(2) See Net Loss to EBITDA Reconciliation including Discontinued Operations.
(3) Including discontinued operations.
(4) Including additional amounts relating to taxes and working capital recorded on the disposal of the Dresden mill.
(5) See Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations.
(6) From continuing operations.

Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations:

(thousands of dollars, except per share amounts, unaudited)	Q3 2014	Q2 2014	Q3 2013
Net loss from continuing operations	(5,869)	(20,108)	(13,427)
Foreign exchange loss	138	1,670	739
(Gain) on sale of property, plant and equipment	-	-	(4,135)
Legal provision	-	-	1,250
Adjusted net loss	(5,731)	(18,438)	(15,573)
Basic and diluted net loss per share	(0.40)	(1.38)	(0.92)
Adjusted net loss per share, basic and diluted	(0.39)	(1.26)	(1.07)

Net Loss to EBITDA Reconciliation for Continuing Operations:

(thousands of dollars, unaudited)	Q3 2014	Q2 2014	Q3 2013
Net loss	(5,869)	(20,108)	(13,427)
Income tax expense (recovery)	37	(32)	(611)
Foreign exchange loss	138	1,670	739
Net finance expense	5,943	5,623	4,021
Amortization	7,249	7,219	4,296
(Gain) on sale of property, plant and equipment	-	-	(4,135)
(Gain) on business disposal	(9,212)	-	-
Change in fair value of marketable securities	81	-	-
Legal provision	-	-	1,250
Stock based compensation	155	(366)	577
EBITDA loss	(1,478)	(5,994)	(7,290)

Net Loss to EBITDA Reconciliation Including Discontinued Operations:

(thousands of dollars, unaudited)	Q3 2014	Q2 2014	Q3 2013
Net loss	(6,074)	(20,766)	(12,436)
Income tax expense (recovery)	37	(32)	(611)
Foreign exchange loss	138	1,670	739
Net finance expense	5,943	5,623	4,021
Amortization	7,249	7,219	4,296
(Gain) on sale of property, plant and equipment	-	-	(4,135)
(Gain) loss on business disposal	(9,212)	-	-
(Gain) loss on disposal of discontinued operations(1)	205	658	(991)
Change in fair value of marketable securities	81	-	-
Legal provision	-	-	1,250
Stock based compensation	155	(366)	577
EBITDA loss	(1,478)	(5,994)	(7,290)

(1)Additional amounts relating to taxes and working capital recorded on the disposal of the Dresden mill.

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	Q3 2014	Q2 2014	Q3 2013
Sales	45,023	38,416	23,227
Operating loss	(6,238)	(9,170)	(8,982)
Amortization	5,058	4,961	2,349
EBITDA	(1,180)	(4,209)	6,633
NBHK Pulp Shipments (ADMT)	17,607	15,620	-
Dissolving Pulp Shipments (ADMT)	37,592	27,723	31,258

As at September 30, 2014, the FSC mill held finished goods inventory consisting of 19,235 ADMT of dissolving pulp and 1,387 ADMT of NBHK pulp. At June 30, 2014, the mill held finished goods inventory consisting of 22,032 ADMT of dissolving pulp and 9,312 ADMT of NBHK pulp. At September 30, 2013, the mill held finished goods inventory consisting of 8,461 ADMT of dissolving pulp and 2,389 ADMT of NBHK. Management has set a target to decrease total pulp inventory levels to 15,000 ADMT within the fourth quarter of 2014 and will continue to evaluate if inventory levels can be reduced further.

EBITDA for the Dissolving Pulp Segment for the quarter ended September 30, 2014 was $3.0 million higher when compared to the second quarter of 2014, and $5.4 million higher compared to the third quarter of 2013. The Company sold 37,592 ADMT of dissolving pulp and 17,607 ADMT of NBHK in the third quarter of 2014. Although the dissolving pulp market conditions continue to be challenging, production efficiencies and cash costs have improved during the quarter and relative to comparative periods.

The FSC mill began the third quarter of 2014 producing dissolving pulp and switched to NBHK for a three week period in September. After a challenging ramp-up in early 2014 following market downtime, the FSC mill has since achieved much improved production volumes and production costs.

In October 2013, the FSC mill successfully completed the mandatory testing for its cogeneration facility and began delivering power to Hydro Québec at the contracted commercial rate. The cogeneration facility generated $4.5 million in sales revenue from the generation of power during the quarter ended September 30, 2014. Revenues from the generation of power at the cogeneration facility during the quarter ended June 30, 2014 were $3.9 million.

Security Paper Products Segment

(thousands of dollars, except for shipments, unaudited)	Q3 2014	Q2 2014	Q3 2013
Sales	35,351	28,846	29,933
Operating loss	(1,108)	(2,666)	(1,569)
Amortization	2,191	2,258	1,947
EBITDA	1,083	(408)	378
Shipments (tonnes)	2,436	1,921	1,856

Operating loss in the Security Paper Products segment for the third quarter of 2014 was $1.1 million compared to operating loss in the second quarter of 2014 of $2.7 million. Improved performance in the third quarter was largely driven by increased production efficiency and reduced waste at the Landqart mill. The results in the current quarter reflect product mix as well as timing of deliveries.

