



MANAGEMENT'S DISCUSSION AND ANALYSIS



**FOR THE THREE MONTHS ENDED
MARCH 31, 2017**

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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") is dated and has been prepared based on information available as at May 10, 2017. The MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto for the three month period ended March 31, 2017 (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 March 31, 2017 relative to the previous quarter and prior year comparative quarter. The financial information contained herein has been prepared in accordance with International Accounting Standards ("IAS") 34 – Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

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, security papers and other products; benefits that may accrue to the Company as a result of certain acquisitions, dispositions, capital expenditure programs, equipment upgrades and maintenance shutdowns; expected operational performance figures, including costs, utilization rates and efficiencies; 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; the securing of new purchase orders for our products; and the anticipated benefits for programs and initiatives.

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 and cost reduction initiatives; that demand for viscose staple fibre will continue to grow which will result in an increased demand for dissolving pulp; 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 cogeneration facility will continue operating on a consistent and regular basis; 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 will not be able to meet its equipment repair targets; that the Company's continuing efforts to reverse the dissolving pulp antidumping duty will not be successful; 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 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 made to “operating 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 and “adjusted net loss per share”, calculated as adjusted net loss divided by the weighted average number of shares outstanding in the period. Operating 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 income (loss) or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, the Company’s operating 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 operating EBITDA and adjusted net loss to net income (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.

Where we disclose production costs in this MD&A, such costs are calculated based on a variety of factors and inputs which may result in such costs not being comparable to similar types of costs disclosed by other issuers.

Description of Business

The Company was incorporated on May 30, 2006 under the laws of the Province of British Columbia. During the quarter ended March 31, 2017, the Company operated internationally in two distinct business segments: the Dissolving Pulp Segment and the Security Paper Products Segment.

The Company operates its dissolving pulp business through the Fortress Specialty Cellulose (“FSC”) mill located in Thurso, Québec, Canada, that also operates in the renewable energy generation sector through its 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. 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 joint venture, partnership and divestiture transactions. The Company's core strengths involve identifying and capitalizing on investment opportunities and divestitures. In relation to these core strengths, the Company may pursue opportunities outside of the Company's existing business segments that would diversify the asset base or monetize existing assets.

Overall Performance

Operating EBITDA was \$7.5 million for the three months ended March 31, 2017, an increase of \$6.4 million versus the prior year period and an increase of \$1.1 million over the previous quarter. For the three months ended March 31, 2016, operating EBITDA was \$1.1 million and for the three months ended December 31, 2016, operating EBITDA was \$6.4 million. The Dissolving Pulp Segment and the Security Paper Products Segment generated operating EBITDA of \$8.3 million and \$1.5 million, respectively, and corporate costs were \$2.3 million in the first quarter of 2017.

The Company reported a net loss of \$2.7 million or basic and diluted net loss per share of \$0.19 for the first quarter of 2017. In the fourth quarter of 2016, the Company reported net loss of \$7.3 million or basic and diluted net loss per share of \$0.51. For the first quarter of 2016 the Company reported a net loss of \$13.0 million or basic and diluted net loss per share of \$0.88.

The Dissolving Pulp Segment generated operating EBITDA of \$8.3 million for the quarter ended March 31, 2017, representing an increase of \$7.0 million compared to the prior year period and an increase of \$1.6 million compared to the fourth quarter of 2016. The results of the first quarter of 2017 were positively impacted by improvements in production rates and quality, particularly during the normally slower winter season, as well as better pricing relative to the prior year comparative period. Improved operations, increased uptime and the resolution of a technical issue also positively impacted power generation and cogeneration revenue. Production rates per operating day in the quarter improved by 4.3% relative to the prior year comparative period and 7.6% compared to the previous quarter. Production volumes in the first quarter were 37,102 ADMT air dried metric tonnes ("ADMT"), significantly higher than the prior year comparative period and the previous quarter as both comparative periods were impacted by shut downs. During the quarter ended March 31, 2017, the FSC mill sold 37,833 ADMT of dissolving pulp compared to 30,962 ADMT and 31,762 ADMT in the previous quarter and prior year comparative period, respectively.

