

THE COMPANY

Fortress Paper (TSX: FTP) is an international producer of security and specialty papers and wallpaper base. The Company's Landqart Mill in Switzerland produces security papers, which includes paper currency, passports, visas, cheques, share certificates and lottery tickets. The Landqart Mill has been the sole provider of banknote paper for the Swiss currency since 1979 and is one of only nine authorized suppliers of various denominations of the Euro currency. The Company's Dresden Mill in Germany produces primarily non-woven wallpaper base that is sold to Eastern Europe and the former Soviet Union. Although global demand for wall paper is declining, these markets are experiencing growth, especially in the non-woven segment.

FINANCIAL DATA

	2007	2008	2009
Earnings per Share (\$)	0.76	1.24	1.23
Price to Earnings (times)	24.3	14.9	15.0
Dividend (\$)	0.00	0.00	0.00
Dividend Yield (%)	0.00	0.00	0.00
Book Value (\$)	5.85	7.12	8.46
Price to Book Value (times)	3.16	2.60	2.19

HISTORICAL SHARE PRICES



WHY ABC FUNDS BOUGHT FORTRESS PAPER

Fortress Paper became a TSX-listed Company on June 28, 2007, after purchasing the Landqart Mill and the Dresden Mill from Mercer International Incorporated. Mercer, a European softwood and kraft pulp producer that trades on the NASDAQ (MERC) and the TSX (MRI.u), divested the mills to focus on its pulp business. A Canadian entrepreneur, Chad Wasilenkoff, reviewed the assets, conducted due diligence and negotiated the transaction. Mr. Wasilenkoff then installed experienced European management, led by Dr. Alfonso Ciotola as Chief Operating Officer and Erich Sulser as Chief Financial Officer.

We believe that Fortress Paper is a net asset value story, where the replacement value of the two mills and the related equipment is well above the Company's current market capitalization. The Landqart Mill is situated in the town of Landqart, 100 kilometres east of Zurich in the scenic Swiss Alps. After poring through the initial public offering prospectus we discovered that the fire insurance value of the property was CHF (Swiss Francs) 66.5 million for the building and CHF 163 million for the inventory and equipment. At the current exchange rate this totals approximately CAD \$200 million.

The Dresden Mill is located in the town of Heidenau, 12 kilometres south of Dresden on the Elbe River. The mill has total capacity of 36,000 tonnes and a 12,000 tonne machine costs approximately EUR 30 million. Therefore the total replacement value of three 12,000 tonne machines is EUR 90 million or CAD \$125 million. Additionally, the Dresden complex includes land, a hydroelectric plant and a water treatment facility, which were appraised at CAD \$50 to CAD \$100 million combined.

Putting all of the pieces together, we believe that the Company's assets are worth between CAD \$375 and CAD \$425 million compared to the current market capitalization of only CAD \$86 million. We are not suggesting that the stock should trade at replacement value, but we believe that a 75% discount to net asset value is excessive for assets that are both cash flow positive and profitable.

On August 14, Fortress released second quarter results that supported our net asset value analysis. Reported sales of \$35.4 million were down from \$38.3 million in the prior quarter due to foreign exchange and the timing of shipments. However, EBITDA improved to \$4.3 million from \$2.4 million in the first quarter of 2007. Similarly, net income grew to \$1.7 million from \$1.1 million in the first quarter. To be fair, we need to adjust the first quarter net income to reflect a one-time sale by prior management, which had a negative impact of approximately \$0.4 million. Excluding this item, net income still grew almost 14% quarter over quarter.

Based on the number of shares outstanding post-IPO, Fortress earned \$0.17 per basic share and \$0.16 per fully diluted share in its first quarter as a public entity. Annualized and ignoring any additional sequential growth through the balance of the year, the stock is trading at approximately twelve times earnings. Looking at the Company's historic results, net income grew to \$1.8 million in 2006 from \$1.5 million in 2005. Based on a 20% growth rate, consistent with management's outlook, we believe that

WHY ABC FUNDS BOUGHT FORTRESS PAPER (CONT'D)

Fortress could trade at 20 times earnings. This implies a potential valuation range of \$12.80 to \$15.00 over the course of the next twelve to eighteen months.