EBITDA for the Security Paper Products Segment for the quarter ended September 30, 2014 was $1.5 million higher when compared to the second quarter of 2014, and $0.5 million lower compared to the third quarter of 2013. The Landqart mill achieved 2,436 tonnes of security paper sales in the third quarter of 2014, compared to 1,921 tonnes of security paper sales in the second quarter of 2014.

Security paper production includes banknotes, which result in varying degrees of costs and margins depending on the complexity of the security features included. Despite the increase in sales, less than favourable conditions over the prior years, such as the strength of the Swiss franc against the Euro, continue to adversely impact results.

Fortress Optical generated sales of $0.2 million in the third quarter of 2014 compared to $1.0 million in the second quarter of 2014. In the third quarter of 2013, $0.7 million of sales revenue was generated. Fortress Optical began operations in 2011 and produced security material for security threads used in banknotes at the Fortress Optical Facility. On September 16, 2014, the Company sold Fortress Optical and no longer produces OTM. See "*Significant Developments – Sale of Fortress Optical Features Ltd.*".

Nine Months Ended September 30

Selected Financial Information and Statistics for the Nine Months Ended:

(thousands of dollars, except for shipments, unaudited)	September 30, 2014	September 30, 2013
Sales from continuing operations	201,492	170,602
EBITDA loss from continuing operations [(1)]	(21,098)	(28,808)
EBITDA loss [(2)] [(3)]	(21,098)	(14,850)
Net loss from continuing operations	(49,398)	(53,092)
Net (loss) income [(3)] [(4)]	(50,261)	109,316
Adjusted net loss from continuing operations [(5)]	(50,027)	(56,823)
Paper shipments (tonnes) [(6)]	6,940	5,988
Pulp shipments (ADMT)	118,801	108,530

(1) See Net Loss to EBITDA Reconciliation for Continuing Operations.
(2) See Net (Loss) Income to EBITDA Reconciliation including Discontinued Operations.
(3) Including discontinued operations.
(4) Including additional amounts relating to taxes and working capital recorded on the disposal of the Dresden mill.
(5) See Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations.
(6) From continuing operations.

Net Loss to Adjusted Net Loss Reconciliation for Continuing Operations:

(thousands of dollars, except per share amounts, unaudited)	September 30, 2014	September 30, 2013
Net loss from continuing operations	(49,398)	(53,092)
Foreign exchange loss	246	261
(Gain) on sale of property, plant and equipment	(875)	(5,242)
Legal provision	-	1,250
Adjusted net loss from continuing operation	(50,027)	(56,823)
Basic and diluted net loss per share	(3.38)	(3.65)
Adjusted net loss per share, basic and diluted	(3.43)	(3.91)

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

	September 30, 2014	September 30, 2013
Net loss from continuing operations	(49,398)	(53,092)
Income tax (recovery) expense	(9)	966
Foreign exchange loss	246	261
Net finance expense	17,249	11,974
Amortization	20,793	12,911
(Gain) on sale of property, plant and equipment	(875)	(5,242)
(Gain) on business disposal	(9,212)	-
Change in fair value of marketable securities	81	-
Legal provision	-	1,250
Stock based compensation	27	2,164
EBITDA loss	(21,098)	(28,808)

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

	September 30, 2014	September 30, 2013
Net (loss) income	(50,261)	109,316
Income tax	(9)	4,484
Foreign exchange loss	246	285
Net finance expense	17,249	13,502
Amortization	20,793	13,656
(Gain) on sale of property, plant and equipment	(875)	(5,242)
(Gain) on business disposal	(9,212)	(154,265)
Loss on disposal of discontinued operations[1]	863	-
Change in fair value of marketable securities	81	-
Legal provision	-	1,250
Stock based compensation	27	2,164
EBITDA loss	(21,098)	(14,850)

[1] Additional amounts relating to taxes and working capital recorded on the disposal of the Dresden mill.

Overview

EBITDA loss for the Company from continuing operations was $21.1 million for the nine months ended September 30, 2014 on sales of $201.5 million compared to EBITDA loss of $28.8 million in the nine months ended September 30, 2013 on sales of $170.6 million. The poor results in 2014 reflect the ten week market downtime at the FSC mill announced in mid-December 2013, and unusually cold temperatures at the mill site which increased heating costs both during the mill's downtime and the subsequent start-up period. These results are slightly offset by better performance in the Security Paper Products Segment and fewer costs incurred at corporate level compared to 2013.

The Security Paper Products Segment generated EBITDA of $3.9 million in the nine months ended September 30, 2014 compared to EBITDA loss of $0.1 million in the prior year comparative. The Dissolving Pulp Segment generated an EBITDA loss of approximately $20.6 million in the first nine months of 2014 compared to $21.7 million EBITDA loss in the prior year comparative period. Corporate costs contributed EBITDA loss of $4.4 million and $7.2 million in the nine months ended September 30, 2014 and 2013, respectively.

Adjusted net loss from continuing operations for the nine month period ended September 30, 2014 was $50.0 million or $3.43 per share basic. Adjusted net loss from continuing operations for the prior comparative period was $56.8 million or $3.91 per share basic.