The Security Paper Products Segment generated operating EBITDA of \$1.5 million for the first quarter of 2017, a decrease of \$0.1 million when compared to the fourth quarter of 2016, and a \$0.3 million decrease when compared to results in the first quarter of 2016. Due to the sale and leaseback of the land and buildings transaction, rent of \$0.9 million was incurred in both the fourth quarter of 2016 and first quarter of 2017. Adjusting for rent, the first quarter of 2017 compares favourably to the prior year comparative quarter. The Landqart mill continues to implement new initiatives to improve efficiencies and profitability. The build-out and installation of the second finishing machine, scheduled to be operational in the third quarter of 2017, is expected to de-bottle-neck the mill and provide more production flexibility. The Landqart mill sold 2,836 tonnes of security paper in the first quarter of 2017, compared to 2,474 and 2,655 tonnes of security paper in the fourth quarter of 2016 and first quarter of 2016, respectively. Security paper production includes banknotes and passports, which result in varying degrees of costs and margins depending on the complexity of the security features included.

Management's Outlook

Dissolving Pulp Segment

The FSC mill experienced its best first quarter operating EBITDA result since the mill conversion completed in 2011. In the first quarter of 2017, the FSC mill's production costs, including amortization of some of the shutdown costs and the positive impact of the cogeneration facility, averaged \$945 per ADMT which, although above medium and long term goals, compare favorably to costs of \$1,033 per ADMT in the prior year comparative period. The prior year comparative period was impacted by an unplanned shut down resulting in additional costs of \$77 per ADMT. Ongoing initiatives to reduce operational costs are focused primarily in the following areas: productivity improvement, reducing fuel consumption, increasing power generation, and chemical cost optimization. Separately, the fifth digester project is scheduled to be completed in the first quarter of 2018. The project is expected to result in an incremental annual production capacity increase of 8,500 ADMT in 2018 and 17,000 ADMT in 2019 compared to current production capacity.

Management continues to focus on positioning the FSC mill further down the global cost curve. The Lean Six Sigma program, implemented at the mill, is expected to continue to drive production costs down with a number of active projects showing positive signals.

Management expects incrementally better viscose staple fibre ("VSF") and dissolving pulp pricing through the second quarter of 2017 as compared to 2016 in part due to increasing demand in yarn and textile markets. Supporting this outlook was a stable dissolving pulp price of US\$935 per ADMT during the typically weak holiday and Chinese New Year ("CNY") period as well a rise after CNY to US\$960 as of March 24, 2017. Subsequently, rising VSF inventory levels have put downward pressure on VSF and as a result, the dissolving pulp price has

decreased to US\$870 per ADMT which represents a 2.4% increase compared to the same time last year.

Despite some seasonal weakness, dissolving pulp and VSF prices have increased by US\$20 per tonne and US\$334 per tonne, respectively, when compared to this time last year. Management continues to believe that demand is positive and growing, and expects full year 2017 pricing to compare favorably to full year 2016 pricing. Assuming stable pricing and exchange rates, operating results for the Dissolving Pulp Segment are anticipated to be materially higher in the second quarter relative to the prior year comparative period.

VSF and rayon filament markets, which are key drivers in dissolving pulp demand, have experienced improved supply and demand balance and improved pricing since bottoming in 2015 with viscose experiencing one of its better years in recent history. As at May 2017, rayon filament prices have increased by 7% and VSF prices have increased by approximately 18% year over year. VSF demand is forecasted to continue to increase in the near future, which is expected to lead to improved demand for dissolving pulp and better market dynamics relative to the past few years.