We believe that Fortress Paper is a deep value story that is under-followed and accordingly, under-valued. The shares have been thinly traded post-IPO and have been quite volatile, which is perhaps unsurprising given the general market conditions. However, Fortress is an intriguing small-capitalization story, with solid net asset value support and potentially decent earnings growth going forward. Interestingly, with the TSX listing, Fortress is positioned to bid on contracts to print the Canadian currency in the near future. We plan to patiently hold the stock over the course of the next few years and hope to be well rewarded.

ABC Funds
September 28, 2007

UPDATES

The markets, and shares of Fortress Paper, have been extremely volatile since our initial comment on the Company. Investors have fled to safety and have abandoned small-cap, under-followed, deep-value securities. However, we are confident in the Fortress Paper story and recent results have confirmed our investment thesis, despite the present market price of Fortress.

Fortress Paper has now reported three quarters of financial and operating results as a public entity. On the surface, the numbers appear volatile, so we feel the need to provide some colour to the results. In November, Fortress reported third quarter revenue of \$34.1 million while earning only \$0.02 per share. This compares to revenue of \$35.4 million and earnings of \$0.17 per share in the second quarter of 2007. These results may have caught the market by surprise since they appeared to weaken sequentially. However, this temporary dip in earnings should have been anticipated. Management had been clear that downtime would be taken in the quarter in order to perform scheduled maintenance and upgrade the mills to increase higher margin capacity using the IPO proceeds. Consequently, the results rebounded strongly in the fourth quarter of the year, with sales of \$37.5 million and earnings of \$0.22 per share. For the year, Fortress reported impressive results, with sales of \$145.3 million, EBITDA of \$13.6 million and net income of \$0.76 per share.

At the current price of approximately \$7.50 per share and a total market capitalization of approximately \$75 million, the shares are cheap. The discount to replacement value of the Landqart and Dresden mills, we believe, is excessive for a Company that is both cash flow positive and earning money. Trading at only 5.5 times EBITDA and below 10 times earnings, the market has placed forestry sector multiples on this Company. However, we suggest that it is more appropriate to use a high tech security multiple instead. Fortress operates in a highly specialized industry, with impressive research and development capabilities related to the development of the latest and most advanced anti-counterfeiting features. Should a multiple re-rating occur and/or the Company is discovered by the market, we believe that the shares could trade in a range between \$10 and \$12 per share in the context of a 12 to 18 month period.

ABC Funds
March 14, 2008

After reporting a soft Q3/07, followed by a vastly improved Q4/07, Fortress Paper reported earnings for Q1/08 that blew away all expectations. The Company reported basic earnings per share of \$0.41, or net income of \$4.2 million. Earnings were almost double the Q4/07 results and approximately fourfold greater than the prior year's comparable period. Sales in Q1/08 were \$49.8 million compared to \$37.5 million in Q4/07 and \$38.3 million in Q1/07. To explain the growth, management pointed to capacity increases at both mills (using the proceeds from the IPO) and a shift towards more non-woven wallpaper base at the Dresden mill. In addition to revenue growth, Fortress was able to expand margins in the quarter, as newer, more efficient equipment led to higher productivity. The EBITDA margin expanded to 13.3% or \$6.6 million compared to 11.3% in Q4/07 and 7.4% in Q1/07. The net margin reached 8.4% versus 6.1% the previous quarter and 2.9% in the comparable period a year ago. Needless to say, we were very pleased with these results.

In addition to the excellent quarter, the Company recently released a second bit of good news. Fortress Paper redeemed its \$7.5 million convertible note, held by Mercer International as part of the original purchase agreement. The Company paid \$8,176,674, which represented the full principal amount of the note plus interest accrued up to August 1, 2009, and 105,000 common shares. The note had a yield of prime plus 2% and was convertible at a price of \$8.00 per share. The strong financial results and the rising share price made the transaction feasible with minimal dilution to existing shareholders. A cleaner balance sheet should allow opportunistic acquisitions and accretive growth to continue in the near to medium term.

ABC Funds
May 23, 2008

UPDATES (cont'd)

The volatility in today's markets, driven by fear and greed, can easily be seen in the share price behaviour of Fortress Paper. After going public at \$8.00 last year, the stock rallied quickly above \$10.00, declined to \$5.30 in March, rebounded to \$11.98 in June and now trades just under \$10.00 per share. Considering that this Company is relatively insensitive to the North American economies, now is a good time to reexamine the fundamentals.