Manufacturing and distributions costs equaled $186.5 million for the nine months ended September 30, 2014 or 92.6% of sales compared to $168.8 million or 98.9% of sales in the nine months ended September 30, 2013. The increased costs are representative of the increased tonnage sold, partially offset by improved production cost per tonne through increased efficiencies and cost reduction strategies at each mill.

SG&A expenses were $36.0 million for the nine months ended September 30, 2014 compared to $31.9 million in the prior year comparative period. The increase in the current year SG&A is in part due to additional logistic and storage costs of $2.6 million incurred resulting from the MOFCOM investigation and determination as well as a $1.7 million translation impact due to the strengthening of the CHF to the CAD relative to the prior year. For accounting purposes, the net book value of the FGC assets were impaired to $nil in the fourth quarter of 2013 as a result of the MOFCOM interim duty and its uncertainty relating to its final determination. As a result, all ongoing care and maintenance costs incurred in 2014 are expensed in SG&A, which are partially reimbursed to the Company by non-refundable grants from IQ. A total of $1.2 million in SG&A was expensed relating to FGC in the nine months ended September 30, 2014 compared to $0.3 million in the prior year comparative period. Also, during the nine months ended September 30, 2014, the cogeneration facility at the FSC mill was operational and incurred additional costs reflecting higher insurance, professional fees and property taxes relating to the facility. Excluding these items, SG&A is comparable to the prior year.

Stock based compensation was $0.1 million for the nine months ended September 30, 2014 compared to $2.2 million in the previous comparative period. Stock based compensation expense for the nine months ended September 30, 2014 was impacted by a reversal of stock based compensation relating to a change in estimate for certain financial performance based compensation awards.

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

Operating Results by Business Segment

Dissolving Pulp Segment

(thousands of dollars, except for shipments, unaudited)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Sales	98,721	81,456
Operating loss	(34,768)	(28,735)
Amortization	14,123	7,047
EBITDA loss	(20,645)	(21,688)
NBHK Pulp Shipments (ADMT)	44,637	-
Dissolving Pulp Shipments (ADMT)	74,164	108,530

Results for the first nine months of 2014 at the FSC mill were impacted by a slow and challenging ramp up after the planned ten week shut, the impact of the final antidumping duty determination and related charges. Compounding the impact on results were the lowest realized sales prices to date due to weakening market prices of dissolving pulp.

After initiating restart procedures in early March 2014, the FSC mill produced NBHK pulp through late April when production was switched to dissolving pulp for the remainder of the second quarter. Dissolving pulp production exceeded expectations following the smooth transition from NBHK pulp to dissolving pulp. The FSC mill continued to produce dissolving pulp in the third quarter of 2014, switching to NBHK for a three week period at the end of September. The combined effect of improved production as a result of the work done during the downtime in the first quarter of 2014, cost reduction initiatives to reduce oil consumption, the recent labour cost reduction plan, and stabilized electricity generation, have resulted in continued improvement in the cost structure throughout the second and third quarters of 2014.

Results for the first nine months of 2013 at the FSC mill were impacted by production challenges related to the digester, evaporator, other operational and maintenance issues, and planned ten day maintenance shut-down.

Security Paper Products Segment

(thousands of dollars, except for shipments, unaudited)	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Sales	102,771	89,146
Operating loss	(2,781)	(7,083)
Amortization	6,670	5,864
EBITDA	3,889	(1,219)
Shipments (tonnes)	6,940	5,988

The nine month period ended September 30, 2014 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. Key performance indicators, such as waste rates and operational efficiencies, have improved in the first nine months of 2014 compared to the prior year period.

Selected Cash Flow Items

(thousands of dollars, unaudited)	Q3 2014	Q2 2014	Nine Months Ended September 30, 2014	Q3 2013	Nine Months Ended September 30, 2013
Cash provided by (used by) operating activities					
Cash used by before working capital changes	(1,864)	(5,593)	(21,061)	(9,934)	(20,453)
Non-cash working capital change	14,995	12,375	25,416	(16,081)	(7,377)
	13,131	6,782	4,355	(26,015)	(27,830)
Cash used by financing activities	(237)	(5,225)	(5,495)	(3,319)	(61,187)
Cash (used) generated by investing activities					
Additions to property, plant and equipment	(2,952)	(3,200)	(8,275)	(10,452)	(52,867)
Other	34	1,331	(763)	4,287	207,788
	(2,918)	(1,869)	(9,038)	(6,165)	154,921
Change in cash position	9,976	(312)	(10,178)	(35,499)	65,904
Foreign exchange (loss) gain on cash and cash equivalents	(265)	(1,072)	(286)	2,147	5,410
Cash and cash equivalents, beginning of period	41,713	43,097	61,888	136,157	31,491
Cash and cash equivalents, end of period	51,424	41,713	51,424	102,805	102,805

Operating Activities

Fortress operates in a cyclical industry and its operating cash flows vary accordingly. Fortress' principal operating cash expenditures are for labour and raw materials. Operating activities provided cash of $4.4 million and used $27.8 million in the nine months ended September 30, 2014 and 2013, respectively. Working capital is subject to cyclical operating needs, the timing of collection of receivables and the payment of payables and expenses. The movement in working capital in the nine month period ended September 30, 2014 was impacted by an increase in accounts receivable, decrease in inventories and a significant increase in accounts payable.