VSF demand continues to be strong and experienced improved pricing throughout 2016 which supported demand and pricing strength for dissolving pulp. VSF price is also supported by improved cotton pricing over the past year. The latest U.S. Department of Agriculture cotton projections for 2016 and 2017 indicate world consumption should exceed production for the third consecutive season. Output in 2016 and 2017 is expected to remain the third lowest since 2003 with world cotton ending stocks set to decline 8% during the 2016/2017 season to 90.0 million bales which would be the lowest level in five years. Lower cotton production over the past three years is partly a result of a reduction in forecasted plantation area, which is expected to decrease by a further 4% in 2017. Chinese state-owned reserve cotton stock sales commenced on March 6, 2017. Reserve cotton sales will further reduce the large Chinese stockpile which should improve stability in the cotton market. In addition, Chinese domestic cotton production is forecasted to remain over 25% below 2012-15 levels which should also support lower cotton inventories and continued firm cotton prices. Stocks in China are projected to decline by 9 million bales in 2016 and 2017, which follows a 7 million bale reduction in 2015 and 2016. The supply of higher quality imported cotton remains limited. The decline in forecasted cotton production and the limited availability of higher quality cotton stocks continue to reinforce the shift to manmade materials, which has resulted in increased demand and price increases for textile feedstocks including VSF.

Management believes the medium and long-term growth prospects for the world textile and fibre markets should continue to improve with an increasing population and a growing middle class in certain markets. Worldwide use of fibre is projected to continue to increase for the next several years. Demand for manmade fibre has increased while demand for cotton has continued to decline. VSF demand is anticipated to grow 5 to 6% per year as reported in *The Fibre Year 2016*.

Security Paper Products Segment

The Landqart mill continues to build on a strong order book for 2017 and 2018 comprised of a mix of new and repeat orders including for Durasafe®. Operating EBITDA at the Landqart mill for the quarter ended March 31, 2017 was comparative to the fourth quarter of 2016, which is in line with management expectation. Operating EBITDA in the second quarter of 2017 is expected to be similar when compared to the first quarter with improved results anticipated in the second half of the year when compared with the first half resulting from expectations relating to improved product mix and cost reduction initiatives.

Production of Durasafe® for the substrate of the ninth series of the Swiss franc for the Swiss National Bank (“SNB”) began in 2014 and will continue for all series expected through to 2019. In April 2016, the SNB issued the new 50 franc note printed on Durasafe®, the first of six notes in the SNB ninth series. SNB has announced the 20 franc note as the next denomination which is planned to be released in the second quarter of 2017. In March 2016, the National Bank of Kazakhstan 20,000 Tenge banknote produced with Durasafe® banknote substrate was the recipient of the Regional Banknote of the Year award at the High Security Printing Europe conference. In April 2017, the Swiss 50 Franc was the recipient of the International Bank Note Society 2016 bank note of the year award. Based on multiple Durasafe® trials being conducted at various stages, management continues to anticipate additional orders in the near, medium and long term.

Significant Developments

Credit Agreement

In January 2017, the Company announced that its wholly owned subsidiary, Fortress Bioenergy Ltd. (“FBL”), entered into a credit agreement with IAM Infrastructure Private Debt Fund LP for a \$40.0 million secured loan (the “IAM Loan”) which matures 14 years from the date of advance, and is repayable in monthly payments of principal and interest over the term. The IAM Loan will accrue interest at a rate of 6.0% per annum plus an account maintenance fee of 0.5% per annum. The IAM Loan is secured against all of the assets of FBL, which include the Company’s cogeneration assets, and is guaranteed by the Company and the FSC mill.

Investissement Québec (“IQ”), on behalf of the Government of Québec, agreed to subordinate its security right in relation to its outstanding loan with FBL and FSC in favour of the IAM Loan. In consideration for the subordination, the Company has agreed with IQ to match the interest rate payable on \$40.0 million principal amount of the outstanding IQ loan to that payable pursuant to the IAM Loan with interest on this portion of the loan commencing February of 2017. All principal payments on the IQ loan made by the Company will be applied firstly to the higher interest bearing principal amount outstanding.

Early Repayment of Debenture

In February 2017, the Company announced that it repaid in full the unsecured convertible debenture in the aggregate principal amount of \$25.0 million (the “FSTQ Debenture”) issued by the Company in favour of Fonds de solidarité FTQ (“FSTQ”). The FSTQ Debenture had an interest rate of 7.0% per annum and was set to mature on June 20, 2017. Pursuant to a debenture amendment agreement entered into by the Company and FSTQ, the Company was granted the right to repay the principal amount owing under the FSTQ Debenture prior to maturity, together with all interest accrued to the date of repayment, without any prepayment penalty. The Company used funds from the IAM Loan to repay the FSTQ Debenture.