Firstly, the name "Fortress Paper" is a misnomer. We believe that the word "paper" conjures up negative connotations of cyclical commodities, small profit margins and a weak return on capital. However, Fortress is a high-technology company that prints international currencies such as the Swiss Franc and the Euro. The Company uses proprietary technology to incorporate features such as embedded watermarks, chemical taggants, security threads and even clear polymer windows in their products. Fortress also produces passports, visas, share certificates and identification cards that incorporate features such as holographic foil, radio frequency chips, antennas and machine-readable digital nanotechnology. These components allow for instantaneous verification of important documents. The market seems to have missed this key aspect of the Company's products which, we believe, warrants a premium valuation.

Secondly, the Company's financial performance has been excellent amid the general market malaise. On August 11, Fortress Paper reported results for the second quarter and first half of 2008. Sales grew to \$49.1 million in the second quarter, an increase of 39% from sales of \$35.4 million in 2007. Net income reached \$3.4 million in the most recent quarter, double the net income earned during the comparable period in 2007. For the first half of 2008 compared to 2007, revenue grew to \$98.9 million from \$73.7 million and net income increased to \$7.6 million from \$2.8 million. On a per share basis, year over year comparisons are meaningless due to the dramatically different share counts pre and post IPO. However, in the first six months of 2008 Fortress Paper has earned a total of \$0.74 per share. Book value is \$6.58 per share, which is well below the replacement value of the Company's assets.

At the current share price, Fortress Paper trades at 7.8 times 2008 consensus earnings expectations, 3.8 times 2008 consensus EBITDA expectations and 1.5 times book value. This multiple of book value is actually less relevant given the significantly higher replacement value of the assets and a premium 20% forecasted ROE. Value investors are not often presented with an opportunity to buy a high-quality Company at such deeply discounted multiples.

Finally, our thesis on Fortress Paper has always been relatively simple. Demand for currencies with advanced anti-counterfeiting measures is growing. The wall paper division, as strange as it may sound, generates excellent cash flow. The replacement value of the assets could be in the \$375 to \$425 million range, though admittedly we don't expect to realize this full amount. However, even if the shares traded at a 50% discount to replacement value, the current share price offers an excellent potential return. Remember this story isn't a commodity cyclical; it is a growth stock with market leading technology and deserves a relatively higher multiple. We recommend investors focus on the long-term fundamentals and ignore the volatility, the pessimism and the dour headlines. It is our opinion that solid businesses, with clean balance sheets and astute management should succeed in the long run.

ABC Funds
August 22, 2008

With Fortress Paper currently trading at \$6.00 per share, it's time to recap the volatility and insanity that is characteristic of this stock market. The Company went public at \$8.00 last year and the stock rallied quickly above \$10.00 within the first month of trading. The shares then declined to a low of \$5.30 in March of this year before rebounding to \$11.98 in June. Recently, the shares declined to a low of \$4.80 on October 10th before a small bounce that reached \$6.00 today.

Considering the stable nature of the Company's operations, let's examine what an investor can buy for a \$6.00 per share investment in Fortress Paper. First, the Company has \$3.40 per share of cash on the balance sheet. Net of long-term debt the Company has approximately \$1.00 per share of cash. You also get a stake in the Company's two mills, the Landqart Mill and the Dresden Mill, which includes printing presses, a water treatment plant and a hydroelectric facility. The tangible book value of the assets is currently stated as \$6.58 per share but, as we have discussed in the past at great length, we believe that the replacement value is several times higher. With solid assets and net cash on the balance sheet, we are amazed that investors would panic and sell shares below book value.

Our final thoughts revolve around the earnings power of the Company's assets. If they can't generate decent earnings or cash flow, then our thesis must somehow be incorrect. However, in the first half of 2008, Fortress earned \$0.71 per share and generated \$12.8 million of EBITDA. To be frank, these results are excellent given the current economic environment. On an annualized basis, the stock now trades at 4.2 times earnings and has an enterprise value to EBITDA multiple of less than two.

UPDATES (cont'd)

The assets are sound, the earnings and cash flow are solid and the stock appears to be extraordinarily cheap.

ABC Funds
October 24, 2008

Despite the share price volatility that we have discussed previously, Fortress Paper remains one of our Value Favourites. The Company has just released operating and financial results for the fourth quarter and fiscal year 2008. Annual sales grew from \$145.3 million to \$189.0 million, an increase of 30%. EBITDA almost doubled, advancing from \$13.6 million to \$25.0 million. Similarly, net income jumped from \$5.3 million or \$0.76 per share to \$12.7 million or \$1.24 per year in fiscal 2008.