Financing Activities

During the first nine months of 2014, financing activities used cash of $5.5 million. The Company deferred $16.2 million in planned principal and interest payments on the IQ Loan that were payable during this period and made $5.4 million in long term debt interest payments. Deferred amounts are amortized and repayable in equal quarterly instalments during the remaining term of the IQ Loan maturing June 30, 2020.

During the first nine months of 2013, financing activities used cash of $61.2 million. During the period, the Dresden mill entered into two credit facilities in the aggregate amount of €15 million (approximately $19.9 million) with Commerzbank AG. The new facilities were repaid, together with all other outstanding Dresden indebtedness (approximately $70.3 million), as a condition of and concurrently with the closing of the sale of the Dresden mill. A prepayment penalty of $1.2 million was paid in connection with the early repayment of all the Dresden indebtedness. In addition, $9.6 million in interest was paid on long term debt.

Investing Activities

Investing activities in the first nine months of 2014 used cash of $9.0 million. Investment activities relating to the purchase of equipment and other capital expenditures at the mills was $8.3 million. Net proceeds from the sale of Fortress Optical provided cash of $6.8 million. Restricted cash, relating to cash security provided primarily for banknote contracts in the Security Paper Products Segment used $5.8 million in cash.

Investing activities in the first nine months of 2013 provided cash of $154.9 million. The sale of Dresden resulted in net cash proceeds of $212.2 million which were offset by $2.1 million of costs associated with the sale of Dresden, $52.9 million in additions to property, plant and equipment primarily at the FSC mill and $11.5 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 $9.2 million.

Liquidity and Capital Resources

As at September 30, 2014, the Company had a cash and cash equivalents balance of $51.4 million. The Company anticipates that approximately $6.8 million in profit improvement capital expenditures will be required through to the end of 2015 in order to achieve production efficiency targets, reduced cash production costs, and health, safety and environmental objectives at the FSC mill. In addition, anticipated business maintenance capital expenditure is expected to be approximately $5 million and $3 million annually at the FSC mill and the Landqart mill, respectively.

Although there can be no assurances, Fortress believes that current cash, cash generated from operations, cashflow derived from improved inventory management, cash from the sale of non-core assets, should be sufficient to meet its debt service, capital expenditure and short term working capital requirements. Fortress has also entered, in the normal course, into pulp distribution arrangements for inventory management, logistics, and ancillary services relating to pulp being distributed by the FSC mill, which the company expects will also improve financial flexibility in response to market fluctuations. 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 potential renegotiation of existing indebtedness, the financial success of Fortress' business, the successful ability to swing production between dissolving pulp and NBHK pulp at the FSC mill to maximize margins in response to changing market conditions, combined with the cost benefits expected to be derived from the now operational cogeneration facility and other cost savings initiatives, 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, foreign currency exchange rates and the MOFCOM duty. No assurances are given as to the likelihood that the outcome of any such factors will be successful or will operate to positively impact the Company's business, operations and/or financial results.

In addition, Fortress may in the normal course of business advance the amount of duties owing on the importation of dissolving pulp into China. 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.

The Company has entered into a separate project financing loan with IQ of up to $132.4 million to fund the FGC mill conversion project. The Company has not yet drawn any amounts under this loan agreement.

Principal repayments of debt outstanding as at September 30, 2014 are required as follows:

	($ 000's)
2014	781
2015	20,960
2016	61,732
2017	46,751
2018	20,036
Thereafter	99,277
	249,537

Under existing credit facilities, the Company has deferred $16.2 million in planned principal and interest payments on the IQ Loan which were payable in the first nine months of 2014, without penalty. The Company has also received, without penalty, an additional deferral of approximately $5.1 million in principal and interest payments which were payable in the fourth quarter of 2014. In October 2014, the Company received a non-refundable grant from IQ in the aggregate amount of $0.8 million and is expecting an additional $1.3 million in the fourth quarter of 2014 to cover certain costs and expenses incurred from March 2014 to and including October 2014 relating to the care and maintenance of the FGC mill. The Company previously received approximately $0.6 million in 2013 for costs incurred from July 2013 to and including November 2013 and $0.5 million in 2014 for costs incurred from December 2013 to and including February 2014.

Commitments

As at September 30, 2014, the Company had aggregate indebtedness of $234.3 million net of unamortized borrowing costs and net working capital of $88.7 million.

As at September 30, 2014 the Company has:

- committed to purchase $3.8 million in property, plant, and equipment; and
- performance bonds in the amount of €14.2 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 continuously monitors the public and private debt markets and the public equity markets in order to ensure 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 net debt and shareholders' equity as follows:

(thousands of dollars, unaudited)	**September 30, 2014 $**	**December 31, 2013 $**
Cash and cash equivalents	51,424	61,888
Less total debt	234,336	228,130
Net debt	(182,912)	(166,242)
Shareholders' equity	249,197	302,278

The Company has certain financial covenants in its debt obligations 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 period ended September 30, 2014.

Outstanding Shares

The number of common shares outstanding at September 30, 2014 and the date of this report was 14,631,871. The number of options outstanding at September 30, 2014 and the date of this report was 590,725. At September 30, 2014 and the date of this report there were 247,020 restricted share units outstanding. At September 30, 2014 and the date of this report there were 181,489 and 204,405 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 into employment agreements. Further information is contained in our management information circulars in respect of our annual general meetings of shareholders, which are filed 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.