Announcement of New Durasafe® Banknote Customer

In March 2017, the Company announced that the Landqart mill entered into an agreement with a new customer to utilize Landqart’s proprietary banknote substrate, Durasafe®, for the production of banknotes. The Company expects that Landqart will commence shipping orders to the new customer in the later part of 2017.

The new Durasafe® order will represent the fourth country to produce a banknote on Durasafe® banknote substrate, following Morocco, Kazakhstan and Switzerland.

OTCQX® Market Trading

In April 2017, the Company announced that its common shares commenced trading on the OTCQX® Best Market in the United States under the symbol “FTPLF.” The Company’s common shares continue to trade on the Toronto Stock Exchange under the symbol “FTP”.

Developments relating to Chinese Anti-Dumping Measures

In April 2017, the Company announced that the World Trade Organization (“WTO”) issued its final report finding generally in favour of Canada in the dispute relating to China’s imposition of anti-dumping measures on Canada’s dissolving pulp industry. The WTO panel concluded that China’s Ministry of Commerce failed to conduct its injury investigation in accordance with its WTO obligations. The timeframe provided to China to comply with the decision will be negotiated by Canada and China or established by an independent arbitrator. At the end of this period, Canada could decide to initiate WTO compliance proceedings if it is of the view that China did not implement the panel’s decision properly. Fortress is of the view that a proper implementation of the panel decision should result in China removing anti-dumping duties on imports of Canadian dissolving pulp.

Selected Quarterly Information

(thousands of dollars, except per share amounts, foreign exchange rates and shares outstanding, unaudited)	Q1 2017	Q4 2016	Q3 2016	Q2 2016
Sales	92,460	80,863	82,148	87,993
Net (loss) income	(2,745)	(7,274)	20,301	6,893
Basic net (loss) income per share	(\$0.19)	(\$0.51)	\$1.38	\$0.47
Diluted net (loss) income per share	(\$0.19)	(\$0.51)	\$1.34	\$0.45
Weighted average shares outstanding – Basic (thousands)	14,311	14,184	14,748	14,812
Weighted average shares outstanding – Diluted (thousands)	14,311	14,184	15,149	15,205
Average Swiss franc/Canadian dollar exchange rate ⁽¹⁾	1.3194	1.3327	1.3376	1.3281
Average US\$/Canadian dollar exchange rate ⁽¹⁾	1.3238	1.3341	1.3050	1.2886

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

(thousands of dollars, except per share amounts, foreign exchange rates and shares outstanding, unaudited)	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Sales	80,012	74,576	85,169	74,028
Net loss	(13,041)	(3,680)	(5,178)	(7,497)
Net loss per share (Basic and Diluted)	(\$0.88)	(\$0.25)	(\$0.35)	(\$0.51)
Weighted average shares outstanding - Basic and Diluted (thousands)	14,803	14,727	14,709	14,705
Average Swiss franc/Canadian dollar exchange rate ⁽¹⁾	1.3819	1.3474	1.3563	1.3060
Average US\$/Canadian dollar exchange rate ⁽¹⁾	1.3732	1.3354	1.3089	1.2297

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

Historical Discussion

The FSC mill recorded positive operating EBITDA in 2015, as a result of increased production, improved costs and increased dissolving pulp and electricity sales. Following the annual maintenance shutdown in the fourth quarter of 2015, the FSC mill experienced a challenging restart period. The fixed costs incurred during the shutdown, combined with the impact of the lime kiln repair, had a negative impact on the fourth quarter of 2015 costs in the amount of \$2.6 million. The first quarter of 2016 saw improved pricing for dissolving pulp, continued stable electricity generation and favourable foreign exchange rates on sales primarily denominated in US\$, offset by a ten day shutdown due to a blockage issue in the mill and limitations in digester capacity. The fixed costs incurred during the shutdown had a negative impact on first quarter costs in the amount of \$2.5 million. The second quarter of 2016 results improved due to increased productivity and continued stable electricity generation. The third quarter saw improved productivity and production costs, continued stable electricity generation and improved pricing. The fourth quarter of 2016 was impacted by the planned annual maintenance shutdown. The results of the first quarter of 2017 were positively impacted by improvements in production rates and quality,

particularly during the normally slower winter season, as well as better pricing relative to the prior year comparative period.