Examining the performance of the Company at the mill level yields some interesting tidbits. First, the IPO proceeds that were deployed to boost capacity and efficiency at Dresden seem to have been well spent. Sales increased 29% to \$105.6 million, while operating income more than doubled to \$20.0 million. In fact, the operating margin at Dresden improved from 12% to 19% over the course of the year as more non-woven wallpaper base was produced. Conversely the Lanqart Mill has yet to benefit from upgrades to its machines. However, management pointed out that PM2 (Paper Machine 2) is now running at full capacity and should demonstrate improvements throughout the year. Although sales at Lanqart increased 30%, operating income increased just 12% to \$4.0 million. We will monitor the margins at Lanqart closely to ensure that the expected operating efficiencies result in a tangible improvement in financial performance.

We believe that the market is only valuing the Company at approximately 4 times earnings and 2 times EBITDA for one key reason. Since the IPO, management has talked about making an acquisition to add bank note production capacity but have been unsuccessful thus far. Currently, bank note production is sold out and management has actually been politely turning down orders. Of particular importance, Fortress Paper has a clean balance sheet with \$26.2 million of cash against \$30.6 million of debt. With a net debt figure of \$4.4 million, this provides Fortress with excellent opportunities. Should Fortress complete an accretive acquisition, we believe that the market would respond quite positively.

ABC Funds
March 13, 2009

Fortress Paper has just released results for the second quarter of fiscal 2009. Although revenue was up slightly to \$49.6 million from \$49.1 million in 2008, earnings were weaker. Reported net income in the second quarter of 2009 was \$1.9 million or \$0.19 per share compared to \$3.4 million or \$0.35 per share in the second quarter of 2008. The current quarter was negatively impacted by a \$0.8 million foreign exchange loss and an unusually high tax rate. Conversely, results in 2008 were unusually strong due to a future income tax recovery of \$1.1 million offset by a foreign exchange loss of only \$0.2 million. Adjusting for the FX loss and unusual tax rate, results for the most recent quarter were better than analyst's expectations.

EBITDA (earnings before interest, taxes, depreciation and amortization) was \$5.7 million or 11.5% of sales compared to \$6.2 million or 12.6% of sales in the comparable quarter a year ago. Management clarified this drop by saying, "The decrease in EBITDA relative to the prior year comparative period was primarily due to the difficult environment for specialty papers at the Landqart mill which was a direct result of the global economic slowdown. The market for security papers, which includes bank notes, passport paper and other high security papers, continues to show strength and our order book for wallpaper base has recovered to healthy levels." The Company is actively looking at various cost cutting initiatives to mitigate the effects of the economic downturn.

Intriguingly, the press release contained the following line, "The Company's balance sheet remains strong and we continue to evaluate internal growth initiatives and accretive acquisition opportunities." It was only during the conference call that initial details regarding a long-awaited catalyst began to emerge. Management finally confirmed that they had received Board approval to convert PM1 (Paper Machine 1), currently a low to mid grade security and special paper machine, to a triple-wide banknote machine. Anticipated cost is CHF 49 million or approximately \$50 million in Canadian dollars. This will boost capacity for higher margin banknotes that can be printed with greater efficiency and less waste. Plans are to finance the capital expenditure with cash on the balance sheet, internally generated cash flow and a debt financing package. We are very interested to hear more details about this expansion and will look to discuss it with management. We believe that the market has been anticipating some sort of announcement regarding an acquisition or expansion for some time.

ABC Funds
August 14, 2009

UPDATES (cont'd)

After reporting a relatively lackluster second quarter due to the global economic slowdown's impact on the sale of specialty papers, Fortress Paper is now firmly back on track. In the third quarter of 2009, the Company reported sales of \$51.0 million compared to \$43.7 million in the third quarter of 2008 and \$49.6 million in the second quarter of 2009. EBITDA was \$7.0 million in Q3/09 compared to \$6.2 million last year and \$5.7 million in Q2/09. Net income was \$3.5 million or \$0.34 per share compared to \$2.3 million or \$0.22 per share a year ago and \$1.9 million or \$0.19 per share in the prior quarter. Given the depth of the economic downturn, it is actually pretty unusual to find a company that is demonstrating both year over year and sequential revenue and earnings growth.