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, 2013, available on SEDAR.

New Accounting Pronouncements

In May 2013, the IASB issued IFRIC 21 Levies ("IFRIC 21"). IFRIC 21 provides guidance on when an obligating event occurs that gives rise to a liability to pay a government levy that is not income tax. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not, and is not expected to, have a significant impact on the Company's financial statements or the Company's business.

Risks and Uncertainties

A comprehensive discussion of risk factors is included in the Company's Annual Information Form dated March 31, 2014, 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, 2013, also available on SEDAR, may impact the business of the Company.

Disclosure Controls and Internal Controls over Financial Reporting

During the quarter ended September 30, 2014, 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.

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Canadian dollars, amounts in thousands, unaudited)

	Note	September 30, 2014 $	December 31, 2013 $
ASSETS			
Current			
Cash and cash equivalents		51,424	61,888
Restricted cash		20,278	14,934
Trade accounts receivable		20,081	12,446
Other accounts receivable		8,611	8,751
Inventories		50,527	62,390
Marketable securities	4,5	3,942	–
Prepaid expenses	8	4,953	8,486
		159,816	168,895
Other long-term receivable	5	3,000	–
Property, plant and equipment		393,558	412,949
Total assets		556,374	581,844
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities		55,021	34,044
Current portion of long-term debt	8	16,778	14,572
		71,799	48,616
Long-term debt	8	217,558	213,558
Deferred income taxes		4,349	4,734
Provisions and other long-term liabilities		6,711	7,921
Employee future benefits		6,760	4,737
Total liabilities		307,177	279,566
Shareholders' equity			
Share capital	9	180,848	180,040
Contributed surplus		25,169	25,950
Retained earnings		23,822	75,368
Accumulated other comprehensive income		19,358	20,920
Total shareholders' equity		249,197	302,278
Total liabilities and shareholders' equity		556,374	581,844

(See accompanying notes)

Approved by the Board of Directors:

"Chadwick Wasilenkoff" — Director

"Anil Wirasekara" — Director

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Canadian dollars, amounts in thousands, unaudited)

	Note	Three Months Ended September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Sales		80,374	53,160	201,492	170,602
Costs and expenses					
Manufacturing and distribution costs		(70,037)	(49,533)	(186,526)	(168,769)
Amortization		(7,249)	(4,296)	(20,793)	(12,911)
Selling, general and administration		(11,815)	(12,167)	(36,064)	(31,891)
Stock-based compensation		(155)	(577)	(27)	(2,164)
Operating loss		(8,882)	(13,413)	(41,918)	(45,133)
Other income (expense)					
Finance expense		(6,002)	(4,123)	(17,534)	(12,160)
Finance income		59	102	285	186
Gain on sale of property, plant and equipment	7	–	4,135	875	5,242
Gain on disposal of business	5	9,212	–	9,212	–
Change in fair value of marketable securities	4	(81)	–	(81)	–
Foreign exchange (loss)		(138)	(739)	(246)	(261)
Net (loss) from continuing operations before income taxes		(5,832)	(14,038)	(49,407)	(52,126)
Income tax (expense) recovery		(37)	611	9	(966)
Net (loss) income from continuing operations		(5,869)	(13,427)	(49,398)	(53,092)
Net (loss) income from discontinued operations	6	(205)	991	(863)	162,408
Net (loss) income		(6,074)	(12,436)	(50,261)	109,316
(Loss) and diluted (loss) per share from continuing operations		(0.40)	(0.92)	(3.38)	(3.65)
(Loss) earnings per share and diluted (loss) earnings per share		(0.42)	(0.85)	(3.44)	7.52
Weighted average number of shares outstanding Basic and diluted		14,629,153	14,561,417	14,602,097	14,533,482

(See accompanying notes)

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Canadian dollars, amounts in thousands, unaudited)

	Three Months Ended September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Net (loss) income	(6,074)	(12,436)	(50,261)	109,316
Other comprehensive (loss) income				
Items that may be reclassified subsequently to net income				
Exchange differences on translation of foreign operations	(2,678)	3,576	(1,562)	11,546
Items that will not be reclassified to net (loss) income				
Actuarial (loss) gain recognized on employee future benefits (net of taxes of $239, ($142) and $257, ($723))	(1,193)	711	(1,285)	3,612
Total other comprehensive (loss) income	(3,871)	4,287	(2,847)	15,158
Total comprehensive (loss) income	(9,945)	(8,149)	(53,108)	124,474

(See accompanying notes)

FORTRESS PAPER LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Canadian dollars, amounts in thousands, unaudited)

	Note	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Share capital	9		
Balance at beginning of period		180,040	178,052
Restricted share units vested		656	635
Deferred share units vested		152	369
Balance at end of period		180,848	179,056
Contributed surplus			
Balance at beginning of period		25,950	26,078
Stock-based compensation		27	2,164
Early vesting of restricted share units on sale of business		–	221
Restricted share units vested		(656)	(635)
Deferred share units vested		(152)	(369)
Balance at end of period		25,169	27,459
Retained earnings			
Balance at beginning of period		75,368	23,387
Net (loss) income		(50,261)	109,316
Defined benefit plan actuarial (loss) gain, net of tax		(1,285)	3,612
Balance at end of period		23,822	136,315
Accumulated other comprehensive income			
Balance at beginning of period		20,920	2,152
Cumulative translation adjustment on foreign operations		(1,562)	11,546
Balance at end of period		19,358	13,698
Total equity			
		249,197	356,528