The year ended December 31, 2015 was characterized by a favourable product mix and increased improvements in efficiency and waste rates at the Landqart mill, partially offset by the significant appreciation of the Swiss franc against the euro. The first half of 2016 was favourably impacted by product mix. The second half of 2016 was impacted by unfavourable product mix and technical challenges that led to mill inefficiencies. Results at the Landqart mill for the quarter ended March 31, 2017 were lower than the fourth quarter of 2016, due primarily to product mix.

First Quarter 2017 Earnings Review

Three Months Ended March 31, 2017

Overview

Operating EBITDA was \$7.5 million for the three months ended March 31, 2017. For the three months ended December 31, 2016, operating EBITDA was \$6.4 million and for the three months ended March 31, 2016, operating EBITDA was \$1.1 million. The Dissolving Pulp Segment generated operating EBITDA of \$8.3 million and the Security Paper Products Segment generated operating EBITDA of \$1.5 million. Corporate costs contributed an operating EBITDA loss of \$2.3 million in the first quarter of 2017.

The Company reported a net loss of \$2.7 million or basic and diluted net loss per share of \$0.19 for the first quarter of 2017. In the fourth quarter of 2016, the Company reported net loss of \$7.3 million or basic and diluted net loss per share of \$0.51. For the first quarter of 2016 the Company reported a net loss of \$13.0 million or basic and diluted net loss per share of \$0.88.

Fortress reported an adjusted net loss of \$3.0 million, or diluted adjusted net loss per share of \$0.21 for the first quarter of 2017 on sales of \$92.5 million. In the fourth quarter of 2016, the Company reported an adjusted net loss of \$7.0 million or diluted adjusted net loss per share of \$0.49 on sales of \$80.9 million, and for the first quarter of 2016, an adjusted net loss of \$12.2 million or diluted adjusted net loss per share of \$0.82 on sales of \$80.0 million.

Manufacturing and distribution costs were \$72.2 million, or 78.1% of sales, for the three months ended March 31, 2017, compared to \$63.3 million, or 78.2% of sales, for the three months ended December 31, 2016. In the first quarter of 2016, manufacturing and distribution costs were \$65.8 million, or 82.2% of sales. Such costs are representative of tonnage sold and production cost per tonne at each mill.

SG&A expenses were \$12.8 million for the first quarter of 2017, compared to \$11.2 million for the fourth quarter of 2016. SG&A was higher in the first quarter of 2017 compared to the previous quarter due to increased corporate activity and increased sales costs due to higher sales volume in the quarter. The prior year comparative period SG&A was \$13.2 million. SG&A was higher in the first quarter of 2016 due primarily to maintenance costs at the Fortress Global Cellulose mill which was subsequently sold.

Selected Financial Information and Statistics

(thousands of dollars, except shipments, unaudited)	Q1 2017	Q4 2016	Q1 2016
Sales	92,460	80,863	80,012
Operating EBITDA ⁽¹⁾	7,489	6,352	1,055
Net loss	(2,745)	(7,274)	(13,041)
Adjusted net loss ⁽²⁾	(2,999)	(6,980)	(12,189)
Paper shipments (tonnes)	2,836	2,474	2,655
Pulp shipments (ADMT)	37,833	30,962	31,762

⁽¹⁾ See Net Loss to Operating EBITDA Reconciliation.

⁽²⁾ See Net Loss to Adjusted Net Loss Reconciliation.