Examining the results more closely, the Landqart mill reported sales of \$24.0 million compared to \$20.9 million a year ago. Operating income improved to \$1.8 million from \$1.2 million in the comparable period. The results reflect strength in the security paper segment and more banknote sales than in prior quarters. At the Dresden mill, demand for wallpaper base has reached the highest level since the start of the economic downturn. The division's revenue increased to \$27.0 million compared to \$24.7 million and operating income was relatively stable at \$4.7 million compared to \$4.9 million in the third quarter of 2008. The small dip in operating income at Dresden could be explained by some product mix changes. All told, we were quite impressed by the performance of both of the operating divisions.

Finally, we would like to discuss a potential, near-term corporate development that could act as a catalyst for the shares. Once a financing package to fund the conversion of PM1 to a banknote printing machine is put into place, we believe that the market would become more willing to put a high-tech or growth multiple on the stock for two key reasons. First, banknote printing, entailing the in-house and patented development of advanced security features, is a relatively unique and high margin business. Second, management has already suggested that demand is robust. They have actually turned away some Euro orders in order to accommodate other central banks. This ensures the maximum number of potential clients to fill Fortress's additional capacity once the converted banknote machine is operational.

Subsequent to the release of Fortress's solid results, the shares jumped almost 20% and currently trade at approximately \$10.00. This represents a relatively small premium to book value of \$8.08, which is justifiable given the annualized return on average equity of 17.2% in the quarter. On an earnings basis, the shares are valued at 9.2 times 2009 consensus earnings and only 7.4 times 2010 consensus earnings. Despite the move in the stock, we believe that the shares still trade at a discount to the intrinsic value of the Company.

ABC Funds
November 13, 2009

We have just met with management of Fortress Paper in our offices. The discussion covered the Company's solid third quarter results and several key corporate and operational developments. Because the financial results have already been "priced-in" to the stock, in this Value Investigator update we wanted to report on the more forward-looking aspects of our conversation. Hopefully, the market will respond positively as management delivers.

From our perspective, the most important near-term issue is the PM1 (Paper Machine 1) rebuild. Remember that the conversion of the PM1 machine to a banknote machine will boost capacity of the high margin product from 2,500 tonnes to 10,000 tonnes per annum. Management seemed certain that the financing arrangement would be announced shortly, perhaps even before the end of the year. Essentially, the only remaining points of negotiation surround various covenants and conditions, which management wishes to minimize. Obviously, they want to retain the maximum amount of financial flexibility in the event that opportunities arise in the future. As per Company guidance, we expect that the PM1 banknote machine will be operational by January 2011. In fact, management suggested that they have already started "pre-selling" some of this capacity, which is a testament to their confidence in the expansion.

Management also discussed their new "Durasafe" product, which has just become commercially available. Essentially, they have developed a banknote that contains a transparent polymer window that is highly resistant to counterfeiting. Although the Company has yet to receive any firm orders, several parties have examined the product, expressed interest and have begun pricing negotiations. We believe that this innovation will command higher margins than traditional bank notes.

Finally, management discussed potential acquisitions. We would not be surprised to see them acquire one or more related businesses within the next six to eighteen months. Additional banknote capacity or technology related to embedded security features seemed to be the key areas of interest. Thankfully, with management and insider's large stake in Fortress Paper, we

UPDATES (cont'd)

believe that they will be extremely patient and disciplined buyers. All told, we came away very impressed with the Company's positioning and outlook.

ABC Funds
December 18, 2009

On March 18, Fortress Paper announced what we believe to be a transformative acquisition. Fortress has signed an asset purchase agreement to acquire a northern bleached hardwood kraft (NBHK) pulp mill in Thurso, Quebec, known as the "Thurso Mill". The Company plans to convert this facility into a low cost, specialty cellulose (dissolving pulp) producer. As part of the plan, Fortress intends to build a bio-mass cogeneration plant at the mill, which will produce electricity resulting in materially lower energy costs. Importantly, Fortress has already put in place the financing required to fund the conversion of mill and build the cogeneration plant.

In addition to the \$3 million purchase price, Fortress is expected to spend approximately \$91 million to convert the Thurso Mill and \$62 million to construct the 25 MW cogeneration plant. The Company has arranged a loan in the amount of \$102.4 million with Investissement Quebec with a term of ten years at a rate of 5.0% for the first five years. Fortress has also issued an unsecured convertible debenture to a Quebec financial institution in the amount of \$15 million, maturing in five years with an interest rate of 7% per annum. The debenture will be convertible at the option of the financial institution any time after closing at a conversion price equal to the lesser of 145% of the trading price of the common shares and \$20.00. Further, the assets include \$9.9 million of credits granted under the government's Pulp and Paper Green Transformation Program. Finally, Fortress intends to apply for approximately \$15.2 million in credits under the Green Infrastructure Fund program, related to the cogeneration plant. The remaining balance should be covered with existing working capital and internally generated cash flow.