(See accompanying notes)

FORTRESS PAPER LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Canadian dollars, amounts in thousands, unaudited)

	Note	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Cash flows from (used by) operating activities			
Net (loss) income for the period		(50,261)	109,316
Adjustments:			
Loss (gain) on disposal of business	5	(9,212)	–
Loss (gain) on disposal of discontinued operations	6	863	(154,265)
Change in fair value of marketable securities	4	81	–
Gain on sale of property, plant and equipment	7	(875)	(5,242)
Amortization		20,793	13,656
Income tax (recovery) expense		(93)	4,525
Income taxes paid		84	(2,720)
Foreign exchange loss (gain)		18	(1,575)
Finance expense		17,514	13,688
Stock-based compensation		27	2,164
		(21,061)	(20,453)
Change in non-cash working capital items			
Accounts receivable		(7,805)	7,219
Inventories		11,577	(2,221)
Prepaid expenses		463	(782)
Accounts payable and accrued liabilities and other		21,181	(11,593)
		4,355	(27,830)
Cash flows from (used by) financing activities			
Repayment of long-term debt		(129)	(52,306)
Proceeds from long-term debt		–	19,860
Repurchase of factored accounts receivable		–	(18,006)
Long-term debt prepayment penalty		–	(1,166)
Payment of long-term debt interest		(5,366)	(9,569)
		(5,495)	(61,187)
Cash flows from (used by) investing activities			
Additions to property, plant and equipment		(8,275)	(52,867)
Proceeds from sale of discontinued operations	6	–	212,240
Adjustments and costs associated with disposal of discontinued operations	6	(2,717)	(2,126)
Proceeds from sale of business	5	6,848	–
Proceeds from sale of property, plant and equipment	7	875	9,182
Restricted cash		(5,769)	(11,508)
		(9,038)	154,921
(Decrease) increase in cash position		(10,178)	65,904
Foreign exchange gain on cash and cash equivalents		(286)	5,410
Cash and cash equivalents, beginning of year		61,888	31,491
Cash and cash equivalents, end of period		51,424	102,805

(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. Fortress operates internationally in two distinct business segments: dissolving pulp and security paper products. The Company operates its dissolving pulp business at the Fortress Specialty Cellulose mill located in Canada. As of September of 2013, the Fortress Specialty Cellulose mill also operates in the renewable energy sector with the completion of a cogeneration facility. The Company is also evaluating expanding its dissolving pulp capacity by converting the Fortress Global Cellulose mill located at Lebel-sur-Quévillon, Québec into a dissolving pulp mill and re-starting 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 producer of specialty non-woven wallpaper base products. 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 the Fortress Optical Facility located in Canada, where up until September 16, 2014, it manufactured optically variable thin film material.

2. BASIS OF PRESENTATION

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). The Board of Directors approved these statements on November 13, 2014.

These unaudited interim financial statements do not include all of the disclosures required by International Financial Reporting Standards (“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, 2013 (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, 2013 consolidated financial statements, with the exception of the changes in Note 3 below. For significant estimates and judgments refer to Note 4, as well as the consolidated financial statements and notes as at and for the year ended December 31, 2013.

3. NEW ACCOUNTING PRONOUNCEMENTS

Changes in accounting policies

IFRIC 21 – Levies

In May 2013, the IASB issued IFRIC 21 Levies (“IFRIC 21”). IFRIC 21 provides guidance on when an obligating event occurs that gives rise to a liability to pay a government levy that is not income tax. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have a significant impact on the Company’s financial statements.

4. FINANCIAL INSTRUMENTS

The Company’s cash and cash equivalents, restricted cash, accounts receivable, other accounts receivable, other long-term receivable, accounts payable and accrued liabilities, and long term debt are measured at amortized cost subsequent to initial measurement. Marketable securities are measured at fair value through profit and loss in accordance with IFRS 13, *Fair Value Measurement*, which requires the classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

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

The three levels of the fair value hierarchy are:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;
Level 3 – Inputs that are unobservable for the asset or liability.

The following table summarizes the Company's financial instruments measured at fair value at September 30, 2014 and December 31, 2013, and shows the level within the fair value hierarchy in which they have been classified:

	Fair Value Hierarchy Level	Note	September 30, 2014 $	December 31, 2013 $
Financial Assets				
Marketable securities – held for trading	Level 1	5	2,794	–
Marketable securities – held in escrow	Level 3	5	1,148	–
Total financial assets			3,942	–

The following summarizes the (loss) on financial instruments for the three and nine month periods ended September 30, 2014 and 2013:

	Three Months Ended September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Financial Assets				
Marketable securities – held for trading	(37)	–	(37)	–
Marketable securities – held in escrow	(44)	–	(44)	–
Total loss	(81)	–	(81)	–

The marketable securities held in escrow have been accounted for as contingent consideration (Note 5) and measured at fair value at each reporting period. The fair value has been calculated using quoted prices in an active market adjusted for a liquidity discount and probability weighted using a Black Scholes pricing model. Assumptions used in the pricing model vary depending on management's best estimate of the timing and likelihood of achieving four differing business milestones over a five year period. Management has assessed a 5%-50% likelihood of achieving the milestones.