Net Loss to Adjusted Net Loss Reconciliation:

(thousands of dollars, except per share amounts, unaudited)	Q1 2017	Q4 2016	Q1 2016
Net loss	(2,745)	(7,274)	(13,041)
Foreign exchange (gain) loss	(254)	294	852
Adjusted net loss	(2,999)	(6,980)	(12,189)
Basic and diluted net loss per share	(0.19)	(0.51)	(0.88)
Adjusted net loss per share, basic and diluted	(0.21)	(0.49)	(0.82)

Net Loss to Operating EBITDA Reconciliation:

(thousands of dollars, unaudited)	Q1 2017	Q4 2016	Q1 2016
Net loss	(2,745)	(7,274)	(13,041)
Income tax expense	21	(44)	5
Foreign exchange (gain) loss	(254)	294	852
Net finance expense	1,846	4,706	5,179
Amortization	8,522	8,518	7,882
(Gain) loss on financial instruments	(26)	78	137
Stock-based compensation	125	74	41
Operating EBITDA	7,489	6,352	1,055

Operating Results by Business Segment**Dissolving Pulp Segment**

(thousands of dollars, except for shipments, unaudited)	Q1 2017	Q4 2016	Q1 2016
Sales	48,690	41,196	38,802
Operating income (loss)	1,905	(105)	(4,041)
Amortization	6,402	6,773	5,306
Operating EBITDA	8,307	6,668	1,265
Dissolving pulp shipments (ADMT)	37,833	30,962	31,762

As at March 31, 2017, the FSC mill held finished goods inventory consisting of 1,891 ADMT of dissolving pulp compared to 2,622 ADMT as at December 31, 2016. At March 31, 2016, the mill held finished goods inventory consisting of 3,254 ADMT of dissolving pulp.

The Dissolving Pulp Segment generated operating EBITDA of \$8.3 million for the quarter ended March 31, 2017 representing an increase of \$7.0 million compared to the prior year period and an increase of \$1.6 million compared to the fourth quarter of 2016. The results of the first quarter of 2017 were positively impacted by improvements in production rates and quality, particularly during the normally slower winter season, as well as improved pricing relative to the prior year comparative period. Improved operations, increased uptime and the resolution of a technical issue also positively impacted power generation and cogeneration revenue. Production rates in the quarter improved by 4.3% relative to the prior year comparative period and 7.6% compared to the previous quarter. The FSC mill produced 37,102 ADMT of dissolving pulp in the first quarter of 2017, significantly higher than the prior year comparative period and the previous quarter as both comparative periods were impacted by shut downs.

Revenues of \$5.1 million were generated from the cogeneration facility in the quarter ended March 31, 2017 compared to \$4.2 million in the quarter ended December 31, 2016. Revenues from the generation of power at the cogeneration facility during the quarter ended March 31, 2016 were \$5.0 million. Revenues from the cogeneration facility were lower in the fourth quarter of 2016 due to unforeseen technical issues that have recently been resolved.

Security Paper Products Segment

(thousands of dollars, except for shipments, unaudited)	Q1 2017	Q4 2016	Q1 2016
Sales	43,770	39,667	41,210
Operating loss	(652)	(192)	(732)
Amortization	2,120	1,745	2,576
Operating EBITDA	1,468	1,553	1,844
Shipments (tonnes)	2,836	2,474	2,655

Operating EBITDA for the Security Paper Products Segment for the quarter ended March 31, 2017 was \$1.5 million compared to \$1.6 million in the fourth quarter of 2016 and \$1.8 million in the first quarter of 2016. Results at the Landqart mill for the quarter ended March 31, 2017 were comparable to those in the fourth quarter of 2016. As a result of the sale and leaseback transaction, rent of \$0.9 million was incurred in both the first quarter of 2017 and the fourth quarter of 2016. Security paper production includes banknotes and passports, which result in varying degrees of costs and margins depending on the complexity of the security features included.

Selected Cash Flow Items

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Cash flows from (used by) operating activities		
Cash from operating activities before working capital changes	8,084	1,522
Non-cash working capital change	7,347	(2,514)
	15,431	(992)
Cash flows from (used by) financing activities	11,337	(474)
Cash flows used by investing activities		
Additions to property, plant and equipment	(6,946)	(6,896)
Other	(1,680)	6,831
	(8,626)	(65)
Change in cash position	18,142	(1,531)
Foreign exchange loss on cash and cash equivalents	179	(840)
Cash and cash equivalents, beginning of period	22,132	33,964
Cash and cash equivalents, end of period	40,453	31,593

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 \$15.4 million and used \$1.0 million in the three months ended March 31, 2017 and 2016, 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 three months ended March 31, 2017 and 2016, financing activities provided cash of \$11.3 million and used \$0.5 million, respectively. Included in financing activities for the three months ended March 31, 2017, was the repayment of a \$25.0 million unsecured convertible debenture. The Company also entered into an agreement with a new lender for a \$40.0 million secured loan and made \$1.5 million in long-term debt interest payments. Financing activities in the three months ended March 31, 2016, related mainly to the payment of long-term debt interest.