Once the conversion is completed in mid-2011, the Thurso Mill is expected to have annual production capacity of more than 200,000 air dried metric tonnes of dissolving pulp. The finished product is then used as the raw material to produce rayon, a natural fibre that is subsequently used to produce textiles. With cotton supply falling, demand for rayon has been growing at approximately 10% in China and 7% worldwide over the past five years. Clothing made from rayon is particularly well suited to the emerging economies since it "breathes" better, is soft yet strong, wears well and holds dyes better to produce brighter, more vibrant colours.

If all goes according to plan, the economics of the project are exceptional. Currently priced at about US\$1,500 per metric tonne, dissolving pulp is priced almost US\$600 per metric tonne above NBHK pulp. If we use a price that is more reflective of the five year average price, say US\$900 per tonne, and use the forecasted cost structure post-conversion, the Thurso Mill project could generate approximately \$60 million in EBITDA. With Fortress Paper trading at five to six times enterprise value to EBITDA, the project could add \$300 to \$360 million of enterprise value within a few years. Compare that to the pre-announcement enterprise value of approximately \$135 million and the significance of the Thurso Mill acquisition is readily apparent.

Although shares of Fortress Paper have performed extremely well since the lows of the credit crisis, this acquisition could be the catalyst to take the shares "to the next level". As the news was disseminated and several positive analyst reports were released, the stock moved very quickly to \$20 per share. Although the stock has retreated slightly, we believe that investors will see higher prices as management delivers on its milestones while moving the project forward.

ABC Funds
April 1, 2010

Management at Fortress Paper has been working diligently to make progress on the start-up and conversion of the newly acquired Thurso Mill. Since our last update, several key milestones have been reached, including the official closing of the transaction. We are extremely pleased with the steady stream of news from the Company, as it reinforces our confidence in the project.

Shortly after closing the deal, Fortress entered into an energy supply agreement with Hydro Quebec for the sale of power from the planned biomass-based cogeneration facility. Under the agreement, the Company will build a facility and provide 18.8 megawatts of net power to Hydro Quebec over a 15 year term, with deliveries expected to commence in the fourth quarter of 2012. The cogeneration facility will serve a dual role: it should improve the economics by lowering the net cost of power and it will build some goodwill with the government of Quebec by providing a source of "green" electricity.

With the restart of the Thurso Mill approaching, the next step required entering into a pulp purchase and sale agreement with

UPDATES (cont'd)

International Forest Products Corporation (IFP). Under the terms of the agreement, IFP will be the exclusive distributor for the sale of northern bleached hardwood kraft (NBHK) pulp produced over the life of the mill. Production and sale of NBHK pulp commenced relatively quickly on May 28, 2010, which was ahead of schedule in order to take advantage of the strong NBHK pulp prices. In fact, NBHK prices have rebounded from approximately US\$600 per tonne in May 2009 and now trade between US\$900 and US\$1,000 per tonne. The price strength was due to a recovery in demand, with inventories being drawn down just as an earthquake in Chile removed a significant amount of production capacity.

Although the near term cash flow from NBHK pulp production could be significant at current prices, we are carefully monitoring the steps toward the production of dissolving pulp, a higher value product. Importantly, Fortress announced the appointment of the key personnel who will be responsible for the conversion of the Thurso Mill. Most notably, Peter Vinall was named President and Chief Executive Officer of Fortress Specialty Cellulose Incorporated. Mr. Vinall has approximately 30 years of experience in the pulp and paper industry and has successfully led the conversion of an NBHK pulp mill to produce dissolving pulp. His experience with specialty cellulose, and specifically dissolving pulp, will be invaluable to this division under the Fortress Paper banner.

Just a few days after the new management team joined Fortress Specialty Cellulose, they announced the signing of an equipment purchase agreement with Stora Enso, a Finnish forestry company, to acquire digesters, specialized process equipment and other ancillary equipment to be used in the mill conversion. The total purchase price for the equipment, including delivery, was EURO 3 million (CAD\$3.8 million), which was probably a pretty good deal. Chad Wasilenkoff summed it up nicely, "This equipment has operated for only 12 years and we are confident of its quality and performance, which should result in a material reduction in our overall capital investment requirements for the conversion to dissolving pulp". In short, management is delivering nicely on its promises while keeping costs under control.