5. DISPOSAL OF BUSINESS

On September 16, 2014, the Company sold all of the shares of its wholly-owned subsidiary, Fortress Optical Features Ltd. ("FOF"), a component of the security paper products segment, subject to a working capital adjustment and earn-out. The transaction excluded cash and certain accounts receivable of FOF. The sale proceeds comprised $7,000 cash, a $3,000 secured note and 5,000,000 shares of the acquirer, of which 2,000,000 of the shares are subject to a four month holding period and 3,000,000 of the shares have been held in escrow and will be released to the Company upon the achievement of four differing business milestones to be met by FOF over a five year period. The secured note bears interest of 4% over a three year period. The shares in escrow have been accounted for as contingent consideration at fair value (Note 4). All of the shares of the acquirer held by the Company at September 30, 2014, have been classified as held for trading and revalued at fair market value (Note 4).

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

Based on the book values of the net assets disposed of, the related sales proceeds and an estimate of the value of the contingent consideration on the date of the sale, the gain on disposal of FOF is $9,212, as summarized below. The final working capital adjustment is still being negotiated and is currently based on management's best estimate, which may be subject to change in the future.

	September 16, 2014 $
Sale proceeds:	
Cash	7,000
Secured note	3,000
Shares of acquirer received	2,831
Shares of acquirer held in escrow	1,192
Working capital adjustment	182
Less: directly attributable costs	(334)
Total net proceeds	13,871
Book value of net assets disposed of:	
Accounts receivable	91
Inventories	313
Prepaid expenses	41
Property, plant and equipment	4,472
Accounts payable	(258)
Net assets disposed of	4,659
Gain on disposal	9,212

6. DISPOSAL OF DISCONTINUED OPERATION

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 $154,265, as summarized below. During the nine months ended September 30, 2014, the Company recorded an additional $863 against the gain on disposal relating to taxes owed on the sale.

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

	April 30, 2013 $
Sale proceeds:	
Cash	212,240
Less: purchase price adjustments	(1,649)
Less: directly attributable costs	(2,416)
Total net proceeds	208,175
Net assets disposed of	51,090
Profit on disposal before recycling of cumulative translation adjustment	157,085
Cumulative translation adjustment	(2,820)
Gain on disposal	154,265

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

	Three Months Ended September 30, 2014 $	Three Months Ended September 30, 2013 $	Nine Months Ended September 30, 2014 $	Nine Months Ended September 30, 2013 $
Income before income taxes and gain on disposal	–	–	–	11,661
Income taxes	(205)	–	(863)	(3,518)
Gain on disposal	–	991	–	154,265
Net income from discontinued operations	(205)	991	(863)	162,408
Cash flows from operating activities	–	–	–	8,494
Cash flows from financing activities	–	–	–	(49,231)
Cash flows from investing activities	(2,208)	–	(2,717)	(3,438)
Increase in cash	(2,208)	–	(2,717)	(44,175)

7. PROPERTY, PLANT AND EQUIPMENT

During the three and nine months ended September 30, 2014, the Company sold non-core assets for $nil and $875, respectively. The carrying amount of the assets sold was $nil in the three months ended September 30, 2014 and $nil in the nine months ended September 30, 2014 with a resulting gain on the sale of $875. During the three and nine months ended September 30, 2013, the Company sold non-core assets for $5,536 and $9,336, respectively. The carrying amount of the assets sold in the three months ended September 30, 2013 was $1,401 with a resulting gain on the sale of $4,135. The carrying amount of the assets sold in the nine months ended September 30, 2013 was $3,940 with a resulting gain of $5,242.

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

8. LONG-TERM DEBT

	Note	September 30, 2014 $	December 31, 2013 $
Credit facilities with lenders			
CHF 5,205, maturing 2020, unsecured		5,526	5,549
$109,180, interest up to 5.5%, maturing 2020, secured by the assets of the Fortress Specialty Cellulose mill	8(a)	109,008	105,107
Undrawn credit facility	8(b)	–	–
Unsecured convertible debentures			
$40,250 principal, interest at 6.5%, maturing 2016		36,845	35,872
$25,000 principal, interest at 7%, maturing 2017		23,368	22,997
$69,000 principal, interest at 7%, maturing 2019		59,589	58,605
		234,336	228,130
Less: Current portion		(16,778)	(14,572)
Long-term debt		217,558	213,558

	September 30, 2014 $	December 31, 2013 $
Principal value of debt	249,537	247,061
Unamortized borrowing costs and amounts allocated to equity for convertible debentures	(15,201)	(18,931)
Net amount recorded in liabilities	234,336	228,130

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 September 30, 2014, the fair value of the long-term debt, measured at its amortized cost of $234,336 was $168,426. The fair value was determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

(a) The lender has agreed with the Company to defer $5,789 and $16,234, respectively, in planned principal and interest for the three and nine months ended September 30, 2014, without penalty. The facility is due in equal quarterly instalments up to June 30, 2020. Additionally, the lender has agreed to defer $5,145 in principal and interest for the three month period ended December 31, 2014, without penalty.

