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Fortress Paper Limited (FTP: TSX)

Date: March 9, 2009
Price: \$4.70



KEY INFORMATION

Fiscal Year-end	December 31
52-Week High/Low	\$11.98 - \$4.70
3-Month Avg. Daily Trading Volume	12,824 shares
Market Capitalization	\$48.1 million
Enterprise Value	\$45.6 million
Book Value per Share	\$7.13
Current Ratio	2.2
Gross Margin (Year Dec 31)	24.9%
LT Debt to 2008 CF	1.1
LT Debt to Equity	0.3
Price to 2008 Earnings	3.8
Price to 2009e Earnings	4.7

FINANCIAL DATA (000's of Canadian Dollars)

	3 Months Dec. 31		Yr Ended Dec. 31	
	2008	2007	2008	2007
Revenues	46,331	37,537	189,002	145,294
Net Income	2,778	2,279	12,680	5,284
per share	0.27	0.22	1.24	0.76
EBITDA	5,966	4,255	25,027	13,611
per share	0.58	0.42	2.44	1.96

BALANCE SHEET (as at December 31, 2008)

Current Assets	\$80,482,000
Total Assets	135,641,000
Current Liabilities	36,788,000
Long-Term Debt	23,760,000
Shareholders' Equity	72,906,000

SHARES OUTSTANDING (as at December 31, 2008)

Basic	10,233,500
Fully-Diluted	11,246,175

* mgmt & insiders own approximately 23% of the issued and outstanding shares.

Highlights:

- year-over-year revenue increase of 30% and earnings increase of 143%
- 37% international market share of non-woven wallpaper base
- strong balance sheet with positive working (net of debt) of \$19.9 million or \$1.95/share
- trading at P/E valuation of only 3.8x 2008 trailing earnings (2.2 times after w/c)

COMPANY OVERVIEW

Fortress Paper was incorporated on May 30, 2006 and completed its IPO on June 28, 2007, through the issuance of 5 million shares at \$8 per share for total proceeds of \$40 million. The company is a leading international developer, producer and marketer of security and other specialty paper. Fortress' security papers include banknote, passport and visa papers and its specialty papers include non-woven wallpaper base products, and graphic and technical papers. Fortress operates two paper mills - The Dresden mill located in Germany and the Landqart mill located in Switzerland.

The Dresden mill produces more than 37% of the non-woven wallpaper base worldwide. Non-woven wallpaper is characterized by its special features of easy removal due to its dry-strip ability, increased dimensional stability, and improved opacity. The Landqart mill specializes in producing banknotes and is one of the leading suppliers of banknotes globally. It has been the sole provider of banknotes for the Swiss currency since 1979, has produced banknotes for 100 currency denominations for 25 countries, and is amongst the nine suppliers of banknote paper for the Euro.

In Q3/07, Fortress completed major capacity increases at both its Dresden and Landqart mills. Production capacity at the Dresden mill was increased to 40,000 tonnes / year to meet growing demand for non-woven wallpaper as well as to improve productivity. The Landqart mill was upgraded to increase security paper capacity. In addition, management intends to increase the speed of production capacity to

400 m/min from the current rate of 300 m/min, which will enhance the EBITDA contribution per tonne.

FINANCIAL SUMMARY

For the year ended December 31, 2008, Fortress posted a 30% increase in revenues to \$189.0 million attributable to higher demand and pricing of both security and specialty papers. Gross margins increased from 21.9% to 24.9%. Fortress generated net income of \$12.7 million or \$1.24 per share in 2008 from \$5.3 million or \$0.76 per share in 2007. Shipments during 2008 totalled 53,221 tonnes comprised of 16,968 tonnes of security and specialty papers and 36,253 tonnes of wallpaper base. This compares to shipments of 52,093 tonnes during 2007.

For the 3 months ended December 31, 2008, revenues increased by 23% to \$46.3 million from \$37.5 million during the same period in 2007. This increase was primarily attributable to capacity expansion at both mill sites and a focused shift towards non-woven wallpaper base which typically offers higher sales per tonne and higher margins. Earnings rose by 22% to \$2.8 million or \$0.27 per share. Shipments during the fourth quarter totalled 11,528 tonnes comprised of 4,338 tonnes of security and specialty papers from the Lanqart mill and 9,109 tonnes of wallpaper base from the Dresden mill.

On May 22, 2008, the company announced the redemption of its \$7.5 million floating rate convertible note issued on August 1, 2006, held by Mercer International Inc.

MARKET OVERVIEW

Fortress operates in niche markets with high entry barriers placing the company in an enviable position of controlling significant market share in growth industries. Fortress has firmly established itself in the non-woven wallpaper base market with a 37% share

of the global industrial market, which is estimated to be 115 kt per year by 2010. It is anticipated that the demand growth will remain driven by the innovation of the quality end product and the identification of new uses for non-woven wallpaper base. Additional growth opportunities exist for Fortress through new technology and products awaiting commercialization including Durasafe technology, Biometric e-passport and the LQard Identification Card System. Additionally, global demand for security papers remains strong due to an industry focus on innovation to stay ahead of counterfeiters, quality of end products, and the confidence in and reputation of suppliers.

SUMMARY

Fortress has generated significant earnings growth since boosting its production capacity in the third quarter of 2007. With this increased performance, the company has also strengthened its balance sheet considerably and now has working capital, net of debt, of \$19.9 million or \$1.95 per share. The company presently has a cash balance of \$26.2 million thus providing significant financial stability during these uncertain economic conditions. Fortress achieved earnings of \$12.7 million or \$1.24 per share in 2008 and management is confident that it can continue to add shareholder value in 2009. The company's shares are currently trading at less than 5 times earnings which falls to less than 3 times when working capital is subtracted. Fortress also trades at a significant discount to its book value of \$7.13 per share. While the end of 2008 showed signs of weakening demand for wallpaper products, there has recently been a steady and marked improvement in orders. Management continues to selectively evaluate both organic opportunities to further increase capacity and to take advantage of growth initiatives.

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