Finally, on June 8, 2010 Fortress Paper announced a bought deal financing for 1,739,000 common shares priced at \$23.50 per share for total gross proceeds of \$40.9 million. An over-allotment option to purchase an additional 260,850 common shares at the offering price was also granted to the Underwriters. If the over-allotment option is exercised in full, the aggregate gross proceeds of the offering will be approximately \$47.0 million. Although Fortress Paper may have been able to squeak by without requiring this financing, with the PM1 conversion, the Thurso Mill start-up and conversion and the construction of the cogeneration facility all on the go, we believe it was the prudent course of action to shore up the balance sheet. All in all, we are pleased with management's progress and expect our investment in the Company to continue to perform well.

ABC Funds
June 25, 2010

The transformative acquisition of the Thurso pulp mill has driven shares of Fortress Paper spectacularly higher. Tireless efforts from Chad Wasilenkoff and his management team have proven to be greatly rewarding for shareholders, including the Company's insiders. In recognition of his accomplishments Mr. Wasilenkoff was recently named Ernst and Young Entrepreneur of the Year, Pacific Region.

Given how far the shares have run, we are carefully monitoring our position and watching developments closely. The successful closing of the transaction, the installation of an experienced management team, the purchase of some used but specialized equipment and the well-received stock issuance were all positive catalysts for the story. More recently, management has suggested that "the start-up of the Fortress Specialty Cellulose mill in Thurso, Quebec has gone better than planned" and approximately 300 employees have been recalled to work.

We are also watching pulp prices carefully, now that Fortress Paper has significant exposure to the commodity. Remember that the Thurso will produce NBHK pulp during the conversion process, so we are looking to forecast near-term cash flows that can be used to fund the conversion of the mill and construction of the cogeneration power facility. Admittedly, pulp prices are off their peak, having fallen from US\$940 per tonne to just under US\$900 per tonne but are still 25% above where they started the year.

Despite the near-term importance of pulp prices, we are even more interested in the price of cotton, which is more closely linked to the price of rayon and thus dissolving pulp. Cotton prices have actually reached a 15 year high, trading above US\$1.00 per pound as supply shortages due to earthquakes in Chile, flooding in both Pakistan and China and Indian export bans have depressed inventory levels. Today, dissolving pulp prices are hovering around US\$1,800 to US\$1,900 per tonne, more than double the five year average of approximately US\$850 per tonne.

Two recent news releases have provided much greater visibility and therefore confidence regarding future cash flows. On

UPDATES (cont'd)

October 4, Fortress Paper announced a dissolving pulp supply agreement with two producers of viscose fibre (rayon) in China for the delivery of approximately 84,000 air dried metric tonnes (ADMT) at a minimum price of US\$1,200 per tonne and a maximum price of US\$1,600 per tonne for a term of five years commencing in the third quarter of 2011. Further, on October 7, Fortress announced another supply agreement with a ten year term for an additional 72,000 ADMT. Pricing was not disclosed but management suggested that the agreement is based on a formula that factors in the prevailing market price of viscose fibre in China, subject to minimum pricing terms without a maximum purchase price. Cumulatively, Fortress now has some form of pricing protection on 78% of Thurso's planned capacity of 200,000 tonnes.

The math is becoming clearer as the project becomes "de-risked". Assuming cash costs of approximately US\$600 per tonne, pricing collars of US\$1,200 to US\$1,600 per tonne and 200,000 tonnes of annual capacity, the potential cash flow from the Thurso acquisition could be enormous. In response to the progress at Thurso, including the supply agreements, analysts have been rushing to upgrade the stock and raise their target prices. We will keep the potential upside in mind but will carefully and continuously assess the risk/reward balance. Thankfully, management has surpassed every promise they've made and we hope it remains a case of under-promise and over-deliver.

ABC Funds
October 8, 2010

Coming to the end of what was a tremendously successful year for the Company, Fortress Paper has announced another small but potentially significant corporate development. On December 8, the Company announced the signing of an asset purchase agreement to acquire the Bank of Canada's Optical Security Material division. In plain English, this division produces the security threads that are woven through Canadian banknotes. Fortress paid \$750,000 for the assets and will be granting the Bank of Canada a royalty-free license to use the intellectual property for Canadian banknotes.