(b) The credit agreement is a facility for up to $132,400, granted to Fortress Global Cellulose to support the conversion to a dissolving pulp mill and is secured by the assets of Fortress Global Cellulose. The loan is repayable ten years after the first draw on the facility. At September 30, 2014, $nil has been drawn on this facility. Borrowing costs of $3,336 have been deferred and recorded as a prepaid expense until the loan is drawn upon.

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

9. 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, 2012		14,495,075	178,052
Restricted share units vested	8	66,570	1,619
Options exercised	8	24,448	369
Balance, December 31, 2013		14,586,093	180,040
Restricted share units vested	8	29,109	656
Deferred share units vested	8	16,669	152
Balance, September 30, 2014		14,631,871	180,848

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 September 30, 2014.

10. STOCK-BASED COMPENSATION

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, 2012	690,725	11.22
Forfeited	(40,000)	15.41
Balance December 31, 2013	650,725	10.96
Expired	(60,000)	15.41
Balance, September 30, 2014	590,725	10.51

During the nine months ended September 30, 2014, 60,000 vested options expired.

As at September 30, 2014, 590,725 stock options were exercisable (December 31, 2013: 650,725). The stock options issued have various vesting dates that range from immediately to five years from the grant dates.

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

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.

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

	Number of DSUs	Expense recognized $
Balance, December 31, 2012	149,670	5,805
Granted	34,990	290
Vested	(24,448)	–
Balance, December 31, 2013	160,212	6,095
Granted	37,946	133
Vested	(16,669)	–
Balance, September 30, 2014	181,489	6,228

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, 2012	201,202
Granted	97,183
Vested	(66,570)
Forfeited	(11,209)
Balance, December 31, 2013	220,606
Granted	71,455
Vested	(29,109)
Cancelled	(15,932)
Balance, September 30, 2014	247,020

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

11. COMMITMENTS

As at September 30, 2014, the Company has committed to purchase $3,772 in property, plant, and equipment. As at September 30, 2014, the Company has performance bonds in the amounts of EUR 14,200.

12. SEGMENTED INFORMATION

The segmentation of the Company's manufacturing operations is based on a number of factors, including production and economic characteristics. The Landqart mill and Fortress Optical Features produce security papers and products. The Dresden mill produced non-woven wallpaper base products up to April 30, 2013. Fortress Specialty Cellulose produces dissolving pulp products.

	Three months ended September 30, 2014			
	Security	Pulp	Corporate	Fortress Paper Consolidated
	$	$	$	$
Sales	35,351	45,023	–	80,374
Operating (loss)	(1,108)	(6,238)	(1,536)	(8,882)
Amortization[1]	(2,191)	(5,058)	–	(7,249)
Stock-based compensation[1]	–	–	(155)	(155)
Capital expenditures	491	2,131	–	2,622
Total assets	138,219	371,436	46,719	556,374

Sales by geographic area	%
Europe	4.1
Asia	66.9
Other	29.0
Total	100.0

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

	Three months ended September 30, 2013			
	Security	Pulp	Corporate	Fortress Paper Consolidated
	$	$	$	$
Sales	29,933	23,227	–	53,160
Operating (loss)	(1,569)	(8,982)	(2,862)	(13,413)
Amortization[1]	(1,947)	(2,349)	–	(4,296)
Stock-based compensation[1]	–	–	(577)	(577)
Capital expenditures	615	7,693	–	8,308
Total assets	133,082	391,309	115,292	639,683

Sales by geographic area	%
Europe	20.4
Asia	69.9
Other	9.7
Total	100.0

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

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

	Nine months ended September 30, 2014			
	Security	Pulp	Corporate	Fortress Paper Consolidated
	$	$	$	$
Sales	102,771	98,721	–	201,492
Operating (loss)	(2,781)	(34,768)	(4,369)	(41,918)
Amortization[1]	(6,670)	(14,123)	–	(20,793)
Stock-based compensation[1]	–	–	(27)	(27)
Capital expenditures	1,251	6,111	–	7,362
Total assets	138,219	371,436	46,719	556,374

Sales by geographic area	%
Europe	5.0
Asia	67.7
Other	27.3
Total	100.0

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

	Nine months ended September 30, 2013					
	Security	Pulp	Corporate	Continuing Operations	Discontinued Operations (Wallpaper)	Fortress Paper Consolidated
	$	$	$	$	$	$
Sales	89,146	81,456	–	170,602	57,730	228,332
Operating income (loss)	(7,083)	(28,735)	(9,315)	(45,133)	13,211	(31,922)
Amortization[1]	(5,864)	(7,047)	–	(12,911)	(745)	(13,656)
Stock-based compensation[1]	–	–	(2,164)	(2,164)	–	(2,164)
Capital expenditures	1,617	40,670	–	42,287	3,652	45,939
Total assets	133,082	391,309	115,292	639,683	–	639,683

Sales by geographic area	%	%	%
Europe	9.1	96.6	31.5
Asia	79.8	3.1	60.2
Other	11.1	0.3	8.3
Total	100.0	100.0	100.0

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