Investing Activities

Investing activities in first three months of 2017 used cash of \$8.6 million. Investing activities relating to the purchase of equipment and other capital expenditures at the mills used cash of \$6.9 million. Restricted cash used cash of \$2.2 million related to an agreement with a new lender for a \$40.0 million secured loan and an increase to cash security provided for banknote contracts, partially offset by restricted cash relating to treasury shares becoming available. The Company received \$0.5 million in government grants relating to the fifth digester project.

Investing activities in the first quarter of 2016 used cash of \$0.1 million. Investing activities relating to the purchase of equipment and other capital expenditures at the mills was \$6.9 million. Restricted cash, relating to cash security provided primarily for banknote contracts in the Security Paper Products Segment provided \$6.2 million in cash.

Liquidity and Capital Resources

As at March 31, 2017, the Company had a cash and cash equivalents balance of \$40.5 million. Business maintenance capital expenditure was approximately \$1.5 million in the quarter ended March 31, 2017. Project and/or discretionary capital expenditure for the quarter ended March 31, 2017 was approximately \$1.3 million.

As at March 31, 2017, the Company had \$4.8 million (CHF 3.6 million) in restricted cash for rent and maintenance deposits as a result of the sale and leaseback transaction.

At March 31, 2017, the Company's current portion of long-term debt, accounts payable and accrued liabilities totaled \$53.3 million, all of which fall due for payment within one year of the statement of financial position date. If necessary, the Company has the ability to repay principal amounts outstanding, subject to receiving requisite approvals, of the remaining \$62.1 million of convertible debentures due in 2019 in common shares of the Company. In February 2017, the Company repurchased in full the FSTQ Debenture in the aggregate principal amount of \$25.0 million that was set to mature on June 20, 2017.

Corporate expenses in the fourth quarter were up \$0.4 million from the previous quarter to \$2.3 million. In the short term, corporate quarterly expenses are expected to be modestly lower.

Cash and restricted cash ended the first quarter at \$57.8 million up from \$37.1 million at the 2016 fiscal year end. Management anticipates that the cash balance, excluding any potential new growth initiatives, will continue to build in 2017 both from operations as well as assuming the positive outcome of pursuing opportunities to reduce working capital.

Although there can be no assurances, Fortress believes that current cash, cash generated from operations, proceeds from the sale and leaseback transaction at the Landqart mill, cashflow derived from improved inventory and cash management, cash from the sale of non-core assets, alternative financing arrangements, and other cash generating initiatives, 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, repay its indebtedness upon maturity and pay other indebtedness will be subject to future economic conditions, the potential renegotiation or refinancing of existing indebtedness, the financial success of Fortress' business, Fortress' ability to successfully maximize margins and diversify product mix in response to changing market conditions, success of 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 duties imposed by China. 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.

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, refinance indebtedness, provide additional working capital, enhance liquidity or for other general corporate purposes.

In July 2016 the sale of the assets of the Fortress Global Cellulose mill was completed. The mill had previously been fully impaired for accounting purposes. Concurrent with the sale, the Company assigned and transferred a \$7.0 million note issued by the purchaser to IQ as early repayment of principal amounts due in 2017 under the IQ loan. In addition, IQ has agreed to defer interest on the IQ loan until April 1, 2018 and to further defer an aggregate of \$6.3 million of quarterly principal payments otherwise payable September 30, 2017, December 31, 2017, and March 31, 2018, without penalty or interest accruing on such amounts until the one year anniversary of each such principal payment due date. The remaining principal amount will be amortized in equal quarterly installments commencing June 30, 2018 over the remaining term of the loan. In connection with the IAM Loan, Fortress agreed to increase the interest payable on \$40.0 million principal amount of the IQ loan to 6% per annum and pay interest on this portion of the IQ loan commencing February 2017. All principal payments to IQ will be applied firstly to the higher interest bearing principal amount outstanding.