Although the transaction may not be a large dollar value, we believe that it could potentially be quite significant. Management plans to market this high-tech security feature to banknote producers around the world. However, Fortress Paper does not yet print any Canadian banknotes. With a Canadian pedigree, a stock listing on the Toronto Stock Exchange and now the patents and rights to some of the Bank of Canada's security features perhaps a contract win will be forthcoming.

Interestingly, a key competitor in the currency and security printing industry suffered a hit to its credibility when "irregularities" were uncovered. As the share price of the British-based printer nose-dived, a French Company made an opportunistic bid. Although the offer was apparently more than a 40% premium, management rebuffed the takeover bid. We believe that the offer represented almost 10 times trailing EBITDA. Fortress is currently completing the expansion of its banknote capacity from 2,500 tonnes to approximately 10,000 tonnes per annum. If margins remain the same, we believe that the implied value could reach over \$200 million or almost \$16 per share of Fortress Paper for the Landqart division alone.

Management, through several astute transactions, has built incredible value within Fortress Paper. In fact the stock has been our best performing investment within our ABC Funds over the past year. The share price performance will likely be more muted in 2011 but we see several potential catalysts in coming year. These include the completion of the PM1 rebuild at Landqart and the conversion of the Thurso pulp mill from NBHK to dissolving pulp production. Hopefully management will continue to under-promise and over-deliver and the next twelve months will be as exciting as the previous twelve.

ABC Funds
December 17, 2010

We initially purchased Fortress Paper shares in June 2007 as a very undervalued IPO (initial price offering) at \$8.00. In the subsequent market debacle of mid-2008 to early-2009 we purchased more shares to reduce our average cost to about \$7.75. Unfortunately, Fortress Paper shares fell further bottoming at \$4.62 in March 2009. Nonetheless, we steadfastly believed in Chad Wasilenkoff, his vision and his management team and tenaciously hung on to our holdings in both the ABC North American Deep-Value and the ABC Dirt Cheap Stock Funds.

Despite the excellent corporate progress Fortress Paper shares languished throughout 2009 when suddenly in early 2010 the stock price started to climb. Then, in mid-2010, due to the highly transformative and accretive Thurso pulp acquisition, Fortress' stock leapt to the \$30 level. At that price we liquidated approximately one third of our holdings so as to recoup all of our original investment cost and to reduce our single stock exposure. As a result, we retained 400,000 shares in both the ABC North American Deep-Value and ABC Dirt-Cheap Stock Funds.

Most recently the shares have again appreciated significantly and broke through the psychological \$50 level, closing yesterday

UPDATES (cont'd)

at \$51.25. While we are still very positive on the growth prospects for the company we may eventually prudently reduce our holdings as they have once again become a significant proportion of our two closed-end fund portfolios.

Interestingly, the accompanying CNBC interview which aired a few days ago not only highlights Fortress Paper's present growth opportunities but, more importantly, will probably attract a whole new investment audience in the United States, Europe and Asia.

CNBC Interview: <http://www.cnbc.com/id/15840232/?video=1725620779&play=1>

ABC Funds
January 14, 2011

On June 14th, Fortress Paper (FTP) reported its Q1/2011 financial results. In our view, FTP's Q1 results reflected a challenging quarter at Landqart, as raw material costs for cotton and soft demand for banknote paper had a negative impact on the company's margins. However, on a more positive front, FTP's Dresden operations are benefiting from strong market conditions for non-woven wallpaper base products, and the company is investing 3 million Euros this year to increase production capacity of the mill by approximately 15%. With respect to its pulp business, FTP remains on-schedule for its conversion to dissolving pulp at its Thurso mill later this year and expects to capitalize on the growth that is occurring in the downstream viscose fiber market.

Despite recent share price turbulence, it is our view that FTP shares are fundamentally inexpensive, and that prevailing challenging market conditions for banknotes have been fully priced into FTP shares. With its stock price having declined more than 50% from its February 2011 highs, we are not surprised to see that Fortress has also implemented a normal course issuer bid to repurchase up to 3% of its outstanding shares over the next year. In addition, it is worth noting that FTP shareholders recently approved a 3 for 1 stock split, which will be effective in the near future and will help improve the liquidity of the stock.

ABC Funds
June 24, 2011