Repayments of principal for debt outstanding as at March 31, 2017 are required as follows:

	(\$ 000's)
2017	2,972
2018	13,093
2019	77,027
2020	14,889
2021	14,613
Thereafter	84,067
	206,661

As at March 31, 2017, the Company had aggregate indebtedness of \$209.8 million, including unamortized borrowing costs, and net working capital of \$93.4 million.

Commitments

As at March 31, 2017, the Company has:

- committed to purchase steam from a supplier up to the end of 2025 for \$1.2 million (CHF 0.9 million) per year;
- issued guaranteed letters of credit of \$0.8 million relating to the continued delivery of power at our cogeneration facility;
- committed to purchase \$9.8 million in property, plant and equipment;
- guaranteed the secured note receivable transferred to a lender as early repayment of principal amounts due in 2017; and
- performance bonds in the amount of \$27.4 million (EUR 19.2 million).

The remaining minimum operating lease commitments for land, buildings, equipment, storage, and offices over the next five years and thereafter are as follows:

	(\$ 000's)
2017	4,313
2018	4,335
2019	4,274
2020	4,039
2021	3,664
Thereafter	53,125
	73,750

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)	March 31, 2017 \$	December 31, 2016 \$
Cash and cash equivalents	40,453	22,132
Less total debt	209,844	197,780
Net debt	(169,391)	(175,648)
Shareholders' equity	214,129	210,549

The Company has certain financial covenants stipulating subsidiary specific minimum ratios of working capital and debt to earnings, maximum ratios of long-term debt to adjusted net worth and debt service coverage, as well as certain non-financial covenants. Debt obligations are held by various entities within the Company with individual debt agreements specifying the entities within the Company 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 March 31, 2017.

Outstanding Shares

The number of common shares outstanding at March 31, 2017, and the date of this report was 14,312,206 and 14,323,184, respectively. The number of options outstanding at March 31, 2017 and the date of this report was 674,875 and 453,950, respectively. At March 31, 2017 and the date of this report there were 113,393 and 108,181 restricted share units outstanding, respectively. At March 31, 2017 and the date of this report there were 257,556 and 262,178 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, tax reassessments and claims require judgment using management's best estimates regarding projected outcomes and the range of loss, based on such factors as historical experiences, stage of proceedings and recommendations of legal counsel and tax advisors. 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, 2016 available on SEDAR.

New Accounting Pronouncements

Accounting standards issued and not applied

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, Leases, which requires, among other things, lessees to recognize leases traditionally recorded as operating leases in the same manner as a financing lease. The required adoption date is January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact from the adoption of this standard.

IFRS 9 – Financial Instruments- Classification and Measurement

The final version of IFRS 9 was issued in July 2014 and includes (i) a third measurement category for financial assets, and (ii) a single forward looking expected loss impairment model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not anticipate the new standard to have a significant impact on its financial statements.

Amendments to IFRS 7 - Financial Instruments: Disclosures

IFRS 7 is amended to require additional disclosures on transition from IAS 39 to IFRS 9. The Amendment of IFRS 7 is effective on adoption of IFRS 9.

IFRS 15 - Revenue from Contracts with Customers

This new standard on revenue recognition supersedes IAS 18 - Revenue, IAS 11 - Construction Contracts, and related interpretations. IFRS 15 is effective for the first interim period beginning on or after January 1, 2018. The Company is currently performing a preliminary assessment of the new standards with the assessment to be finalized in the second half of 2017.

There are no other standards or amendments or interpretations to existing standards issued but not yet effective which are expected to have a material impact on our consolidated financial statements.

Risks and Uncertainties

A comprehensive discussion of risk factors is included in the Company's Annual Information Form dated March 31, 2017, 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, 2016, also available on SEDAR, may impact the business of the Company.

Disclosure Controls and Internal Controls over Financial Reporting

During the quarter ended March 31, 2017, 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.